

**TERRITORIAL HIGHWAY FUND**

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

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**SEPTEMBER 30, 1998**



**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, 1998, and for the year then ended, and have issued our report thereon dated September 15, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 98-1 through 98-6.

This report is intended for the information of the Government of Guam. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Tuck LLP

September 15, 1999

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-1 - Expenditures

Criteria:

Documentation supporting vendor payments should be evidenced as being audited for accuracy and proper preparation in accordance with applicable Division of Accounts requirements.

Condition:

1. Fund 208 - Three out of thirteen expenditures tested totalling \$244,823, were not evidenced as being audited prior to payment.
2. Fund 224 - One expenditure of \$118,391 out of five expenditures tested, was not evidenced as being audited prior to payment.

Cause:

The cause of this condition is unknown.

Effect:

No errors were noted in the four exceptions above. However, the potential exists for expenditure misstatements due to errors that could have been discovered through adequate audit procedures.

Recommendation:

Payment vouchers should be properly audited in accordance with applicable Division of Accounts requirements.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-2 – Control Retention Payable

Criteria:

Contract retention liabilities should be updated in a timely manner.

Condition:

The following contracts have evidenced an absence of activity in recent periods.

	<u>Contract Number</u>	<u>Account Number</u>	<u>Contract Retention Amount</u>	<u>Last Transaction Date</u>
Fund 224				
1.	C920660070	5224D51090HC003	\$50,000	9/93
2.	C920660456	5224D21090HC009	\$86,214	8/93
3.	C940660325	5224D21090HC004	\$ 3,414	12/94
4.	C930660462	5224D921090HC006	\$17,824	6/94
5.	C950660132	5224D921090HC007	\$ 1,000	1/96
Fund 208				
6.	C910660021	5208C901098ZF613	\$ 4,955	6/91
7.	C910660106	5208C901098GF616	\$ 4,200	10/93
8.	C910660308	5208C901098GF611	\$ 1,208	9/93

Cause

The cause of this condition is unknown. These items are a carry forward condition from the 1997 internal control report.

Effect:

Contract retention liabilities may be overstated by an immaterial amount in the event that the above contracts have been completed or cancelled.

Recommendation

Contracts should be reviewed for completion or cancellation in a timely manner.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-3 – Contract Retention Payables/Accounts Payable

Criteria:

Procurement procedures should be followed for the purchase of goods or services.

Condition:

The following direct payments and contracts were obtained in violation of procurement procedures:

	<u>Contract/ Purchase Order Number</u>	<u>Account Number</u>	<u>AP/Contract Retention Amount</u>
1.	P996P00008	5208A991060SE208240	\$ 889,961
2.	D971098153	5208A971098HM001	\$ 1,344
3.	D971098162	5208A971098HM001	\$ 1,140
4.	D971098157	5208A971098HM001	\$ 868
5.	D971098156	5208A971098HM001	\$ 5,334

Item numbers 2– 5 are carry forward conditions from the prior year. The above items were noted as being in violation of procurement procedures as documented through memorandum from the General Services Agency.

Cause:

The cause of this condition is unknown.

Effect:

Although no direct effect on the financial statements results for this condition, violation of procurement procedures may result in unnecessary liabilities.

Recommendation:

Procurement procedures, as established by the Government of Guam's Procurement Regulations, should be followed.

**GOVERNMENT OF GUAM  
TERRITORIAL HIGHWAY FUND**

Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-4 – Revenues

Criteria:

Reconciliation procedures should be performed between the Department of Revenue & Taxation and the Department of Administration for the estimated liquid fuel tax drawback claims.

Condition:

Procedures performed on the estimated liquid fuel claims payable account indicated that approximately \$1,820,836 in liquid fuel claims were not recorded as of September 30, 1998. This matter was corrected through the audit process.

Cause:

The cause of this condition is unknown.

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 claims outstanding.

**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-5 – Appropriations

Criteria:

Reconciliation procedures should be performed on continuing appropriation account balances.

Condition:

Procedures performed indicated that continuing appropriations may be overstated by approximately \$91,260.

Cause:

The cause of this condition is unknown.

Effect:

The affected account may be misstated by an immaterial amount.

Recommendation:

Reconciliation procedures should be performed in a timely manner for continuing appropriation accounts.



**GOVERNMENT OF GUAM  
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Schedule of Findings  
Year Ended September 30, 1998

Finding No. 98-6 – 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:

The cash over/short account as of September 30, 1998 had a balance of \$108,638, which represents revenues earned for the issuance of driver's licenses and vehicle registration fees which could not be properly classified into the above mentioned categories.

Cause:

The cause of this condition is unknown.

Effect:

The affected accounts may be misstated and receipts may not be properly recorded.

Recommendation:

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