

*Management comments and recommendations*

**Government of Guam**

**Guam Highway Fund**

(A Governmental Fund of the Government of Guam)

*September 30, 2019*



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Ernst & Young LLP  
231 Ypao Road  
Suite 201 Ernst & Young Building  
Tamuning, Guam 96913

Tel: +1 671 649 3700  
Fax: +1 671 649 3920  
ey.com

June 23, 2020

Mr. Edward M. Birn  
Director  
Guam Department of Administration  
590 South Marine Corps Drive  
2<sup>nd</sup> Floor, ITC Building, Suite 224  
Tamuning, Guam 96932

In planning and performing our audit of the combined financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds) as of and for the year ended September 30, 2019, in accordance with the auditing standards generally accepted in the United States, we considered its internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds’ internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following observation which we believe merits the attention of those charged with governance:

### **Payment of Retainage**

#### Observation

During our testing of Guam Highway Fund’s expenditures, we noted one instance where retainage on construction project was paid prior to the completion and approval of the underlying project. Management identified the excess payment and made a correction by offsetting a future payment.

Recommendation

We recommend that management establish controls to ensure that retainage is only paid upon acceptance of the project at the end of the contract.

\* \* \* \* \*

This communication is intended solely for the information and use of the management, others within the organization and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties.

At this time, we would like to thank Gaudencio Rosario, Mary Grace Edrosa and the rest of the accounting staff for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matter or to respond to any questions, at your convenience.

Sincerely,

*Ernst + Young LLP*