

May 31, 2007

## CONFIDENTIAL

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, 2006, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated May 31, 2007 and which report was modified to include a reference to other auditors; and qualified due to inadequate accounting records for the Guam Memorial Hospital Authority and our inability to determine the sufficiency of the provision for tax refunds), we developed the following recommendations concerning certain matters related to its internal control. Our recommendations are summarized below.

### 1. Housing Revolving Fund Tenant Receivables

Criteria: Tenant receivable balances should be supported by subsidiary ledgers documenting the relevant details of the related GHURA tenants.

Condition: Section 8 of Chapter II, Part II of Public Law 28-68, *General Appropriations Act of Fiscal Year 2006*, repealed the Housing Revolving Fund (Fund 201); however, this fund still contains receivable balances due from tenants of GHURA housing. At September 30, 2006, the Department of Administration recorded receivable balances of \$304,988 within general ledger accounts 120117101, 120117102 and 120117103. No supporting subsidiary ledgers were made available documenting these receivable balances.

Cause: The cause of the above condition is the lack of reconciliation of GHURA tenant receivable balances.

Effect: The effect of the above condition is the possibility of overstatement of GHURA tenant receivable balances.

Recommendation: We recommend that the Department of Administration reconcile the general ledger accounts relating to GHURA tenant receivable balances and obtain approval to write-off amounts considered uncollectible.

Auditee Response and Corrective Action Plan: This fund was repealed by PL28-68 with balances transferred to General Fund, subsequent collection of rents received from GHURA and their tenants will be recognized under General Fund.

2. Accounts Receivable

Criteria: Receivables should be supported by subsidiary ledgers. Additionally, receivables should be collected in a timely manner.

Condition: At September 30, 2006, the Department of Administration recorded the following receivables for which no supporting subsidiary ledger was maintained:

<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>
127123190	\$ 84,990	124312210	\$ 90,211	131711000	\$ 52,436	110311134	\$ 44,983
130911000	\$ 90,170	131212210	\$ 152,123	131412150	\$ 19,515		

Certain of these funds were no longer considered operational and were closed to the General Fund. Additionally, the following receivables indicated no movement during the past three fiscal years:

<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>
110012121	\$ 47,091	110012156	\$ 49,000	110012396	\$ 3	110012141	\$ 88,100
110012122	\$ 11,929	110012157	\$ 22,097	110012403	\$ 45,705	110012143	\$ 189
110012123	\$ 15,373	110012158	\$ 11,078	110012404	\$ 3,434	110012150	\$ 6,301
110012124	\$ 84,995	110012210	\$ 300,000	110012405	\$ 2,099	110012373	\$ 1,061
110012127	\$ 29,223	110012220	\$ 1,737	110012407	\$ 55,974	110012391	\$ 3,836
110012128	\$ 690	110012307	\$ 406	110012410	\$ 4,330	110012393	\$ 10,570
110012130	\$ 12,128	110012314	\$ 14,652	110012412	\$ 1,631	110012446	\$ 80
110012131	\$ 665	110012355	\$ 5,289	110012414	\$ 4,955	110012450	\$ 573
110012132	\$ 5,712	110012363	\$ 8,377	110012422	\$ 333	110015003	\$ (48,942)
110012139	\$ 136,392	110012364	\$ 193	110012429	\$ 179	121412125	\$ 236,169
110012140	\$ 18,675	110012370	\$ 2,320	110012445	\$ 1	123511000	\$ 85,144
120911000	\$ 110	110412210	\$ (113)	130917100	\$ 584	140311101	\$ 57,680

Cause: The cause of the above condition is the lack of reconciliation of receivables and follow-up on collection in a timely manner.

Effect: The effect of the above condition is the possibility of an overstatement of receivables.

Recommendation: We recommend that the Department of Administration reconcile the general ledger receivable accounts and obtain approval to write-off amounts considered uncollectible. Additionally, we recommend that the Department of Administration follow-up on collection of these receivables in a timely manner.

Auditee Response and Corrective Action Plan: We agree. DOA will meet quarterly to resolve all outstanding receivables and deposit accounts. DOA will establish a new policy for establishing general ledger accounts. Prior to establishing a receivable or deposit account, management must review the nature of the transaction to determine the validity of establishing the account.

3. Prepayments

Criteria: Prepayments should be supported by documentation indicating expenditures for benefits not yet received.

Ms. Lourdes M. Perez  
Director, Department of Administration  
Government of Guam  
May 31, 2007

Page 3

Condition: At September 30, 2006, the Department of Administration recorded prepayments of \$125,822 within general ledger account 110019150 relating to transactions recorded prior to fiscal year 2001. No supporting subsidiary ledger was made available documenting the nature of these prepayments.

Cause: The cause of the above condition is the lack of reconciliation of prepayment balances.

Effect: The effect of the above condition is the possibility of an overstatement of prepayment balances.

Recommendation: We recommend that the Department of Administration reconcile the general ledger account relating to these prepayment balances and determine whether such represent valid prepayments.

Auditee Response and Corrective Action Plan: We agree. This advance payment was transacted during the Oracle FMS years, we will resolve this transaction in 2007.

#### 4. Deposits and Other Liabilities

Criteria: Deposit and other liability balances should represent valid liabilities and be supported by subsidiary ledgers indicating the nature of the deposit and documenting the details of the payable.

Condition: At September 30, 2006, the Department of Administration recorded the following deposit liability balances that indicated no movement since fiscal year 2002:

<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>	<u>G/L Acct #</u>	<u>Balance</u>
110018018	\$ 50,000	110023111	\$ 7,418	110023263	\$ 126,000	110023108	\$ 8,595
110023100	\$ 3,747	110023112	\$ 2,461	110023334	\$ 2,749	110023109	\$ 11,035
110023102	\$ 18,706	110023119	\$ 307	11002410C	\$ 8,500	110023249	\$ 20,287
110023103	\$ 869	110023120	\$ 20,801	11002410D	\$ 10,000	110023257	\$ 100
110023104	\$ 198	110023168	\$ 113,530	11002410E	\$ 9,702	110025291	\$ 1,070
110023105	\$ 2,965	110023182	\$ 116,757	11002417A	\$ 15,153	110026159	\$ 50
110023106	\$ 12,138	110023241	\$ 53,593	11002417B	\$ 2,717		

Additionally, the balance of \$619,101 recorded within general ledger account 110026140 was not supported by a subsidiary ledger indicating the nature of the deposit and documenting the details of the payable.

Cause: The cause of the above condition is the lack of reconciliation of deposit liability balances.

Effect: The effect of the above condition is the possibility of an overstatement of deposit liability balances.

Recommendation: We recommend that the Department of Administration reconcile the general ledger accounts relating to these deposit liability balances and determine whether such represent valid liabilities.

Ms. Lourdes M. Perez  
Director, Department of Administration  
Government of Guam  
May 31, 2007

Page 4

Auditee Response and Corrective Action Plan: We agree. DOA will meet quarterly to resolve all outstanding receivables and deposit accounts. DOA will establish a new policy for establishing general ledger accounts. Prior to establishing a receivable or deposit account, management must review the nature of the transaction to determine the validity of establishing the account.

## 5. Cash Balances

Criteria: Cash accounts per GL should be supported by monthly reconciliations and have corresponding bank accounts.

Condition: For the following accounts, no bank reconciliation was provided, there are un-reconciled differences or they were apparently closed or accounts are inactive, however, balances remain in the General Ledger while the bank account has been closed:

<u>G/L Acct #</u>	<u>Variance</u>	<u>G/L Acct #</u>	<u>Variance</u>	<u>G/L Acct #</u>	<u>Variance</u>	<u>G/L Acct #</u>	<u>Variance</u>
110010100	\$ 11,682	110010415	\$ 3,264	110010490	\$ 472	110010431	\$ 26,651
110010529	\$ 42,608	110010416	\$ 224,983	110010480	\$ 21	110010420	\$ (92)
110010110	\$ 42,666	110010417	\$ 22,323	110010441	\$ (102,501)	110010423	\$ 2,502
110010423	\$ 23,985	110010413	\$ 12,810	110010470	\$ 2,167	110010412	\$ 7,342
110110121	\$ 1,930	123710210	\$ 531	141610273	\$ 30	161610214	\$ (9,742)
110410210	\$ 23	141610272	\$ 230	141610271	\$ 1,242	135910250	\$ 1,153
120510543	\$ (2)	162210210	\$ 3,277	141610261	\$ 258		
123710110	\$ 1,000	120510414	\$ 165	141610421	\$ 3,700		

Cause: The cause of the above condition is the lack of internal controls ensuring bank reconciliations are performed in a timely manner and bank accounts are properly monitored for account validity.

Effect: The cause of the above condition is the possibility of a misstatement of cash balances.

Prior Year Status: The above condition is reiterative of conditions identified in prior years' audits of GovGuam.

Recommendation: We recommend that the Department of Administration strengthen internal controls to ensure monthly bank reconciliations are performed and bank accounts are properly monitored for account validity.

Auditee Response and Corrective Action Plan: We will establish new procedures for staff to meet quarterly to monitor and determine the validity of each cash account.

## 6. Unclaimed Checks

Criteria: 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.

Condition: For G/L Acct # 110010117, there was no supporting schedule for \$448,351 of unclaimed checks.

Ms. Lourdes M. Perez  
Director, Department of Administration  
Government of Guam  
May 31, 2007

Page 5

Cause: The cause of the above condition is the lack of adequate internal controls over ensuring that general ledger balances are supported by detailed sub-ledgers, and that the account is monitored for validity.

Effect: The effect of the above condition is the possibility of a misstatement of account balances.

Prior Year Status: The above condition is reiterative of conditions identified in prior years' audits of GovGuam.

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

Auditee Response and Corrective Action Plan: We agree. The amount of \$448,351 in questiond is the total of outstanding checks as per bank reconciliation of an account that was close in fiscal year 2000. No detailed listing was provided because the total of outstanding checks per our AS400 system is more than the total of outstanding checks as per bank reconciliation and specific identification of checks outstanding from the AS400 data base is not possible to come up with at least a reasonable listing or schedule.

## 7. Insurance Security Deposits

Criteria: Insurance security deposits sub-ledger should reflect valid security deposits.

Condition: For 3 (or 23%) of 13 security deposits tested in the amount of \$250,000, \$150,000 and \$150,000, the maturity date lapsed and is no longer considered a valid security; however, such have remained on the sub-ledger. In addition, for 1 (or 8%) of 13 security deposits tested in the amount of \$525,000, the security deposit was released and was not removed from the sub-ledger.

Cause: The cause of the above condition is the lack of adequate internal controls ensuring the security deposits sub-ledger is validated in a timely manner.

Effect: The effect of the above condition is the possibility of a misstatement of the deposits account.

Recommendation: We recommend that the Department of Administration ensure that the deposit subsidiary be periodically reviewed to flag expired balances to ensure that a new deposit is obtained in a timely manner.

Auditee Response and Corrective Action Plan: Division of accounts will take the initiative to ensure the security deposits sub-ledger balances are accurately report on the general ledger.

8. Recordation of Revenues

Criteria: Revenue classifications should be based on the nature of the revenue received.

Condition: During the year ended September 30, 2006, the Department of Revenue and Taxation (DRT) received revenues relating to income taxes and gross receipts taxes of \$246,378,566 and \$193,261,858, respectively. For the year ended September 30, 2006, the Department of Administration (DOA) recorded the following corresponding revenues:

<u>G/L Account #</u>	<u>DOA Total</u>	<u>DRT Total</u>	<u>Variance</u>
<b>Income taxes:</b>			
310051102	\$ 55,236,578	\$ 55,101,685	\$ 134,893
310051103	149,983,874	150,248,351	(264,477)
Other	41,006,264	41,028,530	(22,266)
	<u>246,226,716</u>	<u>246,378,566</u>	<u>(151,850)</u>
<b>Gross receipts taxes:</b>			
310020802	539,005	624,890	(85,885)
310020803	44,251	3,149	41,102
310051202	58,555,452	58,649,870	(94,418)
310051203	42,732,582	42,697,566	35,016
310051209	9,902,855	9,865,671	37,184
310051290	673,507	627,468	46,039
Other	80,846,969	80,793,244	53,725
	<u>193,294,621</u>	<u>193,261,858</u>	<u>32,763</u>
	\$ <u>439,521,337</u>	\$ <u>439,640,424</u>	\$ <u>(119,087)</u>

In addition, the Bureau of Motor Vehicles (BMV) within the Department of Revenue and Taxation received revenues relating to vehicle registrations of \$7,664,276, of which \$3,361,317 related to fees of the Street Light Fund. For the year ended September 30, 2006, the Department of Administration (DOA) recorded the following corresponding revenues:

<u>G/L Account #</u>	<u>DOA Total</u>	<u>BMV Total</u>	<u>Variance</u>
320252101	\$ <u>3,124,087</u>	\$ <u>3,361,317</u>	\$ <u>(237,230)</u>

Cause: The cause of the above condition is the lack of reconciliation of revenues received to revenues recorded by DOA within the various AS400 revenue accounts.

Effect: The effect of the above condition is the possibility of revenues received not being recorded within the correct Fund and revenue classifications.

Recommendation: We recommend that the Department of Administration establish policies and procedures to ensure that revenues received by BMV reconcile to revenues recorded by the Street Light Fund.

Auditee Response and Corrective Action Plan: We will establish new procedures to meet and reconcile quarterly with Department of Revenue & Taxation. We will also establish threshold for the revenue accounts to ensure resources are managed efficiently and effectively.

Ms. Lourdes M. Perez  
Director, Department of Administration  
Government of Guam  
May 31, 2007

Page 7

#### 9. Letters of Credit

Criteria: Outstanding bank Letters of Credit should be reconciled to amounts remaining and available to meet outstanding obligations.

Condition: At September 30, 2006, the Department of Administration recorded an outstanding bank commercial letter of credit in the amount of \$267,329. A reconciliation was subsequently provided indicating that the outstanding balance at year end amounted to \$82,402 leaving an unrecorded variance of \$184,927. As this variance was not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is the lack of timely reconciliation of outstanding letters of credit.

Effect: The effect of the above condition is an overstatement of cash.

Recommendation: We recommend that outstanding letters of credit be reconciled in a timely manner.

Auditee Response and Corrective Action Plan: We are investigating the transaction and should resolve the transaction on FY2007.

#### 10. External Financial Reporting

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the financial statements of the reporting entity include component units for which the primary government is either financially accountable, or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: The following autonomous agencies that are considered to be component units of GovGuam were unable to produce audited financial statements in time for inclusion into GovGuam's financial statements for 2006:

Guam Public Utilities Commission  
Department of Chamorro Affairs Chamorro Village  
Department of Chamorro Affairs Guam Museum  
Guam Council on the Arts and Humanities Agency  
Various Mayors' offices on Guam

Although these entities were not considered material to GovGuam's financial statements, such should be included for a full and complete presentation. A request was made by DOA for unaudited financial statements; however, no response was received by DOA from these respective agencies.

Cause: The cause of the above condition is the lack of audited financial statements for the respective entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14.

Recommendation: We recommend that GovGuam conform to GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the financial statements.

Ms. Lourdes M. Perez  
Director, Department of Administration  
Government of Guam  
May 31, 2007

Page 8

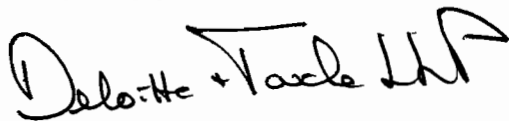
Auditee Response and Corrective Action Plan: The Department of Administration (DOA) concurs with the findings of the auditor. As a corrective action, DOA will send a memorandum prior to the end of the fiscal year reminding the autonomous agencies of their responsibility to provide their financial statements.

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We have communicated certain matters noted during our audit of the basic financial statements of GovGuam for the year ended September 30, 2006, which we considered to be reportable conditions, in our report dated May 31, 2007.

This report is intended for the information and use of management of GovGuam and others within the organization.

Very truly yours,

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.