



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

March 30, 2016

Ms. Christine Baleto  
Acting Director  
Department of Administration  
Government of Guam  
P.O. Box 884  
Hagatna, GU 96910

Dear Ms. Baleto:

In planning and performing our audit of the financial statements of the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A (the Funds), as of and for the year ended September 30, 2015, on which we have issued our report dated March 30, 2016, 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 and other matters involving the Funds' internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, Honorable Eddie Baza Calvo, also dated March 30, 2016, on our consideration of the Funds' 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 the Funds, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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 Department of Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

## SECTION I - DEFICIENCIES

We identified the following deficiencies involving the Funds' internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

### (1) Vehicle Registration Revenues

Comment: Of \$9,041,095 in licenses, fees and permit revenues, we tested twenty-two items. One item was not supported by an underlying copy of the Motor Vehicle Registration Form.

Recommendation: Department of Revenue and Taxation should obtain sufficient funding and an IT plan to allow for the scanning of all motor vehicle registration and driver's license application forms into its systems.

Auditee Response: The Department of Administration will communicate with the Department of Revenue and Taxation regarding investing in a scanning system to capture all motor vehicle registrations and drivers' license.

## SECTION II - OTHER MATTERS

We also identified, and have included below, other matters involving the Funds' internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

### (1) Cellular Phone Services

Comment: A \$57,678 purchase order (PO) for cellular phone services did not include a notation on the PO indicating compliance with GovGuam procurement regulations specific to competitive bidding.

Recommendation: We recommend that management require compliance with GovGuam procurement regulations.

Auditee Response: The Department of Administration will coordinate and communicate with Agency to ensure compliance with GovGuam procurement rules and regulations.

## 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**

The Funds' 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.