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June 29, 2012

Ms. Benita Manglona
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Manglona:

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, 2011, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 29, 2012 and which includes 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, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 29, 2012, 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,

Deloitte & Touche LLP

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention:

DIVISION OF ACCOUNTS

(1) Cash Imprest Reconciliation

Comment: A reconciliation of general ledger account 110010110, totaling $46,420, or a supporting schedule of the related imprest accounts was not available.

Recommendation: Controls over timely reconciling general ledger balances to detailed sub-ledgers should be strengthened.

(2) Encumbrances

Comment:

a. Over $3.1M of encumbrances were expired or invalid as of September 30, 2011. An audit adjustment/reclassification was proposed to decrease the reserve.

b. A $261K contract encumbrance was not locatable. The validity of this encumbrance was not determinable.

Recommendation: Encumbrances should be approved and be reviewed for ongoing pertinence.

(3) Receivables/Revenues

Comments:

a. Certain Gross Receipts Tax (GRT) and Income Tax forms were not available.

   1. During tests of receivables, a $142k income tax form was not provided.

   2. Twelve GRT tax forms aggregating $870K were not provided. The classification of these collections was undeterminable.

   3. Nineteen income tax forms aggregating $851K were not provided for examination. The classification of these collections was undeterminable.

b. Transactions should be recorded to the proper account.

   1. Seventy-five GRT entries were examined. Approximately $662k of GRT revenues were misclassified within GRT categories.

   2. Eighty-two income tax entries were examined. Approximately $27k of income tax revenues were misclassified within income tax categories. Approximately $162k was for tax year 2010; however, the returns were processed in the 2011 tax year.

Recommendation: _We recommend that the Government strengthen controls to support revenues with underlying documentation and record such in correct account classifications.

(4) Nonpayroll Expenditures

Comment: Of twenty-seven nonpayroll expenditures tested, one JV had no documentation substantiating the transaction.

Recommendation: We recommend that journal vouchers be adequately supported.

UNIFIED COURTS OF GUAM

(5) 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 for the closure and write-off of uncollectible accounts. The related allowance is $5,280,105, which includes expired probation cases that have had no movement in more than five years.

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

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.

APPENDIX II

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.