Department of Administration
Promissory Notes Program

Performance Audit

October 1, 2006 through September 30, 2007

OPA Report No. 08-01
May 2008

OFFICE OF THE PUBLIC AUDITOR

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EXECUTIVE SUMMARY

Promissory Notes Program

Department of Administration, Government of Guam

Report No. 08-01, May 2008

In Fiscal Year (FY) 2006 the government of Guam reported a General Fund deficit of $524 million. The substantial deficit resulted in a cash crisis that has affected line agency operations, leaving vendor contractual obligations unpaid. Through legislation, the government of Guam established a promissory note program[1] as a financial alternative for the lack of available cash, and as a means to manage its short-term obligations while the government awaits future tax receipts or credits to retire or redeem the notes.

Use of Promissory Notes

In FY 2007, the government of Guam issued 21 promissory notes totaling $3.2 million. Over 70% of the notes issued, or 15 notes totaling $1.9 million, were for the Guam Public School System (GPSS) for janitorial, photocopying, security, and air conditioning services. The remaining 30%, or six notes totaling $1.3 million, were for the executive branch line agencies for fuel fleet services. As of January 2008, nearly $2.2 million in gross receipts taxes (GRT) has been applied against the $3.2 million promissory note liability, leaving approximately $1 million in outstanding unredeemed balances, which can be sold by the note-holder to other parties or applied as a tax credit against taxes due to the government by the note-holder.

Of the 21 promissory notes issued in FY 2007, we found:

- *Vendors sold promissory notes for credits*: GPSS issued eight promissory notes totaling $971,449 to one vendor, who sold five notes to 25 other local businesses.[2] The businesses in turn applied tax credits totaling $564,381. The vendor utilized $168,588 as GRT offsets leaving a balance of $238,480 on outstanding notes yet to be redeemed. The company's chief executive officer informed us that promissory notes were sold for cash and several were sold at a discount in order for his company to obtain working capital.
- *GPSS promissory notes were issued without being verified or certified:* GPSS did not produce the required aged open invoice reports for nine promissory notes totaling $1.1 million; and GPSS also did not certify the validity of the aging accounts owed to vendors before promissory notes were issued.

These conditions occurred because the law governing promissory notes did not establish controls over the sale and transfer of promissory notes, and the issuing agency did not regulate such activities.

[1] A promissory note is a type of negotiable instrument which details the terms of a promise by one party (the *maker*) to pay a sum of money to the other (the *payee*). The obligation may arise from the repayment of a loan or from another form of debt. The promissory note offers vendors who are unpaid for contracted services past 30 days a gross receipt tax credit bearing a 7% interest rate per annum with maturity date period of 365 days.

[2] The OPA was unable to determine the means of exchange between vendors.

DOA Director Finds Promissory Notes Beneficial

The DOA Director stated the promissory note program in FY 2007 was beneficial to vendors who were not paid timely for services provided because it offered payment in the form of "relief of gross receipts taxes due and payable." The DOA Director contends that while the vendors received payments in the form of tax offsets, the major disadvantage of the program was in the reduction of cash receipts to pay for other government of Guam obligations.

Budget Act Adds Controls

Significant improvements to the requirements for administration of the promissory note program were made in the 2008 Budget Act.[3] The Budget Act specifies that promissory notes issued after September 30, 2007, are non-transferable and cannot be applied against any tax obligation. The provision eliminates the ability of vendors to use the promissory notes as a tax credit and requires the Government of Guam to have funds available to pay the obligation. The law also places a maximum threshold amount on promissory notes. Notes issued after September 30, 2007, cannot exceed two percent of the General Fund's expected revenue forecast. As of January 2008, DOA has yet to issue a 2008 promissory note. Both the DOA Director and the DRT Deputy Director agreed that the 2008 Budget Act improved the overall accounting and management of promissory notes.

We commend the Legislature for taking swift action to correct deficiencies in the legislation administering the promissory note program. However, we recommend that (1) the Legislature consider restricting the use of vendor promissory notes to agencies receiving General Fund appropriations, as the autonomous agencies should have the financial capabilities of paying their own debts, and (2) DOA and DRT provide quarterly and annual reports to the Legislature detailing the amount of promissory notes issued and the total amount of tax credits used as offsets for the remaining promissory note balances.

Doris Flores Brooks, CPA, CGFM
Public Auditor

[3] P.L. 29-19, ChapterVIII, Section 7

OFFICE OF THE PUBLIC AUDITOR

Contents

Introduction

This audit was initiated as part of the Office of the Public Auditor's (OPA) review of all the government of Guam tax benefit programs affecting the General Fund. The objectives of our audit were to determine whether:

- Promissory notes were issued in accordance with applicable laws and regulations;
- Sufficient controls and procedures existed for the management and accounting of promissory notes; and
- To quantify the total amount of issued promissory notes and the effect on the government of Guam's General Fund revenues and expenditures.

The scope, methodology, and prior audit coverage are detailed in Appendix 2.

Background

In November 1987, Public Law (P.L.) 19-10:33 was codified in 5 Guam Code Annotated § 22415 enabling the government of Guam to issue promissory notes to creditors bearing a 7% interest rate per annum as an alternative method of payment for services rendered or goods provided. The law permits any vendor of the government[1] who has not been paid within 30 days to request promissory notes.

Image 1: Department of Administration, Hagatña, Guam

Any such promissory note may be used by the bearer at the face value plus accrued interest for payment of tax or other obligation due the government of Guam.

The Department of Administration (DOA) is the central agency responsible for providing a system of uniform financial management and internal accounting controls for the government of Guam line organizations. Thus, DOA is responsible for issuing and accounting for promissory notes. Standard operating procedures, one for executive line agencies and the other for the Guam Public School System (GPSS), were developed to manage the administration of promissory notes.

[1] This includes all autonomous agencies, semi-autonomous agencies, departments and line agencies.

Results of Audit

Overall, the promissory notes program enabled the government of Guam to alleviate some of its vendor obligations. Based on our audit, the promissory notes were issued to offset the vendor's gross receipt taxes (GRT)[2] due to the government. We found that the DOA adequately administered the promissory notes program in accordance with public law.

A total of 21 promissory notes totaling $3.2 million (M) were issued to vendors for unpaid obligations in fiscal year (FY) 2007. Of this amount, $2.2M was applied to GRT and a balance of approximately $1M remains outstanding as of September 30, 2007. Specifically, we found:

- 15 promissory notes totaling $1.9M were for Guam Public School System (GPSS) vendors who provided janitorial, photocopying, security and landscaping services. A total of $1.1M was applied to GPSS vendors' GRT.

- 6 promissory notes totaling $1.3M was for General Services Agency (GSA) government fuel expenses. A total of $1.1M was used to offset taxes due the government of Guam.

Although the government's promissory note program has been available for the last 20 years, vendors have only recently begun using promissory notes as a means of accepting payment. According to DOA's General Accounting Supervisor, the increased use of promissory notes results from the government's lack of cash to meet obligations and the growing awareness of the program among vendors.

The program's enabling legislation specifies that promissory notes "may be used by the bearer for payment of tax or other obligation due the government of Guam." We found no evidence that promissory notes were applied to obligations other than to GRT. However, we found that:

- Two GPSS vendors sold their notes and allowed them to be utilized by other vendors for their tax obligations.
- GPSS promissory notes were issued without the required aging reports.

These conditions occurred because the law governing promissory notes did not establish controls over the sale and transfer of promissory notes and GPSS did not certify and prepare the required reports for aged vendor accounts.

Prior to the FY 2008 Budget Act (P.L. 29-19), the promissory note program was a debt instrument that reduced the government of Guam's collection of tax revenues. The FY 2008 Budget Act,[3] passed on September 23, 2007, made significant amendments to the administration of the promissory notes program. In particular, the Budget Act specifies that all promissory

[2] As of November 28, 2007, DOA provided a DRT summary schedule of GRT offsets for promissory notes. DOA did not provide official journal vouchers from DRT indicating credit balances.
[3] P.L. 29-19, Chapter VIII, Section 7.

notes issued after October 1, 2007 are non-transferable and cannot be applied against gross receipt taxes. As a result, it eliminates the tax credit previously offered and places emphasis on the government of Guam to have cash available to pay its obligations. Additionally, the Budget Act placed a ceiling on the amount of debt the government can utilize in promissory notes. In the current year, all promissory notes issued cannot exceed two percent of the General Fund's expected revenue forecast.

DOA Vendor Promissory Notes

In FY 2007, DOA issued six promissory notes totaling approximately $1.3M to one vendor (Vendor 1). The promissory notes were issued to cover fuel expenses for GSA fleet services. Our review indicated that this vendor used over $1M of its promissory notes to offset GRT. As of September 2007, only one promissory note totaling $226,366 remains outstanding for this vendor. See Table 1 for details.

Table 1: DOA Promissory Notes Issued in FY 2007

Vendor	Promissory Note #	Beginning Balance	GRT Credit	Ending Balance
Vendor 1	07-006	$302,910	$302,910	$
Vendor 1	07-014	$200,867	$200,867	$
Vendor 1	07-017	$167,884	$167,884	$
Vendor 1	07-019	$199,465	$199,465	$
Vendor 1	07-020	$186,672	$186,672	$
Vendor 1	07-023	$226,366	$	$226,366
	Totals	**$1,284,164**	**$1,057,798**	**$226,366**

GPSS Vendor Promissory Notes

The GPSS Promissory note process requires account reconciliation between three entities; DOA, GPSS, and Department of Revenue and Taxation (DRT).[4] The process requires a review of the aged open invoice reports. Upon certification of this report by GPSS and approval from the DOA Director, the promissory note is issued and then the vendor may use the note to offset GRT due the government of Guam. DRT then processes the note for tax offset. If the principal amount of the note is not completely used, DRT stamps and certifies the outstanding balance on the note for future tax offsets. Our review was limited to records maintained at DOA, as the Division of Accounts is responsible for the reporting and administration of promissory notes. We did not review DRT systems for recording promissory notes.

GPSS had the most number of vendors that utilized promissory notes of the 21 promissory notes issued. A total of 15 promissory notes amounting to $1.9M were issued to eight GPSS vendors in FY 2007. GPSS vendors applied over $1.1M in promissory notes to offset GRT, leaving a balance of $821,745 still to be applied. See Table 2 for details.

[4] Our audit was limited to work performed at DOA; therefore, we did not audit DRT journal vouchers.

Table 2: GPSS Promissory Notes Issued in FY 2007

Vendor	No. of Promissory Notes Issued	Amount of Promissory Note	GRT Credit	Outstanding Balance
Vendor 2	8	$971,449	$732,969	$238,480
Vendor 3	1	$245,372	$245,372	$
Vendor 4	1	$50,000	$46,488	$3,512
Vendor 5	1	$6,925	$	$6,925
Vendor 6	1	$62,919	$20,458	$42,461
Vendor 7	1	$35,233	$6,482	$28,751
Vendor 8	1	$533,083	$91,458	$441,625
Vendor 9	1	$59,990	$	$59,990
Totals	**15**	**$1,964,971**	**$1,143,226**	**$821,745**

Sale and Transfer of Promissory Notes
5 GCA § 22415 provides for the Director of Administration to issue a one-year negotiable [5] promissory note. According to the DOA General Accounting Supervisor, promissory notes that exceed a one-year period would warrant the payment of the 7% interest. 5 GCA § 22415 was silent on what happens after one year, for the remaining balance on promissory notes. A negotiable instrument, such as a promissory note, represents money that can be payable to another by delivery and/or endorsement, signing one's name on the back of the note either with no instructions or directing it to another such as, pay to the order of.

The law governing promissory notes did not establish controls over the sale and transfer of promissory notes. As such, we found that two vendors sold (transferred) their notes and allowed other businesses to utilize the notes to offset their GRT. The vendors sold their promissory notes to obtain working capital for their operations. A total of 26 transfers occurred with six promissory notes. Vendor 2 made 25 transfers, while Vendor 4 made one transfer. See Table 3 for details.

Table 3: Summary of Transferred Notes

Vendor Name	Number of transfers	Beginning Balance	Amount Used	Note Balance
Vendor 2	25	$ 564,443	$ 564,381	$ 62
Vendor 3	1	$ 245,372	$ 245,372	$ -
		$ 809,815	**$ 809,753**	**$ 62**

According to DOA's management analyst, the frequent transfer of notes makes the accounting, bookkeeping, and administration of notes difficult for the entities involved. DOA relies on DRT to accurately track notes transferred among the various vendors who submit claims. Because of

[5] Source: Legal Dictionary http://legal-dictionary.com

this, there may be a higher risk of reporting errors when multiple vendors are claiming tax credits from one promissory note.

We contacted the two primary GPSS vendors to find out why these transfers occurred. The Chief Executive Officer (CEO) of Vendor 2 stated that the promissory note program is a necessity for the government of Guam. He stated that the government of Guam placed his business in jeopardy by failing to pay for services already rendered. As a result of the government's inability to pay amounts due timely, his company needed to secure a line of credit and sold promissory notes to other local businesses to fund its continued operations. The CEO expressed concern that the FY 2008 Budget Act's changes to the promissory note program leaves vendors with even fewer options for being paid timely.

Failure to Prepare Aging Reports

Of the 15 promissory notes issued for GPSS, we found nine notes, or 60%, totaling $1.1M were issued without the required aged invoice reports and certification of accounts payable. Further, GPSS did not certify by signature on another promissory note totaling $110,089.

DOA processed and issued the nine promissory notes based on the accounts receivable report prepared by the vendors. Without GPSS performing the proper reconciliation of vendors' account payables and certifying the report, the government of Guam may have issued promissory notes inaccurately or in excess of amounts actually owed to vendors.

DOA management recognized this problem and met with GPSS on August 15, 2007 to discuss GPSS responsibilities for requested promissory notes. As a result of the meeting, GPSS issued the required aged open invoice report for the remaining promissory notes issued in FY 2007 totaling $789, 102.

Promissory Notes Effect on Appropriation

Since GPSS is reliant on General Fund appropriations, the DOA Director has authority to reduce the GPSS appropriations for promissory notes. DOA charges the promissory note balances issued on behalf of GPSS against GPSS' appropriation account. In FY 2007, GPSS was appropriated $181M and the department issued approximately $2M in promissory notes. Of the $2M, DOA charged $1.9M against GPSS' FY 2007 appropriation account. The remaining $59,990 will be charged against GPSS' FY 2008 appropriations.

The DOA Director does not have authority to reduce promissory note balances of autonomous agencies since they do not receive General Fund appropriations. However, the liability for promissory notes issued on behalf of autonomous agencies has the potential to shift to the General Fund. Without a control measure for appropriation reduction, DOA has no way of offsetting prior year obligations of agencies that do not pay contracted vendors, thus unpaid liabilities could add to the General Fund deficit reported at $524M as September 30, 2006.

We found that no coordination or communication existed between DOA and Bureau of Budget and Management Resources (BBMR) in the issuance of promissory notes pursuant to 5 GCA,

§22415. However, the BBMR Director informed us that there would be continued dialogues to ensure continued compliance on the appropriation levels of government of Guam agencies.

Changes in Legislation for Promissory Notes

Legislation for promissory notes has been in effect for 20 years. 5 GCA § 22415 provides the parameters for promissory notes issued from 1987 to 2007. The FY 2008 Budget Act (P.L. 29-19) amended these parameters. See Table 4 for a summary comparison.

Table 4: Summary of Legislation for Promissory Notes

Old Legislation	New Legislation
5 GCA Chapter 22 §22415	FY 2008 Budget Act
▪ One year negotiable promissory note	▪ One-year non-transferable note
▪ Applicable to gross receipt taxes	▪ Not applicable to gross receipt taxes
▪ Bearing interest at 7% per annum	▪ Bearing interest at 6% per annum
▪ Director of DRT involved with promissory note offset during FY 2007 and prior years	▪ With the elimination of tax credits, the Director of DRT is no longer involved with promissory note offset during the current fiscal year
▪ Law silent on threshold amount for promissory notes	▪ Promissory notes issued in a fiscal year shall not exceed 2% of the General Fund total projected revenue pursuant to title 2 GCA, Chapter 13

The FY 2008 Budget Act improves the controls for issuing promissory notes and decreases the interest paid from 7% to 6% per annum. Additionally, vendors who provide services to the government can no longer utilize a promissory note as an offset against taxes or other obligations due the government.

Additionally, it restricts the threshold amount on issued promissory notes to no more than 2% of projected General Fund revenues. The FY 2008 Budget Act specifically states that promissory notes are non-transferable. The assistant Attorney General states, “an outstanding promissory note in the hands of a creditor of the government of Guam may no longer apply or be applied to any claim against him by the government of Guam.”

Meeting with Agency Officials

In January 2008, OPA met with the Director of DOA and the Deputy Director of DRT to discuss the promissory note program and the recent changes in law. According to the DOA Director, the promissory note program benefits vendors who are owed money because it provides payment in the form of relief from GRT. However, the DOA Director also pointed out that, while the vendors receive payments in tax offsets, the government of Guam suffers the reduction in cash receipts. DRT Deputy Director agreed and said the old law over promissory notes diminished cash collections on taxes owed.

The DOA Director stated that the FY 2008 Budget Act's changes to the promissory note program, eliminating tax credits, now compels the government to find cash to honor promissory notes. Both the DOA Director and the DRT Deputy Director agreed the FY 2008 Budget Act improved the overall accounting and management of the promissory note program. However, the DOA Director would also prefer the law be amended to add a restriction on the use of the program to line agencies that receive General Fund appropriations. This would enable the Director to reduce appropriations accordingly and establish better accounting control.

The OPA recognizes the significant changes made to the promissory note program in the FY 2008 Budget Act and applauds the Legislature for taking swift action to improve the overall accountability. We agree with the DOA Director and recommend that legislation include the restriction of promissory notes to executive line agencies that receive General Fund appropriations.

With that, however, another mechanism is needed to address promissory notes issued on behalf of autonomous agencies and all other government entities. The DOA Director cannot control appropriation release for agencies that do not receive General Fund appropriations and any defaulted notes could become the burden of the General Fund.

Conclusion

The government of Guam's financial difficulties is underscored by the growing General fund deficit fund balance, which is reported at $524M as of September 30, 2006. With the deficit comes problems funding operations and making vendor payments on a timely basis. The promissory note program attempts to address the government's cash shortage and its inability to timely pay obligations for contracted services. It extends the government's payment obligation to one calendar year, thereby providing it more time to pay for obligations.

Promissory notes used to offset vendor GRT reduces the available cash to the government of Guam. This program, as well as similar tax credit programs reduces the government's ability to pay obligations and fully fund government operations.

In just one fiscal year (2007) the government issued a total of $3.2M in promissory notes. The notes were being used primarily as credits to the GRT due from vendors holding the notes. As a result, the government of Guam has lost $2.2M in tax revenues and is obligated to pay the remaining $1 million in promissory notes. In addition, the government could be assessed up to $73,367 in interest if the remaining promissory note balances, are not paid within one year.

The Legislature took swift action in the FY 2008 Budget Act by eliminating the application of tax credits for promissory notes, placing a debt ceiling on promissory notes, and restricting the transferability of notes. We made two recommendations to further improve the rules and regulations for the administration of promissory notes: (1) restrict the issuance of promissory notes to executive line agencies which receive General Fund appropriations, and (2) DOA and DRT should provide a quarterly and annual report to the Legislature detailing the amount of promissory notes issued and the total amount of tax credits used as offsets.

We appreciate the cooperation shown by the staff, and management of the DOA, GPSS and DRT.

OFFICE OF THE PUBLIC AUDITOR

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1: Legal Authority & Recording of Promissory Notes

5 GCA § 22415 states that any creditor of the government of Guam (other than a tort claimant with a unadjudicated claim) who is not paid within 30 days of filing a claim may file a request to the Director of Administration for issuance of a one-year negotiable promissory note payable to the bearer at an interest rate of 7% per annum.

Any such promissory note may be used by the bearer at the face value plus accrued interest for payment of tax or other obligation due the government of Guam. If only part of the promissory note is used for such purpose, the Director of DRT may make a notation of partial redemption on the back of the note indicating amount redeemed, date, balance due, etc., or may issue a new promissory note with the same expiration date for the balance due. At the request of the bearer, any excess amount may be credited against future obligations at no additional interest. The promissory note may not be used in payment of sums due autonomous agencies or other instrumentalities of the government of Guam.

Process for Recording Promissory Notes
The following table illustrates DOA's process for the accounting process for a promissory note.

Table 5: Accounting of Executive Line Agency Promissory Note[6]

	Debit	Credit
Vendor Accounts Payable	$ 200,990	
Accounts Payable-Promissory Notes		$ 200,990
To establish and record Promissory Note		
Cash	$ 300,000	
Accounts Payable-Promissory Notes	$ 200,990	
Revenue- Gross Receipt Tax		$ 500,990
To record payment of GRT and utilization of Promissory Note to offset $500,990 owed		

[6] The illustration is hypothetical and does not reflect an actual amount issued to a vendor in a promissory note.

Appendix 2: Scope, Methodology and Prior Audit Coverage

Scope
The scope of our work spans the period from October 1, 2006 to September 30, 2007. Our audit included changes in legislation for FY 2008. We reviewed DOA's enabling legislation, prior audits, AS400 accounting system, standard operating procedures, applicable laws, and other relevant documents pertaining to DOA's administration of the promissory note program. Our review was limited to records maintained at DOA; we did not review GPSS and DRT systems for the accuracy of recording promissory notes.

Methodology
The methodology included gaining an understanding of the policies, procedures, and applicable laws and regulations pertaining to DOA's issuance of promissory notes.   We researched prior audits, management reports, examined OPA hotline tips relevant to this engagement, and assessed internal controls through questionnaires and interviews with key personnel. We also conducted walkthroughs to better understand current accounting processes for the issuance of promissory notes for executive line agencies and autonomous agencies, and the Department of Revenue and Taxation's offsets of gross receipts taxes. We tested 21 promissory notes totaling $3.2 million to determine whether notes were issued in accordance with laws, rules, regulations, and operating procedures pertaining to the promissory note program.

Our audit was conducted in accordance with the standards for performance audits contained in the 2003 *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the analysis to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. Accordingly, we obtained an understanding and performed an evaluation of the internal controls of DOA. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Prior Audit Coverage
While promissory notes have been allowed for 20 years, the use of promissory notes started in Fiscal Years 2006 and 2007. As such, no prior audit has been conducted of the promissory note program.

Appendix 3: Schedule of Promissory Notes

Agency	Vendor Name	Amount of GPSS Note	Amount of Line Agency Note	Effective Date of Note	Promissory Note Number
GPSS	Vendor 2	$238,417		9/11/2006	07-001
GPSS	Vendor 2	$124,424		2/26/2007	07-002
GPSS	Vendor 3	$245,372		5/2/2007	07-004
GPSS	Vendor 2	$124,424		3/16/2007	07-005
DOA	Vendor 1		$302,910	3/20/2007	07-006
GPSS	Vendor 2	$91,638		4/18/2007	07-007
GPSS	Vendor 4	$50,000		4/18/2007	07-008
GPSS	Vendor 5	$6,925		5/7/2007	07-009
GPSS	Vendor 2	$121,659		5/2/2007	07-010
GPSS	Vendor 6	$62,919		6/8/2007	07-011
GPSS	Vendor 2	$110,089		6/5/2007	07-012
GPSS	Vendor 3	$116,632		6/18/2007	07-013
DOA	Vendor 1		$200,867	6/18/2007	07-014
GPSS	Vendor 2	$44,164		8/30/2007	07-015
GPSS	Vendor 7	$35,233		7/12/2007	07-016
DOA	Vendor 1		$167,884	7/17/2007	07-017
GPSS	Vendor 8	$533,083		8/29/2007	07-018
DOA	Vendor 1		$199,465	8/22/2007	07-019
DOA	Vendor 1		$186,672	9/14/2007	07-020
GPSS	Vendor 9	$59,990		9/19/2007	07-021
DOA	Vendor 1		$226,366	9/28/2007	07-023
	Total Amount	**$1,964,971**	**$1,284,164**		
	Issued Promissory Notes Grand Total		**$3,249,135**		

Appendix 4: Department of Administration's Management Response

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
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Lieutenant Governor

Lourdes M. Perez
Director
Joseph C. Manibusan
Deputy Director

MAY 05 2008

Mrs. Doris Flores Brooks
Public Auditor
Office of the Public Auditor
238 Archbishop Flores Street
Suite 401 Pacific News Building
Hagatna, Guam 96932

Re: Preliminary Draft Report – Fiscal Year 2007 Promissory Note Program

Dear Mrs. Brooks:

Hafa Adai! We have reviewed the OPA Preliminary Draft Report on the Promissory Note Program for fiscal year 2007 and we concur with your recommendations. As always, we are very appreciative of the efforts your office has taken to perform this audit.

Should you have any questions relating to this matter, please contact my office at 475-1101.

Sincerely,

LOURDES M. PEREZ
Director of Administration

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Appendix 5: Status of Audit Recommendations

Status of Audit Recommendations
Government of Guam Promissory Notes Program
Status as of May 2008

	Audit Recommendation	Status	Action Required
1	Restrict the issuance of promissory notes to executive line agencies which receive General Fund appropriations.	DOA management concurs/Additional information required.	Seek Legislation to restrict the issuance of notes to executive line agencies receiving General Fund appropriations.
2	DOA and DRT should provide a quarterly and annual report to the Legislature detailing the amount of promissory notes issued and the total amount of tax credits used as offsets.	DOA management concurs/Additional information required.	DOA and DRT to establish formal reporting procedures and designate staff to ensure quarterly and annual reports are being submitted to the Legislature.

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