

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

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

SEPTEMBER 30, 2005

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 Government of Guam Tourist Attraction Fund (TAF) and of those funds related to the Government of Guam Limited Obligation Infrastructure Improvement Bonds, 1997 Series A for the year ended September 30, 2005, and have issued our report thereon dated June 22, 2006. 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

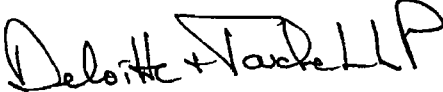
In planning and performing our audit, we considered the Tourist Attraction Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial 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 Tourist Attraction Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as item 2005-01 through 2005-03.

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 the reportable conditions described above are not material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether TAF'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*.

This report is intended for the information and use of management of the Government of Guam Tourist Attraction 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 that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

June 22, 2006

**GOVERNMENT OF GUAM
TOURIST ATTRACTION FUND**

Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-01 – Hotel Occupancy Taxes

Criteria: Hotel occupancy taxes should be recorded based on payments made by hotels.

Condition: Approximately \$368,842 of hotel occupancy taxes were erroneously recorded as General Fund revenues and approximately \$131,086 of other taxes were recorded as TAF hotel occupancy taxes for a net understatement of TAF revenues of \$237,756.

Cause: There appears to be weak internal controls over reconciling hotel occupancy taxes between payments received by the Department of Revenue and Taxation (DRT) and amounts posted to the accounts of the TAF.

Effect: Revenues were misstated. However, the misstatement was determined to be immaterial to the 2005 financial statements and management will correct this misstatement in the 2006 financial statements.

Recommendation: Management should ensure that a monthly reconciliation of hotel occupancy taxes occurs between DOA and DRT.

Auditee Response and Corrective Action Plan: Agree. DRT already provided DOA's acting controller the monthly GRT returns of the major hotel companies up to March 2006. DRT would continue to provide returns on a monthly basis to DOA. DOA would perform reconciliations with the returns and the amounts recorded in the system to ensure accuracy and completeness of tax revenues.

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Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-02 – Deposit In Transit

Criteria: Cash deposits are to be recorded upon the actual deposit in the bank.

Condition: A deposit of \$2,160,275 made to the bank in October 2005 was recorded and reflected as a deposit in transit in the bank reconciliation as of September 30, 2005.

Cause: There appears to be weak internal controls over the review of the bank reconciliations.

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

Recommendation: Management should review bank reconciliations to ensure the accuracy of reconciling items.

Auditee Response and Corrective Action Plan: Agree. A fund manager would be designated to ensure all activities are recorded accurately and completely. The manager would ensure deposit in transit is not recorded directly into cash until the deposit of cash has been made.

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Schedule of Findings
Year Ended September 30, 2005

Finding Number 2005-03 – Interfund Balances

Criteria: Interfund accounts should represent actual amounts due or owed by one party to another.

Condition: An interfund balance of \$19,794,186 between the Tourist Attraction Fund and Debt Service Fund was eliminated as a result of the recordation of transfers in excess of actual cash transfers.

Cause: There appears to be weak internal controls over the review of the interfund accounts.

Effect: Interfund accounts were misstated. However, the account was adjusted through the audit process.

Recommendation: Management should review interfund accounts on a regular basis.

Auditee Response and Corrective Action Plan: Agree. A fund manager would be designated to ensure all activities are recorded accurately and completely. A monthly schedule would be prepared to reflect the proper amounts that should be reserved for Debt Service and Operations and Maintenance expenses.