

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

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

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**SEPTEMBER 30, 2000**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Carl T.C. Gutierrez  
Governor of Guam:

We have audited the financial statements of the Territorial Highway Fund and of those funds and the account groups related to the Government of Guam Limited Obligation Highway Bonds, 1992 Series A, as of September 30, 2000, and for the year then ended, and have issued our report thereon dated October 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

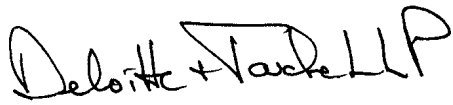
**Compliance**

As part of obtaining reasonable assurance about whether the Territorial Highway Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Territorial Highway Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Government of Guam in the accompanying Schedule of Findings in finding numbers 00-1 through 00-9.

This report is intended for the information of the Government of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is stylized, with the "D" being large and the "L" at the end being a long, sweeping stroke.

October 31, 2001

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-01 - Compliance

Criteria: Transactions required by legislative statute should be performed in accordance with the intent of the established public law.

Condition: Public law 23-128 requires that fifty percent (50%) of all monies in the Surplus Fund of the Limited Obligation Highway Bonds, Series 1992 A Debt Service Fund on the fifth day of each month shall be paid by the Depositary to the Village Streets Fund (VSF). Review of trustee and department records indicate that payment did not occur on the fifth day of each month as specified by the public law. The transfer of fiscal year 2000 funds did not occur until June 2001.

Cause: The cause of this condition appears to be related to staff shortages that have occurred in the Division of Accounts in fiscal year 2000. Staff members responsible for the tracking and review of the Territorial Highway Debt Service Fund and associated transactions left the division or were re-assigned based on division priorities.

Effect: The above condition may have resulted in violation of public law.

Recommendation: Transactions required by legislative statute occur in accordance with the intent of the established public law. Individuals should be assigned to identify and ensure that the Territorial Highway Fund is in compliance with pertinent public statutes.

Auditee Response dated December 1, 2001: Agree to some exception. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller. The exception, however, is that PL123-128 assumes that surplus monies are always applicable when in fact during a certain month the minimum debt deposit requirements may not be fulfilled. As a result, surplus are computed at the end of the fiscal year to guarantee compliance with the bond indentures prior to the 50/50% distribution. In most cases we are immediately informed by the trustee if there is a deficiency in the account and generally funds are not released by the trustee until the full amount can be released.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-02 - Contract Retention Payable

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

Condition: The following contracts have had no activity since FY 91, FY 93, FY 94, FY 95, FY 96, and FY 97:

<u>Vendor</u>	<u>Contract Number</u>	<u>Account Number</u>	<u>Contract Retention Amount</u>	<u>Last Transaction Date</u>
Fund 301				
1. Hanil Development Corp	C920660070	5224D51090HC003	\$50,000.00	9/93
2. Hawaiian Rock Products	C920660456	5224D21090HC009	\$86,214.33	8/93
3. Dev & Associates	C940660325	5224D21090HC004	\$ 3,414.00	12/94
4. Hawaiian Rock Products	C930660462	5224D921090HC006	\$17,824.31	6/94
5. Maeda Pacific Corp.	C950660132	5224D921090HC007	\$ 1,000.00	1/96
Fund 214				
6. Hawaiian Rock Products	C910660021	5208C901098ZF613	\$ 4,955.39	6/91
7. Hawaiian Rock Products	C910660106	5208C901098GF616	\$ 4,200.00	10/93
8. Guam Rock Products	C910660308	5208C901098GF611	\$ 1,208.89	9/93
9. Black Construction Corp	D971098153	5208A971098HM001	\$ 1,344.00	9/97
10. Black Construction Corp	D971098162	5208A971098HM001	\$ 1,140.00	9/97
11. Hawaiian Rock Products	D971098157	5208A971098HM001	\$ 868.00	9/97
12. Ogo's Equip. Rental	D971098156	5208A971098HM001	\$ 5,333.75	9/97

Cause: Contract retention liabilities do not appear to have been investigated by the agencies authorized to disburse or remove the balances. Item numbers 1 - 8 are a carried forward condition from the prior year. Item numbers 9-12 were also noted in prior year finding 99-04.

Effect: The contract retention liability account may be overstated by an immaterial amount in the event of contract completion or cancellation.

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

Auditee Response dated December 1, 2001: Agree. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-03 - Accruals

Criteria: Accompanying documentation should properly support journal vouchers. Additionally, accrual balances should be properly reviewed and adjusted upon payment or final disposition of accrued balances.

Condition: An accrual relating to a fiscal year 1997 Guam Power Authority expense amounting to \$290,267 has not been cleared as of the end of fiscal year 2000.

This is a carry forward condition from prior year audits.

Cause: The cause of this condition appears to be related to staff shortages that have occurred in the division of accounts in this fiscal year. Staff members responsible for the tracking and review of CIP projects, their contract retention, and their expenditures left the division or were re-assigned based on the priorities of the division.

Effect: The accrued expense account may be misstated.

Recommendation: The accrual accounts should be reconciled in a timely manner and balances should be adjusted upon final disposition of the accrual.

Auditee Response dated December 1, 2001: Agree. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.

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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-04 - Revenues

Criteria: Reconciliation procedures should be performed between the Department of Revenue & Taxation and the Treasurer of Guam for receipts received for license and registrations fees.

Condition: Vehicle registration fees and driver's license fees have not been properly classified to the correct revenue accounts within the fund during fiscal year 2000. As of September 30, 2000, approximately 99.9% of receipts totaling \$4,470,397 have been recorded in the DMV Other Collections account.

Cause: The cause of this condition appears to be related to the preparation and content of journal vouchers received from the Department of Revenue & Taxation.

Effect: The affected accounts may not be properly classified within the fund.

Recommendation: Reconciliation procedures should be performed in a timely manner for recorded receipts.

Auditee Response dated December 1, 2001: Agree. This is the same issue as prior year. The Treasurer of Guam is currently working on resolving this matter during this fiscal year as a result of the AS400 implementation.

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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-05 - LFT Receivables

Criteria: Reconciliation procedures should be performed between the Department of Revenue & Taxation and the Department of Administration for the liquid fuel tax receivables for the Territorial Highway Fund.

Condition: Procedures performed on the liquid fuel tax receivable account indicated that approximately \$9,035,051 in liquid fuel receivables appear to have been rebated and have not been recorded as of September 30, 2000.

The non-reconciliation issue is a carry forward condition from the prior year.

Cause: The cause of this condition appears to be related to communication issues between the Department of Revenue & Taxation and the Division of Accounts of the Department of Administration.

Effect: The affected accounts may be misstated by a material amount.

Recommendation: Reconciliation procedures should be performed in a timely manner for recorded liquid fuel receivables.

Auditee Response: Agree. The Division of Accounts will perform corrective actions, prospectively. However, DOA & DRT will jointly prepare a standard operating procedures to address this concern. This task will be completed by the next audit period.



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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-06 - Revenues

Criteria: Journal vouchers (JV) should be properly reviewed and authorized.

Condition: Ten out of twenty-five or forty percent of Revenue & Taxation's "Journal Vouchers" tested did not have the DOA Comptroller's signature to indicate proper review and approval. Furthermore, twenty-one out of twenty-five or eighty-four percent of DOA Department of Division's "Journal Vouchers" tested did not have the Division Head's signature to indicate proper review and approval.

Cause: The cause of this condition is unknown.

Effect: The condition has no effect on the financial statements, however, this matter represents potential control issues regarding the recording and validity of transactions.

Recommendation: We recommend that management review and approve journal entries before posting.

Auditee Response dated December 1, 2001: Agree. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-07 - Revenues

Criteria: Journal Voucher (JV) should be properly maintained and filed

Condition: One out of twenty-five or four percent of journal voucher selected for testing was not provided by the client. Client was not able to locate Journal Voucher Number J000800242.

Cause: The cause of this condition is unknown.

Effect: The condition has no effect to the financial statement, however it does present control issues on validity of the transaction.

Recommendation: We recommend that management implements if it hasn't proper procedures in regards with documentation safeguarding. These procedures should be strictly adhered to.

Auditee Response dated December 1, 2001: Agree. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-08 – LFT Receivables

Criteria: Reconciliation procedures should be performed between the Department of Revenue & Taxation and the Department of Administration for the liquid fuel tax receivables for the Territorial Highway Fund.

Condition: Procedures performed on the liquid fuel tax receivable account indicated that a prior year adjusting journal entry totaling approximately \$1,823,434 in liquid fuel receivables did not appear to have been recorded as of September 30, 2000.

Cause: The cause of this condition is unknown.

Effect: The affected accounts may be misstated by a material amount. This condition was corrected during the audit process with a proposed adjustment.

Recommendation: Management approved audit adjustments should be recorded in a timely manner following audit completion.

Auditee Response dated December 1, 2001: Agree. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 2000

Finding Number 00-09 - Expenditures

Criteria: Expenditures transactions meeting the criteria for posting to this fund should be properly recorded in the general ledger.

Condition: An expenditure relating to the Village Streets Fund amounting to \$297,730 was recorded to the expenditure account for the Territorial Highway Fund for the fiscal year ended September 30, 2000.

Cause: The cause of this condition is unknown.

Effect: The expenditure account may be misstated by an immaterial amount.

Recommendation: Expenditures should be reviewed for accuracy and relevancy to the fund recording the transaction. This condition was corrected by a proposed adjustment in the current year.

Auditee Response dated December 1, 2001: Agree. This finding was also noted in the prior year. The Controller will assist the Department of Revenue and Taxation in correcting this matter. The Division of Accounts will perform corrective actions, prospectively. As of this period, however, the Division had a staff shortage issue and implemented a new financial management system. The corrective actions will include periodic reviews, reconciliation and proper records management. This task has been assigned to the Deputy Controller.