

April 25, 2017

Mr. Jay Rojas  
Administrator  
Guam Economic Development Authority  
590 South Marine Corps Drive  
Tamuning, Guam 96913

Dear Mr. Rojas:

In planning and performing our audit of the financial statements of Guam Economic Development Authority (GEDA) as of and for the year ended September 30, 2016 (on which we have issued our report dated April 25, 2017), 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 GEDA'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 GEDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GEDA'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters related to GEDA's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 25, 2017, on our consideration of the GEDA's internal control over financial reporting and 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 management, the Board of Directors, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

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 GEDA for their cooperation and assistance during the course of this engagement.

Very truly yours,

*Deloitte & Touche LLP*

## SECTION I – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

### 1. Investments

Comment: Certain investment accounts are shared by GEDA, Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF) and as such, recording of allocated investment transactions, including gains/losses, dividend income and fees, are cumbersome and are prone to error. Additionally, separate GL accounts are not utilized to record different investment accounts.

Recommendation: Management should consider re-aligning investment accounts and maintain distinct and separate investment accounts for GEDA, GDFA and ADF. Additionally, separate GL accounts should be utilized for each investment account to minimize work required for month-end reconciliations.

### 2. Account Payable

Comment: Tests of accounts payable noted the following:

- Accounts payable at September 30, 2016 included long outstanding obligations of \$81,577 for excess reimbursements related to 2011 and 2014 bonds.
- Accounts payable includes items dated from 1993 to 1997 which appear to be non-existing and invalid as of September 30, 2016.

Recommendation: GEDA should perform an analysis of long outstanding accounts, determine validity and make necessary adjustments.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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**

GEDA’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.