Government of Guam
FY 2013 Compliance Highlights

July 2, 2014

The Government of Guam's (GovGuam) Fiscal Year (FY) 2013 Single Audit Reports on Compliance and Internal Controls continues to reflect material weaknesses that emphasize the need for a new financial management information system (FMIS) and further investment in personnel. 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 four of the 14 major programs. There were eight findings, four of which were material weaknesses. Among the material weaknesses were a lack of interface and tax reconciliation between the Department of Administration (DOA) and the Department of Revenue and Taxation (DRT), untimely approval of a number of post-closing adjustments, and lack of physical inventories of purchased equipment. Total questioned costs for the year decreased by $17 thousand (K) from $35K in FY 2012 to $18K in FY 2013.

Federal Program Funding

GovGuam and its line agencies expended $314 million (M) in federal awards from 16 grantor agencies. Of the 16 grantor agencies, the largest amount of grants came from the Department of Agriculture for $130.1M, of which $120.4M was for the Supplemental Nutrition Assistance Program (Food Stamps). The second largest grantor was the Department of Health and Human Services at $67.4M for the various welfare programs, such as Medicaid at $34.8M and Child Health Insurance Program at $4.5M. The third largest grantor was the Department of Transportation at $48.6M, of which $42.3M is for Highway Planning and Construction.

Single Audit Findings

Eight findings were identified in the Single Audit, of which three of the findings were related to the financial statements, four were related to federal awards, and one was related to both. Of the eight findings, four were material weaknesses. The material weaknesses were as follows:

- **No Tax Related Interface and Reconciliations.** Due to the breakdown of DRT's Point of Sale system and lack of interface with DOA, gross receipts and other tax revenues were not completely reconciled resulting in a debit balance of $64M in a suspense account created in the General Fund that could not properly be analyzed by source or reconciled to the correct tax category in a timely manner. There was an overstatement of $3.7M in GRT revenues, which resulted in an audit adjustment. Cash of $3.4M was reported at the end of FY 2013, however $1.75M of it was to be reconciled to subsequent year end and was adjusted through a post-closing entry. The remaining amount has yet to be identified and recorded in the proper revenue accounts.

  As mentioned in OPA's Government-Wide Financial Highlights, GovGuam's antiquated financial management systems and non-integration of systems contributes to the lack of regular and timely financial information. This lack of interface contributed to significant delays and as a result, the first draft of the financial audit was not provided until June 21, 2014. DRT had to use substantial manpower to manually process tax returns to assess income tax refund liabilities, and DOA spent an inordinate amount of time reconciling amounts.

- **Numerous Post-Closing Adjustments after Year-End.** The financial statements included seventy-six post-closing adjustments approved six to nine months after the fiscal year end. Adjustments were still being approved even five days before the June 30th deadline. DOA needs additional personnel well versed in accounting reconciliations and processes in order to conduct timely reconciliations at an earlier date. The lack of interface contribute to the delays such as these.

- **Lack of Management in Fixed Assets, Equipment, and Real Property.** GovGuam has not performed a comprehensive physical inventory of its property. Given the substantial capital projects currently undertaken, GovGuam continues to struggle with the recording, monitoring, and review of fixed assets. As a result, depreciable assets, depreciation expense, construction work in progress, and land were adjusted by $167.9M. Auditors further proposed an additional increase of $47.2M in depreciable assets, depreciation expense, and construction work in progress. Auditors continue to stress the need for additional personnel who are versed in accounting reconciliations and processes.

- **Eligibility.** For the past 14 years, The Department of Public Health and Social Services 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 Temporary Assistance for Needy Families and Medicaid programs were questionable due to the lack of required documentation or missing case files. These exceptions resulted in questioned costs of $4K.

Management Letter
The auditors issued a separate management letter containing six matters relating to lack of a signed lease agreement, lack of network penetration testing, untimely reconciliations, competitive procurement, lack of monitoring of accounts receivables, and revenue recognition.

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