

Independent Auditors Report on Compliance and Internal Control

Government of Guam

Tourist Attraction Fund and Funds and Account Group

**Relating to the Issue of the Limited Obligation Infrastructure
Improvement Bonds, 1997 Series A**

Year ended September 30, 2001

Government of Guam
Tourist Attraction Fund and Funds and Account Group
Relating to the Issue of the Limited Obligation
Infrastructure Improvement Bonds, 1997 Series A

Reports on Compliance and Internal Control

Year ended September 30, 2001

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Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Felix Camacho
Governor of Guam

We have audited the financial statements of the Tourist Attraction Fund and Funds and Account Group related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A (the "Tourist Attraction Fund"), as of September 30, 2001, and for the year then ended, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Tourist Attraction 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tourist Attraction 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Government of Guam in the accompanying Schedule of Findings (Findings 2001-1 to 2001-6).

This report is intended solely for the information of the Government of Guam, federal awarding agencies and 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 these specified parties.

Ernst + Young LLP

October 31, 2003

Tourist Attraction Fund and Funds and Account Group
Relating to the Issue of the Limited Obligation
Infrastructure Improvement Bonds, 1997 Series A

Schedule of Findings

Year ended September 30, 2001

Finding Number 2001-01: Reconciliation of Inter-Fund Receivable and Payable Balances

Criteria:

Timely and effective reconciliation procedures should be performed for all inter-fund accounts.

Condition:

Certain inter-fund receivable and payable balances were not reconciled.

Cause:

There appears to be weak internal controls in ensuring that interfund balances are reconciled in a timely manner.

Effect:

Failure to perform monthly reconciliations increases the possibility that errors will not be detected and the financial statements will be misstated. Similar to prior year, several adjustments were made to properly state the affected account balances.

Recommendation:

The Division of Accounts should review and reconcile all inter-fund account balances on a monthly basis.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree
- This finding was an issue when the Oracle System was in use as the accounts were performed off-line. However, for the fiscal years subsequent to 2001, the BACIS accounting system provides interfund account activities online.

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Schedule of Findings, continued

Year ended September 30, 2001

Finding Number 2001-02: Taxes Receivable

Criteria:

Account balances should be reviewed, analyzed and reconciled on a regular basis.

Condition:

The trial balance reflected \$172,364 in taxes receivable from the Department of Revenue and Taxation (DRT), which has not changed since the last two fiscal years.

Cause:

There appears to be weak internal controls in ensuring that receivables are reconciled in a timely manner.

Effect:

The affected account may be misstated.

Recommendation:

The Division of Accounts should contact DRT and determine whether the amount represents a valid receivable.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree.
- The Division of Accounts is currently working with the Department of Revenue and Taxation to address this concern in FY 2004.

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Schedule of Findings, continued

Year ended September 30, 2001

Finding Number 2001-03: Bank reconciliation

Criteria:

Account balances should be reviewed, analyzed and reconciled on a regular basis.

Condition:

Certain bank reconciliation items and significant cash transactions were not properly posted. September 2001 pledged revenues (approximately \$2.8 million) not deposited until October 17, 2001, were recorded as deposit-in-transit. In addition, an investment (approximately \$38 million) that matured in June 2001 was not transferred to the proper cash account. Accumulated interest income since 1997 (approximately \$8.2 million) was also erroneously booked as current year income upon receipt of the entire investment proceeds. Additionally, accumulated interest income since 1999 (approximately \$487 thousand) for the debt service fund account was also erroneously booked as current year income.

Cause:

There appears to be weak internal controls in ensuring that bank reconciliations are properly reviewed and approved.

Effect:

The effect of this condition is an overstatement of cash and income. Certain adjustments were recorded to correct the account balances.

Recommendation:

The Division of Accounts should properly review the bank reconciliation and the propriety of the journal entries posted.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree.
- The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new system. This task has been assigned to the Deputy Controller.

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Schedule of Findings, continued

Year ended September 30, 2001

Finding Number 2001-04: Contract Retention Payable

Criteria:

Timely and effective reconciliation procedures should be performed for all contract retention accounts.

Condition:

Certain contract retention balances were not properly stated as of September 30, 2001. There were balances pertaining to very old or expired projects, which should have already been reversed. However, as explained to us, these balances were retained pending notification from the Department of Public Works (DPW) that the related projects were closed. In other cases, contract retention payments were debited against contract retention payable with no corresponding initial set-up. This resulted in certain debit balances.

Cause:

There appears to be weak internal controls in ensuring that contract retention balances are reconciled in a timely manner.

Effect:

The effect of this condition is an overstatement of the contract retention balance. An adjustment was recorded to correct the account balance.

Recommendation:

The Division of Accounts should review and reconcile accounts on a timely manner and communicate with DPW to determine whether amounts represent valid liabilities.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree.
- The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new system. This task has been assigned to the Deputy Controller.

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Schedule of Findings, continued

Year ended September 30, 2001

Finding Number 2001-05: Continuing Appropriations

Criteria:

Account balances should be reviewed, analyzed and reconciled on a regular basis.

Condition:

Continuing appropriations were not properly stated as of September 30, 2001. Public Law 25-98 authorized the reprogramming and reappropriation of appropriations from certain completed capital improvement projects. However, instead of closing the remaining balances of the completed projects, an additional \$4 million was shown as an additional appropriation in the Capital Project Fund continuing appropriations account. As explained to us, the Bureau of Budget and Management Resources (BBMR) should close these balances. Moreover, the Tourist Attraction Fund continuing appropriations were not stated to reflect only the outstanding balance after expenditures and encumbrances as of September 30, 2001.

Cause:

There appears to be weak internal controls in ensuring that continuing appropriations are reconciled in a timely manner.

Effect:

Continuing appropriations are overstated and unreserved fund balances are understated.

Recommendation:

The Division of Accounts should properly document Public Law appropriations and monitor the validity of available balances by communicating with BBMR on a periodic basis.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree.
- The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new system. This task has been assigned to the Deputy Controller.

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Schedule of Findings, continued

Year ended September 30, 2001

Finding Number 2001-06: Approval of Journal Vouchers

Criteria:

All journal vouchers should be reviewed, analyzed and approved.

Condition:

Certain journal vouchers were not properly approved and signed off by the appropriate approving accounting personnel.

Cause:

There appears to be weak internal controls in ensuring that all journal entries are reviewed and approved prior to posting.

Effect:

Affected account balances are misstated. Certain adjustments were made to correct the account balances.

Recommendation:

The Division of Accounts should properly approve and sign off all journal vouchers before posting.

Auditee Response:

In a letter dated December 23, 2003 the Auditee responded as follows:

- Agree.
- The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new system. This task has been assigned to the Deputy Controller.