

June 12, 2009

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, 2008, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 12, 2009 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, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 12, 2009, 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.

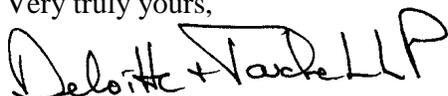
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the management of GovGuam and the Office of the Public Auditor 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, 2008.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

DIVISION OF ACCOUNTS

(1) Cash

Comment: We selected 2 checks (or 6%) from the list of samples and noted that there were check numbers that did not agree with the corresponding check detail (i.e, invoice or allotment request). The GovGuam Retirement fund used the same check series and therefore caused the check numbers to be recorded inaccurately in the AS400 accounting system. These check numbers were corrected in the Bank Reconciliation menu but DOA was not able to correct check numbers in the AS400 Payables Menu as the period was closed.

Prior Year Status: The above conditions are reiterative of a prior year finding.

Recommendation: The checks not issued in sequential order was due to checks run by the retirement fund, in order to keep the general fund checks in sequential order, we recommend that a separate (impress) checking account be created for the Retirement Funds’ use.

Auditee Response and Corrective Action Plan: We agree. Until such time we are able to have a separate checking account for retirement related checks, we will work with them to ensure that the checks numbers are in sequential order and are recorded accurately in the AS400 accounting system.

(2) Unclaimed Checks

Comment: Balances in the general ledger should be supported by detailed sub-ledgers that reconcile to recorded balances. Furthermore, monitoring of unclaimed checks should be performed to continue to establish their validity. For account number 110010117, no supporting schedule was provided for \$448,351 of unclaimed checks.

Prior Year Status: The above condition is reiterative of a prior year finding.

Recommendation: The Department of Administration should strengthen internal controls to ensure general ledger balances are supported by detailed sub-ledgers and the account is monitored for validity.

ATTORNEY GENERAL’S OFFICE

Supporting Sub-ledgers

Comment: For the following general ledger accounts, we noted no supporting detailed sub-ledger was provided for review. Furthermore, in a Letter from the Department of Health and Human Services to the Governor of Guam (CIN A-09-07-85676), GovGuam had until April 30, 2008 to develop procedures to ensure 1) subsidiary ledgers are prepared and 2) are reconciled in time for the FY2006 audit. For the FY2008 audit, sub-ledgers were still not provided

ATTORNEY GENERAL’S OFFICE, CONTINUED

Supporting Sub-ledgers, Continued

<u>GL Account</u>	<u>Account Name</u>	<u>Balance</u>	
110027000	Collections – Child Support	\$3,181,433	Report Finding # 08-xx
110027100	Collections – Child Support	1,558,036	Report Finding # 08-xx

Recommendation: The auditee should strengthen internal controls over ensuring general ledger balances are supported by detailed sub-ledgers.

TREASURER OF GUAM

Insurance Security Deposits

Comment: Insurance Security Deposits accounts per the general ledger (GL) should be supported by monthly reconciliations and reconciling items should be posted in a timely manner.

Insurance Security Deposits are not reconciled.

<u>Per Schedule</u>	<u>Per G/L</u>	<u>Variance</u>
\$13,621,520.22	\$15,383,133.77	\$1,761,613.55

Prior Year Status: The above conditions are reiterative of a prior year finding.

Recommendation: The Treasurer of Guam should strengthen internal controls over ensuring monthly insurance security deposits reconciliations are performed and are monitored for account validity.

Auditee Response and Corrective Action Plan: We agree. An accountant will be assigned to assist the Treasurer of Guam to reconcile the insurance security deposits monthly to accurately post the monthly updates.

DEPARTMENT OF PUBLIC WORKS

2007 General Obligation Bond Procurement

Comment: Procurement of the 2007 General Obligation Bond Expenditures should follow all applicable procurement rules and regulations.

1. In one sample selected (or 8% of the population), amounting to \$185,150, there was an insufficient number of quotations obtained as required by Chapter 3 of the GovGuam Procurement rules and regulations for Purchase Order number PO86B00068.
2. In one sample selected (or 8% of the population) amounting to \$91,160, there was insufficient documentation to support an amendment of \$42,000 (or 46% of the balance) for Purchase Order number PO86B00044.

Recommendation: The Department of Public Works should strengthen internal controls over ensuring procurement performed in compliance with all applicable rules and regulations and is properly documented.

Auditee Response and Corrective Action Plan: We agree. DOA will issue a memorandum to DPW to follow the GovGuam procurement rules and regulations and to attend the procurement training offered by GSA.

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.