

March 31, 2017

Honorable Eddie Baza Calvo  
Governor of Guam

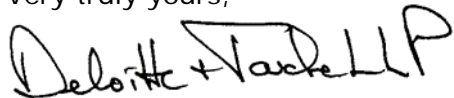
Dear Governor Calvo:

We have performed an 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, 2016, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated March 31, 2017.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Funds is responsible.

This report is intended solely for the information and use of management, the Office of the Governor and the Office of Public Accountability of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

Cc: To Management of Guam Highway Fund

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated November 4, 2016. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Funds' basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2016, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Funds' internal control over financial reporting and on their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2016, based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Funds' preparation and fair presentation of the financial statements in order to design audit procedures that were 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 not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. No significant accounting estimates are reflected in the Funds' 2016 financial statements.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Funds' financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2016 financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Funds' significant accounting policies are set forth in Note 1 to the Funds' 2016 financial statements. During the year ended September 30, 2016, there were no significant changes in previously adopted accounting policies or their application.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Funds' 2016 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2016.

## **SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the Funds' management and staff and had unrestricted access to the Funds' senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

## **CONTROL-RELATED MATTERS**


We have issued a separate report to you, also dated March 31, 2017, on the Funds' internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements 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.

We have communicated to management, in a separate letter also dated March 31, 2017, deficiencies in internal control over financial reporting and other matters that we identified during our audit.

Journal Entries - AJE

#	Name	Debit	Credit
	<b>1 AJE To adjust credit balance in Accrued Payroll</b>		
5224-1090-IB2K4-111	R.T. DAMIAN M-T-M SPOT RE	1,679.19	-
122421550	ACCRUED PAYROLL	-	1,679.19
		<u>1,679.19</u>	<u>1,679.19</u>

We have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30,2016. The adjustments are the result of errors and are not the result of fraud or illegal acts.

  
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 Katherine B. Kakigi  
 Financial Manager



Eddie Baza Calvo  
Governor  
Ray Tenorio  
Lt. Governor

**Government of Guam**  
(*Gubetnomention Guahan*)  
**Department of Administration**  
(*Dipattamenton Atmenestration*)  
**DIRECTOR'S OFFICE**  
(*Ufisinan Direktot*)

Post Office Box 884 Hagatña, Guam 96932  
Tel. No. 475-1101/1250 – Fax: 477-6788



Christine W. Baleto  
Director  
Vincent P. Arriola  
Deputy Director

March 31, 2017

Deloitte & Touche LLP  
361 SOUTH MARINE CORPS DRIVE  
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the balance sheet of the Guam Highway Fund and of those funds related to the Government of Guam (the Government) Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2016, and the related statement of revenues, expenditures, and changes in fund balances for the year ended September 30, 2016, which collectively comprise the basic financial statements of the Guam Highway Fund for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position and results of operations or changes in fund balances in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the basic financial statements of financial position of the balance sheet and the related statement of revenues, expenditures, and changes in fund balances, in conformity with GAAP.
- b. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design, implementation, and maintenance of internal control:
  - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - To prevent and detect fraud.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements present only the Guam Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with GAAP.
  - b. Deposits are properly classified in the category of custodial credit risk.
  - c. Required supplementary information is measured and presented within prescribed guidelines.
  - d. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - e. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - f. The Government has followed Governmental Accounting Standards Board (GASB) Codification of Government Account and Financial Report Standards ("GASB Codification") Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.
  - g. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
  - h. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Government has made available to you:
  - a. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

- b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
- a. Action taken by Government management that contravenes the provisions of federal laws, or Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, which have been provided to you.
5. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
- a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others, when the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government's financial statements communicated by employees, former employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*.
9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
10. We are responsible for the fair presentation of the additional information accompanying the basic 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 that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$110,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

11. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

12. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. Regarding related parties:
  - a. We have disclosed to you the identity of the Government's related parties and all the related party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
14. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
16. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
17. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.



19. No department or agency of the Government has reported a material instance of noncompliance to us.
20. The Government has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
21. No events have occurred after September 30, 2016, but before March 31, 2017, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
22. Regarding required supplementary information:
  - a. We confirm that we are responsible for the required supplementary information.
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
23. Regarding supplementary information:
  - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
24. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
25. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
26. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Very truly yours,



VINCENT P. ARRIOLA  
Acting Director



KATHRINE B. KAKIGI  
Financial Manager