

November 1, 2004

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
Post Office Box 884  
Hagatna, Guam 96910

Dear Ms. Perez:

In planning and performing our audit of the general purpose financial statements of the Government of Guam (GovGuam) for the year ended September 30, 2003, on which we have issued our report dated November 1, 2004, we developed the following recommendations concerning certain matters related to GovGuam's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

### Finding No. 1 - Travel

#### Criteria:

- In accordance with Government of Guam's travel policies and regulations, travelers must submit travel vouchers within fifteen days of return.
- All financial records, such as case files, should be maintained on file to substantiate expenditures.
- In accordance with Government of Guam's travel policies and regulations, at least three price quotations should be obtained before awarding contracts.

Condition 1: For twelve of twenty-five travel transactions tested, the following travel vouchers were not cleared in a timely manner (or not at all) and/or did not contain sufficient proof of travel and receipts for advances paid.

#### Travel Authorization No.

T031700052  
T030200034  
T030200030  
T032800005  
T031500009  
T031500003  
T031700153  
T031300016  
T032800007  
T031700057  
T033750018  
T031700189

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 2

Finding No. 1 – Travel, Continued

Condition 2: For eleven of twenty-five travel transactions tested, the following were not supported by at least three price quotations.

Travel Authorization No.

T031700052  
T030200034  
T030200030  
T031700222  
T031600032  
T031500009  
T031600077  
T032200041  
T031600059  
T031700057  
T032400007

Condition 3: The clearance per the following travel voucher does not document total expenditures spent on the corresponding travel. The travel voucher was over the ten-day return clearance requirement. The travel return was dated 5/6/03 but clearance was submitted on 2/24/04.

GL Account No.:	5101H01 1711 SC 101 220
JV No.:	040611042
Check No:	85494 dated April 30, 2003
Check amount:	\$3,748.26

Cause: There appears to be weak internal controls over ensuring that: 1) travel advances are cleared and sufficient proof of travel expenses is obtained; 2) at least three price quotations are obtained; 3) strict adherence in implementing travel rules and regulations. Also, the time frame between receipt and approval of travel authorizations from the Bureau of Budget and Management Resources seems to create more expensive travel than originally anticipated. We found various instances where travel costs increased significantly due to the late approval of travel.

Prior Year Status: The above conditions are reiterative of conditions identified in the prior year audit of the Government of Guam.

Effect: There is no known effect on the financial statements as a result of this condition. However, noncompliance with the policy increases the risk of not identifying potential problems or abuse in a timely manner. Certain travel costs may not be allowable.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 3

Finding No. 1 – Travel, Continued

Recommendation 1: GovGuam should consider strengthening internal controls to ensure that travel vouchers are submitted in a timely manner and should determine if the traveler performed the travel as authorized. The Travel and Transportation Manual should better define procedures for the submission of travel vouchers and collection efforts if the traveler fails to provide documentation. Manuals should specifically require that proof of travel be supported by boarding passes and some form of certificate indicating that the traveler attended the event as intended. Travel advances should be timely cleared by preventing future travel and deducting balances owed from wages. In addition, outstanding travel advances should be aged to better track problem accounts. Travel guidelines need to be strictly implemented to ensure that only valid travel expenditures are paid and/or reimbursed.

Recommendation 2: GovGuam should consider strengthening internal controls to ensure that three price quotations are obtained and travel agencies are rotated. Additionally, an analysis of higher travel costs created by the delay in approving travel authorizations should be performed.

Auditee Response and Corrective Action Plan:

We concur with the findings of the auditor and have already implemented the following steps to insure that government travelers submit clearance documentation within 15 days of their return. Additionally, all financial records, such as case files, are being maintained on file to substantiate travel expenditures.

The following corrective actions have been implemented.

1. Department of Administration Circular No. 04-006 dated Dec. 19, 2003 regarding the requirements for travel request and authorization has been sent to all departments and agency heads.
2. Department of Administration Circular No. 04-020 dated July 30, 2004 regarding the requirements for travel request and authorization has been sent to all departments and agency heads.
3. An interdepartmental memo dated August 20, 2004 pertaining to the enforcement of travel policies between Treasurer of Guam and the Division of Accounts has been sent along with revised memorandum for advanced per diem and miscellaneous expense has been issued.

Through the aforementioned corrective measures DOA has informed government travelers of the importance of clearing travel within 15 days and of the proper documentation needed for clearance of their records. Additionally, the memorandum of advance per diem allows DOA to withhold payroll checks and/ or suspend travel privileges until all travel is cleared.

DOA has also sent a request for Attorney General's Opinion regarding the legality of other options for enforcement that have been considered.

The current financial condition of the government has drastically reduced the number of local travel agencies who are willing to do business with the Government of Guam. To date there is only one travel agency (Cheers Travel) accepting travel vouchers for the Medically Indigent and Medicaid Programs. We have attached denial letters from travel agencies we recently attempted to solicit services from.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 4

Finding No. 1 – Travel, Continued

Auditee Response and Corrective Action Plan, Continued:

Despite our limited resource of travel agencies, DOA has sent Department Circular No. 04-020 to all agencies and department heads regarding the procurement of three prices quotes. To document the possibility of deficient documentation, DOA has developed the use of a standard form indicating the reasons for the lack of documentation and to keep a record of any attempts the department has made to acquire price quotes. This form is attached for your review.

On Travel Advances 110012120:

Specific controls that have been implemented are as follows:

1. Various memos to department and agency heads have been sent to inform government travelers of current procedures currently being enforced regarding travel.
2. A new form establishing a binding agreement between the traveler and the DOA regarding the payroll offsets and suspension of travel privileges is now in place to address outstanding travel advances.
3. Training for department and agency ASO and support staff on Travel procedures has been conducted to educate the various participants about travel rules and regulations and of current changes implemented.
4. DOA is will send to Department ASO and support staff a detailed listing per department of all outstanding travel advances. The purpose is to reduce the amount of outstanding records per department using records each department currently maintains. Any travel advances not cleared by the department will be addressed by the individual traveler.
5. DOA has improved the recording of travel documents and is currently working with key departments to include BBMR and the Governor's Office in streamlining the process to screening travel advances and allowing for more time for DOA to properly scrutinize and record Travel documents.

Finding No. 2 – Payroll-Test of Controls

Criteria:

- Effort should be made to ensure the proper safekeeping of payroll supporting documents.
- Ensure the accuracy and propriety of payroll transactions i.e. timesheets, data entry.
- Payroll transactions are recorded with proper and adequate documentation to substantiate the expense.
- Ensure all hours worked are properly accounted for and recorded in the period incurred.

Condition: Of forty-three (43) payroll records requested for review, seven (7) were not made available. Of the thirty-six (36) that were received, we note the following conditions.

1. Modifications to timesheet without adequate documentation of the reason for the modification.

<u>PPE</u>	<u>Employee #</u>
10/05/02	ASN2077
11/30/02	FMP5121

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 5

Finding No. 2 – Payroll-Test of Controls, Continued

Condition, Continued:

2. Hours entered on timesheets do not extend correctly to the 'Total Hours' column

<u>PPE</u>	<u>Date</u>	<u>Name</u>	<u>Variance (Hrs)</u>
09/09/00	09/07/00	MJD7980	5
09/23/00	09/11/00	MJD7980	1
09/23/00	09/13/00	MJD7980	2
07/28/00	07/19/00	FMP5121	1

3. Inconsistencies in granting credit for incremental hours of work performed i.e. an individual clocks in @ 7:30am and out @ 12pm will sometimes be credited 4.5 hours and other times only 4.0 hours.

<u>PPE</u>	<u>Date</u>	<u>Name</u>	<u>Variance (Hrs)</u>
07/28/00	07/20/00	FMP5121	.5
07/28/00	07/24/00	FMP5121	.5
07/28/00	07/25/00	FMP5121	.5
07/28/00	07/28/00	FMP5121	.5
08/12/00	07/31/00	FMP5121	.5
08/12/00	08/02/00	FMP5121	.5
08/12/00	08/03/00	FMP5121	.5
08/12/00	08/04/00	FMP5121	.5
08/12/00	08/07/00	FMP5121	.5
08/12/00	08/08/00	FMP5121	.5
08/12/00	08/09/00	FMP5121	.5
08/12/00	08/10/00	FMP5121	.5
11/04/00	10/23/00	FMP5121	.5
11/04/00	10/25/00	FMP5121	.5
11/04/00	10/31/00	FMP5121	.5
11/04/00	11/01/00	FMP5121	.5
11/04/00	11/03/00	FMP5121	.5
11/18/00	11/06/00	FMP5121	.5
11/18/00	11/08/00	FMP5121	.5
11/18/00	11/10/00	FMP5121	.5
11/18/00	11/13/00	FMP5121	.5
11/18/00	11/14/00	FMP5121	.5
11/18/00	11/16/00	FMP5121	.5
11/18/00	11/17/00	FMP5121	.5

4. Non-legible timesheets that prevent the application of appropriate audit procedures.

<u>PPE</u>	<u>Employee #</u>
12/28/02	MCS0324

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 6

Finding No. 2 – Payroll-Test of Controls, Continued

Condition, Continued:

5. Compensation for overtime work without related supporting timesheet(s).

<u>PPE</u>	<u>Employee #</u>
11/30/02	MJD7980
11/30/02	MJD7980
11/30/02	MJD7980
09/20/03	JAB9296
08/23/03	JGQ9745
05/03/03	JJG7659
05/03/03	JTM7751
01/25/03	AMS7212
12/28/02	KJC1658
12/28/02	SFM0434
12/14/02	HQT8275
12/14/02	RHK6552
11/30/02	FMP5121
11/30/02	MLG7980
11/16/02	JSS6464

6. Discrepancies between recalculation of pay type hours and amounts reported on the Labor Cost report.

<u>Employee #</u>	<u>PPE</u>	<u>Pay Type</u>	<u>Hours per Labor Cost</u>	<u>Hours per DT calc</u>	<u>Difference</u>
MAM8493	11/16/02	OT	106	90	16
MAM8493	11/16/02	HOL	24	16	8
AUS2077	10/05/02	OT	95	104	9
MJD7980	11/30/02	REG	83.5	80	3.5
FMP5121	11/30/02	REG	118	80	38
FMP5121	11/30/02	OT	302	292	10
AMA3363	11/30/02	REG	96	80	16
AMA3363	11/30/02	OT	178	175	3
SFM0434	12/28/02	REG	96	86	10
KJC1658	12/28/02	REG	99	86	13
JAB9296	09/20/03	REG	94	80	14
JSS6464	11/16/02	REG	83	82	1
LOG7403	11/16/02	REG	104	80	24
LOG7403	11/16/02	OT	88	83	5
JGJ8344	12/14/02	REG	80	123	43
JGJ8344	12/14/02	OT	132	Unable to determine hours	132
GAM2725	12/14/02	OT	32	Unable to determine hours	32

Pay Type Code  
 HOL-Holiday OT-Overtime REG-Regular Pay

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 7

Finding No. 2 – Payroll-Test of Controls, Continued

Condition, Continued:

7. Of forty-three (43) payroll records requested, seven (7) were not made available for review:

	<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
1.	PPE 082303	1061	VTP4855
2.	PPE 062803	3220	JGD2606
3.	PPE 062803	3223	ALS5713
4.	PPE050303	3220	JGD2606
5.	PPE012503	0293	PDU7796
6.	PPE122802	1030	DUM4678
7.	PPE100502	0610	KFB7373

8. Timesheet not signed by timekeeper, supervisor and employee

<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
PPE12/14/02	0510	RHK6552

9. Overtime timesheet not signed by timekeeper and supervisor

<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
PPE12/14/02	1020	GAM2725

10. Supporting timesheets that did not correspond to the pay period requested.

<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
09/20/03	1020	MTA5668
09/20/03	1633	EWL3136
09/20/03	1633	JTP0564

11. Supporting timesheets that were not made available for review.

<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
08/23/03	1310	RSM7462
08/23/03	1220	TAM4564
11/16/02	1220	MCC9331

12. Supporting timesheets for related overtime worked that were not made available for review or were incomplete.

<u>PPE</u>	<u>Dept</u>	<u>Employee #</u>
08/23/03	1311	JGQ9745
05/03/03	1310	JJG7659
01/25/03	1310	AMS7212
05/03/03	1220	JTM7551

Cause:

The causes of these conditions are as follows:

1. Lack of control over the safekeeping of documents.
2. Lack of manpower to perform the above related tasks
3. Lack of control to monitor overtime related work at line agencies
4. Lack of control to monitor the adequacy of documentation supporting a transaction
5. Lack of control to ensure the reconciliation of timesheets with timekeeper's data entry

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 8

Finding No. 2 – Payroll-Test of Controls, Continued

Effect: No known material effect on the financial statements results from this condition. However, the propriety of underlying expense accounts may be questioned.

Recommendation: Given the significance of payroll expenses to overall operations, management should ensure that the manpower level is sufficient to perform the due diligence required of payroll activities. In addition, it should ensure controls are in place to verify the accuracy of payroll transactions such as verifying timekeeper activities, completeness of documentation, monitoring overtime activities of line agencies to ensure proper matching of payroll related expenses (i.e. overtime) in the proper period and ensuring payroll records are safeguarded against loss and misplacement.

Finding No. 3 – General Fund - Cash

Criteria:

- Bank reconciliations are to be prepared properly on a monthly basis.
- Bank account reconciling items should be investigated and resolved in a timely manner.
- Deposits in banks are required by local statute to be secured by qualified collateral in the amount of 120% or more of the deposit balance.

Condition 1: Differences were noted between book and bank reconciliation amounts for the following accounts.

<u>Account Name</u>	<u>GL No.</u>	<u>Balance Per Book</u>	<u>Balance Per Reconciliation</u>	<u>Difference</u>
GENERAL FUND	110010114	\$5,744,597	\$4,718,984	\$1,025,613
IMPREST FUND	110010010	\$40,844	\$7,850	\$32,994

Condition 2: No reconciliations were provided for the following accounts:

110010902	General Fund Unrestricted Section 30 GMH Surplus	\$(116,159)
110010111	WIC Food Imprest Fund	90,250
110010100	Cash on Hand	(26,974)

Condition 3: The following cash accounts are special revenue funds posted in the general fund.

110010212	BOH DPW Tipping Fees	\$ 261,892
110010544	BOH Real Property Tax	(10,376)

Condition 4: The following reconciling items of unrecorded deposits, credit and debit memos were present on the September 30, 2003 bank reconciliations that are dated over a year or are considered material. Supporting documentation has not been provided for these items. Management proposed post-closing adjustments for these amounts.

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 9

Finding No. 3 – General Fund – Cash, Continued

Condition 4, Continued:

110010431	Tax Deposit Account	\$ 262,586
Description: Unknown deposit entry dated 02/18/02 JDHA021802 still in transit 10/02/02		
110010113	Payroll Account	\$(111,969)
Description: Unrecorded "Offset Transactions" dated Oct 00		
110010441	Revenue-FHB	\$ 330,553
Description: Unrecorded deposit dated 09/03		

Condition 5: The following outstanding check items did not agree with the bank reconciliation outstanding check balances:

<u>GL Account No.</u>	<u>Account Name</u>	<u>Per Bank Recon</u>	<u>Per Sub-ledger</u>	<u>Variance</u>
110010115	Income Tax Refund	\$1,629,036	\$1,426,268	\$202,767
110010116	Public Assistance	26,253	61,727	<35,474>
110010117	Child Support	303,022	500,114	<197,092>
110010113	Payroll	724,911	709,956	14,955

Condition 6: No bank statements were provided for review for the following accounts

110010529	BOH Dormant Account 38-101790
	1. April 2004
	2. May 2004
110010118	KOM PARA TIYAN 38-101722
	1. April 2004
	2. May 2004
110010431	W/T Depository (BOH) 6838-091204
	1. April 2004
110010532	Income Tax Reserve (BOH) 38-101749
	1. October 2003
	2. April 2004
	3. May 2004
110010543	GPD Confiscated Monies (BOH)
	1. October 2003
	2. April 2004
	3. May 2004

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 10

Finding No. 3 – General Fund – Cash, Continued

Condition 7: Collateralization by the financial institutions appears to be insufficient or nonexistent.

Cause: Bank reconciliations are not being prepared properly on a monthly basis. There appears to be a lack of internal controls over ensuring: 1) that bank statements are available for immediate investigation and resolution of bank reconciliation reconciling items; 2) that monitoring compliance with local statute by the financial institutions needs to occur.

Effect: Cash could be misstated. Adjustments were either proposed in the audit process to resolve the differences, or such were deemed immaterial to the financial statements. In addition, such conditions may represent noncompliance with local statute.

Recommendation:

- We recommend that bank reconciliations be prepared for all bank accounts on a monthly basis.
- Management should locate and /or produce bank statements to ensure proper reconciliation of accounts.
- With respect to the qualified collateral security, the Division of Accounts (DOA) should establish internal controls to monitor compliance with local statute.

Auditee Response and Corrective Action Plan:

- The book balance of the General Fund as per audit was inclusive of all adjustments to date known to the auditors and the controller, while the book balance per bank reconciliation was prior to some of these adjustments and only inclusive of what was posted into the system as of May 25, 2004.

The balance per reconciliation was the total of all petty cash change funds provided by the office of the Treasurer of Guam to the auditors. A letter will be developed, addressed to all line agencies requesting from them the amount of their petty cash if there is any, this way we can have a verified comprehensive inventory of all petty cash relative to the Imprest Fund account.

- There was no reconciliation done for the General Fund Unrestricted Section 30 GMH Surplus account (110010902) because this account has no more bank account balance. An analysis will be performed to close this existing balance.

No bank statements were accounted for relative to this account. The WIC Food Imprest Fund (110010111) is an off island account with no activity. The last activity was in fiscal year 2001 showing an increase of \$250.00.

Bank of Hawaii DPW Tipping Fees (110010212) and Bank of Hawaii Real Property Tax accounts (110010544) were accounts created in error under the general fund account. Separate accounts were created under the proper fund categories. These accounts created under the general fund will be closed.

This account (110010100) does not relate to any bank account. This account is an accumulator of overages and shortages over the years.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 11

Finding No. 3 – General Fund – Cash, Continued

Auditee Response and Corrective Action Plan, Continued:

- A follow up request from the auditors was provided to the Treasurer of Guam so they could request these missing bank statements from the banks where these accounts are maintained.

Finding No. 4 – Taxes Receivable/Taxes Payable

Criteria:

- Reconciliation of balances recorded in general ledger control accounts at the Division of Accounts (DOA) and the balances recorded in detailed subsidiary schedules maintained by the Department of Taxation (DRT) should be performed on a timely manner.
- Tax Refund Reserve: The Public Law 22-140 reference to Title 11 Chapter 50 of the Guam Code Annotated, requires the Department of Revenue and Taxation (DRT) to establish a formula for reserving income tax receipts to pay income tax refunds.
- Tax allowance for Bad Debts: DRT should provide documentation supporting established calculations of doubtful tax accounts.
- Detailed subsidiary schedules should be reviewed for accuracy.

Condition 1: Differing balances of taxes and gross receipts tax receivables for various fiscal years are recorded in the general ledger at DOA and in detailed schedules at the DRT. The differences relate to unrecorded tax assessments and inactive accounts. Aggregate amounts approximate \$40 million and \$13 million for income tax receivable and gross receipts tax receivable, respectively.

	<u>Income Tax</u> <u>(\$ millions)</u>	<u>GRT</u> <u>(\$ millions)</u>
Inactive:	\$ 30.8	\$ 5.8
Assessment:	9.1	7.7
Aggregate	\$ 39.9	\$13.5

Condition 2:

- The FY03 book calculation of \$72 million mirrors that of the prior year and the forecast for FY04. No documentation was provided to show how this calculation was arrived at.
- No allowance appears to have been provided for the EITC assessment as required by PL 24-61.
- Corporate Tax Refund account of \$25 million did not change from the prior year. No calculation was provided to support this amount.

Condition 3: The tax allowance provision does not appear to provide for inactive accounts for Business Privilege Tax and Income Tax amounting to about \$5.8 million and \$30.8 million, respectively. Proposed adjustments have been made to recognize these amounts.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 12

Finding No. 4 – Taxes Receivable/Taxes Payable, Continued

Condition 4: The detailed tax receivable schedules provided by the Department of Revenue & Taxation (DRT) contain credit balances as follows:

Income Tax Receivable (ARSB1115):	
Year 1991 - 1120 Account	(\$ 18,295)
Gross Receipts Receivable (GRTB115):	
Year 1996	(\$2,400,711)
Year 1990	(\$ 1,964)
Year 1989	(\$ 2,012)

Cause:

1) Reconciliation between the general ledger and detailed subsidiary schedules was not updated regularly due to shortage of manpower. The hiring freeze within the Government of Guam did not allow for the replacement of DRT personnel that have retired or resigned. 2) There does not appear to be a documented methodology to ensure adequacy of calculated tax refunds and the reserve for doubtful accounts. The process of assimilating and ensuring the completeness and accuracy of recorded financial information does not appear to be present. It was noted during the fieldwork that there appears to be a shortage of manpower within the DRT to perform this process on a regular basis. 3) Condition 4 may be a result of double posting. There appears to be a shortage of manpower in the DRT to carry out periodic review and analysis of account balances.

Effect: 1) The affected accounts may be misstated as the balances do not reconcile to the detailed schedules provided by the Department of Revenue & Taxation; 2) The reserve to pay income tax refunds and the allowance for doubtful tax receivable accounts may be misstated. 3) The detailed subsidiary schedule may be misstated, which could cause the general ledger balances to be misstated if the general ledger remains unadjusted.

Recommendation:

1. A reconciliation of the respective records should occur on a regular and timely basis. Inactive accounts should be analyzed and investigated to ensure validity and correctness.
2. DRT should establish a documented methodology supporting the computation of the reserve for income tax refund payments and the allowance for uncollectible taxes.
3. DRT should review the detailed schedule for accuracy before forwarding to the Division of Accounts for recording to the general ledger.

Finding No. 5 – General Fund – Receivable, Allowance for Doubtful Accounts

Criteria: Procedures to record an allowance for doubtful accounts should be established and implemented.

Condition: An accounts receivable subsidiary is not maintained to keep track of the accounts receivable aging. The excel-generated aging report is aged by year and 2003 balances could be > 120 days. Schedules are not prepared to track the aging of balances. There was no set criteria established that addresses an evaluation of doubtful accounts.

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 13

Finding No. 5 – General Fund – Receivable, Allowance for Doubtful Accounts, Continued

Cause: No procedures have been established to properly calculate and record an allowance for doubtful accounts.

Effect: Aging of accounts is not maintained. Therefore, accounts receivable could be misstated through the inaccuracy of the allowance for doubtful accounts.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of the Government of Guam

Recommendation: The aging of accounts receivables should be prepared and analyzed based on the collectibility of outstanding accounts. A policy should be established and implemented to analyze the adequacy of the allowance on a regular basis.

Auditee Response and Corrective Action Plan:

DOA concurs with the auditors' findings and is currently exploring various options to address our growing outstanding accounts receivables. A memorandum requesting for an AG's opinion on various options currently being considered has been forwarded to the Attorney General's Office.

Although the most ideal scenario to address the current shortfall of reducing outstanding accounts receivables would be to establish a specific section whose sole purpose would be the collections, or outsourcing the collection of these receivables, Our current departmental budget and staffing is not enough to make this option a reality at this time. However DOA has made steps to strengthening our internal controls in the hopes of preventing our outstanding receivables from growing.

Finding No. 6 – General Fund – Other Receivable

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

Condition:

1. The accounts receivable subsidiary ledger contains several accounts with negative balances, totaling \$358,886.
2. Accounts receivable due from the Guam Telephone Authority (GTA) have not been reconciled on a timely basis.
3. Bad Checks under the custody of the Department of Revenue and Taxation have not been reconciled.
4. The following outstanding check balances did not reconcile to related sub-ledgers:

GL Account	Description	Per GL	Per Sub-ledger	Variance
110012111	Bad Checks Misc (DOA)	\$545,319	\$523,229	\$ 22,090
110012112	Bad Checks Misc (R&T)	3,399,893	3,598,145	<198,252>
110012116	Bad Checks GRT (R&T)	722,165	789,680	<67,515>

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 14

Finding No. 6 – General Fund – Other Receivable, Continued

Cause:

1. There appears to be weak internal controls over ensuring that payments received from various departments are properly recorded.
2. There appears to be weak internal controls over ensuring that the receivable balance from GTA is reconciled in a timely manner.
3. As no confirmation has been received from the Department of Revenue and Taxation regarding the balances of bad checks held at the end of fiscal year 2003, balances could be misstated.
4. There appears to be weak internal controls over ensuring reconciliation of general ledger balances to sub-ledgers.

Effect: The condition results in accounts receivable balances being misstated by an immaterial amount.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of the Government of Guam.

Recommendation:

1. The Division of Accounts should assign an individual to monitor and reconcile negative balances in the receivable accounts. Procedures should be established and implemented to prevent cash receipts from being applied to nonexistent receivable accounts.
2. The Division of Accounts and the appropriate agency should assign individuals to reconcile accounts on a regular basis.

Auditee Response and Corrective Action Plan:

DOA is currently working on implementing the various suggestions made by the OPA in their single audit report of the Bounced Checks. Our office has implemented many controls to prevent the further growth of our A/R. We have already started with the new POS (Point of Sale) system, which will reduce the amount of bounced checks written to the Government of Guam. Additionally, the Bank of Guam now automatically tries to redeposit checks that register as NFS.

In-house operational controls such as written SOP and other procedural controls are currently being worked on and should be completed by the end of November.

Finding No. 7– General Fund – Other Receivable, Fuel Issuance

Criteria: Accounts receivable from GTA should be recorded based on the amount of fuel issued.

Condition: The cost of fuel issued was recorded as gallons issued. Per discussion with Rey Edrosa, accounts supervisor, this has been written up in prior years and has not been corrected as of fiscal year 2003. Therefore accounts receivable from GTA still remain understated for GSA control # 4361.

Cause: The condition results from poor internal controls over ensuring proper recording of billings.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 15

Finding No. 7– General Fund – Other Receivable, Fuel Issuance, Continued

Effect: The condition results in accounts receivable from GTA to be understated.

Prior Year Status: This condition is a reiteration of a prior year finding.

Recommendation: Data should be recorded accurately and verification should be performed.

Auditee Response and Corrective Action Plan:

The following control procedures are currently in place:

1. DOA currently maintains current billing against all Tenda accounts.
2. DOA temporarily suspends accounts from obtaining fuel chits and ordering supplies from GSA if current bills are not paid. Billing prior to 2003, are in a reconciliation stage. DOA is trying to work with each department to address discrepancies in records between offices.
3. DOA is currently meeting with GTA and GWA on a regular basis in an effort to reconcile and bring current fuel records and payments.
- 4.

Finding No. 8 – Accounts Payable

Criteria:

- Effort should be made to ensure the proper safekeeping of supporting documents for transactions.
- General ledger control accounts should be reconciled to subsidiary ledgers on a timely basis.
- Transactions should be conducted in accordance with management directives, policies and applicable laws and regulations.

Condition 1:

1. Of forty-seven (47) accounts payable transactions tested, the following transactions did not have supporting documents i.e. direct payment requests, invoices, check copies, etc. made available for review:

A. Vendor: Guam Power Authority

<u>Account No.</u>	<u>Amount</u>	<u>Invoice No.</u>
5208A001060SE208361	\$367,590.99	0124396D
5101H989973TP599290	197,721.95	DSR07615
110021111	139,949.00	11502
5101H989973TP550290	145,149.93	9911-22/2
5101H989973TP550290	145,149.93	9911-22/3
5208A001060SE208361	78,382.78	00124396M

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 16

Finding No. 8 – Accounts Payable, Continued

Condition 1, Continued:

B. Vendor: Guam Waterworks Authority

<u>Account No.</u>	<u>Amount</u>	<u>Invoice No.</u>
5100C990221PA008362	\$1,291,298.75	W9703166
5100C990221PA008362	1,643,640.86	W9703165
5100C990221PA008362	887,734.79	W9806810
5100C990221PA008362	359,516.11	W9703163

C. Vendor: St. Dominic Sr Care Home

<u>Account No.</u>	<u>Amount</u>	<u>Invoice No.</u>
5293A031722MA293290	\$ 115,166.70	1000544

2. Of eighty-two (82) accounts payable disbursements tested, supporting documents for the following transactions were not made available for our review:

A. Supporting invoices/documents:

<u>Check No.</u>	<u>Amount</u>	<u>Vendor</u>
99399	\$1,557,610	GovGuam Retirement Fund

B. Check copies and applicable supporting documents:

<u>Check No.</u>	<u>Amount</u>	<u>Vendor</u>
103251	\$250,0000	Dept. of Education
103683	250,0000	Dept. of Education
96541	100,0000	Dept. of Education

C. Receipts

<u>Transaction No.</u>	<u>Amount</u>	<u>Transaction Date</u>
JD01091903	\$412,922.50	09/19/03

Condition 2: General Ledger (GL) Account 110021513, Income Tax Refund, does not agree to the sub-ledger as follows:

	<u>Amount</u>
09-30-03 per Sub-ledger	\$2,053,959
Difference	419,864
Per GL	\$2,473,823

Condition 3: Journal entry J030611394 was recorded to correct a journal entry related to a bank reconciliation item for a \$12,000 bank error. Journal entries for bank reconciliation items as a result of bank errors are not prudent accounting practices.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 17

Finding No. 8 – Accounts Payable, Continued

Condition 4:

1. Public Law 26-120 required the creation of two (2) separate funds to account for local and federal asset forfeitures. We were not able to determine whether the accounts were appropriately established.
2. 11 GCA, Subsection 106119 requires that all funds transferred to the Treasurer of Guam pursuant to this section escheat to the Government of Guam five (5) years subsequent to the date of transfer. We were not provided an aging schedule and subsidiary ledger for such funds transferred as reported in General Ledger Account No.110023207 - Deposit Bank Inactive Accounts.

Cause:

- 1) There appears to be lack of internal control over safekeeping of accounting documents.
- 2) It appears account balances are not periodically reviewed and reconciled to supporting schedules and subsidiary ledgers, which may be a result of the lack of manpower to perform the related task.
- 3) There appears to be a lack of manpower to perform the due diligence required for timely account balances reconciliation.
- 4) There appears to be a lack of adequate monitoring of compliance with management directives, policies, regulations and statutes.

Effect: No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned. In regards to Condition 4, unauthorized use of funds could result from the condition.

Recommendation: Management should ensure proper safekeeping of supporting documents. Policies and procedures for timely review and reconciliation of account balances should be established and implemented. Management should implement controls to ensure compliance with applicable laws and regulations.

Finding No. 9 – Accounts Payable, Adjustments and Post Closing Entries

Criteria:

- All adjustments proposed by external auditors and approved by management should be recorded in a timely manner upon issuance of the audit report or very soon thereafter.
- Transactions should be recorded only after they are appropriately reviewed and properly documented to substantiate the entry(ies).
- General ledger control accounts should be reconciled to subsidiary ledgers on a timely basis.

Condition 1: The prior year audit adjustment for Acct. No. 110021111 – Vendor Upload, was not recorded.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 18

Finding No. 9 – Accounts Payable, Adjustments and Post Closing Entries, Continued

Condition 2:

1. Post closing entry J03PC00176, Journal entry J030611845 and J030611950 make corrections to transactions to previously recorded entries. These entries make reference to bank debit memo and NSF check. Documentation of these transactions were not available for review.
3. The FY03 Accounts Payable Post Closing schedule includes an item for \$1,897,613, which was unrelated to the account.
4. A duplicate entry of \$74,000 for an invoice that had already been paid was noted.

Condition 3: Subsidiary accounts are not maintained for the following accounts:

<u>Account No.</u>	<u>Account Description</u>
110023168	Deposit Alcohol Treatment
110023207	Deposit Bank Inactive Account

Cause: There appears to be a lack of control 1) over ensuring proper recordation of audit adjustments, post closing and regular journal entries; 2) over monitoring the adequacy of documentation supporting transactions; and 3) over proper review and reconciliation to supporting schedules and subsidiary ledgers. Such conditions may be a result of the lack of manpower to perform related tasks.

Effect: Decision making processes may rely upon financial information that is not updated for audit adjustments and such information may differ materially from audited financial statements. No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned.

Recommendation: Management should post all approved audit adjustments without delay. Management should task staff to record audit adjustments, which should occur upon issuance of the annual audit report or very soon thereafter. Management should establish and implement policies and procedures to ensure the completeness of documents supporting transactions.

Finding No. 10 – Annual Leave

Criteria:

- Effort should be made to ensure the proper safekeeping of supporting documents for transactions.
- Transactions should be conducted in accordance with management directives, policies and applicable laws and regulations.

Condition 1: Out of thirteen (13) vacation leave accrual records requested, one (1) was not made available for review:

Employee #  
JRN4752

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 19

Finding No. 10 – Annual Leave, Continued

Condition 2: At fiscal year end, pursuant to Subsection 4 of 4GCA 4109, management was deducting accrued annual leave hours in excess of seven hundred twenty (720) hours, after a deduction of up to 100 hours is transferred to the employee's accrued sick leave. Public Law 27-005, Section 2, Chapter IV Miscellaneous Provisions, enacted into law 2/28/03, repealed in its entirety Subsection 4 of 4GCA 4109. Management estimates that approximately \$40,000 of annual leave costs will have to be reinstated to account for the improper deductions.

Cause: There appears to be lack of internal control over safekeeping of accounting documents and over adequately monitoring compliance with management directives, policies and regulations.

Effect: No known material effect on the financial statements results from this condition. However, the propriety of underlying account balances may be questioned.

Recommendation: Management should ensure proper safekeeping supporting documents. Management should implement controls to ensure all transactions are properly approved and conducted in accordance with applicable laws and regulations.

Finding No. 11 – Other Liabilities – Child Support Collections

Criteria:

- Service charges on tax refund processing should be recorded.
- Undistributed child support collections should be supported by a detailed schedule. Undistributed collections from non-custodial parents should be identified for distribution to beneficiaries. Overage collections from non-custodial parents should be timely distributed to beneficiaries.

Condition 1: A service charge of \$11.65 is assessed for tax offset and \$13.20 ADM offset for every tax refund case processed by the Department of Public Health and Human Service (DPHSS). DPHSS remits monthly the tax refund applied against the child support collection, net of the service charge.

The amount recorded by DOA as child support collection is the actual amount remitted, which is net of the service charge; hence, the service charge is not recorded in the books.

Condition 2: Details in support of the amount recorded as undistributed collections in the General Ledger were not available. Of total undistributed collections, only undistributed collections from September 1, 1996 to September 30, 2003 were provided.

Undistributed Collection per general ledger	\$ 5,296,176
Undistributed Collections 9/1/96 – 9/30/03	<u>2,377,826</u>
Difference	\$ <u>2,918,350</u>

The difference is deemed to be the undistributed collections received prior to September 1, 1996, which is not supported by a detailed listing.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 20

Finding No. 11 – Other Liabilities – Child Support Collections, Continued

Condition 2, Continued:

Of the total \$2.3 million of undistributed collections for the period 9/1/96 – 9/30/03, approximately \$1.6 million is unidentified and \$.6 million represent overages.

Cause:

- 1) DOA does not obtain a copy of transacted documents provided by DPHSS to Chase Global. It appears that data encoded into the system necessary to perform reconciliation is inadequate. Thus, certain collections were recorded as being unidentified.
- 2) There is not enough manpower to (1) look into the details and specifically identifies the collections, and (2) examine individual cases to ensure correct and timely distribution of overages.

Effect: An immaterial understatement of Child Support Collection and expenditure accounts may result. In addition, there is a potential risk that portions of undistributed child support collections may no longer be valid. The deferral of distributions of collections could result in complaints from beneficiaries.

Recommendation:

- DOA should require that DPHSS furnish them a copy of the collection detail for each remittance made.
- Manpower should be dedicated to look into the individual cases to specifically identify collections and to determine necessary actions to be preformed to expedite the distribution of overages.

Auditee Response and Corrective Action Plan:

Condition: A memorandum was sent to the Assistant Attorney General in charge of Child Support Division requesting for Chase Global to provide a copy of reports identifying these charges. Copy of the acknowledged memorandum was provided to the auditors.

Finding No. 12 – Other Liabilities – Insurance Security Deposit

Criteria: Insurance Security Deposits should be reconciled with the records of the Department of Revenue and Tax (DRT) and the Treasurer of Guam (TOG). Furthermore, DRT and TOG should reconcile their records, update the status of maturing securities and provide DOA with a copy of security deposits for recording.

Condition: The liability and asset account “Insurance Security Deposit” is not reconciled with the records of DRT and TOG. There has been no movement of the account for several years and DRT does not provide DOA details of security deposit transactions.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 21

Finding No. 12 – Other Liabilities – Insurance Security Deposit

Condition, Continued:

Security certificates are kept in the vault of TOG, however, the records of DRT and TOG do not coincide in terms of date, amount and number of payees. Several of the securities in the list are already past their maturity. We have not yet received a feedback on the status of the over due securities, although based on tests, Time Certificates of Deposit (TCD's) normally have automatic renewal clauses. DRT and TOG need to update the listing reflecting therein the renewed date.

With unreconciled records, there is no reasonable basis to adjust the records of DOA.

Cause: DOA is not informed of Insurance Security Deposits transacted by DRT. It is not part of the current procedure to provide DOA a copy of the security deposit transaction for recording in the books.

It appears that security certificates and renewal advices are not timely and completely forwarded to TOG for safekeeping. There is no timely communication of insurance security deposit transactions between DRT and TOG.

Effect: The affected accounts are misstated, but the misstatement has no impact on the financial statements.

Recommendation: Adequate records should be provided to ensure that DOA could adequately account for security deposits.

Finding No. 13 – Special Revenue – Continuing Appropriations

Criteria:

- Special Revenue Funds continuing appropriations should agree with related sub-ledgers.
- Continuing appropriations should consist of legislatively appropriated funds.

Condition 1: The balance sheet for Special Revenue Fund continuing appropriations appears to be immaterially overstated by \$81,794 compared to the total of individual schedules.

Condition 2: The following accounts were not legislatively appropriated and therefore, may not be valid continuing appropriations. Management has proposed adjustments to re-class these items:

<b>Account No.</b>	<b>Account Description</b>	<b>Continuing Appropriations</b>
5214C961300DO011	DOC Revolving Fund	\$ 422,060
5266C030805CE266	Guam Board of Accountancy	\$ 777,867

Cause: Continuing appropriations are not properly classified, and are not properly reconciled to individual fund accounts on a regular basis.

Effect: Expenditures, encumbrances and continuing appropriations may be misstated.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 22

Finding No. 13 – Special Revenue – Continuing Appropriations, Continued

Recommendation: The Division of Accounts (DOA) should ensure proper classification of accounts and should properly reconcile the general ledger to the sub-ledger.

Finding No. 14 – Outstanding Encumbrances

Criteria:

- Purchase orders, contracts, work orders and other items that are part of outstanding encumbrances should be liquidated on a timely basis.
- Amendments to contract agreements should be properly monitored and adjusted in accounting records.
- Encumbrances should be properly supported by a contract, purchase order, work order or travel authorization agreement.

Condition 1: Review of outstanding encumbrances detail listing revealed that approximately \$4.8M of the approximate \$61.8M of outstanding encumbrances were three years and older.

Condition 2: Detail tests revealed that the following encumbrances had no subsequent liquidations for in excess of a year.

Encumbrance		O/S Encumbrance		
<u>No.</u>	<u>Account No.</u>	<u>Encumbrance</u>	<u>Payment</u>	<u>over a year</u>
C000600730	5110A002030EI002230	\$351,879	0	\$351,879
C030601420	5101F011010IB129230	\$1,600,000	0	\$1,600,000
C030600014	5101E031712PA101230	\$261,980	0	\$261,980
P016P0001	5101f001010IB102240	\$575,343	\$305,370	\$269,973

Encumbrance number C030601420 for \$1,600,000 was discovered to be invalid, as the contract was not finalized and no liability existed. An adjustment was proposed to clear the encumbered amount.

Condition 3: Encumbrance number C020602920 expired in fiscal year 2003 and is invalid. Through detail testing, a subsequent liquidation was made against the expired account. An adjustment has been proposed to clear the encumbrance.

Condition 4: Review of contracts indicated that contract details do not support the encumbrance data.

- Contract number C000600730, account 5100A002030EI002230 was encumbered for \$351,879, however the contract agreement was only for \$117K, which indicated an over encumbrance of \$234,879.
- For contract number C0306000030, account 5101F981068IB121450, the invoice stated total payments received in the amount of \$4,189,620. Per the system, payments made against the account were \$4,226,652, indicating an over liquidation of \$37,032.
- Contract C020601470 indicated a higher price on the invoice than the amount agreed on the contract by approximately \$2M.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 23

Finding No. 14 – Outstanding Encumbrances, Continued

Condition 5: The following contract was not provided for audit review:

<u>Encumbrance #</u>	<u>Account #</u>	<u>O/S Encumbrance Amount</u>
P016P00001	5101F001010IB102240	\$ 269,973

Cause: It appears that 1) the detail of outstanding encumbrance listing and documentation are not being reviewed for completeness 2) the subsequent amendments of the original contract amounts were not properly recorded.

Prior Year Status: This finding was brought to management’s attention in our prior year management letter.

Effect: Outstanding encumbrances could be overstated if the amounts are cancelable or invalid.

Recommendation: A detailed schedule listing all outstanding encumbrances over three years should be prepared, reviewed and forwarded to the Bureau of Budget and Management Resources (BBMR) to ensure proper and timely reconciliation to ascertain whether such items may be cancelled and reverted to unreserved fund balance. The Division of Accounts should monitor amendments to contract agreements to determine and record proper adjustments. The Division of Accounts should provide sufficient documentation to support encumbered amounts.

Finding No. 15 – Fund Transfers In/Out

Criteria: Public Law 22-41 Section 31 provides that “...all appropriations to the Legislature Operations Fund on September 30, 1994 shall be carried over and continue in Fiscal Year 1995 for use by the Legislature.” Lapsed appropriations cannot be carried over unless specifically authorized by public law.

Condition: A \$1.14 million lapsed annual appropriation in 1994, which was authorized by public law to be carried over to 1995, was reestablished in 2003 to pay out Guam Legislature’s claim on its 1994 unallotted appropriation. BBMR reestablished the amount rationalizing that the money was spent by the Guam Legislature within the budget law period of 1994 and 1995. However, there is no public law authorizing the lapsed amount to be carried over to 2003. Of this amount, \$800,000 was paid to the Guam Legislature in 2003.

Cause: It appears that we were not able to verify the basis for the payment of the balance.

Effect: No known material effect on the financial statements results from this condition. However, noncompliance with the public law could affect annual operational budgets.

Recommendation: Reestablishment of lapsed appropriations should be authorized by public law.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 24

Finding No. 16 – Capital Projects Funds

Criteria:

- Funds should be periodically evaluated for proper presentation and fund validity.
- Accounting records should be maintained and updated to reflect fiscal year activity.

Condition:

1. The “PUAG CIP Fund” appears to have had no activity for four or more fiscal years.
2. For Fund 252 cash LOB Ser '01A / '89 – Construction Fund (GL # 1-252-11150), the balance in the general ledger does not reflect the balance from the bank reconciliations and the bank statements as of September 30, 2003.

Cause:

1. There appears to be weak internal controls over maintaining and updating fund validity.
2. There appears to be weak controls over ensuring that accounting records are maintained and kept up to date to reflect fiscal year activity.

Effect: These conditions may result in a potential misstatement of related account balances.

Prior Year Status: Condition 1 is reiterative of a prior year finding.

Recommendation:

1. The auditee should strengthen internal controls over maintaining and updating fund validity.
2. The auditee should strengthen internal controls over ensuring that accounting records are currently maintained to reflect fiscal year activity.

Finding No. 17 – Special Revenue Funds – Supporting Documentation

Criteria:

- All expenses should have substantiating supporting documents. Furthermore, such supporting documents should be maintained on file and be made available for review.
- All revenues should have supporting documents to substantiate the transaction. Furthermore, such supporting documents should be maintained on file and be made available for review.

Condition:

1. For 4 (or 6%) of 70 transactions tested, there were either no supporting documents or the documents were not made available for review.

<u>Account No.</u>	<u>Transaction Code</u>	<u>Transaction Date</u>	<u>TNO Batch</u>	<u>Amount</u>
5247A032870PG210450	160	7/25/2003	94312	\$ 2,596
5501G021724TC957290	391	1/31/2003	JAR013103	54,053
5501G021724TC957290	391	2/28/2003	JAR022803	83,113
5501G021724TC957290	391	3/31/2003	JAR033103	94,123

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 25

Finding No. 17 – Special Revenue Funds – Supporting Documentation, Continued

Condition, Continued:

2. For 4 (or 6%) of 69 transactions tested, there were no supporting documents.

<u>Fund Name</u>	<u>GL Account</u>	<u>Transaction Date</u>	<u>Reference</u>	<u>Other Reference</u>	<u>Control No.</u>	<u>Amount</u>
Abandoned Vehicle & Streetlight Fund	320252101	1/05/03	R1255666	N/A	N/A	\$ 25
Healthy Future Fund	360251501	7/31/03	J030660852	N/A	N/A	300,900
GSA Inventory Revolving Fund	340457110	3/22/03	JVMS10331	105003401240	54102	26
GSA Inventory Revolving Fund	340457110	9/04/03	JVMS10930	100003001240	109818	65

Cause: There appears to be weak internal controls over ensuring proper documentation of expenses and revenue transactions are kept and made available for review.

Effect: The conditions may result in a potential misstatement of special revenue accounts.

Recommendation: The auditee should strengthen internal controls to ensure proper documentation of expenses and revenues and that supporting documents are available for review.

Finding No. 18 – Special Revenue Funds – Supreme Court

Criteria: Financial statements and bank reconciliations should be prepared on a monthly basis.

Condition: The Supreme Court does not prepare financial statements and bank reconciliations are only performed for the checking account. However, checking account reconciliations do not entirely reflect account activity (i.e. Bank Deposits, Transfers in).

Cause: There appears to be weak internal controls over ensuring that financial statements and bank reconciliations are prepared on a timely basis. This may be in part due to the lack of manpower and personnel knowledgeable in accounting principles.

Effect: The condition may result in potential misstatements of the financial statements.

Prior Year Status: This condition is reiterative of prior year audit findings.

Recommendation: The auditee should strengthen internal controls to ensure financial statements and bank reconciliations are prepared on a timely basis.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 26

Finding No. 19 – Special Revenue Funds

Criteria: Transactions should be executed in accordance with applicable legislation.

Condition: For 5 (or 7%) of 69 revenue transactions tested, the transactions are not in accordance with applicable legislation. The transactions relate to the Housing Revolving Fund, which was created by 4 Guam Code Annotated, chapter 12. The legislation allows reduced rent, but does not state that free rent is allowable.

<u>Month</u>	<u>Rental Unit</u>	<u>Rent Rate</u>
October 2002	Agat No. 11	\$800
October 2002	Dededo No. 13	850
November 2002	Yigo No. 4	850
January 2003	Dededo No. 17	850
February 2003	Dededo No. 1	800

Cause: There appears to be weak internal controls over ensuring that transactions for special revenue funds are executed in accordance with applicable legislation.

Effect: The condition may result in a potential understatement of revenues.

Recommendation: The auditee should strengthen internal controls to ensure that transactions for special revenue funds are executed in accordance with applicable legislation.

Finding No. 20 – Special Revenue Funds – Accounts Receivable

Criteria: A detailed aging report of accounts receivable should be maintained and updated to keep track of account validity.

Condition: The accounts receivable balance of \$236,168, for the Department of Corrections Inmates Revolving Fund, Fund 214, has not changed since the prior year.

Cause: There appears to be weak internal controls over ensuring that accounts receivable balances are maintained and updated for validity.

Effect: The condition may result in potential misstatements of Special Revenue Fund accounts receivable.

Recommendation: The auditee should strengthen internal controls to ensure that a detailed aging report of accounts receivable is maintained.

Finding No. 21 – Special Revenue Funds – Accounts Payable

Criteria: A detailed, aged schedule of payables should be maintained on a monthly basis and be reconciled against the book balance and to records maintained by the Department of Public Health and Social Services.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 27

Finding No. 21 – Special Revenue Funds – Accounts Payable, Continued

Condition: A detailed, aged schedule of payables totaling \$7,690,980 was not provided for the Medically Indigent Program Payment Revolving Fund related expenditures.

Cause: There appears to be weak internal controls over ensuring a detailed, aged payable schedule is maintained on a monthly basis and is reconciled against the book balance and to records maintained by the Department of Public Health and Social Services.

Effect: The condition may result in a potential misstatement of payables and related expenditures.

Prior Year Status: This condition is reiterative of prior year findings.

Recommendation: The auditee should strengthen internal controls to ensure a detailed, aged payable schedule is maintained on a monthly basis and reconciled against the book balance and to records maintained by the Department of Public Health and Social Services.

Finding No. 22 – Fund 505 Superior Court Operations

Criteria:

- Bank reconciliations should be reviewed and any reconciling items should be adjusted to reflect proper account balances.
- Checks outstanding for more than six months should be recorded as accounts payable.

Condition:

1. The September 30, 2003 Superior Court bank reconciliation contains various reconciling items including transactions related to FY 2001 in the amount of \$13,377.
2. Certain stale dated checks in the amount of \$53,131 are included in the outstanding checklist.

Cause:

1. A journal voucher was not prepared in a timely manner to correct the general ledger account balances.
2. The outstanding check list does not appear to be periodically reviewed for stale dated checks.

Effect:

1. Cash may be understated and expenses overstated in the financial statements.
2. Accounts payable balances are immaterially misstated.

Recommendation:

1. Bank reconciliations should be periodically reviewed and journal vouchers should be prepared to record any reconciling items.
2. Stale dated checks should be removed from the outstanding checklist and be recorded as accounts payable.

Auditee Response and Corrective Action Plan:

1. We agree with the recommendation. These reconciling items are currently being reviewed in order to settle and clear during the fiscal-year-end closing for 2004. This responsibility is assigned to Fiscal Officer III who performs the monthly bank reconciliations.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 28

Finding No. 22 – Fund 505 Superior Court Operations, Continued

Auditee Response and Corrective Action Plan, Continued:

2. We agree with the recommendation. All stale dated checks will be reviewed and cleared in our year-end closing for Fiscal-Year 2004, and reclassified as revenue or accounts payable. FMD includes this process in the year-end closing checklist. A more aggressive follow-up will be done to ensure that the review and clearance of stale dated checks are performed on a timely basis. This will be a dual responsibility between our Payroll Fiscal Officer II, and Fiscal Officer III who performs the monthly bank reconciliations for the Superior Court account.

Finding No. 23 – Fund 505 Superior Court Operations

Criteria: Annual leave in excess of 320 hours should not be accrued in the financial statements

Condition: Excess annual leave in the amount of \$459,132 is recorded and included in the financial statements

Cause: The cause of this condition is that adjustments to accrued annual leave were not proposed.

Effect: Expenditures and liabilities may be overstated.

Recommendation: The auditee should strengthen internal controls to ensure proper accrual of annual leave is recorded and included in the financial statements.

Auditee Response and Corrective Action Plan: Section 18 of Public Law 25-164 dated September 27, 2000 amended Section 4109(d) of Article 1, Chapter 4 of Title 4 of the Guam Code Annotated, which reads as follows:

“(d) Department defined by 4105 of Title 4 of the Guam Code Annotated, by appropriate personnel rules and regulations, may authorize accumulation and carry over of annual leave in excess of four hundred eighty (480) hours at the end of each fiscal year up to a maximum of seven hundred twenty (720) hours.”

On March 21, 2001 the Judicial Council of Guam approved Resolution No. 01-2001 amending the Superior Court of Guam Personnel Rules and Regulations to increase the maximum carry over of annual leave from 480 to 720 hours. Therefore, the Superior Court of Guam is in compliance with Public Law 25-164. Subsequent legislation, Public Law 27-05, Chapter IV, Section 4, however amended the excess annual leave balance to 320.

No corrective action plan is made as the Superior Court of Guam is in compliance with Public Law 25-164.

Finding No. 24 – Fund 506 Judicial Building Fund

Criteria: As a result of GASB 33, Accounting and Financial Reporting for Non Exchange Transactions, revenue should be recognized when available. Uncollectible accounts should be reserved for in the financial statements.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 29

Finding No. 24 – Fund 506 Judicial Building Fund, Continued

Condition: Due to uncertainty of collection, traffic citations and other returned items are recorded as accounts receivable and as deferred revenue.

Cause: The cause of this condition is that GAS 33 requirements have yet to be fully implemented.

Effect: Accounts receivable and deferred revenue may be overstated and revenue may be understated.

Recommendation: Analysis should be made of the outstanding traffic citations and other returned items. An allowance for uncollectible accounts and revenues estimated to be collected should be recorded in the financial statements.

Auditee Response and Corrective Action Plan: We agree with the recommendation. For FY-04, we analyzed and sorted the records by year. A journal voucher adjustment was prepared to recognize an “Allowance for Doubtful Accounts” for all records dated 1992 through 1999. All other records from the year 2000 through current are deemed collectible. This review will be done annually and will now be included in our checklist for the year-end close. This procedure will ensure that our financial statements present an accurate picture of our Accounts Receivable.

Finding No. 25 – Fund 507 Trust

Criteria: Accounts receivable set up on behalf of victims and the corresponding due to client account should reflect amounts based on court orders.

Condition: At September 30, 2003, accounts receivable and due to clients are overstated by \$136,764. An additional amount of \$170,576 was recorded in fiscal year 03, thereby overstating receivables and due to clients by the same amount.

Cause: The cause of this condition is that adjustments to reconcile the accounts were not proposed.

Effect: Accounts receivable and due to clients appear to be overstated by \$136,764.

Recommendation: Accounts receivable and due to clients should be adjusted to reflect the correct amount of the judgment or court order.

Auditee Response and Corrective Action Plan: The Superior Court of Guam agrees with the auditor’s recommendation to correct accounts receivable and due to client accounts. It is the practice for Probation Division to include in the aggregate the amount owed by all defendants to each client accounts receivable if they are jointly and severally liable. Financial Management Division has communicated with the software vendor to rectify the “jointly and severally liable” issue. We are currently identifying the funding sources since the amount to correct the system is of \$50,000.00.

Finding No. 26 – Special Revenue Fund 101

Criteria: Bank reconciliations should be performed on a monthly basis. Furthermore, the reconciliation and the supporting bank statement should be available for review.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 30

Finding No. 26 – Special Revenue Fund 101, Continued

Condition: No bank statement was provided for the Disaster Unemployment Assistance bank account for September 30, 2003.

Cause: There appears to be weak internal controls over ensuring the proper record keeping of bank statements.

Effect: The condition may result in a potential misstatement of cash balances.

Recommendation: The auditee should strengthen internal controls to ensure proper record keeping of bank statements.

Finding No. 27 – Debt Service Funds - Bond Compliance

Criteria: The bond covenant for all the bonds of the Government of Guam stipulates that the “Government must furnish to each major national investment rating service which initially rated the bonds and to each bondholder, within one year after the close of the fiscal year, complete financial statements with respect to the General fund and funds established pursuant to the bond agreement, prepared in accordance with GAAP.”

Condition: The Government of Guam has not yet furnished their bond-rating agency with the latest copy of their financial statements, audited or otherwise, prepared in accordance with GAAP.

Cause: The cause of this condition is due to the fact that the financial statements have yet to be completed.

Effect: There is no material financial statement impact as a result of this condition. However, GovGuam may be in violation of the bond covenants.

Recommendation: The terms and conditions of the bond indenture should be complied with. Financial statements should be compiled and be provided to investment rating services responsible for rating the bonds of the general government in conjunction with the bond indenture agreements.

Finding No. 28 – Fixed Assets

Criteria:

- Land is recorded at historical cost and is not depreciated. Furthermore, the value of land as stated in the general ledger should be supported by detail records of the same value.
- Fixed assets should be made available for review. Furthermore, the fixed asset module should be updated to reflect assets that are damaged and are no longer in use or have been transferred to other government agencies.

Condition:

1. Land is being depreciated in the fixed assets module. Furthermore, there is a material difference in the value of land from the general ledger and the supporting detail records. The value of land per the general ledger is \$8,199,638 while detail records indicate \$3,828,162. The difference is \$4,371,476.

Finding No. 28 – Fixed Assets, Continued

Condition, Continued:

2. For 5 (or 22%) of the 23 assets tested, the asset was not made available for review.

<u>Department Name</u>	<u>Asset Description</u>	<u>Acquisition Cost</u>
Department of Revenue & Taxation	Notebook – Mobile Intel Pentium III	\$ 86,351
Tiyan Reuse Authority	Bush Cutter	690
Guam Police Department	Radio Equipment	40,625
Department of Youth Affairs	Panasonic Digital Video Camera	1,599
Guam Fire Department	Ambulance	52,431

3. For 1 (or 4%) of the 23 assets tested, the asset was not initially made available for review. The asset was located at the Administrative Officer's residence. The Administrative Officer subsequently provided the asset for review at a later date.

<u>Department Name</u>	<u>Asset Description</u>	<u>Acquisition Cost</u>
Bureau of Planning	Sony VAIO Notebook	\$ 1,999

4. For 6 (or 26%) of the 23 assets tested, the assets were made available for review. However, the assets were damaged or, were no longer in service.

<u>Department Name</u>	<u>Asset Description</u>	<u>Acquisition Cost</u>
Department of Public Works – Landfill Operations	D9R Dozer – DPW Solid Waste Mgmt	\$ 628,047
Department of Public Works – Solid Waste Management	Packer Trucks	684,466
Department of Youth Affairs	Personal Computers	10,432
Department of Public Works – Solid Waste Management	Refuse Collection Trucks (2)	195,562
Department of Public Works – Solid Waste Management	4x4 Pickup	16,771

5. For 1 (or 4%) of the 23 assets tested, the asset was not located where stated in the fixed asset module. The fixed asset module lists the asset under the Bureau of Professional Services. However, the actual asset location is the Women, Infants, & Children (WIC) program office in the southern satellite clinic.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 32

Finding No. 28 – Fixed Assets, Continued

Condition, Continued:

<u>Department Name</u>	<u>Asset Description</u>	<u>Acquisition Cost</u>
Bureau of Professional Services	40KW Emergency Generator	\$ 24,050

Cause:

- The fixed assets module is treating land as a depreciable asset. There also appears to be weak internal controls over ensuring proper fixed asset records are kept and maintained.
- There appears to be weak internal controls over ensuring that fixed assets are made available for review and the fixed asset module is updated to reflect damaged assets that are no longer in use or have been transferred to other government agencies.

Effect: The condition may result in a potential misstatement of fixed assets, depreciation expense and accumulated depreciation.

Prior Year Status: Condition 1 is reiterative of prior year findings.

Recommendation:

- The auditee should strengthen internal controls to ensure only depreciable assets are depreciated and that proper fixed asset records are kept and maintained.
- The auditee should strengthen internal controls to ensure that assets are made available for review and the fixed asset module is updated to reflect damaged assets that are no longer in use or have been transferred to other government agencies.

Finding No. 29 – Public Transit

Criteria:

- Public Law 26-76 abolished the Guam Mass Transit Authority (GMTA) and created the Public Transit Fund with the Director of the Department of Administration assuming oversight, to include control of all books and records transferred from GMTA. The provisions of this law require that all funds contained in GMTA bank accounts be transferred into a newly created fund, the Public Transfer Fund. All revenues generated, including fares and fees, are also to be deposited into this Fund.
- Transactions should be reviewed for accuracy.
- Expenses are to be properly recorded by the fund that received the benefit of the expenditure.

Condition:

1. Schedules of account balances for fixed assets and related depreciation and vacation leave accrual do not support ledger balances of the transit system as of September 30, 2003. Schedules in support of the accounts payable and other sources amounting to \$365,568 and \$475,344 respectively, were not provided.
2. A. The following vendor invoices may be overstated in the aggregate of 1,651.7 hours. B. Vendor invoices included non-billable charges such as “Maintenance Non-service” and “Driver Non Service”.

Ms. Lourdes Perez  
 Director  
 Department of Administration  
 Government of Guam  
 November 1, 2004

Page 33

Finding No. 29 – Public Transit, Continued

Condition, Continued:

<u>Reference Number</u>	<u>Check Amount</u>	<u>Invoice Date</u>	<u>Invoice Number</u>	<u>Service period</u>	<u>No. Of Hours Overstated</u>
PO36A1526	\$ 127,076	08/19/03	PT081503	08/ 1-15/03	344.99
PO36A1526	120,462	06/03/03	PT053103A	05/16-31/03	229.00
PO36A1526	98,279	06/17/03	PT061503	06/1-15/03	285.21
			PT06300		
PO36A1526	120,462	07/01/03	3	06/16-30/03	435.25
PO36A1526	92,058	07/16/03	PT 071503	07/1-15/03	322.05
PO36A05063	23,445	09/03/03	PT083103B	08/18-31/03	34.70
					<u>1,651.70</u>

3. The following non-related expense was charged to Public Service Transit Fund.

Salaries

<u>Account number</u>	<u>Employee Number/Item</u>	<u>PPE</u>	<u>Regular Pay</u>
5208A030680SE208111	8998 /Chief Planner-DOA	9/20/03	\$ 1913

Cause:

- The fund may not have been properly monitored.
- There appears to be weak internal controls over ensuring the accuracy of vendor invoices and the propriety of the charges.

Effect: The conditions may result in a potential misstatement of account balances.

Recommendation: The auditee should strengthen internal controls to ensure adequate staff are assigned to monitor fund activity and ensure proper reporting of such.

Auditee Response and Corrective Action Plan:

We agree with the recommendation.

- The total acquisition cost and all related accumulated depreciation of all depreciable fixed assets of the Guam Mass Transit Authority were from the records of Guam Mass Transit Authority as an autonomous agency. These fixed assets listing were unchanged except for the calculation of the depreciation expense for fiscal year 2003 and the update of the total of accumulated depreciation. We noted that the total acquisition cost of Vehicles in the financial statements of Guam Mass Transit Authority as of September 30, 2002 amounting to \$2,614,731.90 is more by \$84,848.90 when compared to the detailed listing total. On the other hand, the total acquisition cost of Equipment and Machinery amounting to \$273,777.22 is less by \$1,272.33. We concluded that the financial statements then prepared by the former accountant of Guam Mass Transit Authority is correct and that due to previous additions and deletions the detailed listing appeared to be incorrect and therefore an adjustment to the financial statements is not appropriate.

Ms. Lourdes Perez  
Director  
Department of Administration  
Government of Guam  
November 1, 2004

Page 34

Finding No. 29 – Public Transit, Continued

Auditee Response and Corrective Action Plan, Continued:

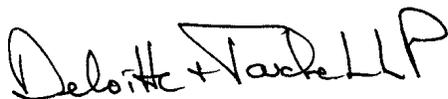
- Records were not available to make an absolute correct assessment of how many hours of annual leave the former Guam Mass Transit Authority employees has accumulated. The amount of the accrued annual leave per the financial statements as of September 30, 2003 was taken at its presented financial value and reduced only by all accounted payments. Accumulation of annual leave thereafter is accounted for in the Long Term Liability Account Group.
- Records were not available to substantiate the account balance however, the former accountant of GMTA mentioned that the accounts payable are mostly due to the DOA for fuel and supplies amounting to more than \$300,000.00 as of September 30, 2002.
- This was a draw down, according to Mr. Quinata, directly deposited to GMTA's checking account in March 24, 2003. A copy of the bank statement showing the direct deposit was provided to the auditor.

\* \* \* \* \*

This report is intended solely for the information and use of the management of the Government of Guam.

We wish to express our appreciation for the cooperation of the staff and management of the Government of Guam during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

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