



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

June 18, 2015

Mr. Anthony Blaz
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Mr. Blaz:

In planning and performing our audit of the financial statements of the Solid Waste Operations Fund and of those funds related to the Government of Guam Limited Obligation (Section 30) Bonds, 2009 Series A (the Funds), as of and for the year ended September 30, 2014, on which we have issued our report dated June 18, 2015, 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 the Funds' 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 the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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, deficiencies and other matters involving the Funds' internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, Honorable Eddie Baza Calvo, also dated June 18, 2015, on our consideration of the Funds' 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 the Funds, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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 Department of Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I - DEFICIENCIES

We identified the following deficiencies involving the Funds' internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

(1) Unrecorded Bank Account

Comment: At September 30, 2014, a bank account of \$68,793 was not correctly recorded and recorded by DOA within the AS400 accounting system. The bank account was previously recognized in prior year in the amount of \$56,195 with the difference of \$12,598 being unrecorded as at year end. As this amount is not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that the bank account be correctly recognized and recorded within the AS400 accounting system and that periodic bank reconciliations be performed.

(2) Unreconciled Accrued Expenditure Accounts

Comment: At September 30, 2014, the Solid Waste Operations Fund and the Capital Projects Fund recorded accrued liabilities of \$1,851,564 and \$3,983,677, respectively, which included accruals pertaining to prior year of \$493,216 and \$457,880, respectively. In addition, the Solid Waste Operations Fund accrued expenditures account included payments of \$532,696 for which no corresponding accrual was previously recorded. Post-closing entity adjustments were subsequently provided by management to correct these misstatements.

Recommendation: We recommend that management periodically and timely reconcile liability accounts.

(3) Accrued Expenditures

Comment: Services rendered of \$177,050 were not accrued at September 30, 2014. The liability was recorded during the audit process.

Recommendation: We recommend that management accrue unpaid services incurred within the fiscal year.

(4) Unrecorded Revenues

Comment: At September 30, 2014, revenue billings of \$237,021 were not recorded. In addition, a variance of \$80,440 existed between the accounts receivable subsidiary ledger and general ledger balances. These misstatements were corrected during the audit process.

Recommendation: We recommend that periodic reconciliations of the accounts receivable account be performed.

(5) Commercial Haul Tipping Fee Discounts

Comment: During the year ended September 30, 2014, discounts were offered to commercial haulers for timely settlement of accounts receivable. Discounts of \$41,247 afforded to commercial customers for September 2013 tipping fees were recorded in October 2013. In addition, discounts of \$59,312 afforded to commercial customers for September 2014 tipping fees were recorded in October 2014. As these amounts are not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend that management recognize commercial haul tipping fee discounts within the correct fiscal year.

SECTION II - DEFINITIONS

The definition of a deficiency 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

The Funds' 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.