

June 20, 2007

Honorable Felix P. Camacho  
Governor of Guam:

In planning and performing our audit of the financial statements of Government of Guam Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, for the year ended September 30, 2006, on which we have issued our report dated June 20, 2007, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

## 1. Encumbrances

**Criteria:** 5 GCA 22430 requires that an encumbrance against any type of appropriation shall expire and be automatically returned to the Fund against which it was encumbered nine months after fiscal year end.

**Condition:** At September 30, 2006, GovGuam recorded encumbrances in the amount of \$967,570 within Fund 208. This balance included encumbered amounts relating to fiscal year 2004 and 2005 of \$109,829 and \$412,508, respectively. In accordance with 11 GCA 22430, these amounts expire as of June 30, 2005 and June 30, 2006, respectively. Accordingly, an adjustment of \$522,337 was proposed to reduce the reserve for encumbrances.

**Cause:** The cause of the above condition is the lack of periodic review of encumbrance balances to ensure that such represent valid commitments of GovGuam.

**Effect:** The effect of the above condition is noncompliance with 11 GCA 22430 and overstatement of the reservation within fund balance for encumbrances.

**Recommendation:** We recommend that the Department of Administration ensure that all GovGuam departments perform periodic reviews of encumbrance ledgers for commitments that are no longer considered valid.

**Auditee Response and Corrective Action Plan:** Agree. On February 27, 2007, DOA has already liquidated all invalid encumbrances. DOA year-end closing procedures include liquidation of all invalid encumbrances.

## 2. 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 Bureau of Motor Vehicles (BMV) within the Department of Revenue and Taxation received revenues relating to vehicle registrations and drivers' licenses of \$7,664,276 and \$209,011, respectively, of which \$4,486,077 related to fees of the Territorial Highway Fund. For the year ended September 30, 2006, the Department of Administration (DOA) recorded the following corresponding revenues:

2. Recordation of Revenues, Continued

<u>G/L Account #</u>	<u>DOA Total</u>	<u>BMV Total</u>	<u>Variance</u>
320852100	\$ 4,410,735	\$ 4,277,066	\$ 133,669
320852200	<u>190,963</u>	<u>209,011</u>	<u>(18,048)</u>
	<u>\$ 4,601,698</u>	<u>\$ 4,486,077</u>	<u>\$ 115,621</u>

As the above variances were not considered material to the financial statements, no audit adjustments were proposed.

Cause: The cause of the above condition is the lack of reconciliation of revenues received by the Treasurer of Guam through BMV to revenues recorded by DOA within the Territorial Highway Fund 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 the Treasurer of Guam reconcile to revenues recorded by the Territorial Highway Fund.

Auditee Response and Corrective Action Plan: Agree. DOA has already begun procedures to reconcile with DRT but was not able to start until halfway through FY2006.

3. Accounting for Investments

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 31, *Certain Investments and External Investment Pools*, requires governmental entities to report investments at fair value in the balance sheet.

Condition: At September 30, 2006, GovGuam recorded investments at cost in the amount of \$8,894,810 within Fund 226. The fair value of these investments amounted to \$8,874,209, which resulted in an overstatement of \$20,601. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is the failure to implement the correct accounting treatment as required in GASB Statement No. 31.

Effect: The effect of the above condition is overstatement of investment balances.

Recommendation: We recommend that the Department of Administration implement GASB Statement No. 31 in accounting for investments.

Auditee Response and Corrective Action Plan: Agree. DOA will begin to implement GASB Statement No. 31 in accounting for investments effective fiscal year ending September 30, 2007.

4. Accrued Expenditures

Criteria: Expenditures should be recorded when a liability is incurred regardless of the timing of related cash flows.

Condition: At September 30, 2006, GovGuam recorded accrued expenditures in the amount of \$1,448,465 within Fund 224. Based on disbursements subsequent to year end, we noted certain expenditures in the amount of \$2,016,799 pertaining to contractual services provided during the year ended September 30, 2006. As this amount is considered material to the financial statements, an audit adjustment was proposed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the recordation of expenditures when the related liability is incurred.

Effect: The effect of the above condition is understatement of accrued expenditure balances.

Recommendation: We recommend that the Department of Administration work with the Department of Public Works to implement policies and procedures to ensure that expenditures are recorded when the liability is incurred regardless of the timing of related payments.

Auditee Response and Corrective Action Plan: Agree. DOA year end closing procedures include communicating with agencies to submit invoices that relates to that fiscal year.

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This report is intended solely for the information and use of the Board of Trustees, management of the Government of Guam Territorial Highway Fund, and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of the Territorial Highway Fund during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

