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November 28, 2012

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

Dear Ms. Manglona:

In planning and performing our audit of the financial statements of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds) as of and for the years ended September 30, 2011 and 2010 (on which we have issued our report dated November 28, 2012), 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 the Funds' 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 the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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, deficiencies related to the Funds' internal control over financial reporting and other matters as of September 30, 2011 and 2010 that we wish to bring to your attention.

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 Solid Waste Operations Fund, management, others within the organization and the Office of Public Accountability – Guam, 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 Solid Waste Operations Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the Solid Waste Operations Fund’s internal control over financial reporting as of September 30, 2011 and 2010 that we wish to bring to your attention:

1. Billings

a. Of eighteen scale tickets and commercial haulers billings examined relating to fiscal year 2010, the following were noted:

i. Invoices did not agree with schedules of revenues billed for the following.

<u>Customer Number</u>	<u>Month and Year</u>	<u>Per Invoice</u>	<u>Per Schedule of Revenues Billed</u>	<u>Variance</u>
40553734	Dec 09	\$246,600	\$248,216	\$(1,616)
40553843	Dec 09	103,650	104,513	(863)
40546903	Jan 10	10,152	9,565	587
40553952	Jan 10	108,376	103,694	4,682
40546903	Feb 10	10,440	11,066	(626)
40553734	Mar 10	338,145	326,435	11,710
40546903	Aug 10	18,498	17,973	525
40603114	Aug 10	3,658	2,874	784
40553843	Sep 10	167,084	166,932	152

We recommend that differences be reconciled.

Auditee Response: GSWA management concurs. While these are relatively small differences, such differences should not occur.

b. Of eleven residential customers examined for fiscal year 2011 transactions, the following were noted:

i. One customer (#30244817) did not make payments since May 2010; however, trash services were discontinued in June 2011, which is not in accordance with GSWA’s policy to discontinue services when an account is ninety days past due.

We recommend that established policies and procedures relative to delinquent accounts be adhered to.

Auditee Response: GSWA management concurs.

ii. One customer (#40857167) cancelled his/her account subsequent to fiscal year 2011. However, the customer still had an unpaid balance. Per GSWA’s policies, a customer may only be allowed to cancel an account upon full payment of the account balance.

We recommend that GSWA further investigate this matter and review existing procedures relative to cancellation of accounts.

Auditee Response: GSWA management concurs.

SECTION I – DEFICIENCIES, CONTINUED

2. Collections

a. During tests of fiscal year 2011 collections, the following were noted:

- i. A \$24 payment (dated 02/08/11) from one customer (account #10113715) was posted as \$34 in the system. This was not timely corrected.

We recommend that daily reconciliations between payment information from banks and information posted in the system be performed.

Auditee Response: GSWA management concurs.

- ii. Collections of \$8,766 per payment coupons for September 9, 2011 did not agree to \$5,173 per the applicable batch reports. The difference may be due to other batch reports that were not provided.

We recommend that batch reports be available on file.

Auditee Response: GSWA management concurs. It is the policy of GSWA to maintain these reports. The reports in question were misplaced.

b. During tests of fiscal year 2010 collections, the following were noted:

- i. The batch reports for the following were not provided:

<u>Date</u>	<u>Bank</u>
12/18/09	BOG
01/25/10	CSB/ANZ
03/02/10	BOG
04/07/10	BP
06/18/10	CSB/ANZ

We recommend that batch reports be available on file.

Auditee Response: GSWA management concurs. It is the policy of GSWA to maintain these reports. The reports in question were misplaced.

- ii. Collections per payment coupons did not agree to deposits per bank statements for the following. A reconciliation was not provided.

<u>Date</u>	<u>Bank</u>	<u>Per Payment Coupons</u>	<u>Per Bank Statement</u>	<u>Unreconciled Difference</u>
12/18/09	BOG	\$380	\$623	\$10
05/13/10	BOG	400	3,684	(3,284)
08/31/10	BOG	82,847	82,827	20

We recommend that collections per payment coupons be reconciled to deposits per bank statements.

SECTION I – DEFICIENCIES, CONTINUED

2. Collections, Continued

Auditee Response: GSWA management concurs that total deposits should be reconciled. However, prior to December 2010, responsibility for the bank accounts was exclusively the responsibility of the Treasurer of Guam. As a result of the Treasurer's inappropriate withdrawals from these accounts, the District Court issued an order restricting access to the funds in the account to the Receiver and those designated by the Receiver. After December 2010, the Department of Administration remained responsible for accounting and bank account reconciliation, but the Treasurer of Guam no longer had any responsibility for the accounts.

3. Other Revenue Transactions

GSWA prepares a monthly report of billings and collections and provides that to the Department of Administration (DOA). During fiscal year 2011, DOA utilized this report to record revenue transactions. However, certain revenue related transactions (i.e. credits applied to customers' accounts, discounts, payment reversals and invoice reversals) posted to the billing system were not captured in the monthly revenue report, and as such were not recorded in the general ledger.

Since the billing system is currently not interfaced to the general ledger, we recommend that other revenue related transactions be summarized and provided to DOA for recording to the general ledger.

Auditee Response: GSWA management concurs. GSWA will provide a monthly report of revenue related transactions.

4. Allowance for Doubtful Accounts

A formal policy for the recognition of the allowance for doubtful accounts is not currently in place.

We recommend that a formal policy relative to the recognition of an allowance for doubtful accounts be established.

Auditee Response: GSWA management concurs.

5. Encumbrances

During tests of encumbrances, the following were noted:

- a. Of nine encumbrances aggregating \$1,291,165 tested in Fund 416, all were found to be expired or invalid as of September 30, 2010.
- b. Of five encumbrances aggregating \$894,885 tested in Fund 416, all were found to be expired or invalid as of September 30, 2011.
- c. Encumbrances per the general ledger Fund 254 as of September 30, 2010 did not agree to audit expectations by \$4,524,545, either due to expired or invalid items as of September 30, 2010 or valid obligations not encumbered as of September 30, 2010.

An audit reclassification was proposed to adjust the reserve.

SECTION I – DEFICIENCIES, CONTINUED

We recommend that encumbrances be approved and be reviewed for ongoing pertinence.

Auditee Response: DOA management concurs. Prospectively, our management analyst will closely monitor the encumbrances and coordinate with the Receiver for liquidation.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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

Management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles used to prepare the financial statements. 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 accounting principles used to prepare the financial statements).

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.