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May 29, 2002

The Board of Directors
Guam Economic Development Authority:

In planning and performing our audit of the financial statements of the Guam Economic Development Authority (GEDA) as of and for the year ended September 30, 2001 (on which we have issued our report dated May 29, 2002), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on GEDA's internal control. Our consideration of GEDA's internal control would not necessarily disclose all matters in GEDA's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. 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 caused by error or fraud 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. We noted no matters involving GEDA's internal control and its operations that we consider to be material weaknesses as defined above.

During our audit, we noted other matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Finding Number 1 – Appropriations Receivable

Criteria: Receivables for which collection is uncertain should be either provided for with an allowance for doubtful accounts or written off.

Condition: Guam Territorial Aquarium Foundation (GTAF) has appropriations receivable of \$12,155 from the Government of Guam dating back to 1995.

Cause: The cause of this condition is that no adjustment for the uncertainty of this amount has been proposed due to its immateriality.

Effect: Appropriations receivable may be overstated in the amount of \$12,155.

Recommendation: The GTAF should assess the collectibility of the appropriations receivable and either provide an allowance or write off the amount that is uncollectible.

Finding Number 2 – Lease Contracts

Criteria: Lease agreements should be updated for any changes in terms.

Condition: Several lease agreements expiring during 1997 through 2001 have not been updated.

Cause: The cause of this condition appears to be due to inadequate monitoring of lease terms.

Effect: Terms of lease agreements might not be enforceable if a dispute surfaces between the lessee and GEDA.

Recommendation: A record of all lease terms should be maintained to facilitate lease renewals on expiration.

Finding Number 3 – Lower of Cost or Market

Criteria: Land should be recorded at the lower of cost or market.

Condition: No appraisals have been performed to determine if the market value of the land has declined below cost.

Cause: No policy or procedures are in place to have a third party perform requisite appraisals.

Effect: A potential exists for land to be misstated.

Recommendation: Management should establish and implement policies and procedures requiring that a third party perform periodic (i.e. biennial) appraisals of land held for investment. If the appraised market value has declined below cost, an adjustment to reduce carrying value to market should be considered.

Finding Number 4 – Loan File Review

Criteria: Loan documentation should be current.

Condition: Current information such as financial statements, appraisal reports and casualty insurance were not noted for the loan files listed below.

MDP

001	Casualty insurance
015	Financial statements, casualty insurance

ADF

214	Financial statements
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G DFA

189B	Appraisal report
374/375	Casualty insurance
350	Appraisal report
365	Financial statements, casualty insurance

Cause: The cause of this condition is unknown.

Finding Number 4 – Loan File Review, Continued

Effect: There is no known effect on the financial statements as a result of this condition. However, loan documentation necessary to assess loan collectibility may not be available.

Recommendation: We recommend that GEDA update the abovementioned loan documentation.

Finding Number 5 – Loan File Review

Criteria: Property designated as loan collateral should be filed and perfected.

Condition: Documentation indicating that a leasehold mortgage for MDP loan no. 3 was recorded with the Department of Land Management was not available for our inspection. In addition, recording of a chattel mortgage for ADP loan no. 237 is still pending; loan was originated in May 2000.

Cause: The cause of this condition is unknown.

Effect: There is no known effect on the financial statements as a result of this condition. However, the underlying loan may not be adequately collateralized.

Recommendation: The necessary loan documents should be appropriately filed and perfected. We understand that the Authority is in the process of obtaining documentation necessary to record the chattel mortgage of ADP loan no. 237 and expects the recordation to be completed soon.

Finding Number 6 – Loan File Review

Criteria: Loans, when applicable, should be reclassified to non-accrual loans.

Condition: The loans listed below meet the criteria of the Authority's Non Accrual Policy and should be transferred into non-accrual status.

ADF	214
GDFA	379, 380

Cause: The cause of this condition is unknown.

Effect: Immaterial overstatement of interest income occurs as a result of this condition.

Recommendation: We recommend the loan department submit requests to the Credit Review Committee to transfer the abovementioned loans into non-accrual status. We understand that GDFA Loan No. 379 and 380 have been transferred into non-accrual status subsequent to the fiscal year-end.

Finding Number 7 – Loan File Review

Criteria: Original loan documents such as loan agreement, promissory notes, recorded mortgage, title insurance, UCC financing statement and casualty insurance critical in loan agreement enforcement should be kept in the safe files, which are locked in a cabinet.

Finding Number 7 – Loan File Review, Continued

Condition: The following original loan documents are noted in the loan files instead of safe files.

MDP		Status
003	Title insurance, UCC1	
004	Recorded mortgage, title insurance, UCC1	
005	Recorded chattel mortgage, UCC1	
GDFA		
189	Title insurance	
349	Title insurance, UCC1	
362	Recorded mortgage	
368/370	Recorded mortgage	
371	Recorded mortgage, title insurance	Recorded mortgage & title insurance subsequently transferred to safe file.
379/380	Title insurance	

Cause: The cause of this condition is unknown.

Effect: There is no known effect on the financial statements as a result of this condition. However, loan documentation necessary to asserted claim on collateral may become misplaced or destroyed.

Recommendation: We recommend that the loan department perform a transfer of the abovementioned original loan documentation to the safe files, which preferably, should be kept in a fire safe environment. We understand that corrective action has already occurred in 2002 and that several original loan documents, as noted above, have been transferred to the safe files as recommended.

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This report is intended solely for the information and use of the board of directors, management and others within the organization. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

