

June 23, 2010

Ms. Lourdes M. Perez
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Perez:

In planning and performing our audit of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) for the year ended September 30, 2009, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 23, 2010 and which was modified to include a reference to other auditors), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GovGuam's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 23, 2010, on our consideration of GovGuam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

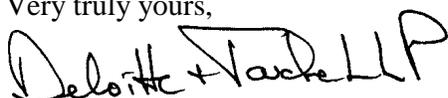
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

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

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified no control deficiencies involving GovGuam’s internal control over financial reporting as of September 30, 2009.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

DIVISION OF ACCOUNTS

(1) Reconciliations

Comment: Reconciliation of general ledger account 110010425 did not include a transfer of \$8,541,442 from the General Fund to the Health & Security Trust Fund. The bank account associated with the proceeds from the GEDA Tobacco Bonds was transferred to Fund 270 in FY 2009. The transfer was subsequently corrected but was not recorded in a timely manner.

Recommendation: Controls should be strengthened over ensuring that general ledger balances are timely reconciled to detailed sub-ledgers.

(2) Safekeeping of Documents

Comment: A Treasurer of Guam official receipt could not be located in support of collection of a solid waste receivable.

Recommendation: Documents in support of collection should be on file.

(3) Recycling Revolving Fund

Comment: Chapter 51, Division 2 of Part 2, Title 10, Guam Code Annotated, Article 5 § 51502 (Public Law 27-38) created the Recycling Revolving Fund which is to be separate and apart from other funds, including the General Fund.

All revenue deposited in this fund shall not be commingled with General Fund monies and shall be kept in a separate bank account.

A separate bank account for this fund was not established. On June 2010, an account was opened for this purpose.

Recommendation: A separate bank account for the Recycling Revolving Fund should be established to comply with Chapter 51, Division 2 of Part 2, Title 10, Guam Code Annotated, Article 5 § 51502.

UNIFIED COURTS OF GUAM

(4) Monitoring of A/R Accounts

Comment: The status of probation cases should be timely monitored to allow for the issuance of an official court order to allow for the closure and write-off of uncollectible accounts. The related allowance is \$4,284,606, which includes expired probation cases that have had no movement for in excess of five years.

Recommendation: The status of probation cases should be monitored to allow for the legal and timely write-off of expired probation cases.

CUSTOMS, AGRICULTURE AND QUARANTINE

(5) Permanent Transfer

Comment: The Customs, Agriculture and Quarantine Fund (209), as of September 30, 2009 had a deficit of \$2,368,142. An operating transfer from the general fund was necessary to address this shortfall.

Recommendation: The Customs, Agriculture and Quarantine division should monitor to preclude fund deficiencies. The shortfall of the aforementioned fund was primarily due to a building lease that is funded from airport collections and over expenditures. Collections were insufficient to cover the lease commitment. We further recommend that the Government of Guam seek alternative sources to cover lease obligations or consider including this request in the annual budget.

OFFICE OF THE – ATTORNEY-GENERAL

(6) Reconciliations

Comment: Liabilities for the following general ledger accounts did not reconcile to the subsidiary ledgers provided by the Child Support Enforcement Division.

		<u>Per DOA</u>	<u>Per Child Support</u>	<u>Variance</u>
110027000/100	Collections-Child Support	\$ 4,375,847	\$ 2,326,844	\$ 2,049,003
110021519	Unclaimed Checks	<u>2,221,603</u>	<u>2,112,445</u>	<u>109,158</u>
		<u>\$ 6,597,450</u>	<u>\$ 4,439,289</u>	<u>\$ 2,158,161</u>

Recommendation: Controls should be strengthened over ensuring that general ledger balances are timely reconciled to detailed sub-ledgers.

DEPARTMENT OF PUBLIC HEALTH AND SOCIAL SERVICES

(7) Medically Indigent Program (MIP) Administrative Costs

Comment: MIP administrative costs have not been specifically allocated (primarily payroll-related costs) to the existing general ledger account number 5100A091722GA002 (MIP and Catastrophic Illness Admin).

Recommendation: Allocated costs should be specifically identified and be recorded in account number 5100A091722GA002 (MIP and Catastrophic Illness Admin).

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GovGuam's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.