



Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning, GU 96913  
USA

Tel: +1 (671) 646-3884  
Fax: +1 (671) 649-4265

[www.deloitte.com](http://www.deloitte.com)

June 6, 2017

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, 2016, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 6, 2017 and which includes a reference to other auditors and emphasis-of-matters paragraphs for the implementation of new accounting standards and a matter regarding the Retirement Fund), 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, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 6, 2017, 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.

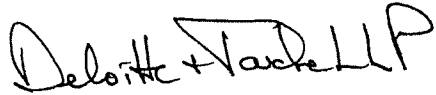
This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

# Deloitte.

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.

**SECTION I – OTHER MATTERS**

We identified, and have included below, other matters involving GovGuam's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

**2016-A. DIVISION OF ACCOUNTS****(1) Revenue Recognition**

Comment: GovGuam should enforce collection of receivables for use tax and bounced checks and recognize associated revenues on the modified accrual basis of accounting.

As of September 30, 2016, the Department of Administration (DOA) recognized receivables for uncollected use tax and bounced checks of \$593K and \$581K, respectively. A proposed audit adjustment is included in the summary of uncorrected misstatements for \$1174K to reduce related revenues due to incorrect revenue recognition criteria.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: DOA should consider the cost/benefit of hiring additional personnel to pursue collection of the above receivables. We additionally recommend reconsideration of the current use tax credit policies.

**(2) Due to/from Federal Agencies**

Comment: As of September 30, 2016, \$2.4M of federal receipts were not accounted for in the Schedule of Federal Receipts.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: Timely reconciliation should be performed and be traceable to bank statements and G5 reports to support that collections from federal agencies are accounted for.

**(3) 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, the AS400 system, and bank statements. As of September 30, 2016, \$310K represented the non-reconciled balance. Subsequent examination indicated that the balance represented collections that were not allocated to the correct revenue accounts.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

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

**(4) MIP/Medicaid Accruals**

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

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend that GovGuam obtain the Incurred But Not Reported (IBNR) Report from the Department of Public Health and Social Services and determine if an accrual of MIP and Medicaid expenditures is necessary.

**2016-A. DIVISION OF ACCOUNTS, CONTINUED**

(5) Capital Lease Collateral Equipment

Comment: Accountability of collateral equipment related to capital leases require clarification between the Primary Government and the Guam Department of Education (GDOE).

As of September 30, 2016, documentation was not available to determine the detail of collateral equipment in the amount of \$7,499,090 received from the Tiyan Lease dated November 2014, Section 10a.

Recommendation: We recommend that the Primary Government and GDOE clarify the responsible party that will be accountable for collateral equipment that arises from capital lease agreements.

(6) Capital Assets

Comment 1: Capitalized assets should be recorded in accordance with the applicable capitalization policy.

- a) \$3.4M of recorded assets were less than the \$50,000 threshold per the applicable capitalization policy.

A proposed audit adjustment is included in the summary of uncorrected misstatements to remove the assets with a net book value of \$1.6M as of year-end.

- b) Approximately \$7.4M of unreported capital assets were identified.

An adjustment was subsequently recorded by management to include \$1.7M of these assets. \$1.2M is included in the summary of uncorrected misstatements and \$4.5M was proposed as an audit adjustment.

Comment 2: Reconciliation with inventory records, capital asset ledgers and the general ledger should be timely performed.

Capital assets should be reviewed for ongoing pertinence to minimize the opportunity for misstatements and to identify retired assets that have been replaced, disposed of or that have no further value or use.

- a) \$3.8M of fully depreciated vehicles and equipment were scrapped and disposed of. Related acquisition costs and accumulated depreciation were reported as of September 30, 2016.

- b) We were unable to verify the existence of \$183K of capital assets. The asset listing did not include sufficient information to identify locations or descriptions.

Comment 3: Capital assets of the Guam Legislature and Unified Courts were not timely reconciled.

Capital assets of the primary government should be reconciled with other non-component unit government agencies, departments or divisions.

Prior year status: The above comments are reiterative of conditions identified in the prior year audit.

**2016-A. DIVISION OF ACCOUNTS, CONTINUED**

(6) Capital Assets, Continued

Recommendation: GovGuam should continue implementing controls over timely tagging all equipment and over performing the required future inventories and reconciliations in accordance with applicable equipment management requirements.

Capital assets should be recorded in accordance with GovGuam's capitalization policy. We recommend a policy be implemented to monitor replacements, disposals, transfers of assets and construction in progress by project.

The Division of Accounts should investigate whether additional personnel well versed in accounting reconciliations and processes may be required to allow for timely review and recordation of capital assets, especially given the substantial capital asset construction that is undertaken by GovGuam. Furthermore, coordination with the Department of Public Works and other engineering firms must occur at project commencement so that accounts are established to track capital costs and to allow for the preparation of periodic reports and documenting a project's percentage of completion.

(7) Post-Closing and Journal Voucher (JV) Entries

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

Comment 2: Subsequent changes to a previously approved JV should be assigned a new identification number.

Comment 3: JV entries posted to the system should be supported by an approved JV form.

Reconciliation issues were identified between JV transactions entered in the system and transactions noted on the approved JV forms.

Prior year status: The above comments 1 and 2 are reiterative of conditions identified in the prior year audit.

Recommendation: We recommend modifications or corrections of previously approved journal voucher numbers be assigned a new journal voucher number. Furthermore, all journal entries posted in the system should be entered as approved with the exception of control accounts. Internal controls should be implemented to minimize the opportunity for these issues from recurring.

(8) Compensated Absences Payable

Comment: Compensated absences payable included balances in excess of the allowable 320 hour limit.

The accrual was overstated by approximately \$2.3M. Such is included in the summary of uncorrected misstatements.

Recommendation: We recommend the compensated absences payable exclude balances in excess of 320 hours and the 100 hours transferable to sick leave.

(9) Implementation of GASB Statement 73

Comment: GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, is required to be implemented by GovGuam in fiscal year 2017.

Recommendation: We recommend GovGuam consider such during the fiscal year 2017 actuarial valuation performed by the GovGuam Retirement Fund.

**2016-B. 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 the 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 September 30, 2016, the unreconciled difference between CSED’s schedule and DOA’s financial statement was \$871K.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

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.

**2016-C. GUAM FIRE DEPARTMENT**

Ambulance Service

Comment:

- Remittances received from ambulance services were recorded net of gross revenue less service fees from an outsourced service provider. This condition resulted in a \$244K revenue understatement.
- Accounts receivable of \$760K identified by the outsourced service provider was not recorded or analyzed.
- Reconciliation and review of remittances is not performed by the Guam Fire Department to assess completeness and accuracy of presented information from the outsourced service provider

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend that revenues, expenditures, and accounts receivable related to ambulance services be properly recorded and be timely recognized. We also recommend DOA and the Guam Fire Department review and reconcile information received from the service provider to assess completeness and accuracy.

**2016-D. UNIFIED COURTS**

(1) Fixed Assets

Comment 1: Recorded depreciable and non-depreciable assets should be supported by 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.

**2016-D. UNIFIED COURTS, CONTINUED**

(1) Fixed Assets, Continued

Of \$3.3M of acquired equipment and vehicles, \$2.2M was not compliant with the capitalization policy. A net book value of \$854K is presented and included in the summary of uncorrected misstatements.

Recommendation: We recommend a schedule of current year additions, disposals and transfers supporting recorded fixed assets be prepared each quarter. Furthermore, the fixed asset listing should be comprehensive and should include details mentioned in Comment 1 above.

(2) 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 \$5.3M, which includes expired probation cases that have had no movement for more than ten years. The non-collection has had minimal impact on GovGuam as the majority of the balance accrued is payable to the associated victim.

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

**2016-E. CUSTOMS AND QUARANTINE AGENCY**

Absence of a Signed Lease Agreement

Comment: Rental and janitorial fees charged to the Guam Customs and Quarantine Agency of \$2.8M were not supported by a signed lease agreement.

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

**2016-F. GENERAL SERVICES AGENCY**

Inventory

Comment: As of September 30, 2016, \$4.8M of fuel and supplies was recorded; however, inventory records were not available to support this balance.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: A physical inventory should be performed at least annually for ongoing pertinence.

**2016-G. DATA PROCESSING DIVISION**

OPA Note: Omitted comments for security purposes.

**2016-G. DATA PROCESSING DIVISION, CONTINUED**

**2016-H. GUAM ELECTION COMMISSION**

Comment: Check 0609088 represented payment for \$246K of prior year non-accrued expenditures. The related expenditures included invoices dating back to 2005.

Recommendation: We recommend that the Guam Election Commission timely provide invoices to the Department of Administration.



**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.