



## Government of Guam FY 2010 Compliance Highlights

July 5, 2011

The Government of Guam (GovGuam) again received a qualified opinion on the Single Audit Reports on Compliance and Internal Controls for Fiscal Year (FY) 2010. However, independent auditor Deloitte and Touche, LLP rendered an unqualified or “clean” compliance opinion to three of the 12 major programs. GovGuam has received qualifications on the Single Audit since FY 1991, our earliest records on file. The number of findings decreased slightly, from 10 in FY 2009 to 9 in FY 2010, but questioned costs rose slightly from \$0 to \$3,734 due to a noncompliance with the Child Care Development program. The findings relate to cash management; post-closing adjustments; fixed assets; procurement; eligibility; and equipment and real property management.

### **Federal Program Funding**

GovGuam and its line agencies received \$286.4 million (M) in federal awards from 15 grantor agencies. The major grantor agencies were the departments of Agriculture (\$109.5M), Health and Human Services (\$54.5M), Transportation (\$51.2M), Interior (\$21.3M) and Commerce (\$11.5M).

Of the total in federal grants, \$96.7M funded the Supplemental Nutrition Assistance Program (Food Stamps); \$48.1M was for Highway Planning and Construction; \$18.9M went to the Economic, Social and Political Development of the Territories; \$18.4M was for the Medical Assistance Program (Medicaid); and \$9.4M was for Census Intergovernmental Services.

In addition, GovGuam was awarded \$98.2M from the 2009 American Recovery and Reinvestment Act for 23 federal programs. Of the \$98.2M, only \$15.4M was expended in FY 2010, leaving a substantial balance to be expended in FY 2011.

### **Single Audit**

Nine findings were identified in the Single Audit of which seven were considered to be material weaknesses. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in a recipient agency’s controls over federal program requirements that could allow noncompliance to occur or go undetected and uncorrected.

The seven material weaknesses are as follows:

- **Cash Management (2010-01).** Although federal program funds may not be used to pay debts or expenditures incurred by other activities beyond the scope of the Program, in December 2010, Department of Administration (DOA) transferred \$3M from the Edward Byrne Memorial Justice Assistance Grant Program/Grants to the Territories to help fund the daily operations of the General Fund. The \$3M was subsequently returned in January

2011. This was also noted in OPA Report No. 11-03, Government of Guam Liabilities Assessment issued in April 2011.

- **Post-Closing Adjustments (2010-08).** The financial statements included a significant number of post-closing adjustments that were approved seven to eight months after the fiscal year end. Extra duties, such as the cash flow model, assigned to existing personnel caused delays in the reconciliation and investigation of all accounts.
- **Fixed Assets (2010-07).** The Layon Landfill (\$43.8M), Southern Region Health Center (\$6M) and federally-funded highway projects (\$882 thousand (K)) were not recorded as construction work in progress. In addition, the Superior Court has not recorded equipment worth \$615K in its books.
- **Reporting (2010-02).** GovGuam entities did not consistently prepare the required reports and/or maintained accounting records to support reported amounts. Total outlays on two required federal award forms submitted by Department of Labor under two grants differed from expenditures per the AS/400 or other accounting records by \$44K and \$202K. In addition, total outlays reported by the Department of Public Health and Social Services (DPHSS) and Office of Civil Defense differed by \$145K and \$44K, respectively. The Department of Public Works did not provide required reports for the independent auditors' examination.
- **Eligibility (2010-05).** There was no documentation to indicate that the income eligibility verification system was used to verify eligibility in all 70 case files tested for Medicaid and Temporary Assistance for Needy Families with total claims of \$2.4M. This is a continuing finding from previous fiscal years and reflects findings in OPA Report No. 10-03, Performance Audit of DPHSS's Medically Indigent Program.
- **Procurement and Suspension and Debarment (2010-03).** For nine transactions, services were extended past the end of the contract without written determinations indicating why it was not practical to award another contract at the time of the extension.
- **Equipment and Real Property Management (2010-06).** GovGuam has not performed the required comprehensive inventories of its physical property in FY 2010 or in previous fiscal years. This has been a continuing finding from previous fiscal years.

GovGuam has shown efforts to reduce questioned costs over the years, and more so during the past two years. As of FY 2010, total unresolved questioned costs were \$2.3M. GovGuam was able to resolve prior year questioned costs of \$2.3M during this fiscal year.

### **Management Letter**

The auditor issued a separate management letter containing 12 findings, up from seven in FY 2009, relating to reconciliation, manual tax return processing, safeguarding documents, and other matters.

- **DOA.**
  - A supporting schedule of imprest accounts was not available during the audit. An imprest account is one that always has the same balance because the same amount of cash is deposited and withdrawn from the account on a regular basis for a known purpose such as payroll.

- Over \$2.5M of encumbrances expired or were invalid as of September 30, 2010 and an audit adjustment was proposed. In addition, over \$387K of contract encumbered were not provided for examination.
- Five gross receipts tax forms totaling \$986K were not provided for examination. Additionally, approximately \$1.6M of income tax revenues were misclassified within income tax categories. The auditor recommended DOA to coordinate with the Department of Revenue and Taxation (DRT) to ensure that all revenues are accounted for and processed, revenues are supported by underlying documentation, and ensure that such are recorded in the proper account classification.
- Transactions involving the deposit liability accounts did not correctly reflect the respective expenditures or revenues.
- **DRT.**
  - The manual processing of tax returns to allow for the verification of the income tax provision was not completed until eight months after year end. The tax provision is a necessary component of the annual financial audit as it represents more than 50% of the total General Fund liabilities.
  - One real property tax tested resulted in no collection of real property tax and is noted as a delinquent property.
- **Guam Police and Fire Departments.** These departments did not reconcile fuel receipts to charges.
- **Customs, Agriculture and Quarantine (CAQ).** The CAQ fund again required a \$2.2M transfer from the General Fund to cover its shortfall. In FY 2009, the shortfall was \$2.4M.
- **Office of the Attorney General.** Child Support Enforcement Division liabilities differed by \$562K from DOA's records.
- **Unified Courts of Guam.** Probation cases were not timely monitored to enable the issuance of an official court order to facilitate the closure and write-off of uncollectible accounts. The allowance of \$4.8M included expired probation cases that have had no movement in excess of five years.
- **General Services Agency.**
  - A vendor invoice of \$37K could not be located.
  - The procurement rationale was not documented in two tested transactions totaling \$472K.

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