

April 11, 2011

Ms. Benita Manglona
Acting 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 financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A as of and for the year ended September 30, 2010, on which we have issued our report dated April 11, 2011, 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 the Territorial Highway Fund'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 the Territorial Highway Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Territorial Highway Fund'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, other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, Honorable Eddie Baza Calvo, also dated April 11, 2011, on our consideration of the Territorial Highway Fund'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.

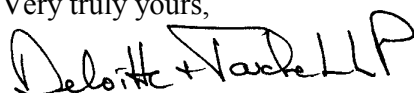
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the management of the Territorial Highway Fund, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, 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 the Territorial Highway Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We noted certain matters related to control deficiencies involving the Territorial Highway Fund's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention as follows:

1) Utility Costs

During the year ended September 30, 2010, the Territorial Highway Fund recorded utility costs of \$1,235,970, which included the following costs that did not appear consistent with the intent of the Fund's enabling legislation:

	<u>August</u>	<u>September</u>	<u>Total</u>
Government House	\$ 8,417	\$ 7,872	\$ 16,289
Government Office – Adelup	15,639	17,809	33,448
Manuel Guerrero Building – DOA/DOE	<u>16,251</u>	<u>15,875</u>	<u>32,126</u>
	<u>\$ 40,307</u>	<u>\$ 41,556</u>	<u>\$ 81,863</u>

We recommend that the Department of Administration ensure that utility costs charged to the Territorial Highway Fund be consistent with the intent of the Fund's enabling legislation.

2) Revenues

Of \$8,779,133 in licenses, fees and permit revenues, we tested fifty items, totaling \$3,059, and noted the following exceptions:

- a) Two items (R-2107159 and R-2149251 for \$20 and \$30, respectively) for vehicle registration fees were not supported by the underlying copy of the Motor Vehicle Registration Form;
- b) One item (R-2174051 for \$118) for vehicle registration fees included \$66 that pertained to the Streetlight Fund and the Recycling Revolving Fund and should have been recorded within those respective funds; and
- c) One item (# 1228083714 dated 12/14/2009) for driver's license fees was supported by the underlying copy of the driver's license application and receipt, which were both dated April 24, 2008. No explanation was available to indicate the rationale for the delay between the date of receipt and the recording of revenue to the general ledger.

We recommend that the Department of Revenue and Taxation ensure that licenses, fees, and permit revenues of the Territorial Highway Fund be supported by underlying documentation, including vehicle registration and driver's license application forms and that such be recorded in the correct fund when earned.

SECTION II – 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

The Territorial Highway Fund'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.