

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

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

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**SEPTEMBER 30, 2003**

**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, 2003, and have issued our report thereon dated January 31, 2005. 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

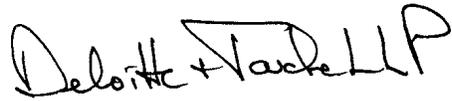
In planning and performing our audit, we considered the Tourist Attraction Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial 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. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-01 through 2003-04.

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 none of the reportable conditions described above is a material weakness.

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, 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 + Touche LLP". The signature is written in a cursive, stylized font.

January 31, 2005

**GOVERNMENT OF GUAM  
TOURIST ATTRACTION FUND**

Schedule of Findings  
Year Ended September 30, 2003

Finding Number 2003-01 – Taxes Receivable

Criteria: Account balances should be reviewed and reconciled on a regular basis.

Condition: Taxes receivable of \$172,364 were recorded that have not changed over the last three fiscal years.

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

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

Recommendation: The Department of Administration (DOA) should ensure that recorded receivables are valid.

Prior Year Status: The above condition is reiterative of conditions identified in the September 30, 2002 report.

Auditee Response and Corrective Action Plan: Agree. DOA will perform corrective actions prospectively. Reconciliations will commence immediately to include communication with the Department of Revenue and Taxation.

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Schedule of Findings  
Year Ended September 30, 2003

Finding Number 2003-02 – Contract Retention Payable

**Criteria:** Contract retention liability should be updated in a timely manner.

**Condition:** The following contracts have had no activity for over three years:

<u>Vendor</u>	<u>Contract #</u>	<u>Amount</u>
MD Crisostomo, Inc.	C950660432	\$ 1,000
Maeda Pacific Corporation	C940660287	10,419
Debiasi Guam	Various	<u>4,768</u>
		\$ <u>16,187</u>

**Cause:** Contract retention liabilities do not appear to have been investigated by the agencies authorized to disburse or remove the balances.

**Effect:** The contract retention liability account may be overstated by an immaterial amount.

**Recommendation:** Contracts should be reviewed by responsible agencies for completion or cancellation in a timely manner.

**Prior Year Status:** The above condition is reiterative of conditions identified in the September 30, 2002 report.

**Auditee Response and Corrective Action Plan:** Agree. The Department of Administration will perform corrective actions prospectively. Periodic reviews and reconciliation will commence immediately, to include communication with the appropriate Government of Guam department overseeing and administering these contracts for purposes of determining final disposition of these outstanding liabilities.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2003

Finding Number 2003-03 – Bank Reconciliations

**Criteria:** Bank reconciliations should be prepared accurately and reviewed accordingly. Postings to the cash account for interest and principal payments should be performed on a timely basis.

**Condition:** The September 30, 2003 bank reconciliation for the PCT Revenue Account contained the following errors:

- a) A deposit made in October 2003 for September 2003 pledged revenues of \$1,611,768 was recorded as a deposit in transit as of September 30, 2003.
- b) A transfer of \$438,152 to the General Fund for a GVB allotment release, which cleared the bank on September 30, 2003, was not deducted from cash.

Also, for the PCT Revenue account and PCT Cost of Issuance account, postings of principal and interest payments and interest income, respectively, on the bond for May to September 2003, were recorded at one time after year end instead of being posted monthly.

**Cause:** There appears to be weak internal controls over ensuring that bank reconciliations are properly prepared and reviewed.

**Effect:** Cash, in the interim financial statements, was overstated.

**Recommendation:** The bank reconciliations should be prepared accurately and reviewed.

**Prior Year Status:** The above condition is reiterative of conditions identified in the September 30, 2002 report.

**Auditee Response and Corrective Action Plan:** Agree. DOA will perform corrective actions prospectively. Monthly reviews are performed on the bank reconciliation by the General Accounting Supervisor and corrections are made accordingly.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2003

Finding Number 2003-04 – Contracts in Progress

Criteria: Expenditures for capital projects should not exceed budgeted amounts.

Condition: For the two contracts noted below, expenditures exceeded the amount budgeted:

<u>Contract</u>	<u>Budget</u>	<u>FY2003 Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Outstanding Encumbrances</u>	<u>Over Budget</u>
Landscape San Vitores to Beach (5251D98105C1609)	\$ 3,900,000	\$ 1,716,283	\$ 844,929	\$ 1,489,219	\$ (150,431)
Gun Beach-Fafai Wastewater System (5251D987800C1601)	\$ 5,400,000	\$ 2,377,762	\$ 454,607	\$ 2,871,477	\$ (303,846)

Cause: There appear to be weak internal controls over ensuring that contract expenditures are within budgets.

Effect: Expenditures could be overstated.

Recommendation: The Division of Accounts should track the status of contracts in progress to ensure that expenditures do not exceed budgets.

Auditee Response and Corrective Action Plan: The BACIS AS400 prohibits entering of expenditures with insufficient appropriations and allotments. The Bureau of Budget and Management Research reduced the appropriation subsequent to the incurrence of the expenditure causing a negative balance.