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June 9, 2006

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 Post Office Box 884  
 Hagatna, Guam 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, 2005, on which we have issued our report dated June 9, 2006, which report was qualified due to our inability to substantiate tax related balances recorded within the General Fund, the aggregate remaining fund information and governmental activities, and the inclusion of the financial statements of the GTA Privatization Proceeds Fund, the Interim Transition Coordinating Committee Fund, the Guam Memorial Hospital Authority, the Guam Housing and Urban Renewal Authority, and the Guam Visitors Bureau, which have not been audited. We developed the following recommendations concerning certain matters related to GovGuam's internal control and certain observations and recommendations on other accounting, administrative and operating matters, from which our principal recommendations are summarized below:

1. Cash Balances

Criteria: Cash accounts recorded within the general ledger should be supported by corresponding bank accounts with monthly bank reconciliations or cash on hand/petty cash imprest account reconciliations.

Condition: At September 30, 2005, GovGuam's Department of Administration (DOA) recorded within the General Fund the following general ledger cash accounts greater than \$1,000 for which no supporting bank reconciliations were provided:

<u>G/L Acct. #</u>	<u>Amount</u>	<u>G/L Acct. #</u>	<u>Amount</u>
110110161	\$ 2,199	110010240	\$ 11,991
140310210	\$ 10,271	110110163	\$ 2,308

Furthermore, DOA recorded within the General Fund the following general ledger cash accounts greater than \$1,000 relating to cash balances on hand and/or petty cash imprest accounts for which no supporting cash count sheets and/or imprest account reconciliations were provided.

<u>G/L Acct. #</u>	<u>Amount</u>	<u>G/L Acct. #</u>	<u>Amount</u>	<u>G/L Acct. #</u>	<u>Amount</u>
110010101	\$ 78,428	110010110	\$ 30,284	123710110	\$ 1,000

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

1. Cash Balances, Continued

Additionally, DOA recorded within the General Fund the following cash accounts where the bank reconciliations indicated the following unreconciled variances greater than \$1,000:

<u>G/L Acct. #</u>	<u>Variance</u>	<u>G/L Acct. #</u>	<u>Variance</u>	<u>G/L Acct. #</u>	<u>Variance</u>
110010412	\$ (5,879)	110010421	\$ 10,220	110010441	\$ (9,014)
110010413	\$ 4,707	110010423	\$ 146,522	110010470	\$ 2,586
110010415	\$ 120,701	110010424	\$ 38,860	110010480	\$ 16,599
110010416	\$ (2,330)	110010431	\$ (20,895)	110010529	\$ (15,310)
110110121	\$ 1,843	110310215	\$ (8,116)	123210211	\$ 2,800
132110210	\$ 7,038	160110210	\$ 1,088		

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

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

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

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

Recommendation: We recommend that DOA strengthen internal controls to ensure monthly bank reconciliations are performed and bank accounts are properly monitored for account validity, and that cash balances on hand and/or petty cash imprest accounts are supported by cash count sheets and/or imprest account reconciliations.

2. Wire Transfers

Criteria: Wire transfers via on-line banking should have appropriate controls in place to ensure that only authorized transactions are processed.

Condition: We noted that wire transfers can be performed without proper approval from management as designee has access to wire transfers via on-line banking.

Cause: The cause of the above condition appears to be inadequate internal controls ensuring proper approval for all wire transfers.

Effect: The cause of the above condition is the possibility of unauthorized wire transfers and the potential misstatement of cash.

Recommendation: We recommend that DOA strengthen internal controls to ensure proper monitoring of wire transfers.

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### 3. Expenditures

**Criteria:** Expenditures should be supported by vendor invoices, purchase orders, checks copies, timesheets, and other supporting documentation validating the expenditure.

**Condition:** Of seventy-six non-federal non-payroll expenditures tested, supporting documentation for the following items recorded within the Medically Indigent Program Payment Revolving Fund (Fund 293) were not made available by the Department of Public Health and Social Services (DPHSS):

<u>G/L Acct. #</u>	<u>Vendor #</u>	<u>Claim #</u>	<u>Case #</u>	<u>Amount</u>
5293A051722MA293290	G0742101	100795398	33601	\$ 6,729.90
5293A051722MA293290	G0742101	100795792	05030	\$ 7,326.56
5293A051722MA293290	G0742101	100809570	33868	\$ 22,212.25
5293A051722MA293290	G0742101	100915594	32650	\$ 28,682.68

**Cause:** The cause of the above condition is the inability by DPHSS to provide documentation to support medical expenditures due to patient confidentiality reasons.

**Effect:** The effect of the above condition is the possibility of unauthorized expenditures.

**Recommendation:** We recommend that DPHSS allow examination of documentation supporting medical expenditures by blanking out confidential patient information.

### 4. Solid Waste Tipping Fee Revenues

**Criteria:** Tipping fees charged by the Department of Public Works (DPW) should be supported by Field Receipts.

**Condition:** Of ninety-seven tipping fee revenue items tested, two items (Field Receipt #s 18626 and 18662) were not made available.

**Cause:** The cause of the above condition appears to be inadequate internal controls over record keeping.

**Effect:** The effect of the above condition is the possibility of misstatement of tipping fee revenues.

**Recommendation:** We recommend that DPW strengthen internal controls to ensure proper record keeping.

### 5. Escheat Property

**Criteria:** Escheat revenues to GovGuam should have proper support that validates the escheat.

**Conditions:** During the year ended September 30, 2005, DOA recognized escheat revenue from unclaimed payroll checks (G/L Acct. # 110021512) in the amount of \$140,223 for which the underlying supporting documentation was not made available. This amount represented an unreconciled difference between the general ledger account and the supporting subsidiary ledger.

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#### 5. Escheat Property, Continued

Cause: The cause of the above condition appears to be inadequate internal controls ensuring that supporting information to validate escheat revenues is maintained on file.

Effect: The effect of the above condition is noncompliance with escheat property legislation and the possible understatement of deposit liabilities.

Recommendation: We recommend that DOA strengthen internal controls to ensure that supporting information to validate escheats is maintained on file.

#### 6. Unclaimed Checks

Criteria: Balances in the general ledger should be supported by detailed sub-ledgers that reconcile to recorded balances. Furthermore, proper monitoring of unclaimed checks should be performed to determine validity of the unclaimed check.

Condition: At September 30, 2005, DOA recorded unclaimed checks relating to child support payments within the general ledger (G/L Acct. # 110021519) in the amount of \$1,475,092. We were provided a supporting schedule that included an amount of \$448,351 relating to unclaimed checks drawn on the Citizens Security Bank account; however, no detailed listing was made available to support this amount.

Cause: The cause of the above condition appears to be inadequate internal controls ensuring general ledger balances are supported by detailed sub-ledgers and monitored for validity.

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

Recommendation: We recommend that DOA strengthen internal controls to ensure general ledger balances are supported by detailed sub-ledgers and monitored for validity.

#### 7. Encumbrances

Criteria: Purchase requisitions should be approved by the requesting department's administrator, and certifying officer.

Condition: Of 105 encumbrance balances tested, we noted the following instances where the purchase requisitions were approved on-line; however, we were unable to verify who approved the respective requisitions:

<u>PO #</u>	<u>G/L Account #</u>	<u>Vendor #</u>	<u>Job Order #</u>	<u>Amount</u>
P056A07026	5281A054280ES281230	M0941404	428005281230	\$ 35,707.73
P056A07358	5101H034200IB102450	M0721001	420003102450	\$ 495,896.00
P056A07360	5101H024251CE115450	M0721001	425102115450	\$ 247,948.00
P056A07364	5101H054200IB102450	M0721001	420005102450	\$ 120,156.00
P056A07369	5101H040280HS1LE450	S0098454	0280041LE450	\$ 199,214.13
P056A09165	5101H040280HS1HC450	P3526001	0280041HC450	\$ 238,654.00

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#### 7. Encumbrances, Continued

Furthermore, we reviewed access abilities within DOA's data processing department and noted that staff other than the departmental administrators and certifying officers had the ability to approve purchase requisitions.

Cause: The cause of the above condition appears to be inadequate internal controls ensuring that proper approval for purchase requisitions is obtained from the requesting department's administrator and certifying officer and that access to approve purchase requisitions within AS400 is limited to authorized personnel.

Effect: The effect of the above condition is the possibility of unauthorized purchase requisitions.

Recommendation: We recommend that DOA strengthen internal controls to ensure that proper approval for purchase requisitions is obtained from the requesting department's administrator and certifying officer and that access to such approval is limited to authorized personnel.

#### 8. General Fund and Other Governmental Funds Revenues

Criteria: Revenue collections should be in accordance with established policies. Furthermore, such should be supported by Field Receipts or other documents that validate the revenue deposit into the bank.

Condition: Of six samples tested for the General Fund, Field Receipts were not made available for two items more specifically receipt numbers 2005126338 and 2005126347.

Of one hundred twenty-seven samples tested for the Other Governmental Funds, Field Receipts were not made available for forty-one items, more specifically, receipt numbers; 2005018686, 2005263566, 2005116343, 5002443, 2005054626, 2005169863, 2005232669, 2005258252, 5042163, 2004073079, 2004100253, 2005030620, 2005182249, 2005210177, 2005269728, 5029830, 5031009, 2005045839, 2005047547, 5005869, 5020698, 5021176, 2005058950, 2005064008, 2005037698, 2005043252, 2005051339, 5037355, 2005260807, 2005039323, 2005043377, 2005045605, 2005051338, 2005056724, 2004057024, 2005069189, 2005032685, 2004069301, 2005039895, 2004065767, 2005030299.

Of one hundred twenty-seven samples tested for the Other Governmental Funds, Field Receipts and supporting deposits into the bank were not made available for thirteen items, more specifically, receipt numbers; 2005260137, 2005117355, 2004093393, 2005023888, 5071696, 2005052046, 2005081740, 2005082296, 2004093393, 2005023888, 2005075669, 2005068641, 2005125038.

Of one hundred twenty-seven samples tested for the Other Governmental Funds, supporting deposits into the bank were not made available for nine items, more specifically, receipt/document numbers; J050660005, J050660040, J050660042, J050660108, J050601148, J050660334, J050610632, 2005074955, 2005177242.

Cause: The cause of the above condition appears to be inadequate internal controls over record keeping policies and procedures.

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8. General Fund and Other Governmental Funds Revenues, Continued

Effect: The effect of the above condition is the potential misstatement of revenues.

Recommendation: We recommend that GovGuam strengthen internal controls over record keeping policies and procedures.

\* \* \* \* \*

We have communicated certain matters noted during our audit of the financial statements of the Government of Guam for the year ended September 30, 2005, which we considered to be reportable conditions in our report dated June 9, 2006.

This report is intended solely for the information and use of the management of the Government of Guam and the Office of the Public Auditor.

We wish to express our appreciation for the cooperation of the staff and management of the Government of Guam 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,

