

June 25, 2018

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

Dear Mr. Birns:

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, 2017, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 25, 2018 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 25, 2018, 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, slightly stylized font.

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

2017-A. DIVISION OF ACCOUNTS

(1) Revenue Recognition

Comment: The Government of Guam should enforce collection of use tax, bounced checks and annuities due from component units.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
AR Use Tax	\$ 525,737	\$ 593,467	\$ 769,545	\$ 861,284
Bounced checks	672,429	604,713	835,735	1,628,644
Annuities due from autonomous agencies	1,235,200	1,345,654	2,345,246	2,391,299

Prior year status: The above condition is reiterative of conditions identified in the prior year audit.

Recommendation: Although DOA is improving efforts to collect bounced checks and amounts due from autonomous agencies, GovGuam should still consider the cost/benefit of hiring additional personnel to enforce collections of use tax. We additionally recommend reconsideration of the current use tax credit policies.

(2) Unallocated Collections

Comment: Selected receipts could not be directly traced to corresponding bank statements due to untimely reconciliations between Transaction Processing System (TPS) registers, the AS400 system, and bank statements.

As of 9/30/2017, the non-reconciled balance of \$2.2M represented collections that were not allocated to correct revenue accounts.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

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

(3) Compensated Absences Payable

Comment: Compensated absences payable included balances in excess of the allowable 320 hour limit.

The accrual was overstated by approximately \$2.4M. Such is included in the summary of uncorrected misstatements.

Recommendation: We recommend the compensated absences payable exclude balances in excess of 320 hours and the 100 hours transferable to sick leave.

2017-A. DIVISION OF ACCOUNTS, CONTINUED

(4) MIP/Medicaid Accruals

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

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: Although the above comment is reiterative of conditions identified in the prior year, we congratulate GovGuam for subsequently determining a method to determine associated accruals. We recommend these efforts continue and be considered in the upcoming years.

(5) Post Closing and Journal Voucher Adjustments

Comment 1: Subsequent changes to a previously approved JV should be assigned a new identification number. (PC#2, 4, 26)

Comment 2: JV entries posted to the system should be supported by an approved JV form. (PC#13, 14, 29)

Reconciliation issues were identified between JV transactions entered in the system and transactions noted on the approved JV forms.

Prior year status: The above comments are reiterative of conditions identified in the prior year audit.

Recommendation: We recommend modifications or corrections of previously approved journal voucher numbers be assigned a new journal voucher number. Internal controls should be implemented to minimize the opportunity for these issues from recurring.

2017-B. GENERAL SERVICES AGENCY

Comment: As of September 30, 2017, \$5.4M of fuel and supplies were recorded; however, no inventory records were available to support this balance.

Prior year status: The above condition is reiterative of conditions identified in the prior year audit.

Recommendation: A physical inventory should be performed at least annually for ongoing pertinence.

2017-C .GUAM FIRE DEPARTMENT

Ambulance Service

Comments:

- Remittances received from ambulance services were recorded at gross revenue net of service fees from an outsourced service provider. This condition resulted in a \$246K revenue understatement.
- Accounts receivable of \$957K identified by the outsourced service provider was not recorded or analyzed.
- Reconciliation and review of remittances is not performed by the Guam Fire Department to assess completeness and accuracy of presented information from the outsourced service provider.

2017-C .GUAM FIRE DEPARTMENT, CONTINUED

Ambulance Service, Continued

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend that revenues, expenditures, and accounts receivable related to ambulance services be properly recorded and be timely recognized. We also recommend DOA and the Guam Fire Department review and reconcile information received from the service provider to assess completeness and accuracy.

2017-D. 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: A lease agreement or relevant documentation should be updated to document that expenses are properly approved and supported.

2017-E .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.

As of 9/30/2017, the unreconciled difference between CSED's schedule and DOA's financial statement was \$2M.

Prior year status: The above comment is reiterative of conditions identified in the prior year audits from 2007 thru 2016.

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.

2017-F. 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 \$5,279,085, 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: The status of probation cases should be monitored to allow for legal and timely write-off of expired probation cases.

2017-G. GUAM LEGISLATURE

General Ledger Reconciliation

Comment: The Guam Legislature did not reconcile general ledger accounts on a timely basis. The Legislature trial balance was not reconciled until eight months after fiscal year end.

Recommendation: We recommend the Legislature perform timely reconciliations.

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 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.