

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

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

SEPTEMBER 30, 2003

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

Honorable Felix P. Camacho
Governor of Guam:

We have audited the financial statements of the Territorial Highway Fund and of those funds related to the Government of Guam Limited Obligation Highway Refunding Bonds, 2001 Series A, as of September 30, 2003, and for the year then ended, and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

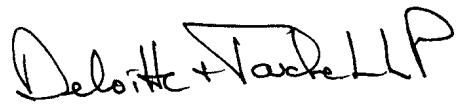
In planning and performing our audit, we considered the Territorial Highway Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Territorial Highway Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 03-01 through 03-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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 did not disclose any instance of noncompliance that is required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is stylized, with the "D" and "S" being particularly prominent.

January 31, 2005

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 2003

Finding Number 03-01 - 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. Black Construction Company	C980602620	5224D921090HC003	\$73,154.69	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. Hawaiian Rock Products	D971098157	5208A971098HM001	\$ 868.00	9/97
10. 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.

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

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

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

Auditee Response: Agree. DOA will perform corrective actions prospectively. Period reviews and reconciliation will commence immediately, to include communication with the appropriate Government of Guam department overseeing and administering these contracts for purposes of determining final disposition of these outstanding liabilities.

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Schedule of Findings
Year Ended September 30, 2003

Finding Number 03-02 - LFT Receivables

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

Condition: Due to the lack of reconciliation procedures, liquid fuel tax receivables per DOA are understated by \$5,934,903.

Cause: The cause of this condition appears to be related to communication issues between DRT and the DOA.

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.

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

Auditee Response: Agree. DOA will perform corrective actions prospectively. Standard operating procedures are being established between DOA and DRT to address this non-reconciliation issue. A memorandum of agreement addressing this concern is under review at this time.

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Schedule of Findings
Year Ended September 30, 2003

Finding Number 03-03 – Other Sources

Criteria: The accounts of the Territorial Highway Fund should be supported by valid source documents such as journal vouchers.

Condition: The Territorial Highway Fund has an \$81,184 balance recorded as other sources resulting from a journal entry for which a journal voucher was not provided.

Cause: The cause of this condition appears to be due to a lack of internal controls.

Effect: The above condition may result in an immaterial overstatement of revenues.

Recommendation: Source documents should be maintained for all journal entries recorded in the books of accounts.

Auditee Response: Agree. Our post closings should reflect audit adjustments and any additional adjustments should be posted to subsequent year.