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June 29, 2016

Ms. Christine Baleto
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Baleto:

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, 2015, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 29, 2016 and which includes reference to other auditors), 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, we considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters involving GovGuam's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 29, 2016, on our consideration of GovGuam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

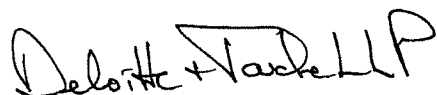
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the GovGuam for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Tatchell LLP" is on the right. The letters are connected in a fluid manner.

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

A. DIVISION OF ACCOUNTS (DOA)**(1) Unreconciled Cash Over/Short**

Comment: Selected receipts could not be directly traced to corresponding bank statements due to untimely reconciliations between Transaction Processing System (TPS) registers, AS400 system, and bank statements. As of 9/30/2015, \$121,311 represented an unreconciled cash shortage.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit.

Recommendation: Reconciliation of the TPS against the AS400 system, and with corresponding general ledger accounts and bank statements should be timely performed.

(2) Post-closing Adjustments

Comment 1: The financial statements included seventeen post-closing adjustments approved six to nine months subsequent to fiscal year end.

Comment 2: Each post-closing entry should be separated by nature of transaction and journal voucher number.

Comment 3: Subsequent changes to a previously approved post-closing entry should be assigned a new journal voucher number.

Prior Year Status: The above comment 1 is reiterative of conditions identified in the prior audit.

Recommendation: It appears that additional experienced accountant level personnel are required to allow for timely reconciliation of all required accounts.

We recommend that post-closing entries be separated by nature of transactions and be assigned a different journal voucher number. In addition, modifications or corrections of previously approved journal voucher numbers should be assigned a new journal voucher number.

(3) MIP/Medicaid Accruals

Comment: GovGuam does not periodically evaluate its methodology in assessing the impact of potential liabilities for MIP and Medicaid transactions.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit.

Recommendation: We recommend that GovGuam enhance its estimation methodology for the accrual of MIP and Medicaid expenditures.

A. DIVISION OF ACCOUNTS, CONTINUED

(4) Journal Vouchers

Comment: Journal Voucher # J150660401 and # J150610517 were verified against the Manual Journal Voucher Log Sheet but entries were not posted in the AS400 system and were not identified as void.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit.

Recommendation: We recommend that DOA take reasonable steps to account for all journal vouchers, including those voided or unused.

(5) Timesheet

Comment: Preapproval of timesheets prior to the period end date should be permitted only for extenuating circumstances.

Certain departments prepared and approved timesheets throughout the year before the pay period end date.

Recommendation: We recommend that DOA examine this matter and clarify with the departments that preapproval of timesheets should only be performed upon approval of the DOA payroll department.

(6) Revenue Recognition

Comment: The Government of Guam should enforce collection of import and use taxes, customs and quarantine service fees and bounced checks.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit for the collection of import and use taxes and customs and quarantine services.

Recommendation: We recommend that DOA analyze the recurring losses in these funds and determine if additional personnel may be needed to concentrate on collection efforts.

In addition, we recommend customer charge accounts be eliminated or that the Government require full payment from customers with unpaid balances greater than one year.

B. GENERAL SERVICE AGENCY

(1) Inventory

Comment: As of September 30, 2015, \$3.8M of fuel and supplies were recorded; however, no inventory records were available to support this balance.

Recommendation: A physical inventory should be periodically performed and reconciled to the general ledger.

C. CUSTOMS AND QUARANTINE

(1) Absence of a Signed Lease Agreement

Comment: Rental and janitorial fees charged to Customs & Quarantine of \$1.9M were not supported by a signed lease agreement.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit.

Recommendation: A lease agreement or relevant documentation should be updated to document that expenses are properly approved and supported.

D. DATA PROCESSING DIVISION

OPA Note: Omitted comments for security purposes.

D. DATA PROCESSING DIVISION, CONTINUED

E. UNIFIED COURTS

(1) Financial Statements

Comment: The financial statements or basic trial balance were not available until six months after year end.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audit.

Recommendation: We recommend management complete the fiscal year closing processes more timely.

(2) Fixed Assets

Comment 1: Recorded depreciable and non-depreciable assets should be supported with an accompanying schedule that contains a description of each asset, acquisition cost by project, acquisition date, funding source, status of the asset, location, identification tag or number, useful life, depreciation, and net book value.

Comment 2: Capital assets should be capitalized in accordance with the Government of Guam capitalization policy.

Of the \$3.1M of equipment and vehicles acquired, \$2.1M were not compliant with the capitalization policy. A net book value of \$971K is presented and included in the summary of uncorrected misstatements.

Comment 3: An additional \$8.7M of capital assets with \$2.8 of accumulated depreciation were not reported in the prior year. A net book value of \$5.9M is presented and included in the summary of prior year uncorrected misstatements.

E. UNIFIED COURTS, CONTINUED

(2) Fixed Assets, Continued

Prior Year Status: The above comment 1 is reiterative of conditions identified in the prior audit.

Recommendation: We recommend a schedule of current year additions, disposals and transfers to support recorded fixed assets be prepared each quarter. Furthermore, the fixed asset listing should be more comprehensive to include details mentioned on Comment 1 above. Fixed asset listings should also be provided annually to the Department of Administration.

(3) Monitoring of Probation Accounts

Comment: The status of probation cases should be timely monitored to allow for the issuance of official court orders for the closure and write-off of uncollectible accounts. The related allowance is \$5,279,085, which includes expired probation cases that have had no movement for more than five years. The non-collection has minimal impact on the Government of Guam as the majority of the balance accrued is payable to the associated victim.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audits.

Recommendation: The status of probation cases should be monitored to allow for legal and timely write-off of expired probation cases.

F. CHILD SUPPORT ENFORCEMENT DIVISION / DIVISION OF ACCOUNTS

Unclaimed Checks – Child Support

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between DOA and the Child Support Enforcement Division (CSED) are on-going regarding reconciliation between the AS400 and the APASI system to support unclaimed checks and reconcile aged balances, which date back more than 15 years. Additionally, as of 9/30/2015, the unreconciled difference between CSED's schedule and DOA's financial statement was \$748,620.

Prior Year Status: The above comment is reiterative of conditions identified in the prior audits.

Recommendation: Continue to address the Collaborative Action Plan, which entails the following:

1. Inquiry from the bank to obtain copies of all associated records, (cash collections and checks/EFT payments) during the period the child support accounts were held.
2. Seek legislation to establish a period after which unclaimed child support payments will escheat to the Government. Since bank records are incomplete or are unavailable for two financial institutions prior to 2004, DOA and CSED are seeking legislation to waive the diligent effort requirements before unclaimed child support payments can be escheated for the period prior to 2004.

G. GUAM FIRE DEPARTMENT

(1) Ambulance Service

Comments:

- Remittances received from ambulance services were recorded as net of gross revenue less the service fee from the outsourced service provider resulting in a revenue understatement of \$540k.
- Accounts receivable of \$831k identified by the outsourced service provider was not recognized.
- Reconciliation and review of service provider remittances are not performed to substantiate the completeness and accuracy of presented information.

Recommendation: We recommend that revenues, expenditures, and accounts receivable related to ambulance services be properly recorded and recognized on a timely manner. We also recommend DOA and the Guam Fire Department review and reconcile information received to verify the data completeness and accuracy.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GovGuam's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.