



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

June 29, 2015

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

Dear Mr. Blaz:

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, 2014, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 29, 2015 and which includes reference to other auditors), 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, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 29, 2015, 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.

Although we have included management's written response to our comments in the attached Appendix I, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

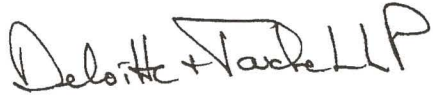
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 + Touche LLP". The signature is written in a cursive, stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Touche LLP" is on the right. The letters are connected and fluid.

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

A. DIVISION OF ACCOUNTS(1) Expired or Invalid Encumbrances

Comment: Of \$70M of reported encumbrances, \$4.9M were invalid or expired.

Per P.L. 27-78, with the exception of capital outlays, "An encumbrance against any type of appropriation, shall be automatically returned to the Fund against which it was encumbered nine (9) months after fiscal year end in which the encumbrance was originally recorded, unless the encumbrance falls under requirements imposed by United States law governing United States Federal awards."

Recommendation: Encumbrances should be periodically approved and reviewed for ongoing pertinence.

(2) Accountability of Checks

Comments:

- Check #543584 reported in GL#110010413 was voided per the AS400 system. The original check could not be located.
- Of \$8.7M of outstanding checks reported in GL#110010416, \$3.1M were not released at year-end.
- Of \$22.6M of outstanding checks reported in GL#110010413, 110010416 and 110010417, \$930K were stale dated.

Recommendation: We recommend that Division of Accounts (DOA) take reasonable steps to account for all checks, including those that are voided. We also recommend that DOA perform inventories of unreleased checks at each year-end and periodically scrutinize the outstanding check list to remove those that are stale dated.

(3) Journal Vouchers

Comment: Journal Voucher #J140611302 and #J140660201 were verified against the Manual Journal Voucher Log Sheet but entries were not posted in the AS400 system and were not identified as void.

Recommendation: We recommend that DOA take reasonable steps to account for all journal vouchers, including those voided or unused.

(4) Life Insurance

Comment: Per policy, employees are eligible to receive life insurance benefits after six months of employment. Of five employees tested, one did not contribute to the employee's life insurance benefit until after 14 months of employment.

Recommendation: We recommend that DOA comply with policy and timely provide allotted benefits.

A. DIVISION OF ACCOUNTS, CONTINUED

(5) MIP/Medicaid Accruals

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

Recommendation: We recommend that GovGuam enhance its estimation methodology for the accrual of MIP and Medicaid expenditures.

(6) Unreconciled Cash Over/Short

Comment: Selected receipts could not be directly traced to corresponding bank statements due to untimely reconciliations between Point of Sale (POS) and Transaction Processing System (TPS) registers, AS400 system, and bank statements. As of 9/30/2014, \$596,000 represented unreconciled cash over.

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

(7) Fixed AssetsComments:

- A fixed asset recorded in the "computer" category with a cost of less than \$50,000 was capitalized which is contrary to the Government's capitalization policy.
- Two of fifteen fixed assets tested for existence were sold in prior years but were recorded as assets as of September 30, 2014.
- One of fifteen fixed assets tested for existence pertains to a fully depreciated ambulance which was scrapped based on the Report of Survey. However, the asset has not been removed from the books.

Recommendation: Fixed assets should be recorded in accordance with the Government's capitalization policy. Furthermore, we recommend a policy be implemented to monitor replacements, disposals and transfers of assets within existing agencies and-or departments.

(8) Post-closing Adjustments

Comment: The financial statements included eighteen post-closing adjustments approved six to nine months subsequent to fiscal year end.

Recommendation: It appears that additional experienced accountant level personnel are required to allow for timely reconciliation of all required accounts.

B. CUSTOMS & QUARANTINE AGENCY

(1) Absence of a Signed Lease Agreement

Comment: Rental and janitorial fees charged to Customs & Quarantine of \$1.9M 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.

C. UNIFIED COURTS

(1) Financial Statements

Comment: The financial statements were not available until seven months after year end.

Recommendation: While we are aware of the impact of the new system implementation that occurred during the period, we recommend management strengthen controls and complete the fiscal year closing processes more timely.

(2) Fixed Assets

Comment: Recorded depreciable and non-depreciable assets should be supported with an accompanying schedule that contains a description of each asset, acquisition cost, funding source, status of the asset, location, identification tag or number, useful life, depreciation, and net book value.

Recommendation: We recommend a schedule of current year additions, disposals and transfers to support recorded fixed assets be prepared each quarter.

(3) 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 \$5,279,085, which includes expired probation cases that have had no movement for more than five years. The non-collection has minimal impact on the Government of Guam 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.

(4) Accrued Payroll

Comment: Approximately \$1.4M of accrued payroll was not recorded in the Unified Court's governmental fund as of 09/30/2014. Instead, such was recorded in the general long-term debt account group. As this amount was not considered material to the Government of Guam's General Fund, no correction through the audit process occurred.

Recommendation: We recommend payroll expenditures be recorded by the Unified Court in the governmental fund in the period in which the related fund liability is incurred.

D. DATA PROCESSING DIVISION

E. DEPARTMENT OF REVENUE AND TAXATION

Comments:

- A gross receipt tax collection was classified as GRT-Beverage and Alcohol. However, the redacted GRT tax form was for tobacco related products.
- GRT receipt number was classified as GRT-Retailing. However, the redacted GRT tax form noted that a portion pertained to various other GRT class types.

Recommendation: We recommend classification and input of tax information are verified for accuracy.

F. 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 9/30/2014, the unreconciled difference between CSED's schedule and DOA's financial statement was \$531,481.

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.

SECTION III – DEFINITIONS

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.