

Management Letter

Government of Guam

Year ended September 30, 2023





February 7, 2025

Management and Those Charged with Governance
Government of Guam

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GovGuam’s internal control. Accordingly, we do not express an opinion on the effectiveness of GovGuam’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 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 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.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

A. DIVISION OF ACCOUNTS

1. General Ledger Reconciliations

Comment 1: Opening net position should be reconciled to the audited prior year ending net position. Opening net position was not reconciled for the following funds:

<u>Fund Description</u>	<u>Per 2022 Financial Statements</u>	<u>Balance per 2023 General Ledger</u>	<u>Variance</u>
General Fund (100)	\$(51,689,481)	\$(56,164,080)	\$(4,474,599)
Tourist Attraction Fund (206)	\$ ---	\$ 2,453,798	\$ 2,453,798
Healthy Futures Fund (602)	\$(3,733,047)	\$(1,687,052)	\$ 2,669,395

A. DIVISION OF ACCOUNTS, continued

1. General Ledger Reconciliations, continued

Comment 2: School financed purchase obligations were overstated by \$8.972 million.

Comment 3: General Fund prepayments of approximately \$4.726 million were for lease payments that should be reported as expenditures. Such is included in the communication schedule of uncorrected misstatements (GL# 110019150).

Comment 4: General Fund bank reconciliations included \$1.585 million of unreleased checks and \$2.092 million of stale dated checks as of September 30, 2023; understating cash and understating liabilities. An audit reclassification was proposed to correct these misstatements.

In addition, a bank reconciliation included unrecorded cash collections to reduce taxes receivable due of \$3.537 million. Such is included in the communication schedule of uncorrected misstatements (GL# 110010420).

Comment 5: Special Revenue Fund 679 CARES Act Unemployment Assistance Fund cash account includes \$1.393 million of unrecorded cash transactions.

Comment 6: Bonds payable accounts were not adjusted to reflect current year retirements of \$17.735 million. An audit adjustment was proposed to correct this misstatement.

Comment 7: GASB Statement No. 87 leases were not adjusted to reflect current year changes. As of November 2024, over a year after fiscal year end, reconciliations were still ongoing. An audit adjustment was proposed to increase leased assets by \$1.280 million, increase depreciation by \$1.662 million and increase the related lease liability by \$0.856 million.

Comment 8: The General Fund reported an allowance exceeding receivable balance due by \$1.453 million. An adjustment was proposed to correct this misstatement.

Comment 9: A Special Revenue Fund bank reconciliation included \$1.393 million of unrecorded reconciling items. A subsequent adjustment was recorded to reduce cash and increase receivable due from federal agency (J23PC00015).

Recommendation: GovGuam management should develop and implement a Gantt chart for financial reporting purposes that includes the reconciliation of general ledger accounts with corresponding subsidiary ledgers at least monthly or quarterly. Furthermore, the Division of Accounts should assess whether additional personnel well-versed in accounting reconciliations or additional training of existing responsible personnel may be required to allow for accurate and complete financial reporting.

A. DIVISION OF ACCOUNTS, continued

2. Due from Legislature

Comment: The General Fund recorded an advance of \$726 thousand due from the Legislature since 2015. (DOA GL 110012360)

Recommendation: We recommend DOA pursue collection and consider such through offset of General Fund budget appropriations.

3. Accounts Payable, Deposits and Other Liabilities

Comment 1: \$1.227 million of General Fund accruals were not valid as of September 30, 2023 (GL 110021590). Such is included in the communication schedule of uncorrected misstatements.

In addition, \$5.601 million of General Fund accruals were not recorded as of September 30, 2023 (AS400 Ref: CK 0761316 and EFT 110123-D240660115). Such is included in the communication schedule of uncorrected misstatements.

Comment 2: The General Fund includes an accounts payable balance of \$2.335 million that is over five years old (GL 110021593, 110021591). Such is included in the communication schedule of uncorrected misstatements.

Comment 3: \$1.9 million of claims liabilities were not reported as of September 30, 2023. Such is included in the communication schedule of uncorrected misstatements.

Comment 4: \$7.733 million of unclaimed checks were not escheated to the General Fund as of September 30, 2023 (GL 110021511-3, 110021517). Such is included in the communication schedule of uncorrected misstatements.

Comment 5: General Fund deposits and other liabilities include \$2.910 million of collections (GL# 110023181, 110023274, 110023282, 110023329, 110023330, 110023350, 11002313D, 1100231N, 11002410B). In addition, \$1.031 million of this balance is related to collections from bus operations. As of September 30, 2023, \$1.584 million of invoices from bus services were not collected and, or adjusted.

Comment 6: The ARPA Assistance Fund did not accrue \$391 thousand for services incurred during fiscal year 2023. Such is included in the communication schedule of uncorrected misstatements.

Comment 7: The Federal Grants Assistance Fund did not accrue \$2.188 million for services incurred during fiscal year 2023. Such is included in the communication schedule of uncorrected misstatements.

A. DIVISION OF ACCOUNTS, continued

3. Accounts Payable, Deposits and Other Liabilities, continued

Recommendation: We recommend DOA consider current staffing patterns and how best to facilitate timely completion of the audit process which includes periodic scrutiny of account balances and reconciliations. Additionally, liabilities greater than four years should be considered for write-off to include timely escheatment of unclaimed checks.

4. Transaction Processing System (TPS) Receipts

Comment: TPS populations identified 25,519 in missing receipt # sequences between 1 and 25 for transactions between October 2022 and December 2023. When a transaction is cancelled, reversed or corrected, the TPS system automatically generates a new receipt # and replaces the previously assigned receipt #. The previously assigned receipt # is not searchable, and receipt # sequences are not monitored by management.

While there is no risk that cash is understated or misappropriated due to other mitigating controls, all receipt # sequences should be accounted for.

Recommendation: We recommend DOA review missing receipt # sequences and monitor the reasons for such occurrences at least on a monthly or quarterly basis to ascertain that no system issues occurred. Additionally, we recommend the Treasurer of Guam and Division of Accounts implement controls to ensure that collections are classified correctly.

5. Due from Guam International Airport Authority (GIAA)

Comment: The Special Revenue Fund for Customs, Agriculture and Quarantine Inspection (Fund 209) includes amounts due from GIAA of \$3.648 million. Correspondingly, GIAA recorded a liability payable to GovGuam of \$1.532 million. No reconciliation has occurred.

Recommendation: We recommend DOA establish internal control policies and procedures requiring reconciliation of amounts due to and from GIAA. Furthermore, we recommend DOA require GIAA to comply with Public Law 23-45 whereby GIAA is to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

6. Special Revenue Fund Deficits

Comment: The Department of Administration (DOA) should monitor special revenues funds. Certain special revenue funds have incurred expenditures in excess of revenues and or grants received, which resulted in interfund payable balances of \$804 thousand due to the General Fund. Repayment of these balances may not be expected within a reasonable time.

A. DIVISION OF ACCOUNTS, continued

6. Special Revenue Fund Deficits, continued

The following fund deficits were identified as of September 30, 2023:

<u>Special Revenue Fund</u>	<u>Fund deficit</u>
Street Light Fund (Fund 202)	\$488,502
Guam Regional Transit Authority (Fund 317)	\$356,078

A post-closing entry was provided by DOA to adjust the above fund deficits.

Recommendation: We recommend DOA periodically analyze special revenue fund deficits for interfund payable balances that may not be expected to be repaid, thereby requiring the reporting of operating transfers.

7. Personnel Data

Comment: The following employees were incorrectly designated by the Department of Administration Human Resource Division (HR).

<u>Employee</u>	<u>Designation per personnel action form</u>	<u>Per Certification of Membership Eligibility form</u>	<u>Payroll System Designation</u>
1182	Defined Benefit	Defined Contribution	Defined Benefit
9101	Defined Benefit	Defined Contribution	Defined Contribution

Recommendation: We recommend DOA HR division correct the employee retirement classification and implement internal controls to determine that the system has correct retirement designations to avoid issues with benefits paid by the employee and employer.

8. Implementation of GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

Comment: In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA’s) for government end users (governments).

Adjustments resulting from the adoption of GASB 96 had not been determined until October 2024, over a year after the end of the fiscal year. Total present value of the recorded SBITA liability and asset is \$5.507 million with an annual amortization for the current year of approximately \$1.909 million. Misstatements is included in the communication schedule of uncorrected misstatements and disclosures.

A. DIVISION OF ACCOUNTS, continued

8. Implementation of GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA), continued

Recommendation: GovGuam should consider designating personnel with the necessary skill set and knowledge of the applicable government accounting standards to prepare a complete GASB Statement No. 96 list of SBITA and maintain such records for ongoing pertinence. Additionally, management should consider automating the GASB Statement No. 96 identification, evaluation, computation, recording and reporting process through third-party service providers or advisors to avoid tedious reconciliations at each closing period.

9. Medically Indigent Program (MIP) and Medicaid Accruals

Comment: GovGuam did not assess the impact of potential liabilities for MIP and Medicaid transactions for the year ended September 30, 2023.

Recommendation: We recommend that GovGuam revisit and determine an estimation methodology for the accrual of MIP and Medicaid expenditures.

10. Amounts due from Federal Agencies

Comment: \$804 thousand of receivables due from federal agencies and intergovernmental revenues were not recorded when expenditures were determined to meet eligibility requirements. A proposed adjustment was included in the communication schedule of uncorrected misstatements. (Fund 5105H, Fund 605/642, Fund 692)

Recommendation: We recommend GovGuam hire qualified grant administrators and implement internal controls to monitor grants and perform timely requests for drawdowns and implement budgetary controls to prevent expenditures from exceeding the grant award amount.

B. TREASURER OF GUAM (TOG)

Real Property Tax Penalties and Interest

Comment: For six of thirteen (or 46%) real property tax samples selected for testing, such did not represent penalties and interest.

Recommendation: We recommend TOG classify collections correctly.

C. PUBLIC DEFENDER SERVICE CORPORATION (PDSC)

General Ledger Reconciliations

Comment: Opening net position should be reconciled to the audited prior year ending net position. Opening net position was not reconciled for the PDSC Operation Fund and PDSC Alternate Public Defender Fund.

Recommendation: PDSC should be able to provide a trial balance reconciled with prior year audited ending fund balance. Additional training of existing responsible personnel may be necessary to allow for accurate and complete financial reporting.

D. UNIFIED COURTS

Monitoring of Probation Accounts

Comment: The status of probation cases should be timely monitored to allow for the issuance of official court orders for the closure and write-off of uncollectible accounts. The related allowance is \$5.3 million, which includes expired probation cases that have had no movement for more than ten years. The non-collection has had minimal impact on GovGuam as most of the balance accrued is payable to the associated victim.

Recommendation: We recommend the status of probation cases be monitored to allow for legal and timely write-off of expired probation cases.

E. DIVISION OF ACCOUNTS/ CHILD SUPPORT ENFORCEMENT DIVISION

Unclaimed Checks - Child Support

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between DOA and CSED are on-going regarding the reconciliation between the AS400 and the APASI system to support unclaimed checks and reconcile aged balances, which date back more than 20 years. At September 30, 2023, a \$2.211 million unreconciled difference between the AS400 and APASI exists.

Recommendation: We recommend GovGuam, continue to address the Collaborative Action Plan, which entails the following: (1) inquiry from the bank to obtain copies of all associated records (cash collections and checks/EFT payments) during the period the child support accounts were held; (2) seek legislation to establish a period after which unclaimed child support payments will escheat to the Government. Since bank records are incomplete or are unavailable for two financial institutions prior to 2004, DOA and CSED are seeking legislation to waive the diligent effort requirements before unclaimed child support payments can be escheated for the period prior to 2004.

F. DEPARTMENT OF CORRECTIONS (DOC)

Unrecorded Liabilities

Comment: \$2.469 million of unbudgeted and unrecorded liabilities from current and previous years were identified by DOC that primarily related to medical related costs incurred by inmates. Due to the lack of information provided by DOC, DOA was not able to determine if these liabilities were already paid or recorded. Such is included in the communication schedule of uncorrected misstatements.

Recommendation: We recommend DOC incur liabilities for goods and services rendered, provided or received based on authorized legislative appropriations.

This communication is intended solely for the information and use of management and the Government of Guam, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We would be please to discuss the above matter or to respond to any questions, at your convenience.

Ernst + Young LLP