



Government of Guam FY 2014 Compliance Highlights

June 30, 2015

The Government of Guam's (GovGuam) Fiscal Year (FY) 2014 Single Audit Reports on Compliance and Internal Controls continue to reflect material weaknesses that emphasize the need for training investment in personnel and a new financial management system as the current system is antiquated, which was acquired in the late 1980s. Independent auditors Deloitte and Touche, LLP rendered a qualified opinion on 7 of 13 major programs. There were 10 findings, six of which were material weaknesses. Among the material weaknesses were noncompliance with procurement regulations and lack of physical inventories of purchased equipment and real property. Total questioned costs was \$46 thousand (K), an increase by \$28K from \$18K in FY 2013 due to noncompliance with applicable eligibility requirements. GovGuam provided only one response to one finding and the remaining nine findings were listed as "GovGuam has not provided a response".

Federal Program Funding

GovGuam and its line agencies expended \$292.7 million (M) in federal awards from 16 grantor agencies. Of the 16 grantor agencies, the largest amount of grants came from the U.S. Department of Agriculture at \$119.8M, of which \$109.8M was for the Supplemental Nutrition Assistance Program (Food Stamps). The second largest grantor was the U.S. Department of Health and Human Services at \$80.6M for the various welfare programs, such as Medicaid at \$43.5M and Child Health Insurance Program at \$5.5M. The third largest grantor was the U.S. Department of Transportation at \$30.3M, of which \$27.9M is for Highway Planning and Construction. The fourth largest grantor was the U.S. Department of the Interior at \$29.1M, of which \$26.9M is for Compact Impact funding.

In addition, Department of Education (GDOE) and other GovGuam component units expended an additional \$199.3M in federal awards. The top three agencies were GDOE at \$62.5M, Guam Housing and Urban Renewal Authority at \$43.1M, and University of Guam (UOG) at \$33.2M.

Single Audit Findings

Ten findings were identified in the Single Audit, of which three findings were related to procurement and two were related to eligibility. The remaining findings were related to equipment and real property management, reporting, and the Schedule of Expenditures of Federal Awards (SEFA). Of the 10 findings, six were material weaknesses to include the following:

Lack of Management in Fixed Assets, Equipment, and Real Property (2014-001). GovGuam has not performed a comprehensive physical inventory of its properties in FY 2014 or since 2000. Noncompliance with applicable equipment management requirements has been a continuing finding from prior audits and GovGuam management is still in the process of effecting corrective action and developing an equipment management system compliant with applicable equipment

management standards. Efforts are being made to tag all equipment with bar code property identification labels. Until the tagging of all equipment is completed, it will not be able to conduct a comprehensive physical inventory.

Sole-Source Procurement (2014-003). The General Services Agency sole-sourced contract services for driver and passenger evaluation and survey methodology to UOG. There was no written rationale to justify their selection over the Guam Community College (GCC). The procurement did not seek to foster full and open competition.

Eligibility and Continued Services without a Contract (2014-005 and 2014-006). The Guam Behavioral Health and Wellness Center (GBHWC) did not provide adequate documentation relative to program eligibility and procurement resulting in questioned costs of \$45K. No case files or other eligibility documentation were provided to substantiate beneficiaries of program services for individuals who have serious mental illness and substance abuse. This includes individuals who are homeless or are at imminent risk of becoming homeless. In addition, they did not provide procurement records for contract services to operate a drop-in enrichment center for persons with mental illness and at-risk homelessness. The contract expired at the end of FY 2013, but the vendor continued to provide services without a contract based on good faith communications with GBHWC.

Eligibility (2014-007). For the past 15 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 and missing case files. This resulted in questioned costs of \$1K.

Veterans Affairs Office (VAO) – Procurement and Allowable Costs

When OPA began its audit of VAO in April 2015, OPA learned of a \$3.2M grant VAO was administering on its own. VAO acted independently and did not communicate with the Department of Administration (DOA) and the Guam State Clearinghouse. This resulted in two findings due to the lack of required procurement documentation and an incomplete SEFA.

VAO incurred expenditures and directly received federal funding for the expansion and improvement of the Guam Veterans Cemetery. Documentation, such as purchase orders, contracts, vendor invoices, and receiving reports, were not provided to substantiate program costs. Further, VAO did not provide documentation, such as requests for bid/proposal, bids/proposals received, rationales for selection or rejection, and the bases for contract price to substantiate full and open competition in the selection of vendors. As DOA was unaware of this grant, the SEFA was incomplete and a post-closing adjustment was needed to record the program revenues, expenditures, and accruals for FY 2014.

There is potential for future federally funded activities to occur outside the centralized process for federal award applications and to continue undetected and unrecorded by DOA. GovGuam should strengthen controls over the centralized process for federal award applications. The responsible official or DOA should communicate the formalized process to all GovGuam departments and

enforce the process so that all federal award activities are timely accounted for in the financial management system and timely reported in the SEFA.

Management Letter

The auditors issued a separate management letter containing 18 findings from six GovGuam divisions and agencies to include DOA Division of Accounts, Unified Courts (Courts), and Department of Revenue and Taxation. The top three divisions and agencies were as follows:

- The DOA Division of Accounts were issued eight findings related to expired or invalid encumbrances, lack of accountability of checks, incomplete journal vouchers, untimely life insurance benefits, lack of periodic reevaluation of MIP and Medicaid accruals, unreconciled cash, fixed assets not properly recorded, and post-closing adjustments approved over six months after fiscal year end.
- The Courts received four findings related to delayed financial statements, unsupported fixed assets, untimely monitoring of probation accounts, and misclassification of accrued payroll.
- The DOA Data Processing Division were issued three findings related to the information technology environment.

To view the report in their entirety, visit our website at www.opaguam.org.