

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

SEPTEMBER 30, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Felix P. Camacho
Governor of Guam:

We have audited the financial statements of the Territorial Highway Fund and of those funds and the account groups related to the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, as of September 30, 2001, and for the year then ended, and have issued our report thereon dated December 3, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the Territorial Highway Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 01-01.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Territorial Highway Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Territorial Highway Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 01-01 through 01-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions above, we believe that finding number 01-04 is a material weakness.

This report is intended for the information of the Government of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte + Tatchell LLP

December 3, 2003

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 2001

Finding Number 01-01 - Compliance

Criteria: Transactions required by legislative statute should be performed in accordance with the intent of the established public law.

Condition: Public law 23-128 requires that fifty percent (50%) of all monies in the Surplus Fund of the Limited Obligation Highway Bonds, Series 1992 A Debt Service Fund on the fifth day of each month shall be paid by the Depository to the Village Streets Fund (VSF). Review of trustee and department records indicate that payment did not occur on the fifth day of each month as specified by the public law.

Cause: The cause of this condition appears to be related to staff shortages that have occurred in the Division of Accounts in fiscal year 2001. Staff members responsible for the tracking and review of the Territorial Highway Debt Service Fund and associated transactions left the division or were re-assigned based on division priorities.

Effect: The above condition may have resulted in violation of public law.

Recommendation: Transactions required by legislative statute should occur in accordance with the intent of the established public law. Individuals should be assigned to identify and ensure that the Territorial Highway Fund is in compliance with pertinent public statutes.

Prior Year Status: The above condition is reiterative of conditions identified in the September 30, 2000 report.

Auditee Response: Agree with some exception. The Division of Accounts will perform corrective actions prospectively. The corrective actions will include periodic reviews, reconciliation and proper records management. The exception, however, is that P.L. 23-128 assumes surplus funds are always available monthly, when in fact this is not always the case. As a result, surpluses are computed at the end of the fiscal year to guarantee compliance with the bond indentures (debt service, etc.) prior to the 50% distribution.

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Schedule of Findings
Year Ended September 30, 2001

Finding Number 01-02 - Contract Retention Payable

Criteria: Contract retention liability should be updated in a timely manner.

Condition: The following contracts have had no activity since FY 91, FY 93, FY 94, FY 95, FY 96, and FY 97:

<u>Vendor</u>	<u>Contract Number</u>	<u>Account Number</u>	<u>Contract Retention Amount</u>	<u>Last Transaction Date</u>
Fund 301				
1. Hanil Development Corp	C920660070	5224D51090HC003	\$50,000.00	9/93
2. Hawaiian Rock Products	C920660456	5224D21090HC009	\$86,214.33	8/93
3. Dev & Associates	C940660325	5224D21090HC004	\$ 3,414.00	12/94
4. Hawaiian Rock Products	C930660462	5224D921090HC006	\$17,824.31	6/94
5. Black Construction Company	C980602620	5224D921090HC003	\$73,154.69	1/96
Fund 214				
6. Hawaiian Rock Products	C910660021	5208C901098ZF613	\$ 4,955.39	6/91
7. Hawaiian Rock Products	C910660106	5208C901098GF616	\$ 4,200.00	10/93
8. Guam Rock Products	C910660308	5208C901098GF611	\$ 1,208.89	9/93
9. Black Construction Corp	D971098153	5208A971098HM001	\$ 1,344.00	9/97
10. Black Construction Corp	D971098162	5208A971098HM001	\$ 1,140.00	9/97
11. Hawaiian Rock Products	D971098157	5208A971098HM001	\$ 868.00	9/97
12. Ogo's Equip. Rental	D971098156	5208A971098HM001	\$ 5,333.75	9/97

Cause: Contract retention liabilities do not appear to have been investigated by the agencies authorized to disburse or remove the balances.

Effect: The contract retention liability account may be overstated by an immaterial amount in the event of contract completion or cancellation.

Recommendation: Contracts should be reviewed by responsible agencies for completion or cancellation in a timely manner.

Prior Year Status: Item numbers 1 - 8 are a carried forward condition from the prior year. Item numbers 9-12 were also noted in prior year finding 99-04.

Auditee Response: Agree. DOA will perform corrective actions prospectively. Period reviews and reconciliation will commence immediately, to include communication with the appropriate Government of Guam department overseeing and administrating these contracts for purposes of determining final disposition of these outstanding liabilities.

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Schedule of Findings
Year Ended September 30, 2001

Finding Number 01-03 - LFT Receivables

Criteria: Reconciliation procedures should be performed between the Department of Revenue & Taxation and the Department of Administration for the liquid fuel tax receivables for the Territorial Highway Fund.

Condition: Due to the lack of reconciliation procedures, liquid fuel tax receivables per the Department of Administration are overstated by \$12,634,267.

The non-reconciliation issue is a carry forward condition from the prior year.

Cause: The cause of this condition appears to be related to communication issues between the Department of Revenue & Taxation and the Division of Accounts of the Department of Administration.

Effect: The affected accounts may be misstated by a material amount.

Recommendation: Reconciliation procedures should be performed in a timely manner for recorded liquid fuel receivables.

Prior Year Status: The above condition is reiterative of conditions identified in the September 30, 2000 report.

Auditee Response: The Division of Accounts will perform corrective actions prospectively. Standard operating procedures are being established between DOA and the Department of Revenue & Taxation to address this non-reconciliation issue. A memorandum of agreement addressing this concern is under review at this time.

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Schedule of Findings
Year Ended September 30, 2001

Finding Number 01-04 – Source Documents

Criteria: Source documents, such as bank statements for bond defeasance transactions, should be obtained and maintained to ensure proper recording of those transactions.

Condition: Source documents were not available.

Cause: The condition appears to indicate a lack of controls over ensuring the completeness of the financial statements.

Effect: Transfers of the Capital Projects Fund were overstated by \$50,468,032, other financing sources by \$1,236,968 and other financing uses by \$51,705,000 resulting in an audit adjustment to reverse these amounts. The Debt Service Fund was misstated because of an overstatement of transfers in of \$50,468,032, an understatement of other financing sources for proceeds from bond defeasance of \$60,102,979 and an understatement of other financing uses for uses of bond defeasance of \$9,634,887 resulting in an adjustment to properly state these accounts. This matter existed for more than two and one-half years prior to being corrected in the audit process.

Recommendation: Collection and maintenance of source documents should be ensured.

Auditee Response: The Division of Accounts regrets that it has taken over two years to rectify this situation. Just recently the Division began receiving bank statements directly. Previously, statements were sent via the Governor's office in Adelup.