

TERRITORIAL HIGHWAY FUND

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

SEPTEMBER 30, 1999



**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, 1999, and for the year then ended, and have issued our report thereon dated July 15, 2000. 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.

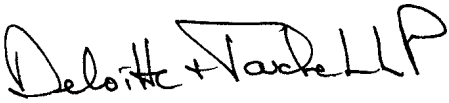
Compliance

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 99-1 through 99-8.

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, appearing to read "Deloitte + Nauck LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

July 15, 2000

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-1 - Appropriations

Criteria:

Reconciliation procedures should be performed on continuing appropriation account balances.

Condition:

Procedures performed on continuing appropriations indicated that this account may be overstated by approximately \$20,461.

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 the continuing appropriation accounts.

Finding Number 99-2 - Contract Retention Payable

Criteria:

Contract retention liabilities should be updated in a timely manner.

Condition:

The following contracts have had no activity in recent years:

	<u>Vendor</u>	<u>Contract Number</u>	<u>Account Number</u>	<u>Contract Retention Amount</u>	<u>Last Transaction Date</u>
Fund 224					
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 208					
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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-2 - Contract Retention Payable, Continued

Cause:

The cause is unknown. All items are a carried forward condition from the prior year.

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 for completion or cancellation in a timely manner.

Finding Number 99-3 – Accrued Expenditures

Criteria:

Journal vouchers should be properly supported by accompanying documentation. Additionally, accrual balances should be properly reviewed and adjusted upon payment or final disposition of the accrued balance.

Condition:

An accrual relating to a fiscal year 1997 Guam Power Authority expense of \$290,267 had not been cleared as of the end of fiscal year 1999.

Cause:

The cause of this condition is unknown.

Effect:

The accrued expense account may be misstated.

Recommendation:

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

Finding Number 99-4 - Contract Retention Payable/Accounts Payable

Criteria:

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

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-4 - Contract Retention Payable/Accounts Payable, Continued

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.	D971098153	5208A971098HM001	\$1,344
2.	D971098162	5208A971098HM001	\$1,140
3.	D971098157	5208A971098HM001	\$ 868
4.	D971098156	5208A971098HM001	\$5,334

Item numbers 1– 4 are carry forward conditions from the prior year. The above items were noted as being in violation of procurement procedures as documented through correspondence from the General Services Agency.

Cause:

The cause of this condition is unknown.

Effect:

Although, there is no direct effect on the financial statements as a whole, 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.

Finding Number 99-5 - Revenues

Criteria:

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

Condition:

The cash over/short account had a balance of \$3,386,577 as of 9/30/99. This balance appears to represent revenues earned for the issuance of drivers licenses and vehicle registration fees which were not properly classified into the appropriate categories.

Cause:

The cause of this condition is unknown.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-5 – Revenues, Continued

Effect:

The affected accounts may be misstated and receipts may not be properly recorded in the appropriate revenue accounts.

Recommendation:

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

Finding Number 99-6 - Expenditures

Criteria:

Valid expenditures should be supported by documents such as cancelled checks, vendor's invoices, purchase orders and receiving reports.

Condition:

The following supporting documentation was not provided for two out of nine items tested:

<u>Check No.</u>	<u>Transaction Amount</u>	<u>Documents not Provided</u>
979715	\$ 18,000	Receiving report
976145	\$ 4,601	Cancelled check, vendor's invoice, purchase order, receiving report

Cause:

The cause of this condition is unknown.

Effect:

Expenditures may be misstated by an immaterial amount.

Recommendation:

Supporting documentation should be properly retained for future reference.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-7 - Encumbrances

Criteria:

Outstanding encumbrances should only reflect reservations of fund balance related to unperformed contracts for goods and services.

Condition:

The following was noted for three out of three items tested.

1. Purchase order P96P00008, with an outstanding encumbrance of \$556,933 was to expire on September 30, 1999.
2. Purchase order P986P01388 with an outstanding encumbrance of \$31,455 has not received services since the encumbrance date of September 30, 1998.
3. An outstanding encumbrance of \$500,000 for E991060208 was encumbered for utility services rendered to the Government for fiscal year 2000.

All amounts remained encumbered as of September 30, 1999. However, audit adjustments have been proposed to unencumber items 1 and 3.

Cause:

The cause of this condition is unknown.

Effect:

The affected account may be misstated.

Recommendation:

Encumbrances should be reviewed in a timely manner and adjusted as necessary.

Additionally, utility services rendered to the Government should be recognized as expenditures and as a liability upon receipt of vendor invoices.

Finding Number 99-8 - Revenues

Criteria:

Reconciliation procedures for liquid fuel tax receivables should be performed between the Department of Revenue and Taxation and the Department of Administration.

Condition:

Procedures performed on the liquid fuel tax receivable account indicated that approximately \$1,823,434 in liquid fuel receivables do not appear to have been recorded as of September 30, 1999.

**GOVERNMENT OF GUAM
TERRITORIAL HIGHWAY FUND**

Schedule of Findings
Year Ended September 30, 1999

Finding Number 99-8 – Revenues, Continued

Cause:

The cause of this condition is unknown.

Effect:

The affected accounts may be misstated by a material amount. However, as revenue is recognized on a cash basis, there is no impact on the results of operations.

Recommendation:

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