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OFFICE OF THE PUBLIC AUDITOR
Doris Flores Brooks, CPA, CGFM
Public Auditor

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June 26, 2009

Honorable Judith T. Won Pat
Speaker
Mina Trenta Na Liheslaturan Guahan
253 West O'Brien Drive
Hagatna, Guam 96910

Dear Speaker Won Pat:

Transmitted herewith are the following:

- FY 2008 Government of Guam Basic Financial Statements, Additional Information and Independent Auditors' Report;
- FY 2008 Government of Guam Single Audit Reports;
- Management Letter;
- Letter to Those Charged With Governance; and
- OPA Highlights

For your convenience, you may also view and download these documents at www.guamopa.org.

Senseramente,

R. Mangness

for Doris Flores Brooks, CPA, CGFM
Public Auditor

30-09-0753
Office of the Speaker
Judith T. Won Pat, Ed. D.
Date: 6/24/09
Time: _____
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RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

**GUAM LEGISLATURE
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OFFICE OF THE PUBLIC AUDITOR

Government of Guam

Financial Highlights for the Year Ended September 30, 2008

June 26, 2009

As of September 30, 2008, the government of Guam's (GovGuam) General Fund deficit stands at \$415.5 million (M), a notable improvement from the \$501.9M deficit at the beginning of the fiscal year. This \$86.4M deficit decrease is attributable to three factors: (1) the refunding and issuance of general obligation bonds, (2) the issuance of long-term debt for streetlights, and (3) the adjustment of medical bill accrual for Guam Memorial Hospital Authority (GMHA). Fiscal year 2008 marks the second year GovGuam's financial statements were issued with an unqualified "clean" opinion.. However, the Single Audit reports on compliance and internal controls were again qualified and had \$1.9M in questioned costs. The audit was conducted by independent auditors Deloitte & Touche, LLP.

Factors Reducing Deficit

Issuance of General Obligation Bond

The first factor in reducing the deficit occurred in November 2007 when GovGuam issued a new debt of \$151.9M in general obligation bonds. Of this amount, \$66.8M was used to refund the outstanding 1993 Series A bonds with an average interest rate of 4.2%. Bond proceeds of \$69.3M went to GPSS for capital improvement projects totaling \$26.1M; tax refund payments of \$18.6M; court-ordered COLA payments of \$14M; and court mandated payments for the Department of Integrated Services for Individuals with Disabilities and the Department of Mental Health and Substance Abuse totaling \$5.3M.

Issuance of Long-Term Debt to Pay Delinquent Streetlight Bills

Another factor reducing the 2008 deficit was the issuance of a promissory note totaling \$13.8M to pay the Guam Power Authority for delinquent streetlight bills. Monthly payments are \$350,000 at 7% per annum. The note was collateralized by the pledge and assignment of Section 30 revenues.

Adjustment of Medical Bill Accrual

The third factor occurred when Public Law 29-132 clarified the application of funds appropriated from the GMHA Pharmaceuticals Fund for medical services rendered to qualified MIP and Medicaid clientele. This resulted in a \$13.2M reduction to the deficit.

Increased Tax Collections

Total revenues in 2008 were \$513.2M, a slight decrease from the \$514.8M collected in 2007, or a difference of \$1.6M. Tax revenues increased by \$16.8M going from \$426M in 2007 to \$443M in 2008. Gross receipts taxes (GRT) alone rose to \$185.8M, a \$13M or 7.6% increase from the prior year. This is the first time that GRT collections have reached this level since 1997, when they were \$184.5M. There was also a corresponding increase in income taxes going from \$250.8M in 2007 to \$254.1M in 2008, a \$3.3M increase.

These tax collection increases were offset by a \$29.4M decrease in Section 30 monies. In 2007, Section 30 monies were \$74.7M due to a one-time payment of \$21.2M from the federal government for a retroactive adjustment from 1984 to 2005. However, there was an adjustment of \$16.5M for the over-claims for FY 2003 and 2004. This repayment is being paid over three years beginning in FY 2007.

Overall Expenditures Increase \$32.6M

In 2008, the General Fund's expenditures saw a \$32.6M increase, going from \$421.5M in 2007 to \$454.2M. Expenditures for public education, made up primarily of the Guam Public School System and Department of Public Works Bus Operations, increased by \$9.7M, going from \$183.4M in 2007 to \$193M in 2008.

Payments to Retirees

In FY 2008, the General Fund expended \$39.5M on behalf of retirees. This was comprised of \$19.8M for retiree healthcare premiums, \$11.4M for supplemental annuity benefits fund, \$7.6M for COLA, and \$684K for Medicare reimbursements. In FY 2007, total payments on behalf of retirees amounted to \$27.2M. The \$12.3M increase in retiree benefits was due to the increase in retiree healthcare premiums, which went from \$7.3M in 2007 to \$19.8M in 2008, a \$12.5M (or 172%) increase. As of September 30, 2008, there were 7,085 retirees and survivors. This equates to an average of \$5,568 in benefits paid for GovGuam's retirees and survivors.

Consent Decree

In March 2008, the US District Court of Guam imposed a \$2.9M fine for the failure of GovGuam to abide by the mandates of the Consent Decree to close the Ordot Dump and open a new landfill. That \$2.9M fine was used to pay for the Receiver's expenses. In addition, GovGuam incurred various fines amounting to \$824K. Total charges relating to the consent decree are \$3.7M.

Interest and Other Charges, Credit Card Charges

Payments for carryover appropriation expenditures, interest on retirement, interest on tax refunds, and credit card fees are among the non-appropriated items that the General Fund is obligated to pay annually. In 2008, the General Fund paid a total of \$26M for these non-appropriated items.

The General Fund paid \$8.6M in interest alone for tax refunds in 2008 as compared to \$4.8M in 2007. As of September 30, 2008, outstanding tax refunds amounted to \$278M. While GovGuam is paying more in tax refunds, interest of \$8.6M is the consequence of the government's inability to pay tax refunds timely.

Credit card charges and bank charges totaled \$4M. These costs are mainly attributed to services provided by one vendor for the use of the point-of-sale system. These fees went up by \$900K from prior year.

The Guam Legislature should consider these non-appropriated items in budget discussions because these have an effect on the total expenditures of the General Fund.

Internal Controls Over Compliance and Questioned Costs

In FY 2008, Deloitte & Touche qualified the Single Audit report again. The qualification has remained since 1991, the earliest records OPA has on file. GovGuam reduced the number of findings which are significant deficiencies from 26 to 21. Questioned costs are now \$1.9M compared to \$2.8M in 2007. Of the \$1.9M in questioned costs, 64.6% or \$1.2M are procurement related. The top procurement finding was for Office of Homeland Security with \$809K.

Total unresolved questioned cost as of September 30, 2008 is \$7.8M.

Management Letter

The independent auditors noted five management findings relating to the lack of required quotations relating to the procurement of the 2007 General Obligation Bond, sequencing of issued checks, monitoring of unclaimed checks, lack of supporting sub-ledgers, and the lack of monthly reconciliations for insurance security deposits.

A separate document to the Governor of Guam was issued by Deloitte and Touche auditors outlining strategies, emphasis, required communication, and adjustments.

Outlook for Fiscal Year 2009

The Guam Legislature enacted various laws (29-116, 30-1, and 30-7) that authorized the issuance of Deficit Financing Bonds to finance certain General Fund liabilities, other past due expenditures of GovGuam, and facilities of the Solid Waste Management System. As a result of these authorizations to borrow, GovGuam subsequently issued bonds in June 2009 in the aggregate amount of \$473.5M for these purposes. Of this amount, \$271.1M will be used to pay liabilities associated with the court-ordered COLA settlement, delinquent tax refunds, and other debts of the General Fund. Payments to COLA recipients totaled \$83M, which will completely liquidate the liability. The remaining \$187.8M will be used for 2006 and prior year tax refunds and other debts of the General Fund.

The remaining \$202.4M is to be used to comply with the Consent Decree, including the closure of the Ordot Dump and opening of a new landfill. Accordingly, GovGuam will no longer be required to make the \$1M weekly payments stipulated under a Court Order issued by the US District Court.

For a more detailed commentary of GovGuam's operations, refer to Management's Discussion and Analysis in the report or visit www.guamopa.org.

June 12, 2009

Honorable Felix P. Camacho
Governor
Government of Guam

Dear Governor Camacho:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 12, 2009, which report was modified to include a reference to other auditors.

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

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated July 15, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in GovGuam's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on GovGuam's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on GovGuam's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

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

We considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered GovGuam's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of GovGuam's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GovGuam's 2008 financial statements include: 1) management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; 2) management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets; and 3) management's estimate of the provision for tax refunds, which is determined based on periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

MATERIAL CORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Appendix I, a summary of misstatements corrected by management.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

GovGuam's significant accounting policies are set forth in Note 1 to GovGuam's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to GovGuam's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

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

OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Office of the Governor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

Honorable Felix P. Camacho
Governor
Government of Guam
June 12, 2009

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CONTROL-RELATED MATTERS

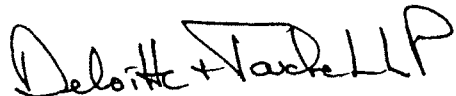
We have issued a separate report to you, also dated June 12, 2009, containing certain matters involving GovGuam's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 12, 2009, containing certain matters involving GovGuam's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have communicated to management, in a separate letter also dated June 12, 2009, other matters that we identified during our audit.

* * * * *

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

Very truly yours,

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

Journal Entries - AJE

#	Name	Debit	Credit
1 AJE To update GAS33 Income Tax and GRT Accrual			
310050760	GRT: GASB 33	-	3,390,374.54
310050750	IT: GASB 33	7,633,473.56	-
110011120	INCOME TAX RECEIVABLE GASB 33	-	7,633,473.56
110011250	GRT RECEIVABLES GASB 33	3,390,374.54	-
		<u>11,023,848.10</u>	<u>11,023,848.10</u>
	To update GAS33 Income Tax and GRT Accrual		
2 AJE Insurance Security Deposit			
110019130	INSURANCE SECURITY DEPOSIT	-	1,761,613.55
110026130	INSURANCE SECURITY DEPOSIT NON	1,761,613.55	-
		<u>1,761,613.55</u>	<u>1,761,613.55</u>
	To reconcile the Insurance Security Deposit Account.		
3 AJE To reconcile THF/TAF interfund balances			
110014208	DUE TO/FROM TERRITORIAL HIGHWAY	9.00	-
110014206	DUE TO/FROM TOURIST ATTRACTION	-	96,605.52
310057390	ADJUST PRIOR YRS EXPN/REV	96,596.52	-
		<u>96,605.52</u>	<u>96,605.52</u>
	To reconcile interfund receivables to audited balances per THF and TAF. (CRW)		
4 AJE To reconcile opening fund balance			
110041110	UNAPPROPRIATED SURPLUS	200,000.00	-
290TOA	MISCELLANEOUS	-	200,000.00
		<u>200,000.00</u>	<u>200,000.00</u>
	to reconcile opening fund balance due to incorrect recognition by DOA of increase in PIDB investment balance. (CRW)		
5 AJE To eliminate unfunded fund deficits			
110014202	DUE TO/FROM VEHICLE/ST.LIGHT	-	316,629.51
110014209	DUE TO/FROM CUSTOMS, AGRIC INS	-	783,195.00
110071110TO/	EXPENDITURES - TRANSFERS OUT	316,629.51	-
110071110TO/	EXPENDITURES - TRANSFERS OUT	783,195.00	-
		<u>1,099,824.51</u>	<u>1,099,824.51</u>
	To eliminate certain operating fund deficits through a transfer out from the General Fund as no other funding source is available. (CRW)		
6 AJE To eliminate fund surplus from GSA Inventory Fund			
110014404	DUE TO/FROM G S A	1,424,786.00	-
310050404	TRANSFER IN FROM GSA REVOLVING	-	1,424,786.00
		<u>1,424,786.00</u>	<u>1,424,786.00</u>
	To record transfer in from GSA Inventory Revolving Fund representing reimbursement to government agencies for purchase of fuel above purchase cost. (CRW)		
7 AJE To eliminate ITCC Fund			
310050626	TRANFR IN FR INTERIM TRANS COM	-	2,708,689.00
110014626	DUE TO/FR INTERIM TRANS COMM	2,708,689.00	-
		<u>2,708,689.00</u>	<u>2,708,689.00</u>
	To implement PL 29-67 that eliminates and dissolves the ITCC Fund and transfer the surplus to the General Fund. (CRW).		

Journal Entries - AJE

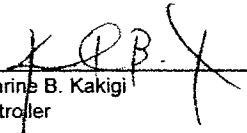
#	Name	Debit	Credit
	8 AJE To reverse DRT accrual		
110021590	ACCRUED OTHER EXPENDITURES	1,000,000.00	-
290GG	MISCELLANEOUS	-	1,000,000.00
		<u>1,000,000.00</u>	<u>1,000,000.00</u>

To reverse accrual for RFP for Real Property Assessment Bond as the RFP was only issued on the last week of Sept 08 and the vendor had not been selected as at year end. (CRW)

#	Name	Debit	Credit
	9 AJE To adjust tax refund provision		
110021590	ACCRUED OTHER EXPENDITURES	6,445,735.51	-
110021485	TAX LEVY DEDUCTION	698,405.90	-
110032110	RESERVE FOR INCOME TAX CLAIMS	-	14,069,141.41
110072190	NON-APPROP. EXPEND.	-	75,000.00
310051199	PROVISION FOR TAX REFUND	7,000,000.00	-
		<u>14,144,141.41</u>	<u>14,144,141.41</u>

To increase CY provision for income tax refunds

We have reviewed the audit adjustments summarized above for the General Fund and have agree that they should be presented at September 30, 2008. These adjusting journal entries are the results of error and not result of fraud, irregularities or illegal acts.

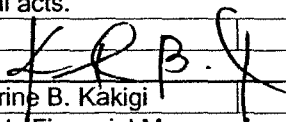

 Kathrine B. Kakigi
 Controller

APPENDIX I

Government of Guam			
Fiscal Year Ended 9/30/08			
Other Governmental Funds			
Journal Entries - AJE			
#	Name	Debit	Credit
1 AJE To update GAS33 GRT Accrual. - 5311A (Posted)			
360250760	GRT: GASB 33	246,789.39	-
360150760	GRT: GASB 33	-	-
160211250	GRT RECEIVABLES GASB 33	-	246,789.39
160111250	GRT RECEIVABLES GASB 33	-	-
		246,789.39	246,789.39
	To update GAS33 GRT Accrual.		
2 AJE To adjust as transfers out - 7110C (Posted)			
150141110	UNAPPROPRIATED SURPLUS	-	1,391,529.90
501-290TOF	MISCELLANEOUS	1,391,529.90	-
		1,391,529.90	1,391,529.90
	To adjust as transfer to General Fund		
4 AJE To record transfer in from THF - 8410C (a) (Posted)			
129714100	DUE TO/FR GENERAL FUND	500,000.00	-
329750208	TRANSFERS IN FROM HIGHWAY FUND	-	500,000.00
		500,000.00	500,000.00
	To record additional \$500,000 transferred in from THF to fund additional payment to UOG in FY 2008.		
5 AJE To adjust RPT AR and Deferr - 5313C (Posted)			
120524314	DEFERRED REVENUE - RPT	-	12,079,235.41
320551701	R&T PROPERTY TAX	-	1,152,274.13
320551902	COPIES	-	331.01
320551791	REAL PROPERTY TAX BANK FEES	-	50,787.28
320554101	INTEREST-RPT	-	764.00
320551790	PENALTIES & INTEREST	-	9,450.47
120511397	REAL PROPERTY TAX RECEIVABLES	13,292,842.30	-
		13,292,842.30	13,292,842.30
	To record Real Property Tax GASB 33 accrual and Deferred Revenues.		
6 AJE To reconcile opening fund balance - 7110C (Posted)			
331457390	ADJUST PRIOR YRS EXPN/REV	-	13,438.00
131441110	FUND BALANCE	13,438.00	-
		13,438.00	13,438.00
	To correct opening fund balances (CRW)		
7 AJE To adjust GSA Inventory - 5310C (Posted)			
140415192	FUEL INVENTORY - ISSUED	459,346.11	-
340457390	ADJUST PRIOR YRS EXPN/REV	-	459,346.11
		459,346.11	459,346.11
	To adjust inventory (fuel) issued due to mark up of 15% included.		

Journal Entries - AJE			
#	Name	Debit	Credit
9 AJE To close Safe Homes, Safe Streets Fund - (Posted)			
160114100	DUE TO/FR GENERAL FUND	-	3,197,990.86
360151601	DISTILLED SPIRIT	433,726.46	-
360151602	VINOUS BEVERAGES	129,772.74	-
360151603	MALTED FERMENTED BEVERAGES	1,201,200.94	-
160214100	DUE TO/FR GENERAL FUND	3,197,990.86	-
360251601	DISTILLED SPIRIT	-	433,726.46
360251603	MALTED FERMENTED BEVERAGES	-	1,201,200.94
360251602	VINOUS BEVERAGES	-	129,772.74
160171110TOF	TRANSFERS OUT	1,544,626.08	-
360250601	TRANSFERS IN FROM SAFE HOMES	-	1,544,626.08
160211250	GRT RECEIVABLES GASB 33	103,332.34	-
160111250	GRT RECEIVABLES GASB 33	-	103,332.34
360151690	INT & PEN - ALCOHOL	-	17,034.22
360251690	INT & PEN - ALCOHOL	17,034.22	-
360151604	ALCOHOL VIOLATION FEE AND FINE	9,031.20	-
360251604	ALCOHOL VIOLATION FEE AND FINE	-	9,031.20
		6,636,714.84	6,636,714.84
	To transfer all activities from Fund 601 to Fund 602 as the Act establishing Fund 601 was repealed in Prior Year. (CRW)		
10 AJE To eliminate operating fund deficits - (Posted)			
120914100	DUE TO/FROM GENERAL FUND	783,195.00	-
120214100	DUE TO/FROM GENERAL FUND	316,629.51	-
320950100	TRANSFER IN	-	783,195.00
320250100	TRANSFERS IN	-	316,629.51
		1,099,824.51	1,099,824.51
	To eliminate certain fund deficits through a transfer in from the General Fund. (CRW)		
11 AJE To eliminate fund surplus from GSA Revolving Fund - (Posted)			
140414100	DUE TO/FROM GENERAL FUND	-	1,424,786.00
140471110TOF	TRANSFERS OUT	1,424,786.00	-
		1,424,786.00	1,424,786.00
	To record transfer out from GSA Inventory Revolving Fund to the General Fund representing reimbursement to government agencies for purchase of fuel above purchase cost. (CRW)		
12 AJE To eliminate ITCC Fund - (Posted)			
162614100	DUE TO/FR GENERAL FUND	-	2,708,689.00
162671110TOF	TRANSFERS OUT	2,708,689.00	-
		2,708,689.00	2,708,689.00
	To implement PL 29-67 that eliminates and dissolves the ITCC Fund and transfer the surplus to the General Fund. (CRW).		

We have reviewed the audit adjustments summarized above for the Other Governmental Funds and agree that they should be presented at September 30, 2008. These adjusting journal entries are the results of error and not results of fraud, irregularities or illegal acts.


 Kathrine B. Kakigi
 Deputy Financial Manager

APPENDIX A

Government of Guam
 Summary of Uncorrected Misstatements
 General Fund
 September 30, 2008

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To correct income tax liability on 3 incorrect Form 1120s		2,073,362		(2,073,362)
2. To adjust EITC liability per GL to analysis per DRT		646,896		(646,896)
Total known misstatements	-	2,720,258	-	(2,720,258)

APPENDIX A

Government of Guam
 Summary of Uncorrected Misstatements
 Other Governmental Funds
 September 30, 2008

Entry Description	STATEMENT OF CONDITION			
	Fund Balance		of Year	Income Statement
	Assets	Liabilities		
Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
PAJE <01>				
Dr. Bad Debts				537,236
Cr. Allowance for uncollectible receivables	(537,236)			
PAJE <02>				
Dr. Revenues				593,327
Cr. A/R	(442,140)			
Cr. Deferred Revenues		(151,187)		
PAJE <03>				
Dr. Other Receivables	672,759			
Cr. CPA Exam Application Fee				(14,250)
Cr. CPA Exam Jurisdictional Test Fee				(617,550)
Cr. Confirmation & Licensure				(14,675)
Cr. License to Practice				(22,655)
Cr. Firm Permit to Practice				(2,200)
Cr. Reinstatement				(1,429)
PAJE <04>				
Dr. Advance Deposit (110627100)		402,607		
Cr. Prior Year Adjustment (310657390)				(402,607)
PAJE <05>				
Dr. Inventory	411,036			
Cr. Fuel Sales				(411,036)
To adjust inventory (fuel).				
PAJE <06>				
Dr. DOC Revolving Fund A/R	248,116			
Cr. DOC Revolving Fund Revenues				(248,116)
Total known misstatements	352,535	251,420	-	(603,955)

APPENDIX A

Government of Guam
 Summary of Uncorrected Misstatements
 Governmental Activities
 September 30, 2008

Entry Description	STATEMENT OF CONDITION			
	Assets	Liabilities	Fund Balance	Income Statement
			Net Assets Beg of Year	
Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
PAJE<01>				
Dr. General Government				551,209
Dr. Public Education				1,051,761
Dr. Individual Collective Rights				44,002
Cr. DCRS Sick Leave Payable		(1,646,972)		
PAJE<02>				
Dr. General Government				580,700
Dr. Individual Collective Rights				32,452
Cr. Public Education				(51,691)
Cr. Annual Leave Liability		(561,461)		
Total known misstatements	-	(2,208,433)	-	2,208,433

APPENDIX B

Government of Guam
 Summary of Uncorrected Prior Period Misstatements
 General Fund
 September 30, 2008

STATEMENT OF CONDITION

Entry Description			Fund Balance	Income
	Assets	Liabilities	Net Assets	Statement
	Dr (Cr)	Dr (Cr)	Beg of Year	Dr (Cr)
PAJE <1>				
Dr. Bad Debts Expense				345,976
Cr. Due from Federal Grants Fund	(345,976)			
	<u>(345,976)</u>	<u>0</u>	<u>0</u>	<u>345,976</u>

APPENDIX B

Government of Guam
 Summary of Uncorrected Prior Period Misstatements
 Federal Grants Fund
 September 30, 2008

STATEMENT OF CONDITION

Entry Description	Assets	Liabilities	Fund Balance Net Assets Beg of Year	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1>				
Dr. Due from General Fund	345,976			
Cr. Accrued A/R WIC	(345,976)			
	0	0	0	0



Felix P. Camacho
Governor
Michael W. Cruz, M.D.
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)

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Lourdes M. Perez
Director
Joseph C. Manibusan
Deputy Director

June 12, 2009

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913

Hafa Adai! We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (the "Government") as of and for the year ended September 30, 2008, which collectively comprise the Government's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of the Government in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

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

APPENDIX III

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - c. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - d. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such.
 - e. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved. The basic financial statements report \$162,661,074 of restricted net assets, of which \$37,057,036 is restricted by enabling legislation.
 - f. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - g. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - h. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - i. Deposits and investment securities are properly classified in category of custodial credit risk.
 - j. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - k. Required supplementary information is measured and presented within prescribed guidelines.
 - l. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - m. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Government has made available to you all:
 - a. Public Laws enacted by the Government's Legislature.
 - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records,

books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.

- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by the Government management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Government, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
 4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
 5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2007 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
 6. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
 7. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
 8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others.
 9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*, except as

disclosed in Note 13 to the basic financial statements.

10. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance. In addition, we have accurately completed the appropriate sections of the data collection form.
11. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
13. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.

- g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
 - h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
14. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
 15. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
 16. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
 17. During fiscal year 2008, the Government implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Management has determined that implementation of GASB Statement No. 45 does not have a material effect on the Government's financial statements. Specifically, management has received a legal opinion from the Attorney General of Guam concerning the applicability of this Statement and subsequently determined that implementation of GASB Statement No. 45 was not applicable and, as a result, does not have a material effect on the financial statements.
 18. In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
 19. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
 20. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held*

as Investments by Endowments. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

21. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
22. We have adopted the provisions of GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*. No organizations were identified that meet the criteria established in GASB Statement No. 39.

Except where otherwise stated below, matters less than \$1,000,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

23. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
24. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
25. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the Government is contingently liable.
26. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 1. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 2. The effect of the change would be material to the financial statements.
27. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

- a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
28. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*, except as disclosed in Note 13 to the basic financial statements.
29. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in Notes 1, 6 and 13 to the basic financial statements.
30. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, including all significant limitations and restrictions of bond indentures, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
31. No department or agency of the Government has reported a material instance of noncompliance to us, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
32. The Government has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1)*, and appropriately disclosed such derivatives in accordance with TB 03-1.
33. Except as disclosed in Note 14 to the basic financial statements, no events have occurred subsequent to September 30, 2008 that require consideration as adjustments to or disclosures in the financial statements.
34. Management has disclosed whether, subsequent to September 30, 2008, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
35. The Government is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.
36. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.

- b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.
 - c. No events have occurred subsequent to September 30, 2008 that requires adjustment to the fair value measurements and disclosures included in the financial statements.
37. Management of the Government believes that it is in compliance with all significant limitations and restrictions of bond covenants as of September 30, 2008.
 38. The Government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
 39. Note 13 to the financial statements discloses all of the facts (i.e., significant conditions and events and management plans) of which we are aware that are relevant to commence the process in reducing the General Fund deficit position.
 40. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
 41. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
 42. We believe that the actuarial assumptions and methods used to measure pension costs for financial accounting purposes are appropriate in the circumstances.
 43. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
 44. We have no intention of withdrawing from the retirement plans as disclosed in Note 12 to the financial statements or taking any other action that could result in an effective termination or reportable event for any of the plans.

Si Yu'os Ma'ase!



 LOURDES M. PEREZ

Director of Administration



 KATHRINE B. KARKGI

Deputy Financial Manager

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June 12, 2009

Ms. Lourdes M. Perez
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Perez:

In planning and performing our audit of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) for the year ended September 30, 2008, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 12, 2009 and which was modified to include a reference to other auditors), 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, we considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GovGuam's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 12, 2009, on our consideration of GovGuam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

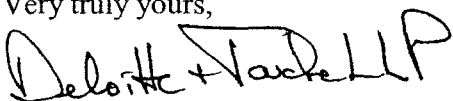
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of GovGuam and the Office of the Public Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the GovGuam for their cooperation and assistance during the course of this engagement.

Very truly yours,



Member of
Deloitte Touche Tohmatsu

SECTION I – CONTROL DEFICIENCIES

We identified no control deficiencies involving GovGuam’s internal control over financial reporting as of September 30, 2008.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

DIVISION OF ACCOUNTS

(1) Cash

Comment: We selected 2 checks (or 6%) from the list of samples and noted that there were check numbers that did not agree with the corresponding check detail (i.e, invoice or allotment request). The GovGuam Retirement fund used the same check series and therefore caused the check numbers to be recorded inaccurately in the AS400 accounting system. These check numbers were corrected in the Bank Reconciliation menu but DOA was not able to correct check numbers in the AS400 Payables Menu as the period was closed.

Prior Year Status: The above conditions are reiterative of a prior year finding.

Recommendation: The checks not issued in sequential order was due to checks run by the retirement fund, in order to keep the general fund checks in sequential order, we recommend that a separate (impress) checking account be created for the Retirement Funds’ use.

Auditee Response and Corrective Action Plan: We agree. Until such time we are able to have a separate checking account for retirement related checks, we will work with them to ensure that the checks numbers are in sequential order and are recorded accurately in the AS400 accounting system.

(2) Unclaimed Checks

Comment: Balances in the general ledger should be supported by detailed sub-ledgers that reconcile to recorded balances. Furthermore, monitoring of unclaimed checks should be performed to continue to establish their validity. For account number 110010117, no supporting schedule was provided for \$448,351 of unclaimed checks.

Prior Year Status: The above condition is reiterative of a prior year finding.

Recommendation: The Department of Administration should strengthen internal controls to ensure general ledger balances are supported by detailed sub-ledgers and the account is monitored for validity.

ATTORNEY GENERAL’S OFFICE

Supporting Sub-ledgers

Comment: For the following general ledger accounts, we noted no supporting detailed sub-ledger was provided for review. Furthermore, in a Letter from the Department of Health and Human Services to the Governor of Guam (CIN A-09-07-85676), GovGuam had until April 30, 2008 to develop procedures to ensure 1) subsidiary ledgers are prepared and 2) are reconciled in time for the FY2006 audit. For the FY2008 audit, sub-ledgers were still not provided

ATTORNEY GENERAL'S OFFICE, CONTINUED**Supporting Sub-ledgers, Continued**

<u>GL Account</u>	<u>Account Name</u>	<u>Balance</u>	
110027000	Collections – Child Support	\$3,181,433	Report Finding # 08-xx
110027100	Collections – Child Support	1,558,036	Report Finding # 08-xx

Recommendation: The auditee should strengthen internal controls over ensuring general ledger balances are supported by detailed sub-ledgers.

TREASURER OF GUAM**Insurance Security Deposits**

Comment: Insurance Security Deposits accounts per the general ledger (GL) should be supported by monthly reconciliations and reconciling items should be posted in a timely manner.

Insurance Security Deposits are not reconciled.

<u>Per Schedule</u>	<u>Per G/L</u>	<u>Variance</u>
\$13,621,520.22	\$15,383,133.77	\$1,761,613.55

Prior Year Status: The above conditions are reiterative of a prior year finding.

Recommendation: The Treasurer of Guam should strengthen internal controls over ensuring monthly insurance security deposits reconciliations are performed and are monitored for account validity.

Auditee Response and Corrective Action Plan: We agree. An accountant will be assigned to assist the Treasurer of Guam to reconcile the insurance security deposits monthly to accurately post the monthly updates.

DEPARTMENT OF PUBLIC WORKS**2007 General Obligation Bond Procurement**

Comment: Procurement of the 2007 General Obligation Bond Expenditures should follow all applicable procurement rules and regulations.

1. In one sample selected (or 8% of the population), amounting to \$185,150, there was an insufficient number of quotations obtained as required by Chapter 3 of the GovGuam Procurement rules and regulations for Purchase Order number PO86B00068.
2. In one sample selected (or 8% of the population) amounting to \$91,160, there was insufficient documentation to support an amendment of \$42,000 (or 46% of the balance) for Purchase Order number PO86B00044.

Recommendation: The Department of Public Works should strengthen internal controls over ensuring procurement performed in compliance with all applicable rules and regulations and is properly documented.

Auditee Response and Corrective Action Plan: We agree. DOA will issue a memorandum to DPW to follow the GovGuam procurement rules and regulations and to attend the procurement training offered by GSA.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GovGuam's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.