

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

SEPTEMBER 30, 2005

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS 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 related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2005, and for the year then ended, and have issued our report thereon dated June 22, 2006. 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.

Internal Control over Financial Reporting

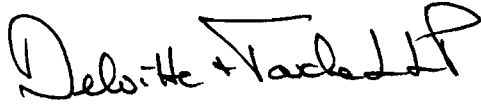
In planning and performing our audit, we considered the Territorial Highway Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial 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 operation 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 2005-01 through 2005-04.

A material weakness is a reportable 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. 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, we believe none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

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 did not disclose any instance of noncompliance that is required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management of the Government of Guam Territorial Highway Fund, the Office of the Public Auditor 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.

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and cursive.

June 22, 2006

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-01 – Tax Drawbacks

Criteria: Reconciliation procedures should be performed between the Department of Revenue & Taxation (DRT) and the Department of Administration (DOA) for tax drawbacks.

Condition: Tax drawbacks per DOA were overstated by \$5,050,046 at September 30, 2005.

Cause: The cause of this condition appears to be that reconciliation efforts were initiated for this account after year end.

Effect: Tax drawbacks were misstated. However, the account was adjusted through the audit process.

Recommendation: DOA should continue its efforts to periodically reconcile its tax accounts with those of DRT.

Auditee Response and Corrective Action Plan: Agree. Department of Revenue and Taxation (DRT) have agreed to provide to DOA quarterly tax drawbacks schedule. We would perform monthly reconciliations to ensure accuracy of balances.

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Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-02 – Deposit In Transit

Criteria: Deposits to bank accounts are to be recorded upon actual deposit of cash.

Condition: A deposit of \$976,936 made in October 2005 was recorded on the books of THF in September 2005 as a deposit in transit at that date.

Cause: There appears to be weak internal controls over the review of the bank reconciliation.

Effect: The cash account was misstated. However, the account was adjusted through the audit process.

Recommendation: Management should review bank reconciliations to ensure the accuracy of reconciling items.

Auditee Response and Corrective Action Plan: Agree. A fund manager would be designated to ensure all activities are recorded accurately and completely. The manager would ensure deposit in transit is not recorded directly into cash until the deposit of cash has been made.

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Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-03 – Liquid Fuel Taxes

Criteria: Liquid fuel taxes should be recorded based on taxpayer payments.

Condition: Approximately \$1,325,932 of liquid fuel taxes were recorded as General Fund revenues.

Cause: This matter was corrected through extensive management efforts that were devoted to reconciling the records of the Department of Revenue and Taxation (DRT) with balances maintained at the Department of Administration (DOA). However, this reconciliation effort was initiated after year-end.

Effect: Liquid fuel taxes were misstated. However, the account was adjusted through the audit process.

Recommendation: Management should continue in its efforts to perform a periodic reconciliation of tax accounts between DOA and DRT.

Auditee Response and Corrective Action Plan: Agree. DRT already provided DOA's acting controller the monthly GRT returns of the major gas companies up to March 2006. DRT would continue to provide returns on a monthly basis to DOA. DOA would perform reconciliations with the returns and the amounts recorded in the system to ensure accuracy and completeness of tax revenues.

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Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-04 – Interfund Balances

Criteria: Interfund accounts should represent actual amounts due or owed by one fund to another.

Condition: An interfund balance of \$6,800,987 between the Territorial Highway Fund and Debt Service Fund was eliminated as a result of recordation of transfers in excess of actual cash transferred.

Cause: The cause of this condition appears to be the untimely review of interfund account balance relationships.

Effect: Interfund accounts were misstated. However, the account was adjusted through the audit process.

Recommendation: Management should review interfund accounts on a regular basis.

Auditee Response and Corrective Action Plan: Agree. A fund manager would be designated to ensure all activities are recorded accurately and completely. A monthly schedule would be prepared to reflect the proper amounts that should be reserved for Debt Service and Operations and Maintenance expenses.