



Government of Guam FY 2012 Compliance Highlights

July 9, 2013

The Government of Guam's (GovGuam) Fiscal Year (FY) 2012 Single Audit Reports on Compliance and Internal Controls continues to reflect material weaknesses. GovGuam has received qualifications on its Single Audit since FY 1991, our earliest records on file. Independent auditors Deloitte and Touche, LLP rendered a qualified opinion on five of the 13 major programs. There were seven findings, six of which were repeat material weaknesses. Similar to last year, the material weaknesses were: (a) lack of interface between the Department of Administration (DOA)'s and the Department of Revenue and Taxation (DRT)'s systems; (b) untimely approval of DOA's post-closing adjustments; (c) physical inventories of purchased equipment not completed in FY 2012 and in prior years; (d) lack of fixed assets reconciliation; (e) questionable eligibility of applicants for the Temporary Assistance for Needy Families (TANF) and Medicaid programs; and (f) no TANF Data Report provided. The resulting questioned costs decreased to \$35 thousand (K) in 2012 compared to \$42K in 2011. Over the years, GovGuam has made significant efforts to resolve millions in prior-year questioned costs. GovGuam is to be commended as only \$45K in questioned costs remains unresolved.

Federal Program Funding

GovGuam and its line agencies expended \$326.2 million (M) in federal awards from 15 grantor agencies. Of the 15 grantor agencies, the largest amount of grants came from the Department of Agriculture for \$123.4M, of which \$113.3M was for the Supplemental Nutrition Assistance Program (more commonly and formerly known as food stamps). The second largest grantor was the Department of Health and Human Services at \$61.1M for the various welfare programs, such as Medicaid at \$28.2M and TANF at \$4.9M. The third largest grantor was the Department of Transportation at \$44.2M, of which \$42.2M is for Highway Planning and Construction.

Single Audit Findings

Seven findings were identified in the Single Audit, six of which were repeat material weaknesses. The material weaknesses were as follows:

- **Interface of Systems and Income Tax Liability Account.** DOA and DRT have not timely reconciled and reclassified revenue totaling \$7.9M and consisting of:
 - GRT collections of \$5M, which were not posted to corresponding revenue accounts,
 - Unreconciled deposits of \$1.7M, which were not posted to individual taxpayer accounts, and
 - Cash collections of \$1.2M, which originated from a cash shortage initially recorded at \$2.3M. The reconciliation identified certain voided transactions from the point of sale system that did not interface properly with the general ledger posting of duplicate and inaccurate collections.

The delay was caused by the termination of the old point of sale (POS) system, and lack of interface between the new POS system and DRT's system. DRT also acquired a scanner to scan tax returns, but did not function as designed. As a result, DRT used substantial manpower to manually process tax returns to assess income tax refund liabilities.

- **Post-Closing Adjustments.** The financial statements included a significant number of post-closing adjustments approved five to eight months after the fiscal year end. The cause of this condition appears to be that substantial extra duties have been assigned to existing personnel due to the inability to backfill vacant positions. Due to the need for additional personnel well versed in accounting reconciliations and processes, sufficient time was not available to timely reconcile all required accounts on a quarterly basis.
- **Equipment and Real Property Management.** GovGuam has started but has not completed a comprehensive physical inventory of its property. GovGuam is still developing an equipment management system and tagging of equipment and is expected to be completed by December 2013.
- **Fixed Assets.** Given the substantial capital projects currently undertaken, GovGuam continues to struggle with the recording, monitoring, and review of fixed assets. As a result, construction work in progress and completed projects were adjusted by \$14.9M. There is a need to interface DOA and the Department of Public Works' systems, as well as hire personnel well-versed in accounting reconciliations and processes.
- **Eligibility.** For the past 13 years, the Department of Public Health and Social Services (DPHSS) has not utilized the Income Eligibility Verification System to determine income and resource eligibility of its welfare program applicants. In addition, benefits to several applicants in the TANF and Medicaid programs were questionable due to the lack of required documentation (i.e. birth certificate, social security cards, exemption documents, public assistance worksheet, income, renewal application, etc.) or missing case files. These exceptions resulted in questioned costs of \$35K.
- **Reporting.** DPHSS has not provided Report ACF-199, TANF Data Report to the independent auditors for review. DPHSS is non-compliant with applicable reporting requirements of the Department of Health and Human Services, the second largest federal grantor agency to GovGuam.

Resolving Prior Year Questioned Costs

GovGuam continues its efforts to reduce outstanding questioned costs. As of FY 2012, GovGuam resolved \$1.4M in prior year questioned costs, resulting in \$45K remaining.

Management Letter

The auditors issued a separate management letter containing five findings relating to lack of a signed lease agreement, lack of network penetration testing, missing tax forms to support account classifications, untimely reconciliations, and lack of monitoring of accounts receivables.

To view the reports in their entirety, visit our website at www.guamopa.org.