

November 10, 2004

The Board of Directors
Guam Economic Development and Commerce Authority:

In planning and performing our audit of the financial statements of the Guam Economic Development and Commerce Authority and subsidiaries (GEDCA) as of and for the year ended September 30, 2003 (on which we have issued our report dated November 10, 2004), we developed the following recommendations concerning matters related to their internal control. Our recommendations are summarized below:

Finding No. 03-01 – Credit Card Policy – Receipts

Criteria:

In accordance with GEDCA's credit card policy, all expenses charged to the GEDCA credit card must have documentary evidence.

Condition:

For 4 (or 8%) of the 51 transactions tested, there was no documentary evidence, other than a credit card statement, to substantiate the business related nature of the expenditures.

<u>Fund</u>	<u>Account</u>	<u>Description</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Check Amount</u>	<u>Vendor</u>
GEDA	7703	Citibank CC – 11/14-25 /02-Sasai	7571	12/18/02	\$31,490	Citibank
GEDA	7232	Citibank CC – 11/ 5-22 /02 – Ed U	31490	12/18/02	2,055	Citibank
GEDA	7704	Citibank – 3/08-3/14/03 – Lester C	31987	4/8/03	1,555	Citibank
GEDA	7703	Citibank 11/29 – 12/27 – Lester C	31771	1/29/03	<u>729</u>	Citibank
		Total			<u>\$35,829</u>	

Cause:

There appears to be weak internal controls over ensuring that GEDCA's credit card expenses are supported by documentary evidence.

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Finding No. 03-01 – Credit Card Policy – Receipts, Continued

Effect:

The Authority is in noncompliance with GEDCA's credit card expenditure policy.

Prior Year Status:

This condition is reiterative of a prior year finding.

Recommendation:

The Authority should strengthen internal controls to ensure expense policies are properly followed.

Auditee Response and Corrective Action Plan:

GEDCA no longer has credit card.

Corrective measures to be undertaken will include enforcement of form letter "GEDA-ACC01", GEDCA's travel letter. Prior to traveler receiving his/her per diem check traveler will need to read and understand what is contained in travel letter prior to signing.

In the event of non-compliance, the Authority will implement a payroll deduction if reports are not received within the prescribed timeframe. Follow-ups will be made reminding staff of 45 day timeframe.

This measure should strengthen the internal controls of our travel policy.

Finding No. 03-02 – Lower of Cost or Market

Criteria:

Land should be recorded at the lower of cost or market.

Condition:

No appraisals have been performed to determine if the market value of the land has declined below cost.

Cause:

No policy or procedures are in place to have a third party perform requisite appraisals.

Effect:

If the market value is lower than cost, land might be overstated.

Prior Year Status:

This is reiterative of a prior year finding.

Finding No. 03-02 – Lower of Cost or Market, Continued

Recommendation:

Management should establish and implement policies and procedures requiring that a third party perform periodic (i.e. biennial) appraisals of land held for investment. If the appraised market value has declined below cost, an adjustment to record the lower market value should be considered.

Auditee Response and Corrective Action Plan:

The Loan SOPs were revised and updated to reflect the annual evaluation requirement, which states that GEDCA shall evaluate on an annual basis, the value of all properties acquired by the Authority. Should the market show a difference in property values, GEDCA shall retain an appraiser to determine the value of all properties on its inventory. When the properties are forwarded to a principal broker retained by the Authority, the broker shall conduct an evaluation of the properties prior to the placement of such properties on the Multiple Listing System (MLS). GEDCA's Legal Counsel is currently reviewing the SOPs.

Finding No. 03-03 – Procurement - Consultants

Criteria:

In accordance with GEDCA procurement policy, procurement shall provide full and open competition among vendors. Furthermore, documentation of such selection process should be maintained on file.

Condition:

For 2 (or 8%) of the 25 transaction tested, there are no procurement documents noted in the vendor file.

<u>Fund</u>	<u>Account</u>	<u>Description</u>	<u>Amount</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Vendor</u>
GEDA	7240	Consultancy Svc./Economic - Social	\$250,000	31936	3/14/03	The Washington Pacific Economic Group
GEDA	7240	Economic Consultancy Svc. April 03	<u>125,000</u>	31983	3/28/03	The Washington Pacific Economic Group
		Total	<u>\$375,000</u>			

Cause:

There appears to be weak internal control to ensure proper procurement procedures are followed.

Effect:

The Authority is in noncompliance with GEDCA procurement policy.

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Finding No. 03-03 – Procurement – Consultants, Continued

Recommendation:

The Authority should strengthen internal controls to ensure proper procurement procedures are followed, and documentation of such is properly recorded in the file.

Auditee Response and Corrective Action Plan:

GEDCA's legal counsel, Art Clark, advised the board at its March 11, 2003 BOD meeting that the Authority's hiring of professional services, such as a lobbyist, is not governed by the Guam Procurement Law. However, notwithstanding our policy, the act of approving the contract would also be considered a tacit waiver, as affirmed by legal counsel.

This will no longer be an issue following enactment of PL 27-018 which identifies GEDCA's status as an autonomous instrumentality within and of the Government of Guam for procurement purposes.

Finding No. 03-04 – Impairment of Capital Asset – GASB 42

Criteria:

GASB 42, "Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries", requires Governmental 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 GASB 42 is encouraged.

Condition:

The current economic circumstances involving the Agat warehouse indicate that an impairment analysis should be considered.

Cause:

The cause of this condition is that rentals derived from the property are less than attendant depreciation expense.

Effect:

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

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. 03-05 – Lease Agreements

Criteria:

Lease agreements should be updated to reflect changes in lease terms.

Condition:

Out of 48 lease agreements tested, 15 (or 31%) were not updated as the terms of the original agreement had expired.

Cause:

There appears to be weak internal controls upon monitoring lease terms.

Effect:

Terms of the leases might not be enforceable if disputes surface between the lessee and GEDCA.

Recommendation:

A record of all lease terms should be maintained to facilitate lease renewals on expiration.

Auditee Response and Corrective Action Plan:

GEDCA agrees with the recommendation that “a record of all lease terms should be maintained.” This is why GEDCA currently maintains such a record, in the form of fact and summary sheets of all tenants and their lease terms. These records are updated to the extent information is available. The lack of updated records for certain tenants is not due to weak internal controls. Instead, the cause is the inability to obtain updated information on a regular basis from the Port Authority of Guam, which, since 1988, has been the entity responsible for managing most of the leases reviewed by the auditors.

Auditee Response and Corrective Action Plan, Continued:

GEDCA plans to continue updating tenant information once option terms are renewed, as this information is needed for proper billing and monitoring. Simultaneously, GEDCA will continue to require PAG to submit updated information on a timely basis, initially by continuing to work with PAG staff at the Commercial Division. If this approach continues to lack results by September 20, 2004, the matter will be raised with PAG management with resolution expected by the end of calendar year 2004.

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This report is intended solely for the information and use of the board of directors, management and others within the organization. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

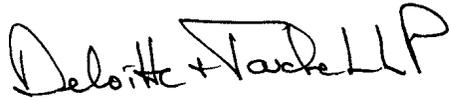
We will be pleased to discuss the above comments with you and, if desired, to assist you in implementing any of the suggestions.

The Board of Directors
Guam Economic Development and Commerce Authority
November 10, 2004

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We wish to thank the staff and management of GEDCA for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.