

June 26, 2013

Ms. Benita Manglona
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Ms. Manglona:

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, 2012, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated June 26, 2013 and which includes 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, other matters involving GovGuam's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated June 26, 2013, 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.

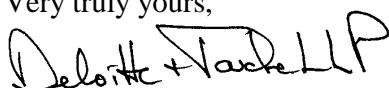
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability 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,



SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

CUSTOMS & QUARANTINE AGENCY

(1) Lack of Signed Lease Agreement

Comment: Rental cost, power costs, and administrative fees charged to Customs & Quarantine of \$2,391,622 were not supported by a signed lease agreement.

Recommendation: A lease agreement or relevant documentation should be updated and be properly authorized to document that expenses are approved and supported.

DATA PROCESSING DIVISION

(2) Network Penetration Testing

Comment: GovGuam did not perform network penetration tests.

Recommendation: Network vulnerability testing and/or network penetration testing should be performed periodically by an independent party to identify network weaknesses. With implementation of this preventive control, the chance of hackers modifying/viewing the critical information in the network is minimized.

Auditee Response: We agree that a network vulnerability test and/or a network penetration test should be done periodically to identify potential risks and network weaknesses. For the next budget year, we will obtain information and price quotes and request funding to procure services to conduct this type of test.

DEPARTMENT OF REVENUE & TAXATION

(3) Receivables/Revenues

Comment:

1. Seven gross receipts tax forms supporting \$1.19M of tax receipts were not provided. Correct classification of these collections in the sub-accounts was undeterminable.
2. Eleven income tax forms supporting \$2.6M of tax receipts were not provided for examination. The classification of these collections in the applicable income tax sub-accounts was undeterminable.

Recommendation: We recommended the Government of Guam strengthen controls to support revenues with underlying documentation and record such in correct account classifications.

CHILD SUPPORT ENFORCEMENT DIVISION/DIVISION OF ACCOUNTS

(4) Unclaimed Checks – Child Support

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between the Department of Administration (DOA) and the Child Support Enforcement Division (CSED) are on-going regarding the reconciliation between the AS400 and the APASI system to support unclaimed checks and reconcile aged balances, which date back more than 15 years.

Recommendation:

Continue to address the Collaborative Action Plan, which entails the following:

1. Inquiry from the bank to obtain copies of all records, (cash collections and checks/EFT payments) during the period the child support accounts were with their financial institution.
2. Seek legislation to establish a period, possibly two years, after which unclaimed child support payments will escheat to the Government. Since bank records are incomplete or unavailable for two financial institutions with child support accounts prior to 2004, DOA and CSED are seeking legislation to waive the diligent effort requirements before unclaimed child support payments can be escheated for the period prior to 2004.
3. Seek legislation for unclaimed child support payments escheating to the Government of Guam for all unclaimed child support payments prior to October 1, 2004.

Additionally, reconciliations should be provided in a timely manner.

UNIFIED COURTS OF GUAM

(5) Monitoring of A/R Accounts

Comment: The status of probation cases should be timely monitored to allow for the issuance of official court orders for the closure and write-off of uncollectible accounts. The related allowance is \$5,279,085, which includes expired probation cases that have had no movement for more than five years. The non-collections have minimal impact on the financial position of the Government of Guam as the majority of the balance accrues to the associated victim.

Recommendation: The status of probation cases should be monitored to allow for legal and timely write-off of expired probation cases.

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.