

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

SEPTEMBER 30, 2004

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, 2004, and for the year then ended, and have issued our report thereon dated September 16, 2005. 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

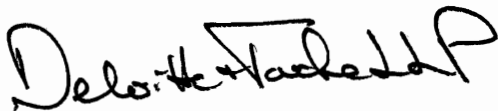
In planning and performing our audit, we considered the Territorial Highway Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial 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 2004-01 through 2004-04.

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 is a material weakness.

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 "Delo H. Stachel". The signature is written in a cursive style with a large, stylized initial "D".

September 16, 2005

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 2004

Finding Number 2004-01 - Contract Retention Payable

Criteria: Contract retention liabilities should be updated in a timely manner.

Condition: The following contracts have had no activity in recent years:

<u>Vendor</u>	<u>Contract Number</u>	<u>Account Number</u>	<u>Contract Retention Amount</u>	<u>Last Transaction Date</u>
Fund 301				
1. Hanil Development Corp	C920660070	5224D51090HC003	\$50,000.00	9/93
2. Hawaiian Rock Products	C920660456	5224D21090HC009	\$86,214.33	8/93
3. Dev & Associates	C940660325	5224D21090HC004	\$ 3,414.00	12/94
4. Hawaiian Rock Products	C930660462	5224D921090HC006	\$17,824.31	6/94
Fund 214				
6. Hawaiian Rock Products	C910660021	5208C901098ZF613	\$ 4,955.39	6/91
7. Hawaiian Rock Products	C910660106	5208C901098GF616	\$ 4,200.00	10/93
8. Guam Rock Products	C910660308	5208C901098GF611	\$ 1,208.89	9/93
9. Hawaiian Rock Products	D971098157	5208A971098HM001	\$ 868.00	9/97
10. Ogo's Equip. Rental	D971098156	5208A971098HM001	\$ 5,333.75	9/97

Cause: Contract retention liabilities do not appear to have been investigated by the agencies authorized to disburse or remove these balances.

Effect: The contract retention liability account may be overstated by an immaterial amount.

Recommendation: Contracts should be reviewed by responsible agencies for completion or cancellation in a timely manner.

Prior Year Status: The above condition is reiterative of conditions identified in the September 30, 2003 report.

Auditee Response and Corrective Action Plan: The contracts have been removed as DOA determines that they are no longer valid.

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Schedule of Findings
Year Ended September 30, 2004

Finding Number 2004-02 - LFT Receivables

Criteria: In accordance with current Government of Guam policy, receivables should be carried at the amount of collections received thirty days after fiscal year end.

Condition: Receivables are not adjusted for collections received thirty days after fiscal year end.

Cause: There appears to be weak internal controls over ensuring adjustments to receivables are being made.

Effect: LFT receivables may be misstated. However, the account was adjusted through the audit process.

Recommendation: The Department of Administration (DOA) should ensure that receivables are adjusted for collections received thirty days after fiscal year end, in accordance with current Government of Guam policy.

Auditee Response and Corrective Action Plan: Agree. DOA will perform corrective actions prospectively. Calendar has been marked to adjust receivables based on October 2005 collections.

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Schedule of Findings
Year Ended September 30, 2004

Finding Number 2004-03 – 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: Due to the lack of reconciliation process, the tax drawbacks per DOA were overstated by \$6,076,796 at September 30, 2004.

Cause: There appears to be weak internal controls over ensuring adjustments to tax drawbacks are recorded.

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

Recommendation: DOA should ensure that tax drawbacks are reconciled with the records of DRT.

Auditee Response and Corrective Action Plan: Agree. DOA will perform corrective actions prospectively. Calendar has been marked to reconcile Tax Drawbacks with Department of Revenue and Taxation.

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Schedule of Findings
Year Ended September 30, 2004

Finding Number 2004-04 – Accrued Expenses

Criteria: Accrued expenses should be stated for actual outstanding charges as of the year end.

Condition: Outstanding power charges of \$2,660,104 were not recorded properly.

Cause: There appears to be weak internal controls over ensuring adjustments to accrued expenses are being made.

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

Recommendation: DOA should ensure that accrued expenses are properly stated for outstanding power charges as of the year end.

Auditee Response and Corrective Action Plan: Agree. DOA will perform corrective actions prospectively. Calendar has been marked to reconcile and record power expenditures based on fiscal year end billing.