

May 13, 2005

The Board of Directors
Guam Economic Development and Commerce Authority:

In planning and performing our audit of the consolidated financial statements of the Guam Economic Development and Commerce Authority and subsidiaries (GEDCA) as of and for the year ended September 30, 2004 (on which we have issued our report dated May 13, 2005), we developed the following recommendations concerning matters related to their internal control. Our recommendations are summarized below:

Finding No. 04-01 – GASB 42 Impairment of Capital Assets

Criteria:

GASB 42, “Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries,” requires Government entities to report the effect of capital asset impairments when such occur. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2004, but early adoption of the Statement is encouraged.

Condition:

The current economic circumstances involving the Agat warehouse indicate that an impairment analysis should be considered. Currently, the recorded cost of property exceeds undiscounted future cash flows from rental income by:

Land	\$ 379,164
Improvement – Warehouse, net	<u>866,138</u>
Total Cost	1,245,302
Estimated Future Cash flows	<u>387,074</u>
Possible Impairment	\$ <u><u>858,228</u></u>

Additionally, a foreclosed leasehold improvement (on leased land owned by the Department of Agriculture) with the recorded cost of \$333,171 in the Agriculture Development Fund (ADF) has remained vacant since 1995. The Authority has not made any lease payments to the Department of Agriculture, nor has it generated income for the trust fund. It is probable that an impairment has occurred.

Cause:

The cause of this condition is that properties were recorded at a high historical cost and/or annual rental is not sufficient to recover the cost of the properties.

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Finding No. 04-01 – GASB 42 Impairment of Capital Assets, Continued

Effect:

The effect of this condition is that the asset carrying value may be overstated.

Prior Year Status:

This condition is reiterative of a prior year finding.

Recommendation:

GASB 42 is to be implemented in FY 2005 by evaluating capital asset impairments. We will be happy to discuss the requirements of this pronouncement with management assist in its implementation.

Auditee Response and Corrective Action Plan:

GEDCA agrees with recommendation and will implement in FY2005 as required.

Finding No. 04-02 – Support for Meals and Entertainment

Criteria:

Meal expenses incurred for entertainment purposes should be documented clearly as to parties presented and business purposes of such meetings.

Condition:

Of a \$117 restaurant charge to the Authority's credit card (for which usage was subsequently discontinued), we noted charges for alcoholic beverages of \$49. The charge was incurred by an employee (who has since left the employment of the Authority) while attending a CNMI Government sponsored conference in Tokyo. The submitted expense report indicated that the meal was undertaken by two GEDCA employees. The Authority's travel policy does not permit reimbursement of alcoholic beverages as part of meal expenses. However, based on our inquiry of another GEDCA employee, the charge should have been incurred as an entertainment expense as they were accompanied by two officials from the CNMI government.

Cause:

The cause of this condition is that entertainment expense incurred was not properly documented, and therefore, its purpose was not sufficiently supported.

Effect:

The effect of this condition is a possible disallowed expense due from the employee.

Finding No. 04-02 – Support for Meals and Entertainment

Recommendation:

We recommend that the Authority stress the importance of clear and concise documentation on expenses incurred while traveling.

Auditee Response and Corrective Action Plan:

GEDCA Credit Card use is no longer authorized and the issue is mooted by the enactment of P.L. 23-152 in December 2004, which prohibited the purchase of alcohol.

Finding No. 04-03 – Loaning of Equipment

Criteria:

Documentation containing the loan of Authority equipment to another Government of Guam agency should explicitly state the liability of each party.

Condition:

A “Fixed Asset Acquisition, Loaner, Transfer Report” is currently utilized when the Authority’s equipment is loaned to another Government of Guam agency. However, this form does not delegate responsibility for repair and maintenance of the property. Also, we noted that there is currently no policy to regulate the length of time for equipment to be on a loaner status before it becomes effectively a transfer of property. Moreover, the forms indicate that the loan is subject to 10% of the equipment cost; however, we noted no certification of funds by the other agency to support ultimate collection of this amount.

Cause:

The cause of this condition is that lack of a government wide standard form to be utilized by the Authority.

Effect:

The effect of this condition is that the Authority may be burdened with the cost to repair damaged or to replace lost equipment.

Recommendation:

We recommend that a policy be developed to address the issues noted in the condition section.

Auditee Response and Corrective Action Plan:

A policy and a loaner form was developed and approved at May 25, 2005 Board of Directors meeting.

The Board of Directors
Guam Economic Development and Commerce Authority
May 13, 2005

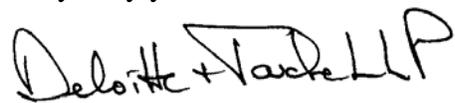
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This report is intended for the information and use of the board of directors, management of GEDCA and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of GEDCA during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly slanted style.