

Reports on Compliance

Guam Economic Development Authority
(A Component Unit of the Government of Guam)

Year Ended September 30, 2022



Guam Economic Development Authority
(A Component Unit of the CNMI Government)

Reports on Compliance and Internal Control

Year Ended September 30, 2022

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Guam Economic Development Authority

We have audited, 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 (*Government Auditing Standards*), the financial statements of Guam Economic Development Authority (GEDA), which comprise the statement of net position as of September 30, 2022, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated August 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GEDA’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GEDA’s internal control. Accordingly, we do not express an opinion on the effectiveness of GEDA’s internal control.

A deficiency in internal control 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 material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether GEDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

GEDA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on GEDA's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. GEDA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

April 2, 2024



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Guam Economic Development Authority

Report of Independent Auditors on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Guam Economic Development Authority's (GEDA's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of GEDA's major federal program for the year ended September 30, 2022. GEDA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, GEDA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of GEDA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of GEDA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to GEDA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on GEDA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about GEDA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding GEDA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of GEDA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of GEDA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on GEDA's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. GEDA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the business-type and fiduciary activities of GEDA as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise GEDA's basic financial statements. We have issued our report thereon dated August 31, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Ernst + Young LLP

April 2, 2024

Guam Economic Development Authority
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Office of Economic Adjustment			
Passed through from Office of the Governor of Guam			
Grant Management Capacity: Building and Enhanced Grant Performance Grant	12.618	HQ00051910031	\$ 478,955
Medical and Public Health Services Action Plan	12.618	HQ00052110002	<u>1,668,923</u>
Total Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation			\$ <u>2,147,878</u>
U.S. Department of Commerce			
Direct Program:			
FY2019 Economic Development Authority Disaster Supplement (Aquaculture Feasibility Study)	11.307		\$ 191,444
Comprehensive Economic Development Strategy	11.307		<u>84,101</u>
Total Economic Adjustment Assistance			\$ <u>275,545</u>
Total Expenditures of Federal Awards			\$ <u>2,423,423</u>

Guam Economic Development Authority
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Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

1. General

Guam Economic Development Authority (GEDA or primary government) was created by Public Law 8-80 on August 21, 1965, to assist in the implementation of an integrated program for the economic development of Guam. Enabling legislation set forth several specific purposes for the establishment of GEDA to include:

- (a) Aiding private enterprise without competing with it,
- (b) Expanding the money supply to finance housing facilities, and
- (c) Providing the means necessary for acquisition of hospital facilities.

To accomplish the stated purposes, GEDA is authorized to conduct research of, invest in, provide loans to, operate and provide technical assistance to industries and/or agricultural projects; issue revenue bonds; obtain Government of Guam land; purchase mortgages; and recommend to the Governor of Guam businesses qualifying for tax rebates and abatements. GEDA utilizes certain Trust Funds, such as the Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF) to accomplish certain of the stated purposes.

2. Basis of Preparation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of GEDA under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of GEDA, it is not intended to and does not present the financial position, changes in net position, or cash flows of GEDA.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Allocation

The Authority has elected not to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 of the Uniform Guidance. GEDA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2022.

Guam Economic Development Authority
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2022

Section I—Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 yes X **no**

Significant deficiency(ies) identified?

 X **yes** **none reported**

Noncompliance material to financial statements noted?

 yes X **no**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 yes X **no**

Significant deficiency(ies) identified?

 yes X **none reported**

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 yes X **No**

Identification of major federal program:

Assistance Listings

Number (ALN)

12.618

Name of Federal Program

Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 yes X **no**

Guam Economic Development Authority
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Schedule of Findings and Questioned Costs, continued

Section II – Financial Statement Findings

Reference Number	Finding
2022-001	Implementation of GASB Codification L20, <i>Leases</i>
2022-002	Recognition of Grant Revenues

Guam Economic Development Authority
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001

Area: Implementation of the Governmental Accounting Standards Board (GASB) Codification (Cod.) L20, Leases

Criteria:

GASB Cod. L20.144 states that the lessor should measure the lease receivable at the present value of lease payments expected to be received during the lease term. Measurement of the lease receivable should include the following, if required by lease: (1) fixed payments and (2) variable payments that depend on index or rate (e.g. rate escalation). Further, L20.153 states that the deferred inflow of resources shall be measured based on the initial measurement of lease receivable.

Condition:

The calculation of lease receivable and deferred inflow of resources did not consider the impact of (1) rate escalation and (2) discount rate appropriate to the remaining lease term. Revised lease amortization worksheet and trial balance were provided to correct these errors.

Cause:

Management did not obtain adequate training on the aforementioned provisions of GASB L20, Leases.

Effect or potential effect:

Lease receivables and deferred inflow of resources may be misstated in the financial statements.

Recommendation:

We recommend that management consider undergoing additional training to understand the aforementioned provisions of the standard.

Views of responsible officials:

We have noted the findings raised by the audit team regarding the calculation of lease receivable and deferred inflow of resources. However, we would like to clarify our position on the matter.

Regarding the application of GASB Statement No. 87, we have been careful in our efforts to adhere to the provisions of the statement. Our calculations were based on our understanding and interpretation of the standards and best possible approach available at the time of reporting.

Guam Economic Development Authority
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001, continued

Area: Implementation of the Governmental Accounting Standards Board (GASB) Codification (Cod.) L20, Leases

Action Plan:

Further Analysis: We believe it would be beneficial to undertake further review on this matter. We will look into a third party who specializes in GASB standards to provide an expert review of our calculations and procedures related to the lease receivables and deferred inflows of resources. This will help us determine the validity of the audit finding.

Review of Training: Concurrently, we will assess the skill set and training of our accounting personnel in relation to the GASB standards. While we have faith in the competency of our team, we are open to providing future training and learning opportunities, if necessary.

Internal Controls Review: As a routine practice, we will continue reviewing our internal controls and procedures to ensure they are in alignment with the industry standards.

Monitoring: We are committed to monitoring our financial statements, to ensure that any potential discrepancies would be identified and resolved in a timely manner.

We look forward to the completion of these steps and believe that they will provide a resolution to the findings made by the audit team. We value their efforts in bringing this matter to our attention and aim to use this as an opportunity for further improving our processes.

Guam Economic Development Authority
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-002

Area: Recognition of Grant Revenues

Criteria:

GASB Cod. N50.127(d) states that recipients of grants considered voluntary nonexchange transactions should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available.

Condition:

At September 30, 2022, grant revenues were included related to eligible expenditures incurred for the Guam Small Business Pandemic Assistance Grant Program in FY2021 which amounted to approximately \$60 thousand.

Cause:

GEDA did not obtain sufficient clarification on its arrangement to administer the aforementioned programs to determine the appropriate timing for the recognition of grant revenues.

Effect or Potential Effect:

Revenues from voluntary non-exchange transactions may be recorded in the incorrect period.

Recommendation:

We recommend that management ensure controls are in place to timely record of grant revenues in accordance with applicable GASB Codification.

Views of responsible officials:

GEDA will work closely with our granting agency and have a Memorandum of Understanding in place to document all terms of the grant requirements and GEDA's role in accurately recording grant transactions. We are also actively working to enhance our procedures and controls to ensure the prompt recognition of grant revenues in a more effective and timely manner.