

June 20, 2019

Mr. Edward Birn  
Director  
Department of Administration  
Government of Guam  
P.O. Box 884  
Hagatna, GU 96910

Dear Mr. Birn:

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, 2018, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 20, 2019 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 20, 2019, 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, flowing style.

**SECTION I – OTHER MATTERS**

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

**A. DEPARTMENT OF REVENUE AND TAXATION (DRT)**Income Tax Refund Liability

Comment: The income tax provision for the 2018 refund liability was determined using the same assumptions as for tax year 2017, and did not incorporate an analysis of the impact of the Tax Cuts and Jobs Act (TCJA). Due to the significant limitation of human resources and the manual nature of the income tax processing system, DRT was only able to process 18% of total expected 2018 returns as of May 16, 2019. Accordingly, a robust analysis by DRT of the impact of the TCJA on the 2018 refund liability, if any, was not possible. Based on tax year 2017 statistics, approximately 90% of returns were filed through April 30, 2018. While this processing rate compares with that of the prior year, given the change in the tax laws, DRT was not able to use historical data in formulation of the calculation in the same manner as in the prior year, which required processing through May 16, 2019 to allow for an estimate to be supported.

Recommendation: We recommend GovGuam consider prioritizing the modernization of tax processing systems. Implementation of mandatory e-filing of certain tax returns may improve efficiency in processing and facilitating the production of more timely and accurate information for analysis. Such a process may reduce the need for storage space and research time to retrieve tax forms and allow for reassignment of personnel to revenue enhancing procedures. Additionally, DRT should be provided with sufficient human resources to facilitate the timely processing and examination of income tax returns.

Auditee Response: DRT acknowledges your comment reflecting the difficulty in determining the Income Tax Liability. We also recognize the need for modernizing our tax processing system and remain committed to promoting methods towards improving efficiency and accuracy of our tax data.

**B. GENERAL SERVICES AGENCY**Inventory

Comment: As of September 30, 2018, \$5M of fuel and supplies was recorded; however, inventory records to support this balance was as of January 29, 2019.

No physical inventory has been performed.

Prior year status: The above condition is reiterative of conditions identified in the prior year audit; however, management has made efforts to reconcile related accounts during FY2018.

Recommendation: We recommend a physical inventory be performed at least every two years for ongoing pertinence and a September 30, 2018 reconciliation should be performed.

**C. CUSTOMS AND QUARANTINE**Absence of a Signed Lease Agreement

Comment: Rental and administrative fees charged to Customs & Quarantine of \$3.1M were not supported by a signed lease agreement.

Recommendation: We recommend a lease agreement or relevant documentation be updated to document that expenses are properly approved and supported.

**D. UNIFIED COURTS**

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 the Government of Guam as the majority of the balance accrued is payable to the associated victim.

Recommendation: We recommend the status of probation cases be monitored to allow for legal and timely write-off of expired probation cases.

**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 INHERENT 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 accounting principles generally accepted in the United States of America. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on 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 assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.