

**Department of Administration
Special Revenue Funds**

**Performance Audit
October 1, 2012 through September 30, 2017**

**OPA Report No. 19-02
March 2019**



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EXECUTIVE SUMMARY
Department of Administration Special Revenue Funds
OPA Report No. 19-02, March 2019

A Special Revenue Fund (SRF) is an account established by a government to collect money that must be used for a specific project. An SRF provides an extra level of accountability and transparency to the taxpayers in that their tax dollars will go toward an intended purpose. As of September 30, 2017, the Department of Administration (DOA) managed 194 SRFs, of which 108 were active and 86 were inactive.

\$45.5M Permanent Transfers from SRFs to the GF Contrary to SRFs Legislative Purposes

From fiscal year (FY) 2013 to FY 2017, DOA had borrowed cash totaling \$45.5 million (M) from 49 SRFs to pay for the General Fund (GF)'s expenses. The borrowings are treated as permanent transfers if repayment is not expected within a reasonable period to comply with the Governmental Accounting Standards Board No. 34. Use of SRF for general government expenses are contrary to the purposes for which these SRFs were created. SRF projects are at risk of failure if these borrowed funds will not be repaid.

The 21 SRFs covered by this audit made \$39.0M in permanent transfers, 12 of which made permanent transfers above \$1.0M as follows:

SRFs with Permanent Transfers above \$1.0M

	Fund No.	Fund Name	Amount
1	619	Recycling Revolving Fund	\$ 10,603,369
2	205	Territorial Educational Facility Fund	\$ 4,326,008
3	208	Guam Highway Fund	\$ 4,208,256
4	281	Enhanced 911 Emergency Report System	\$ 3,880,716
5	231	Fire, Life, and Medical Emergency Fund	\$ 2,549,183
6	655	Limited Gaming fund	\$ 1,834,260
7	600	Environmental Health Fund	\$ 1,788,958
8	202	Street Light Fund	\$ 1,723,219
9	235	DPW Building & Design Fund	\$ 1,230,290
10	241	Health Professional Licensing Fund	\$ 1,148,487
11	213	Guam Contractors Fund	\$ 1,121,428
12	602	Healthy Futures Fund	\$ 1,003,399
		Total	\$ 35,417,573

DOA borrowed funds from SRFs to pay for government payrolls, tax refunds, bonds, etc. due to the GF's deficit from FY 2014 to FY 2017 ranging from \$59.6M to \$119.1M. The Treasurer of Guam (TOG) made electronic fund transfers based on approval from the DOA Cash Management Committee. According to the DOA Director, DOA utilized idle and unused SRFs due to pressure from the recurring GF deficit.

Permanent Transfers Were Without Prior Consent from Agency Directors

The DOA Director did not seek prior consent and authorization from the Agency Directors or Fund Administrators before borrowing from the SRFs. DOA sent letters to the Agency Directors two to five months from the end of the fiscal years to inform them of the total funds borrowed and the non-availability of these borrowed funds for future SRF needs. The Agency Directors signed the acknowledgment letters

except for all FY 2013 permanent transfers when no acknowledgment letters were sent. The practice of sending permanent transfer acknowledgment letters started in FY 2014.

In November 2018, the Public Auditor sent letters to the Agency Directors encouraging them to refrain from acknowledging permanent transfers for FY 2018.

Noncompliance with Some Provisions of the Budget Act and/or Public Laws

The permanent transfers from the SRFs to the GF did not comply with the General Appropriations Act for FY 2013 through FY 2017. Using appropriations from SRFs was allowed only in the General Appropriations Act for FY 2018. In addition, the permanent transfers from the SRFs to the GF did not comply with the following SRF provisions:

- Unexpended appropriations shall revert to the SRFs on the last day of the fiscal year.
- Expenses up to the level of revenues collected for the fiscal year and expended carryovers are only for authorized purposes.
- Not subject to transfer authority of the Governor.
- Approval requirements for disbursements and deposits such as:
 - Enhanced E911 Emergency Reporting System Fund - *“expressed approval of the Legislature”*, and
 - Fire, Life, and Medical Emergency Fund - *“upon request for expenditures by the Fire Chief.”*

Some SRFs were Supplemented by the GF

During the five-year period, DOA also transferred \$29.4M from the GF to pay for the deficit of the 16 SRFs. For the seven SRFs covered by this audit, total permanent transfers from the GF amounted to \$28.8M.

Expenditures Exceeded Appropriations and/or Revenues

Most of the SRFs’ deficits were due to a funding shortfall. Eight SRF expenditures exceeded their appropriations while seven exceeded their revenues. Of these over expenditures, four SRFs exceeded both their appropriations between \$24 thousand (K) to \$14.0M and their revenues between \$771K and \$15.2M during the five-year period. These over expenditures resulted in a zero, minimal, or deficit SRF balances. It should be noted, however, that fund balances showed signs of improvement as the balances have been increasing during the period examined.

Collections Untimely Deposited to the SRF Bank Accounts

The TOG initially deposits all collections received from the agencies or satellite stations to the GF bank account. TOG should electronically transfer these deposits to the intended SRF bank accounts the following banking day. However, the transfers for some SRFs were done several days after the collection due to the GF’s insufficient funds caused by the temporary use of SRFs.

Inconsistent Governance Provision on Roles and Responsibilities of Fund Administrators

Enabling legislations creating some SRFs did not clearly define the responsible agencies and officials who will administer and manage the funds. Hence, the concerned agencies did not appear to ensure compliance of the SRFs’ intended purposes, spending and fund transfer restrictions, and other required processes. This leaves DOA with managing, recording, monitoring, reconciling, and reporting these funds.

No Specific Policies and Procedures for SRFs

DOA has no written policies and procedures to establish roles and responsibilities regarding the SRFs, such as to: (1) create a new fund account in the AS400 system, (2) authorize and process interfund transfers and borrowings, (3) perform interfund reconciliations, and (4) close inactive funds. Documented policies and procedures for the SRFs should be in place to ensure operational efficiency, consistency, and accountability.

Law Inconsistent in Requiring Separate Bank Accounts

The enabling legislations were not consistent in requiring that SRF revenues have to be deposited in separate bank accounts. It merely states that funds must be kept separate and apart from all other funds of the government. Accordingly, SRF revenues were deposited and commingled in the GF's bank account. This practice gave DOA the sole discretion to use the funds based on the GF's needs. DOA stated that even if SRF funds were borrowed, it made sure that there are available funds to pay for SRF expenditures when needed.

A Large Number of SRFs & Lack of Implementation of Prior Audit Recommendation

GovGuam manages 194 SRFs, of which 108 were active and 86 were inactive. Several of these inactive SRFs were still not repealed despite prior audit recommendations. Of the 86 inactive SRFs, eight have negative balances (deficit) ranging between \$0.25 to \$519K. Remaining balances of inactive SRFs should be cleared, closed, and transferred to the GF, if permitted, by the Legislature. Too many funds could cause non-flexibility and complexity in budgeting, accounting, monitoring and other phases of financial management.

Conclusion and Recommendations

The Legislature, DOA, and the Agency Directors need to address the ineffective fund management and noncompliance with the SRFs' utilization, purpose, and transfers. Improper use of SRFs could potentially affect public health, public safety, and deprive social and economic benefits for which these SRFs were created. There could be possible legal implications if provisions of federal laws, which may also oversee the funds, are violated. SRFs should be properly managed by the Agency Directors or Fund Administrators in close coordination with DOA to ensure maximum utilization of these funds for public benefits as these are intended.

For this audit, we made seven recommendations to the DOA Director, three to the Legislature, and one to the Agency Directors or Fund Administrators.

Benjamin J. F. Cruz
Public Auditor

Introduction

This report presents the results of our audit of the Department of Administration's (DOA) 25 selected Special Revenue Funds (SRF) from October 01, 2012 to September 30, 2017. The audit was part of the Office of Public Accountability's (OPA) 2017 annual work plan and to partly address the concerns of the 34th Guam Legislature on the use of certain SRF accounts to pay for general government expenses.

The audit objectives were to determine if:

1. SRFs were expended in accordance with their legislative purposes and were effectively managed; and
2. Inactive SRFs were closed in accordance with the law.

The scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

General Fund

A General Fund (GF) is the chief operating fund (major fund) and the most significant of all Government of Guam (GovGuam) funds. It accounts for all governmental transactions, except those required to be accounted for in another fund (special purpose funds). Since the bulk of resources flow through the GF, it is critical to maintain control over the expenditures from it.

Special Revenue Funds

An SRF is established to account for revenues that are legally restricted for a specific purpose. These SRFs provide an extra level of accountability and transparency to taxpayers that their tax dollars will go toward an intended purpose. These funds are also known as accounting tools used for administrative, financial, management, and transparency and purposes to separate and track incoming funds (revenues) when the expenditure is restricted for a specific purpose.

Department of Administration

DOA is the central agency responsible for providing a system of uniform financial management and internal accounting controls for the GovGuam line organizations. Per Title 5 of the Guam Code Annotated (GCA) Chapter 22 §22203, the DOA Director shall account in the SRFs all proceeds of specific revenue sources or to finance specific activities as required by law.

DOA Organization and Function

The DOA Division of Accounts (DOA-DA) and the Treasurer of Guam (TOG) are two divisions within DOA that are involved with handling the SRFs. The Financial Manager oversees both the DOA-DA and the TOG.

Division of Accounts

The DOA-DA is responsible for ensuring GovGuam's financial integrity and promoting an efficient, effective, and accountable government. It is responsible for:

1. Handling the accounting of the GF, SRFs, and all other funds of GovGuam;

- Maintaining the financial data of all line agencies, excluding the Guam Department of Education (GDOE); and
- Preparing the daily Cash Management Report to guide DOA Cash Management Committee in its management of cash/funds. The Cash Management Committee is composed of the DOA Director, Deputy Director, DOA-DA General Accounting Supervisors and staff members, as well as the TOG personnel.

Treasurer of Guam

The TOG oversees the overall operations of the Treasury Office and is the custodian of all matters dealing with GovGuam bank accounts. It is responsible for:

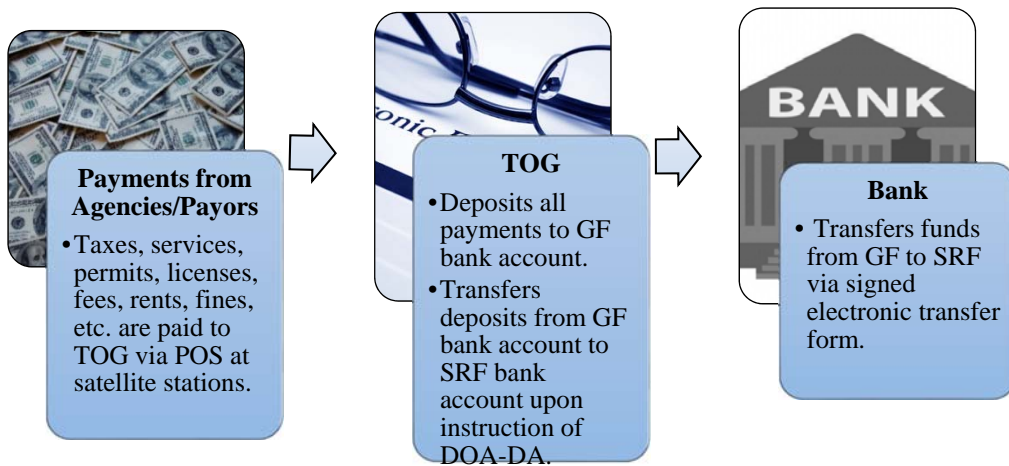
- Maintaining the daily cash collection activities, administrative control for receipts, and cash for government services and charges utilizing the new point-of-sale (POS) system;
- Performing the electronic fund transfers; and
- Distributing payroll checks and other related government disbursements.

SRF Processes

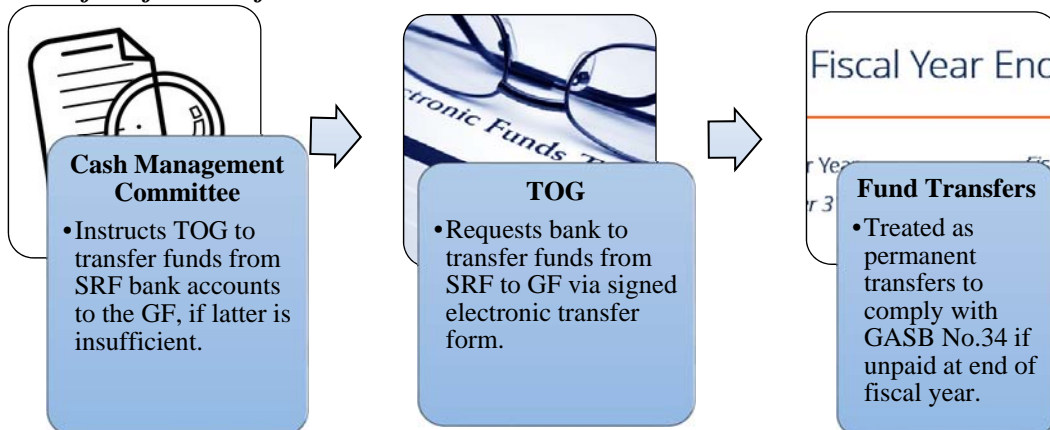
Revenue Collections and Fund Transfers

DOA-DA personnel conducted a walkthrough to explain the handling of all SRF activities. See the illustrations below for the DOA-DA’s process of SRF activities.

A. SRF Revenue Collections



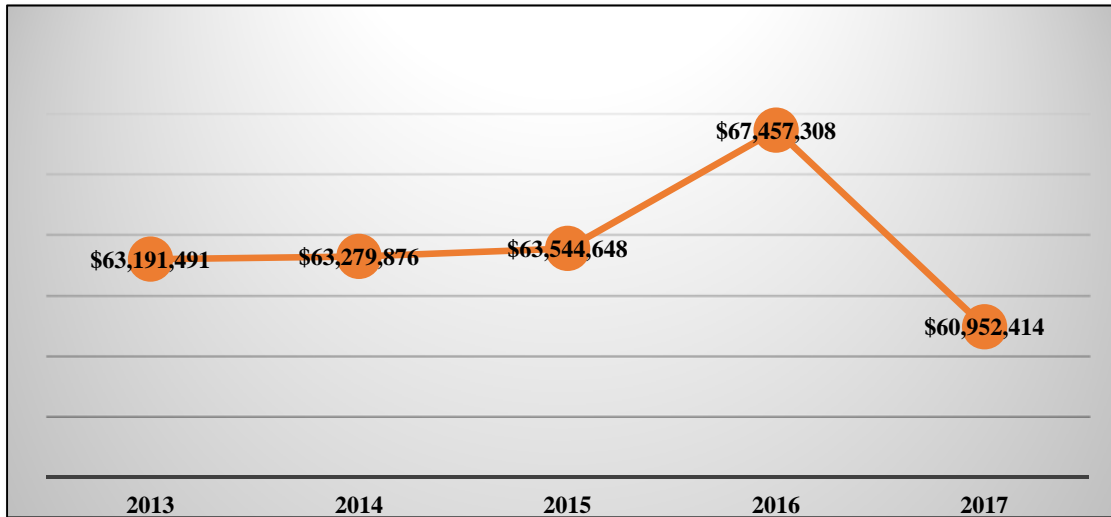
B. Transfer of Funds from SRF Bank Accounts to GF Bank Accounts



SRF Five-Year Trend

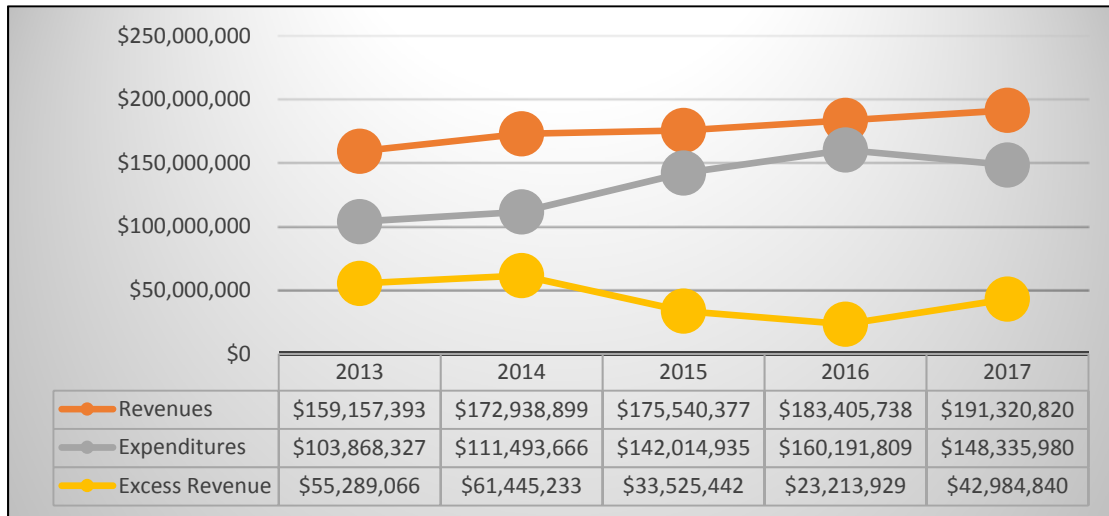
Based on GovGuam’s Audited Financial Statements for FY 2013 through 2017, we gathered the trend of SRF balances as shown in Graph 1. For the five-year period, the total SRF fund balance ranged from \$61.0 million (M) to \$67.5M.

Graph 1: Trend of SRF Fund Balance



Graph 2 shows total revenues, expenditures, and excess of revenue over expenditures.

Graph 2: Selected SRF Financial Accounts



Governmental Accounting Standards Board (GASB)

- GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
 - Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements.
 - If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions
 - SRFs are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than the debt service or capital projects.
 - Restricted or committed revenues may be initially received in another fund and subsequently distributed to an SRF. Those amounts shall not be recognized as revenue in the fund initially receiving them; however, those should be recognized as revenue in the SRF in which they will be expended in accordance with its specific purpose.

Results of Audit

The Legislature, DOA, and the Agency Directors need to address the ineffective fund management and noncompliance with the SRFs' utilization, purpose, and transfers. Improper use of SRFs could negatively affect public health, safety, and deprive social and economic benefits for which these SRFs were created. We questioned the \$39.8M expenditures from these funds.

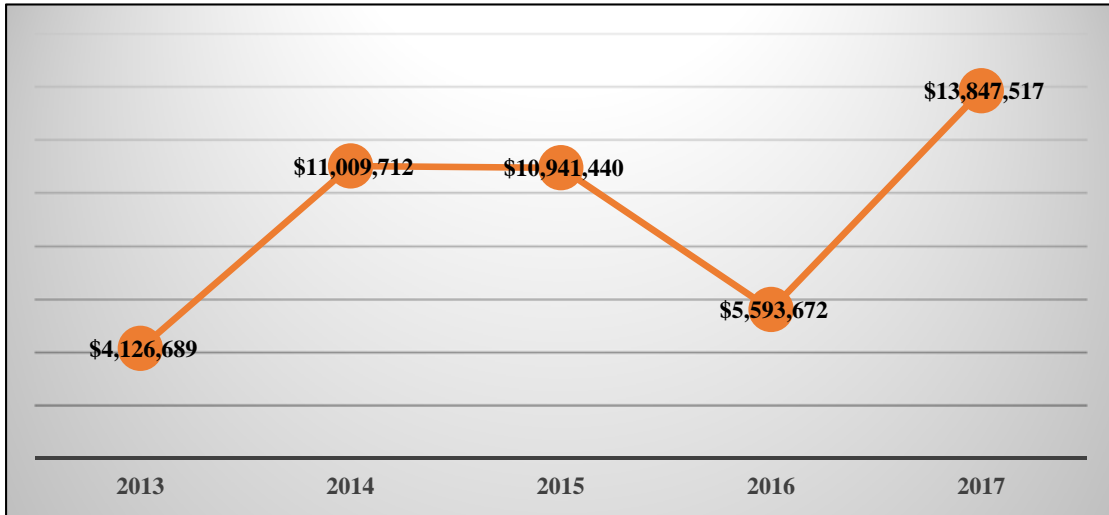
We found that:

- There were \$45.5M in permanent transfers from the SRFs to the GF. Of the \$45.5M, \$39.0M were covered by this audit which we found to be contrary to the SRF's legislative purposes;
- Permanent transfers were made without prior consent from Agency Directors or Fund Administrators;
- Approvals for some electronic fund transfers were not properly documented;
- Some provisions of Budget Acts and Public Laws were not complied with;
- A number of SRFs were poorly managed;
 - Expenditures exceeded their appropriations and/or revenues;
 - SRF cash balances reduced to zero or minimal amounts;
 - Revenues not timely deposited to SRF bank accounts.
- Inconsistent governance provisions on the roles and responsibilities of Agency Directors or Fund Administrators;
- Inconsistent law requirement to have separate bank accounts for the SRFs;
- No specific written policies and procedures to ensure effective accounting, monitoring, and managing of SRFs; and
- A large number of SRFs exist at DOA, which include several dormant and inactive funds.

\$45.5M in Permanent Fund Transfers Contrary to SRFs' Legislative Purposes

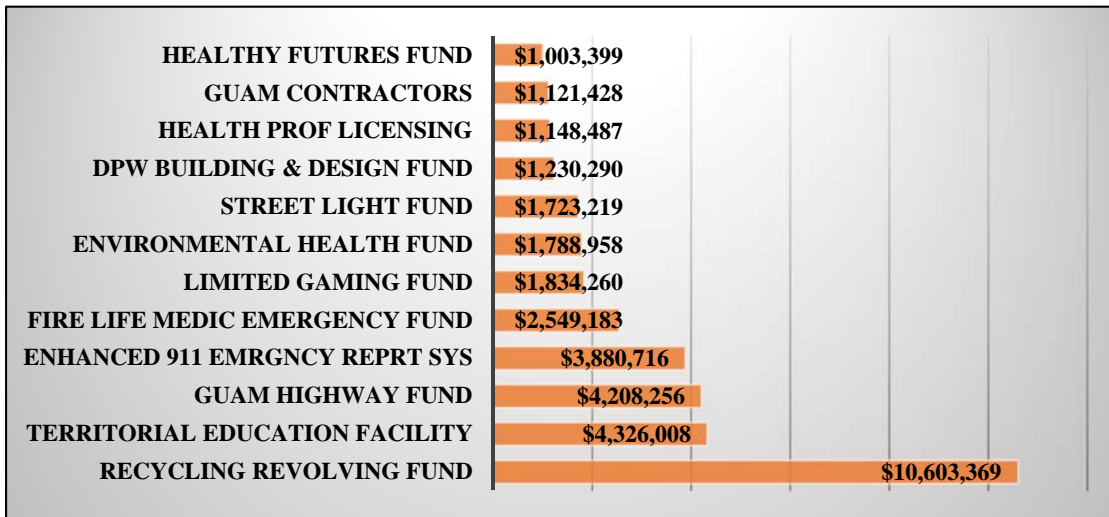
From FY 2013 to FY 2017, DOA had permanently transferred (borrowed) funds totaling \$45.5M from 49 SRFs to pay for the GF's expenses such as payroll, tax refunds, bonds, interest, etc. On an annual basis, total permanent transfers ranged from \$4.1M to \$13.8M for the five-year period covered, as shown in Graph 3. Refer to Appendix 3 for the list of all permanent transfers.

Graph 3: Permanent Fund Transfers from SRF to GF



Using the SRF to pay for general government expenses is contrary to the purposes for which they were legally created. The intended project or purpose is at risk of failure if these borrowed funds will not be paid. We recommend the DOA Director ensure that all inter-fund borrowings be paid before the end of the fiscal year. This audit covered 21 SRFs with \$39.0M total permanent transfers. Of the 21, 12 SRFs made permanent transfers above \$1.0M totaling \$35.4M from FY 2013 to FY 2017. See Graph 4 for details.

Graph 4: Permanent Transfers from SRF to GF above \$1.0M



GF Deficit for Several Years

According to the former DOA Financial Manager, there were plenty of times when DOA needed to use SRFs to pay tax refunds, payroll, and other general government expenses. The current DOA Director stated that due to the pressure from recurring GF deficit, DOA utilized idle and unused SRFs to meet ongoing obligations. Further, he stated that had DOA spent these available funds, it would not have been available to the GF.

The GF experienced deficits for years caused by over expenditures. The GF has fluctuated from a positive \$2.3M fund balance as of FY 2013 to a negative \$73.0M fund balance as of FY 2017. See Table 1.

Table 1: GF Balance from FY 2013 to FY 2017

Fiscal Year	Total Revenues	Total Expenditures	Excess (Deficiency) of Revenue over Expenditure	Ending Fund Balance (Deficit)
2017	\$ 709,015,669	\$ 714,645,345	\$ (5,629,676)	\$ (73,002,632)
2016	\$ 685,742,547	\$ 734,442,962	\$ (48,700,415)	\$ (105,733,499)
2015	\$ 647,748,591	\$ 700,069,279	\$ (52,320,688)	\$ (119,100,127)
2014	\$ 647,563,489	\$ 797,456,847	\$ (149,893,358)	\$ (59,615,065)
2013	\$ 610,635,410	\$ 649,615,631	\$ (38,980,221)	\$ 2,326,897

According to the former DOA Director, the transfer of funds between the GF and the SRF were recorded as permanent transfers at the end of every fiscal year to comply with GASB No. 34. In her letter dated January 2018, noncompliance will result in a “modified opinion” for GovGuam’s audited financial statements. A modified audit opinion will have a significant effect on GovGuam’s credit rating, investors, bondholders, federal partners, and all stakeholders.

Permanent Transfers Made Without Prior Consent from Agency Directors

The former DOA Director acknowledged that the GF has not been able to pay the SRF since FY 2014 due to GovGuam’s perpetual cash shortage. In a January 2018 letter, she instructed the Financial Manager to permanently transfer the unpaid borrowings from SRFs. Refer to Appendix 4 for a copy of the letter from the former DOA Director to the former Financial Manager.

The former DOA Director did not seek prior consent and authorization from the Agency Directors about transfers (borrowings) from SRFs. DOA sent permanent transfer acknowledgment letters to the Agency Directors two to five months from the end of fiscal year to inform them of the total funds borrowed and the non-availability of these borrowed funds for future SRF’s needs. According to the DOA Supervisor, the practice of sending permanent transfer acknowledgment letters started only in FY 2014. All Agency Directors signed the acknowledgment letters. See Table 2 below for the summary of the acknowledgment letters. See Appendix 5 for a sample letter from the former DOA Director to an Agency Director.

Table 2: Summary of Permanent Transfer Acknowledgment Letters

Fiscal Year	No. of Agencies /Departments	No. of SRFs	Total Transfer per DOA Schedule	Total Transfer per Acknowledgement Letter	Variance of Schedule and Letter	No. of Months after FY
2017	9	14	\$ 12,273,491	\$ 14,178,901	\$ 1,905,410	>3 months
2016	3	4	\$ 5,403,402	\$ 3,110,486	\$ (2,292,016)	>2 months
2015	8	12	\$ 7,937,861	\$ 5,630,264	\$ (2,307,597)	>4 months
2014	5	8	\$ 11,009,712	\$ 11,809,712	\$ 800,000	>5 months
2013	4	4	\$ 2,367,724	None	\$ (2,367,724)	None

Our review of the permanent transfer acknowledgment letters noted deficiencies.

- **FY 2017 Permanent Transfers**
 - \$6.9M permanent transfers from five SRFs did not have Acknowledgment Letters.
 - Two Acknowledgment Letters showed higher amounts totaling \$52 thousand (K) versus DOA's permanent transfer schedule.
- **FY 2016 Permanent Transfers**
 - \$2.3M permanent transfers from Guam Highway Fund did not have Acknowledgment Letter.
- **FY 2015 Permanent Transfers**
 - Acknowledgment letter for Limited Gaming Fund showed a lower amount by \$134K versus DOA's permanent transfer schedule.
- **FY 2014 Permanent Transfers**
 - Acknowledgment letter for the Recycling Revolving Fund showed a higher amount by \$800K versus DOA's permanent transfer schedule.
- **FY 2013 Permanent Transfers**
 - All permanent transfers of \$2.4M from four SRFs did not have Acknowledgment Letters.

There were public outcries regarding the improper use of funds of some SRFs, such as those created for GFD, GPD, DLM, GEPA, etc. In November 2018, the Public Auditor sent letters to the Agency Directors encouraging them to refrain from acknowledging permanent transfers for FY 2018. See Appendix 6 for a sample letter from the Public Auditor to an Agency Director.

We recommend the DOA Director refrain from borrowing funds from the SRFs to pay for general government expenses without proper authorization from Agency Directors or Fund Administrators.

Approvals for Some Electronic Fund Transfers Not Properly Documented

During the period covered, whenever the GF cash balance was insufficient to pay for general government expenses, the DOA Cash Management Committee would instruct the TOG to transfer (borrow) available cash from the SRF bank accounts.

A summary of checks issued by DOA to different payees and the corresponding fund accounts where funds will be taken were documented in the Check Register Transmittal (Approved to be Paid) form signed by the Cash Management Committee. It contained a notation authorizing a transfer from an SRF account. However, for the six sampled transfers to the GF to pay for various payees, two transfers from the Guam Highway Fund totaling \$868K were not properly authorized and approved as the "Approved to be Paid" form did not contain a specific instruction to transfer. Moving forward, we recommend the DOA Director properly document approval and authorization before the TOG performs electronic fund transfers.

Before the conclusion of this audit, DOA has strengthened its control by implementing a revised form called Check Register Transmittal to properly document authorization and approval for electronic fund transfers by the Cash Management Committee.

Noncompliance with the General Appropriations Act or Public Laws

Noncompliance with the General Appropriations Act (Budget Act)

Budget Acts contained the following provisions relative to the SRFs:

- FY 2013, 2014, and 2016 General Appropriations Acts
 - Granted the Executive Branch to transfer to the GF any cash available from the appropriated SRF, *provided what was withdrawn should be reimbursed to the Special Fund within 60 days after the date of transfer*. This was not specified under the General Appropriation Act for FY 2015 and FY 2017.

- FY 2015, 2016, 2017 General Appropriations Act
 - Specified restrictions on reversions, transfers, and use of some SRFs.

The FY 2018 General Appropriations Act authorized the use of appropriations from SRFs. However, this conflicted the statutory uses of the SRFs.

Chapter XIII of the Budget Act granted authority to the Governor of Guam to transfer up to 10% (for FY 2013) or 15% (for FY 2014 to FY 2017) between GF Executive Branch appropriations. However, some transfer restrictions on specified SRFs were not complied with.

1. Fund Reversions

Section 13 (FY 2013), Section 11 (FY 2014), Section 8 (FY 2015), and Section 7 (FY 2016, 2017) - All unexpended or unencumbered appropriations by a GG1, purchase order, or contract ***shall revert to the specified SRFs on the last day of the fiscal year***. However, the unused funds of the three SRFs on Table 3 have not been reverted as of the last day of the fiscal year.

Table 3: Transfers Not Reverted to the SRFs

SRF	FY Transferred	Total Transfers
Healthy Futures Fund	2014	\$ 1,003,399
Territorial Educational Facilities Fund	2017	\$ 4,326,008
Guam Highway Fund	2016 & 2017	\$ 4,208,256
	Total	\$ 9,537,663

2. Funding Source

Section 23 (FY 2013), Section 19 (FY 2014), Section 12 (FY 2015), and Section 13 (FY 2016, 2017) - The specified departments were authorized to expend up to the level of revenues collected from their respective SRFs for the fiscal year and unexpended carryovers in revolving funds authorized by law ***only for the purposes authorized by the statute for those funds***. However, funds from the seven SRFs on Table 4 were transferred to the GF totaling \$10.5M for purposes other than those authorized by their statutes.

Table 4: Transfers Out of SRF Not Used According to its Purpose

SRF	Purpose	FY Transferred	Total Transfers
Police Services Fund	Operations of the Guam Police Department.	2015	\$ 694,485
Guam Environmental Trust Fund	Prevent environmental problem and promote a safe and healthy environment.	2013, 2015, 2017	\$ 376,852
Land Survey & Revolving Fund	To continue and finish the survey, mapping, and registration of all government-owned real properties throughout the island.	2017	\$ 87,351
Enhanced 911 (E911) Emergency Reporting Systems Fund	Operations of the 911 call center, and purchase/lease/maintenance/engineering services of E911 hardware/software.	2014 - 2017	\$ 3,880,716
Fire, Life, and Medical Emergency Fund	Purchase essential emergency rescue and firefighting vehicles, life support, medical equipment, and the training, certification, and salary of certified paramedic firefighters.	2013, 2014, 2016, 2017	\$ 2,549,183
Guam Contractors License Board Fund	Protect the public by licensing the contractors of Guam.	2014, 2015	\$ 1,121,428
Environmental Health Fund	Support the functions of the Division of Environmental Health of DPHSS.	2014, 2015	\$ 1,788,958
Total			\$ 10,498,973

Noncompliance with Public Laws

Some specific provisions of the law restricting the deposits, use, transfers, and approvals on use of the funds were not complied with when permanent transfers were made to augment the GF's cash deficiency. See Table 5.

Table 5: Permanent Transfers Noncompliant with Public Laws

Fund Name	Requirements	P.L. Violated	Permanent Transfer
Recycling Revolving Fund	All proceeds from fees collected shall be used exclusively for the purposes of the collection, removal, and disposal of recyclable materials.	P.L. 27-38	\$ 10,603,369
	Not subject to transfer authority of the Governor.	P.L. 31-140	
E911 Emergency Reporting System	Shall be used solely for enhanced 911 equipment and system cost for the operation of 911 call/dispatch center, purchase of E911 hardware, software, and other related costs.	P.L. 25-55 P.L. 32-96	\$ 3,880,716
	Expenses need expressed approval by the Legislature.	P.L. 32-96 P.L. 33-41	
	Exempt from any other transfer authority.	P.L. 32-96	
Fire, Life, and Medical Emergency Fund	To purchase essential rescue and firefighting vehicle, emergency life support, medical equipment, etc.	P.L. 22-52	\$ 2,549,183
	The Director shall administer the Fund and release the necessary monies upon request for expenditures by the Fire Chief.	P.L. 28-68	
	No transfer authority by the Governor.	P.L. 22-52 P.L. 28-68	
Healthy Futures Fund	Expended for health and education programs relating to tobacco and alcohol prevention, cessation, and treatment control for health and well-being.	P.L. 27-05	\$ 1,003,399
	Not subject to transfer authority of the Governor.	P.L. 27-29	
Police Patrol Vehicle & Equipment Revolving Fund	Used to acquire, repair, and maintain vehicles and requisitions associated with equipment for GPD.	P.L. 32-205	\$ 291,206
	Not subject to transfer authority of the Governor.		
Total			\$ 18,327,873

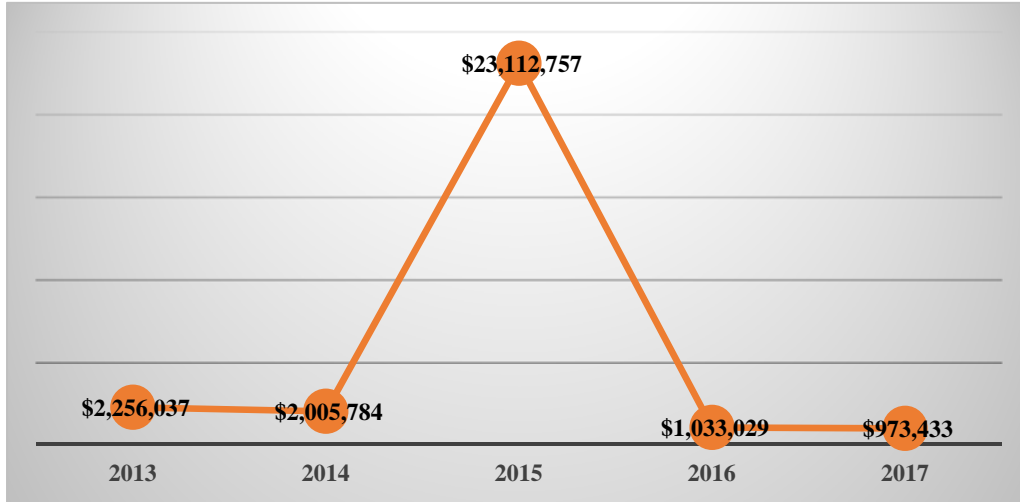
We recommend DOA Director, Agency Directors/Fund Administrators strictly comply with the provisions of SRFs’ enabling legislations on deposits, use, fund transfer restrictions, disbursements, and transfer approvals.

Some SRFs Ineffectively Managed

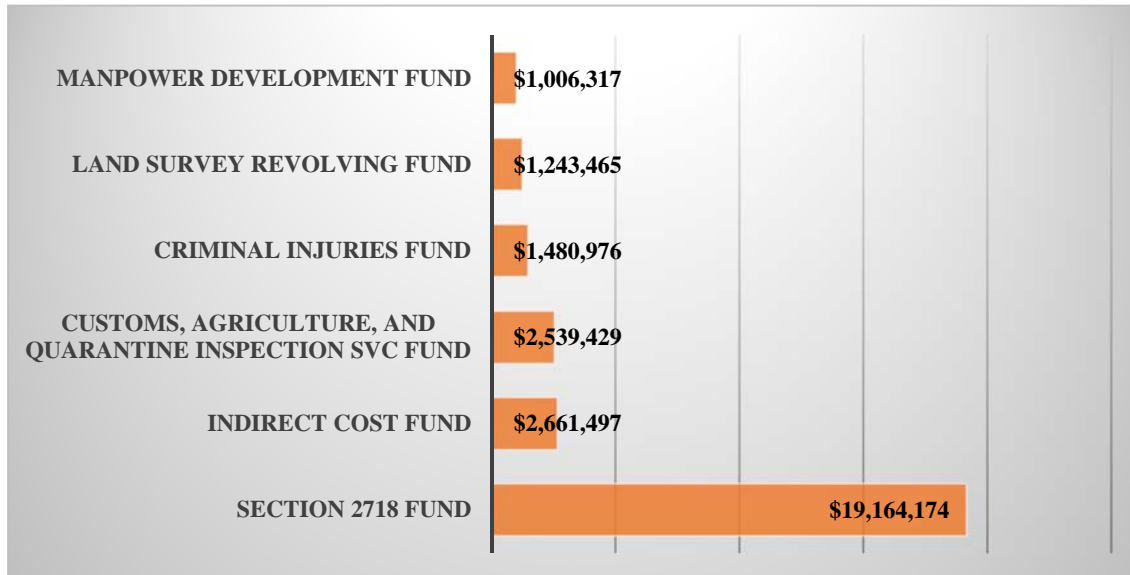
During the five-year period, DOA also transferred \$29.4M from the GF to pay for the deficit of 16 SRFs. For the seven SRFs covered by this audit, total permanent transfers from GF amounted to \$28.8M. Most of the SRFs’ deficits were due to a funding shortfall. A permanent transfer from the GF to the Streetlight Fund amounting to \$747K in FY 2015 was partly due to GF borrowings of \$1.5M in FY 2014.

See Graph 5 for the trend of annual transfers from SRFs to the GF. See Graph 6 for the permanent transfers of \$1.0M and above for the six SRFs covered by this audit. Refer to Appendix 3 for the complete list of permanent transfers.

Graph 5: Annual Permanent Fund Transfers from SRF to GF



Graph 6: Permanent Transfers of \$1.0M and above from GF to SRFs



Expenditures Exceeded Appropriations and/or Revenues

SRFs have dedicated revenues restricted to finance the expenditures specified in the enabling legislations. Expenditures are controlled and disbursed based on the appropriated amounts provided by the Legislature. The Legislature appropriated funds to the SRF through the annual budget process. According to DOA, SRF appropriations were based on the prior year reported revenues and the carryover of unspent revenues.

Eight SRFs' expenditures exceeded their appropriations by an average of \$4.2M in at least one of the five fiscal years. Seven SRFs' expenditures exceeded their revenues by an average of \$2.1M at least one of the five fiscal years. Of these over expenditures, four funds (Section 2718 Fund, Land Survey Revolving Fund, Indirect Cost Fund, and Customs, Agriculture, and Quarantine Inspections Fund) have exceeded both their appropriations between \$24K to \$14.0M, or an average of \$5.5M and revenues between \$771K and \$15.2M, or by an average of \$6.5M. Excess expenditures resulted in a zero, minimal, or deficit fund balances of these SRFs.

SRF Cash Balances Reduced to Zero or Minimal Amounts

The permanent transfers from the SRF to the GF primarily resulted in a zero or minimal SRF cash balances as of the fiscal year-end. It is worthy to note that the cash balances were grossly disproportionate compared with SRFs' fund balances. See Appendix 8 for SRF fund balances.

A financial statement cash account balance is increased by cash revenue collections and decreased by cash payments for Fund expenditures or inter-fund borrowings. A fund balance is increased if the revenue exceeds expenditures (net income) and decreased if expenditures exceed revenues (net loss).

The insufficiency of the cash balance in the SRF accounts would result in probable failure of a special government program. SRFs cash should only be used when essential to the successful operation of the SRF's program or activity unless otherwise authorized by the Legislature.

Refer to Appendix 7 for the excess expenditures that resulted in a zero, minimal, or deficit fund balance. It should be noted, however, that SRF fund balances showed signs of improvement as the balances have been increasing during the period examined.

Revenues Untimely Deposited to the SRF Bank Accounts

The enabling legislations creating some SRFs specifically mandated that the revenues should be deposited in a separate bank account. TOG initially deposits all government revenue collections to the GF bank account and should transfer these to the SRF bank accounts the following banking day. However, DOA's fund transfer request to TOG showed that revenues of some SRF were retained in the GF for a certain period. The transfer request summarizes the revenue collections from SRFs from the preceding week and instructs TOG to transfer these revenue collections to the corresponding SRFs. According to TOG, these SRFs could not be immediately transferred due to GF's insufficient funds. The SRF revenues have already been used by the GF, hence transfer request could not be made. Before the conclusion of this audit, DOA management has been monitoring and ensuring that all SRF revenues are deposited to the specific bank accounts no later than the following banking day.

The apparent ineffective fund management and non-compliance of some SRFs' legal provisions on fund utilization, purpose, and transfers stemmed from various factors that the Executive and Legislative branches of GovGuam, the DOA Director and the Agency Directors, who have oversight of these special funds, need to address.

We recommend the DOA Director establish and implement fund management controls to ensure SRFs are effectively managed and used for their intended purposes. The controls should at least

include the regular monitoring of fund activity and balances and public disclosure of how funds are used when required by law.

Inconsistent Governance Provision on the Roles and Responsibilities of Agency Directors or Fund Administrators

The enabling legislations creating some SRFs did not contain provisions that clearly defines the responsible agency and officials who will administer and manage the SRFs. The language of the law is broad as to the management of the funds. This gave DOA the flexibility in using the SRFs for general government's needs. See Appendix 9 for the details of the laws creating the SRFs.

Because of this, the Agency Directors were not directly responsible for ensuring that SRFs' activities, expenditures, and fund transfers comply with their intended purposes. This leaves DOA with handling all the task of managing, monitoring, recording, and reporting of the SRFs.

For transparency and accountability, the Agency Directors or Fund Administrators designated by the enabling legislations should be responsible for the oversight and monitoring of SRF transactions and activities. Per DOA, SRF activities can be viewed by the agencies anytime in the AS400 system. We recommend that the Legislature ensure that enabling legislations clearly define the agency, the administrators, and their roles and responsibilities in managing SRFs when creating new SRFs.

Inconsistent Provisions of Law Requiring Separate Bank Accounts for SRFs

Some SRF's enabling legislations require that funds must be kept separate and apart from all other funds of the government, while some specifically require that funds must be deposited in separate bank accounts. Without the provision in the law to have a separate bank account, some SRF revenues were deposited and commingled in the GF's bank account. However, some SRFs maintained separate bank accounts despite the absence of such specific provision, as enumerated in Table 6.

Table 6: SRFs Not Specifically Required to Have Separate Bank Accounts

Fund No.	Fund Name	Legislation	Law Requiring Separate Bank Accounts	With Bank Account	Cash Balance as of 09/30/2017
208	Guam Highway Fund	P.L. 11-82	Not Specified	Yes	\$ 315,704
281	Enhanced 911 Emergency System Reporting Fund	P.L. 33-41	Not Specified	Yes	\$ -
231	Fire, Life, and Medical Emergency Fund	P.L. 22-52 P.L. 28-68	Not Specified	None	\$ -
202	Street Light Fund	P.L. 27-38	Not Specified	None	\$ -
235	DPW Building & Design Fee Fund	P.L. 33-66	Not Specified	None	\$ -
241	Health Professional Licensing Fund	P.L. 21-33	Not Specified	Yes	\$ -
213	Guam Contractors Fund	P.L. 30-11	Not Specified	Yes	\$ 82,459
263	Police Services Fund	P.L. 24-23	Not Specified	None	\$ -
669	Chamorro Land Trust Survey & Infrastructure Fund	P.L. 33-90	Not Specified	Yes	\$ -
415	Chamorro Loan Guarantee Fund	P.L. 12-226	Not Specified	Yes	\$ -
272	Controlled Substance Diversion Fund	P.L. 24-149	Not Specified	None	\$ -
325	Criminal Injuries Fund	P.L. 20-155	Not Specified	Yes	\$ 982,425
222	Land Survey Revolving	P.L. 12-140	Not Specified	None	\$ -
232	Manpower Development Fund	P.L. 25-123	Not Specified	Yes	\$ 470
Total					\$ 1,381,058

When the SRF revenues are commingled with the GF, the Cash Management Committee may tap into these funds to prioritize the GF’s daily needs. DOA’s decision to utilize the funds is influenced by the need to keep the government going, notwithstanding restrictions on these SRFs. According to the DOA Supervisor, even if borrowings are made from the SRFs, DOA makes sure that these funds will be available to pay for SRF expenditures when needed.

Maintaining only one bank account for all the funds simplifies the deposit process. However, there is a risk that the dedicated revenues intended for specific projects are used other than their intended purposes resulting in a possible program failure. We recommend the Legislature ensure that enabling legislations are consistent in requiring separate bank accounts for SRFs to strictly enforce no commingling of funds.

No Specific Policies and Procedures for SRFs

DOA has written policies for government fund management, cash handling, and other functions and processes. However, it has no written policies and procedures specifically to establish clear roles and responsibilities and proper documentation regarding the handling of SRF. Policies and procedures guide staff to create a new fund in the AS400 system, authorize and process fund transfers and inter-fund borrowings, perform inter-fund reconciliations, and close inactive SRFs.

The assigned DOA staff establishes an SRF in the AS400 system upon receipt of the public law creating the fund and upon verbal instruction from either the DOA Director or the Financial Manager. The DOA-DA is responsible for the recording SRF transactions, reconciliation of cash

balances, and financial reporting. The Cash Management Committee manages the inter-fund transfers and borrowings.

Chapter 22 of 5 GCA states:

- §22203. The DOA Director shall establish standards, procedures, and techniques for a central accounting system.
- §22204. The DOA Director and the Bureau of Budget and Management Research Director subject to the approval of the Governor shall prescribe rules and regulations necessary to effectuate the purpose of this Article.

In the absence of written policies and procedures, there is a risk of operational inefficiency, inconsistency, and lack of accountability in the managing of the SRFs. The U.S. Government Accountability Office Standards for Internal Control in the Federal Government recommends a documented process as an internal control procedure. Further, it states that those in key roles for the unit may further define policies through day-to-day procedures.

We recommend the DOA Director develop written policies and procedures to ensure consistency in the opening, closing, fund transfers, accounting, monitoring, reconciliation, and reporting of SRFs.

DOA Manages a Large Number of SRFs

Dormant and Inactive SRFs Not Closed

During our audit, we found SRFs not actively used. Between June 6, 1995, and September 30, 2017, DOA established 194 SRFs within its financial management system. Of the 194, 86 were inactive for approximately 1 to 12 years as of FY 2017. The number of SRFs had been increasing because dormant or inactive SRFs can only be closed by enabling legislations. See Appendix 10 for the list of inactive SRFs.

Deficit Fund Balance Found in Some Inactive SRFs

Of the 86 inactive SRFs, we noted eight have negative balances (deficit) between \$0.25 and \$519K as of FY 2017. This means the expenditures of these inactive SRFs exceeded their revenues. As a result, approximately \$908K needed to be transferred into these funds in order to close them. DOA has to review these deficits to determine its proper disposition. See Table 7 for a listing of the inactive SRFs that spent more than their revenues.

Table 7: Inactive and Deficit SRFs as of FY 2017

	Fund No.	Fund Name	Deficit
1	201	Housing Revolving Fund	\$ 294,954.01
2	262	Autonomous Infrastructure Collection	\$ 0.25
3	280	Overtime Fund	\$ 0.40
4	303	Income Tax Reserve	\$ 518,983.20
5	309	Agana Fractional Lot Fund	\$ 90,169.40
6	644	Prison Industries Revolving	\$ 1,568.77
7	651	Guam Procurement Advisory Fund	\$ 1,931.00
8	652	Host Community Fund	\$ 52.92
Total			\$ 907,659.95

Lack of Implementation on OPA’s Prior Audit Recommendations

P.L. 28-68, Chapter IV, Section 70 (a) mandated the Public Auditor and Compiler of Laws to conduct a review of all existing GovGuam accounts that are dormant or inactive. This is to determine whether they are no longer necessary or require consolidation caused by evolving mandates, priority changes, outsourcing, privatization, downscaling, service or program cessation, or expansions within the GovGuam.

OPA issued two performance audits pertaining to SRFs:

- OPA Report No. 04-04, *SRFs Part I*. OPA recommended the closure of 30 SRFs due to inactivity.
- OPA Report No. 06-03, *Review of DOA’s Dormant and Inactive Funds as Mandated by P.L. 28-68*. OPA recommended the closure of 70 funds due to (1) dormancy and inactivity, (2) recommendations from prior audits, or (3) minimal fund activity.

SRFs can only be closed and eliminated by repealing the law that created the fund. Despite prior audit recommendations to repeal the inactive funds, most have not been closed or repealed.

Per data provided by DOA as of FY 2017, of the 86 inactive SRFs:

- 30 were recommended by OPA to be repealed by the Guam Legislature,
- 14 were recommended by OPA to be closed by DOA,
- 6 were recommended by OPA to be consolidated by the Guam Legislature, and
- 4 were recommended by OPA to be consolidated by DOA.

Inactive SRFs should be closed once they no longer continue to serve their purpose. Too many funds could cause inflexibility and complexity in budgeting, accounting, and other phases of financial management. DOA should review these 86 inactive SRFs and recommend their repeal, if appropriate. The remaining balances should be cleared, closed, and transferred to the GF if permitted by the Legislature.

We recommend the DOA Director implement prior audit recommendations and recommend to the Legislature the repeal or closure of existing inactive or duplicated SRFs. We also recommend the Legislature to immediately act on recommendations to repeal inactive funds.

Conclusion and Recommendations

Fund transfers (borrowings) were made from the SRFs to the GF despite specific law provisions and restrictions on deposits, use, transfers, or disbursements. These fund transfers were made by DOA without prior consent and approval from the Agency Directors. DOA borrowed SRFs' funds to pay for tax refunds, payrolls, bonds, and other mandated expenditures due to GF's cash shortage (deficit). Accordingly, the intended recipients were not able to use the SRFs. There were public outcries regarding the improper use of funds of some SRFs, such as those created for GFD, GPD, DLM, GEPA, etc.

From FY 2013 to FY 2017, DOA permanently transferred \$45.5M from 49 SRFs to the GF, of which \$39.0M was covered in this audit. Permanent transfers resulted in zero or minimal SRF cash balances, which were grossly disproportionate with their fund balances.

On the other hand, the GF also transferred \$29.4M to 16 SRFs, of which \$28.8M was covered in this audit. Transfers from GF to SRFs were due to over expenditures of the SRFs than their appropriations, revenues, or prior fund transfers. This showed poor management of the SRFs.

DOA classified the fund transfers as permanent in GovGuam's annual financial statements after its determination that these could not be paid by the GF at end of the fiscal years. The Agency Directors were informed of the transfers two to five months after the end of the fiscal years, which started for FY 2014. Some Agency Directors signed the Permanent Transfer Acknowledgment Letters.

The fund transfers out of the SRFs did not comply with Budget Acts and enabling legislations on its use, disbursements, and transfer authority by the Governor. Legislations were not also consistent in requiring separate bank accounts for some SRFs. This resulted in the commingling of funds and borrowings by the GF.

The absence of a clear governance framework and specific written policies and procedures as to the management and execution of SRFs affect transparency and accountability, as well as operational efficiency of the DOA. According to the U.S. Government Accountability Office, there should be formal policies to ensure that SRFs are used efficiently, effectively, and timely for their designated purposes.

The DOA is managing 194 SRFs, 86 of which are inactive. Of the 86, eight have negative balances ranging from \$0.25 to \$519K. Most of these inactive funds were already recommended for repeal in prior audits, but recommendations were not acted upon. These inactive funds should be repealed and closed to help improve DOA's operational efficiency.

Improper use of SRFs could negatively affect public health, public safety, and other social and economic benefits for which the funds were created. There could be possible legal implications if some provisions of federal laws, which may have oversight of the funds, are not complied with.

There should also be proper fund management of SRFs by the agencies in close coordination with DOA. These funds also should not stay idle in their bank accounts.

We recommend the following:

DOA Director, Agency Directors/Fund Administrators:

1. Strictly comply with the provisions of SRFs enabling legislations on deposits, use, fund transfer restrictions, disbursements, and transfer approvals.

DOA Director:

1. Refrain from borrowing funds from the SRFs for general government expenses without prior authorization and approval from Agency Directors or Fund Administrations.
2. If allowed, ensure that all interfund borrowings be repaid within a reasonable period.
3. Properly document approval and authorization for the TOG to perform electronic fund transfers. This recommendation was already implemented by DOA.
4. Develop written plans, policies and procedures to ensure consistency in the opening, closing, inter-fund transfers, accounting, monitoring, reconciliation and reporting of SRFs.
5. Establish and implement fund management controls to ensure that SRFs are effectively managed and used for its intended purpose. The controls should at least include:
 - a. Regular monitoring of fund activity and balances; and
 - b. Public disclosure of how funds are used when required by law.
6. Implement prior audit recommendations and recommend to the Legislature the repeal or closure of existing inactive or duplicated SRFs.

Legislature:

1. Ensure enabling legislations clearly define the Agency Director or Fund Administrators, and their roles and responsibilities in managing new SRFs.
2. Ensure enabling legislations require separate bank accounts for SRFs to strictly enforce no comingling of funds.
3. Immediately act on recommendations to repeal inactive funds.

Classification of Monetary Amounts

	Finding Description	Questioned Costs ¹	Potential Savings	Unrealized Revenues	Other Financial Impact ²
1	\$45.5M in Permanent Transfers Contrary to SRFs' Legislative Purposes	\$ 38,939,672	\$ -	\$ -	\$ -
2	Permanent Transfers without Prior Consent from Agency Directors	\$ -	\$ -	\$ -	\$ -
3	Approvals for Some Electronic Fund Transfers Not Properly Documented	\$ -	\$ -	\$ -	\$ -
4	Some Provisions of Budget Act and Public Laws Not Complied	\$ -	\$ -	\$ -	\$ -
5	Some SRFs Ineffectively Managed	\$ -	\$ -	\$ -	\$ -
	SRF Received Permanent Fund Transfers from GF	\$ -	\$ -	\$ -	\$ -
	Expenditures Exceeded Appropriations and/or Revenues	\$ -	\$ -	\$ -	\$ -
	Cash Balance Reduced to Zero or Minimal Amounts due to Permanent Fund Transfers	\$ -	\$ -	\$ -	\$ -
	Revenues Untimely Deposited to the SRF Bank Accounts	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
6	Inconsistent Governance Provision to Clearly on the Roles and Responsibilities of Fund Administrators	\$ -	\$ -	\$ -	\$ -
7	Inconsistent Provisions of Law Requiring Separate Bank Accounts for SRFs	\$ -	\$ -	\$ -	\$ -
8	No Specific Policies and Procedures for SRFs	\$ -	\$ -	\$ -	\$ -
9	DOA Manages a Large Number of SRFs				
	Deficit Fund Balance Found in Some Inactive Funds	\$ -	\$ -	\$ -	\$ 907,570
	Non-Compliance with Prior Audit Recommendations	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ 907,570
	Totals	\$ 38,939,672	\$ -	\$ -	\$ 907,570

¹ Questioned costs are expenditures of funds that are unsupported, unallowable, or otherwise improper. The \$38.9M in Questioned Costs pertained to the selected SRFs covered in this audit.

² The \$908K in Other Financial Impact is due to the deficit balances found in the inactive SRFs.

Management Response and OPA Reply

In February 2019, a draft report was transmitted to DOA for their official response. In the same month, we discussed our findings and recommendations with DOA officials where the DOA Director generally concurred with our audit findings and recommendations. We acknowledged DOA's implementation of one of the seven recommendations prior to the issuance of this report.

1. Finding: Permanent Transfers Resulted in Questioned Costs of \$39.0M

DOA is in the opinion that transfers should not be classified as "questioned costs" as any such transfers were reported as "other financing sources, not expenditures or revenues" in the audited financial statements. DOA considers the appropriate classification to be "other financial impact".

OPA Reply: According to AICPA, "Questioned Costs" are costs that are questioned by the auditor because (1) of a violation or possible violation of the applicable compliance requirements; (2) the costs that are not supported by adequate documentation; or (3) the incurred costs that appear unreasonable and do not reflect the actions that a prudent person would take in the circumstances. In OPA's prior performance audits, the office defined "Questioned Costs" as expenditures of funds that are unsupported, unallowable, or otherwise improper. Therefore, as these permanent transfers were contrary to the legislative purposes and law provisions for these SRFs, we retain the classification of \$39.0M as questioned costs.

See Appendix 11 for DOA's management response.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendation, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. We will contact DOA to provide the target date and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation given to us by the staff and management of DOA during this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Benjamin J.F. Cruz
Public Auditor

Objective, Scope, and Methodology

Our audit objectives were to determine if:

- SRFs were expended in accordance with their legislative purposes and were effectively managed; and
- Inactive SRFs were closed in accordance with the law.

This report presents the results of our audit of the SRFs from October 1, 2012, to September 30, 2017, and other periods deemed necessary. We selected 25 SRFs that:

- Made permanent transfers amounting to \$1M and above;
- Was created for public health and safety; and
- Drew public awareness and controversies via media coverage.

Methodology

To accomplish our objectives, we reviewed pertinent laws, rules and regulations, policies and procedures, prior audit findings, hotline tips and other information pertinent to the SRFs. We also:

- Conducted interviews and walk-throughs with the DOA-DA officials and staff and TOG to obtain an understanding of the SRFs creation, deposits, management, inter-fund transfers/borrowings, permanent transfers, record keeping, closure, and internal controls.
- Reviewed provisions of the SRFs' enabling legislations and provisions of the General Appropriations Act (Budget Act). Particularly, we reviewed the SRF's administration, separation requirements with other government funds, separate bank account requirements, restrictions on purpose, transfers, and disbursements.
- Obtained data on permanent transfers and verified their justification, authorization, and approvals.
- Obtained GovGuam's audited financial statements and gathered data on the GF's over expenditures and deficit.
- Extracted financial data related to the 25 selected SRFs and performed an analysis to determine:
 - The amount and annual trend of permanent transfers in and out of the SRFs; and
 - SRF year-end cash and fund balances, and the factors causing the depletion of cash and factors causing any negative balances.
- Analyzed the SRFs' expenditures and compared with appropriation and revenues.
- Judgmentally sampled transactions to verify:
 - Postings of revenues and expenditures in the AS400 system against the supporting documentation.
 - Disbursements for appropriate utilization of funds.
 - Bank debits and credits against supporting documents for deposits and fund transfer authorizations.
- Obtained an inventory listing of SRFs in the AS400 system and determined their status, whether active, inactive, or dormant.

Objective, Scope, and Methodology

- Researched special funds audits from other States to determine best practices.
- Researched and adopted applicable criteria from the Government Finance Officers Association, the United States Government Accountability Office, and GASB.

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audited Annual Financial Reports

There were no SRF findings in the GovGuam audit reports from FY 2013 through FY 2017.

Performance Audit Reports

OPA Report No. 16-06, GovGuam Limited Gaming Tax and GMHA Trust Fund Fees

Findings:

- DRT's manual processes do not ensure that Limited Gaming Tax and GMHA Trust Fund Fees were accurately collected and allocated to GMHA, GDOE, DPR, and MCOG.
- Inconsistent and unreconciled financial information was reported.

Recommendations:

1. DRT reconcile with the DOA AS400 on a monthly basis;
2. DRT review variances in GMHA Trust Fund Fees reporting in relation to Limited Gaming Taxes as part of their monitoring process; and
3. GMHA submit quarterly reports in compliance with P.L. 32-60 to ensure funds are used for their intended purpose.

OPA Report No. 15-05, Recycling Revolving Fund

Findings:

- GEPA has not promulgated the necessary rules and regulations to properly implement the Recycling Revolving Fund law as required by 10 GCA Chapter 51, Article 3 §51307 (c).
- Recycling Revolving Fund expenditures for the Zero Waste Conference and travel reasonably met the purpose of the law to assist and encourage recycling materials.

Recommendation:

1. To place a moratorium on all Recycling Revolving Fund spending until GEPA develop and promulgate rules and regulations in accordance with the law.

OPA Report No. 11-05, DPW Building Permits and Inspection Section

Finding:

- Inconsistent assessment and application of fees resulting in lost revenues of \$200K.

Recommendation:

1. DPW meet regularly with DOA and GPT to reconcile records and ensure revenues are accurate and complete.

OPA Report No. 10-06, GFD E911 Emergency Reporting System Fund

Finding:

- Public Utilities Commission (PUC) did not fully meet its legally mandated responsibilities to monitor the collection and remittance of E911 surcharges to ensure the accuracy, completeness, and timeliness of service providers.

Recommendations:

1. PUC comply with P.L. 28-44 to monitor the collection of the surcharge remitted by service providers, including:
 - Coordinate with DOA to verify surcharge remittances made by service providers.
 - Establish a standard formula to equitably allocate administrative costs.
2. PUC coordinate with DOA to forward all E911-related expenses, to include service providers' and PUC-related administrative costs, to properly account for all costs associated with E911 operations.
3. TOG record in the point-of-sale system the period of the month for which the E911 surcharge remittance is applicable.

OPA Report No. 06-03, DOA Review of Dormant and Inactive Funds as Mandated by P.L. 28-68**Findings:**

1. 70 funds recommended for legislative repeal due to dormancy and inactivity, recommendations from prior audits, or minimal fund activity.
2. 14 funds can be consolidated into three funds.
3. 2 funds should be structurally amended.
4. 30 funds recommended for closure in DOA's financial management system due to the previous repeal by legislation, previous consolidation by legislation, or funds have outlived their purpose and were no longer required.

Recommendations to DOA:

1. Officially close 12 funds based on their repeal, transfer any remaining balances of \$1.6M and revenues of approximately \$646K to the GF and ensure that they are made inaccessible for future postings and appear only for viewing.
2. Close six funds that were repealed and transfer their activities to their designated fund.
3. Consolidate eight funds based on legislation, transfer any remaining balances to the parent fund, close those funds, and ensure that they are made inaccessible for future postings and appear only for viewing.
4. Close seven funds that have outlived their purpose, transfer their remaining balances of \$2.0M to the GF, and close these funds and ensure they are made inaccessible for future postings and appear only for viewing.

Recommendations to Guam Legislature:

1. Repeal 70 funds, consisting of 36 dormant and inactive funds, 25 funds recommended for repeal or closure in prior audits, and nine funds with minimal activity, and transfer the remaining fund balances of \$6.2M and revenues of approximately \$347K to the GF.
2. Consolidate six funds maintained by CLTC into one fund, six funds maintained by GEPA into one fund, and two funds from the Medically Indigent Program Payment Fund into one fund. All remaining fund balances should transfer to the parent fund and then allow DOA to close these funds in the AS400.

Prior Audit Coverage

3. Amend the current enabling legislations for two funds to add a sunset provision allowing the immediate closure once it has fulfilled its purpose or to delete DOA as the pass-through entity as the receiver of funds.

OPA Report No. 04-04, DOA SRF Part I**Finding:**

- The audit covered only 30 of the 65 SRFs. The majority of the 30 SRFs reviewed had little to no financial activity.

Recommendations:

1. DOA establish procedures for the official closure of SRFs.
2. DOA close 12 SRFs and transfer any remaining balances to the GF and ensure that they are inaccessible for future postings and appear only for viewing.
3. Legislature repeal 18 SRFs and transfer the remaining balances to the GF.

OPA Report No. 03-10, GFD's E911 Emergency Reporting System Fund – Investigative Report**Finding:**

- Service providers' E911 surcharge remittances to DOA were inconsistent and fall short of OPA estimate.

Recommendation:

- DOA shall submit monthly E911 fund revenue reports to GFD and PUC for accounting and monitoring purposes.

OPA Report No. 03-06, GPD Asset Forfeiture Fund**Findings:**

- The Asset Forfeiture Fund had not been separated from the GF. The local and federal components were still commingled in the GF.
- GPD did not reconcile its ledgers to the AS400 and Oracle.

Recommendation:

1. GPD reconcile its records with DOA and prepare the necessary reports and financial information as of FY 2002. Following reconciliation of the accounts, the funds should be rolled over to the Special Assets Forfeiture Fund and the former Asset Forfeiture accounts closed.

Complete List of Permanent Transfers

A. Transfers Out to the General Fund (Transfers In from Special Revenue Fund)

Fund Number	Fund Name	FY2013	FY2014	FY2015	FY2016	FY2017	Total Permanent Transfers	
619	RECYCLING REVOLVING FUND	\$ 770,455	\$ 3,059,197	\$ 2,020,625	\$ 2,224,563	\$ 2,528,529	\$ 10,603,369	*
205	TERRITORIAL EDUCATION FACILITY	-	-	-	-	4,326,008	4,326,008	*
208	GUAM HIGHWAY FUND	-	-	-	2,292,916	1,915,340	4,208,256	*
281	ENHANCED 911 EMRGNCY REPRT SYS	-	1,839,854	712,501	488,779	839,583	3,880,716	*
231	FIRE LIFE MEDIC EMERGENCY FUND	900,000	920,694	-	397,144	331,345	2,549,183	*
655	LIMITED GAMING FUND	-	-	1,834,260	-	-	1,834,260	*
600	ENVIRONMENTAL HEALTH FUND	-	1,227,075	561,883	-	-	1,788,958	*
202	STREET LIGHT FUND	-	1,467,257	-	-	255,962	1,723,219	*
235	DPW BUILDING & DESIGN FUND	660,572	-	569,718	-	-	1,230,290	*
241	HEALTH PROF LICENSING	-	580,014	176,780	-	391,694	1,148,487	*
213	GUAM CONTRACTORS	-	912,222	209,206	-	-	1,121,428	*
602	HEALTHY FUTURES FUND	-	1,003,399	-	-	-	1,003,399	*
662	GUAM INVASIVE SPECIES INSPECT	-	-	-	-	780,195	780,195	*
603	TAX COLLECTION ENHANCEMENT FND	-	-	369,795	190,270	190,417	750,482	*
650	OFFICE OF VITAL STATISTICS FND	-	-	413,395	-	284,546	697,941	*
263	POLICE SERVICES FUND	-	-	694,485	-	-	694,485	*
629	PESTICIDE MANAGEMENT FUND	204,893	-	306,481	-	123,274	634,647	*
604	PUBLIC SCHOOL LIBRARY RESOURCE	-	-	530,683	-	103,077	633,760	*
630	DLM BUILDING CONSTRUCTION FUND	-	-	-	-	588,520	588,520	*
325	CRIMINAL INJURIES FUND	555,031	-	-	-	-	555,031	*
636	UNDERGROUND STORAGE TANK MGMT	-	-	554,734	-	-	554,734	*
215	P.E.A.L.S. FUND	483,853	-	42,144	-	-	525,997	*
236	ACCESSIBLE PARKING FUND	515,188	-	-	-	-	515,188	*
245	GUAM ENVIRONMENTAL FUND	36,697	-	271,137	-	69,018	376,852	*
669	CLT SURVEY & INFRASTRUCTURE	-	-	-	-	321,263	321,263	*
415	CHAMORRO LOAN GUARANTEE	-	-	-	-	320,105	320,105	*
663	POLICE PATROL VEHICLE AND EQUIP	-	-	124,237	-	166,970	291,206	*
272	CONTROLLED SUBSTANCE DIVERSION	-	-	155,480	-	131,806	287,286	*
285	RABIES PREVENTION FUND	-	-	119,698	-	92,517	212,215	*
246	DRIVER'S EDUCATION FUND	-	-	188,556	-	-	188,556	*
267	DEDEDO BUFFER STRIP REVOLVING	-	-	169,260	-	-	169,260	*
608	GUAM PLANT INSPECTION & PERMIT	-	-	149,713	-	-	149,713	*
620	PUBLIC RECREATION SERVICES FND	-	-	138,649	-	-	138,649	*
282	CARRIER OFF-DUTY SERVICES REV	-	-	125,986	-	-	125,986	*
300	WATER RESEARCH AND DEVELOPMENT	-	-	88,969	-	-	88,969	*
222	LAND SURVEY REVOLVING FUND	-	-	-	-	87,351	87,351	*
283	WATER PROTECTION FUND	-	-	79,164	-	-	79,164	*
217	SAFE STREETS ACT	-	-	77,823	-	-	77,823	*
284	SOLID WASTE MGMT FUND-GEPA	-	-	58,555	-	-	58,555	*
211	PLANT NURSERY REVOLVING FUND	-	-	43,559	-	-	43,559	*
310	EMP WORKMENS COMPENSATION	-	-	40,558	-	-	40,558	*
265	AIR POLLUTION CONTROL	-	-	36,672	-	-	36,672	*
640	EXAMINER OFF-DUTY SERVICE FUND	-	-	29,198	-	-	29,198	*
633	CENSUS 2010 FUND	-	-	11,094	-	-	11,094	*
649	GUAM GEODETIC NETWORK FUND	-	-	10,130	-	-	10,130	*
289	SAFE DRINKING WATER FUND	-	-	9,774	-	-	9,774	*
635	GUAM UNARMED COMBAT COMMISSION	-	-	9,130	-	-	9,130	*
601	SAFE HOMES SAFE STREETS FUND	-	-	4,300	-	-	4,300	*
653	MHSA (GBHWC) SERVICES FUND	-	-	3,111	-	-	3,111	*
49 Funds	Total	\$ 4,126,689	\$ 11,009,712	\$ 10,941,440	\$ 5,593,672	\$ 13,847,518	\$ 45,519,031	
Total for Selected Special Revenue Funds		\$ 2,922,755	\$ 11,009,712	\$ 7,330,311	\$ 5,403,402	\$ 12,273,492	38,939,672	

* SRFs that were covered in this audit

Appendix 3:
Complete List of Permanent Transfers

B. Transfers In to the Special Revenue Fund (Transfers Out from the General Fund)

Fund Number	Fund Name	FY2013	FY2014	FY2015	FY2016	FY2017	Total Permanent Transfers
647	SECTION 27818 FUND	\$ -	\$ 135,116	\$ 19,029,058	\$ -	\$ -	\$ 19,164,174 *
632	INDIRECT COST FUND	-	653,933	776,258	908,363	322,943	2,661,497 *
209	CUSTOMS, AGRICULTURE, AND QUARANTINE SCV FUND	1,691,449	217,555	630,425	-	-	2,539,429 *
325	CRIMINAL INJURIES FUND	-	184,412	1,296,564	-	-	1,480,976 *
222	LAND SURVEY REVOLVING FUND	-	610,386	633,079	-	-	1,243,465 *
232	MANPOWER DEVELOPMENT FUND	564,588	45,412	-	-	396,317	1,006,317 *
202	STREETLIGHT FUND	-	-	747,373	-	-	747,373 *
217	SAFE STREETS FUND	-	29,038	-	-	126,637	155,675
247	VILLAGE STREETS FUND	-	22,695	-	112,700	-	135,395
620	PUBLIC RECREATION SERVICES	-	-	-	-	127,536	127,536
265	AIR POLLUTION CONTROL FUND	-	50,676	-	-	-	50,676
236	ACCESSIBLE PARKING FUND	-	40,611	-	-	-	40,611
294	MENTAL HEALTH AND SUBSTANCE ABUSE	-	15,950	-	-	-	15,950
666	PUBLIC MARKET REVOLVING FUND	-	-	-	11,966	-	11,966
203	WILDLIFE CONSERVATION FUND	-	-	-	-	-	-
276	YOUTH TOBACCO EDU/PREVENTION FUND	-	-	-	-	-	-
16 Funds	Total	\$ 2,256,037	\$ 2,005,784	\$ 23,112,757	\$ 1,033,029	\$ 973,433	\$ 29,381,040
Total for Selected Special Revenue Funds		\$ 2,256,037	\$ 1,846,814	\$ 23,112,757	\$ 908,363	\$ 719,260	\$ 28,843,231

* SRFs that were covered in this audit



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



January 9, 2018

To: Financial Manager, Department of Administration
From: Director of Administration
Subject: Permanent Transfer

Buenas yan Håfa Adai!

Attached is a listing of our Special Fund receivables which I have reviewed the financial statements for. Some of these balances date back to Fiscal Year 2014. The General Fund has not been able to pay or transfer these fund balances due to the perpetual cash shortage that has been experienced for decades by our Government. As you know, the Trump Tax Reform Act passed; and with the changes in the tax laws will result in the loss of an estimated \$47.9 million in revenue this fiscal year. For fiscal year 2019, the anticipated loss is \$66 million. Given the cash challenges of the Government of Guam coupled with the future loss in revenue, it would be impossible for the General Fund to pay these amounts to the special revenue accounts. Therefore, GAAP requires us to remove these amounts to ensure that our receivables in the financial statements are not overstated. Further, Government Accounting Standards Board (GASB) Statement No. 34, 112. a. (1) states: If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan" (GASB 34 copy attached).

5 G.C.A., Article 2, § 22204; Rules & Regulations, indicates that the Director of the Department of Administration is required to provide that the principles of governmental accounting and reporting; classification of funds and accounts; and mandated to ensure that accounting terminology shall conform to those recommended by the National Committee on Governmental Accounting. For government entities, the Government Accounting Standards Board is the authority for Government Accounting Standards. Also contained in, 5 G.C.A., Article VI, § 6.06, financial statements are required to be prepared in accordance with Generally Accepted Accounting Principles (GAAP). In addition, § 11.11, requires that accounting records shall be maintained in accordance with GAAP.

When preparing the financial statements for the Government of Guam's annual audit, we would be in non-compliance with GASB 34 and I will have violated 5 G.C.A. requirements if we failed to record permanent transfers. All unexpended/unappropriated amounts that are not expected to

be collected within a reasonable time become subject to permanent transfer. If we did not do so, our financial statements would not be in compliance with GAAP or GASB. This would result in a modified opinion which would place the Government of Guam in Jeopardy. Our Credit Rating, Investors, Bond Holders, Federal partners and all stakeholders who rely on financial statements to be prepared in accordance with these requirements would be very concerned with our failure to do so.

It is for this reason that I have directed the Permanent transfer of funds from these special revenue accounts and have initiated letters of explanation/acknowledgement to all Directors/Agency heads. You are further directed to ensure that once subjected to permanent transfer, the fund balance for these special revenue accounts will not be reversed.

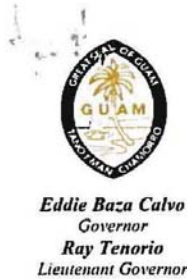
Should you have any questions, or wish to discuss the matter further, please do not hesitate to contact me.

Senseramente,

A solid black rectangular box redacting the signature of the Director.

Director

Sample Letter from DOA Director to an Agency Director



Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



January 9, 2018

To: [Redacted]

From: Director of Administration

Subject: Permanent Transfer

Buenas yan Háfa Adai!

This memo will serves as notice of the permanent transfer that will be initiated for the following fund: CQA Inspection Services (Fund 209) in the amount of \$1,852,949.00.

The General Fund is not able to pay or transfer this fund balance due to the perpetual cash shortage that has been experienced for decades by our Government. Government Accounting Standards Board (GASB) Statement No. 34, 112. a. (1) states: If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan" (GASB 34 copy attached).

As a result of the legal mandate, 5 G.C.A., Article 2, § 22204; Rules & Regulations, the Director of the Department of Administration is required to provide that the principles of governmental accounting and reporting; classification of funds and accounts; and mandated to ensure that accounting terminology *shall* conform to those recommended by the National Committee on Governmental Accounting. For government entities, the Government Accounting Standards Board is the authority for Government Accounting Standards. Also contained in, 5 G.C.A., Article VI, § 6.06, financial statements are required to be prepared in accordance with Generally Accepted Accounting Principles (GAPP). In addition, § 11.11, requires that accounting records shall be maintained in accordance with GAPP.

When preparing the financial statements for the Government of Guam's annual audit, we would be in non-compliance with GASB 34 if we failed to record permanent transfers. All unexpended/unappropriated amounts that are not expected to be collected within a reasonable time become subject to permanent transfer. If we did not do so, our financial statements would not be in compliance with GAPP or GASB. This would result in a modified opinion which would place the Government of Guam in Jeopardy. Our Credit Rating, Investors, Bond Holders, Federal partners and all stakeholders who rely on financial statements to be prepared in accordance with these requirements would be very concerned with our failure to do so.

Sample Letter from DOA Director to an Agency Director

Page 2 – FY2017 Permanent Transfer Memo and Acknowledgement

Once subjected to permanent transfer, the fund balance for these special revenue accounts will not be available to your department for any future use and cannot be reversed. We therefore ask that you **not** consider this amount as available for carryover appropriations or use in the FY2018 fiscal year.

Should you have any questions, or wish to discuss the matter further, please do not hesitate to contact me.

Senseramente,

[Redacted Signature]

Director

ACKNOWLEDGEMENT:

Fund: CQA Inspection Services Fund

Amount: \$1,852,949.00

[Redacted Signature]

11/2/2018
Date

Director

Appendix 6:

Sample Letter from Public Auditor to an Agency Director



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagatna, Guam 96910
Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)
www.opaguam.org

November 14, 2018

[REDACTED]

Guam Fire Department
Administration Building
Suite 807 DNA Bldg.
238 Archbishop Flores St.
Hagatna, Guam 96910

Re: FY 2018 Potential Permanent Transfers from Special Revenue Funds (SRF) to the General Fund (GF)

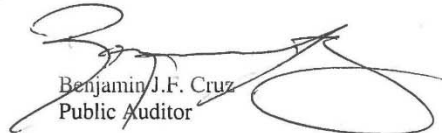
Buenas!

For the past years, the Department of Administration has been sending memoranda to inform and request you to acknowledge the permanent transfers from the **Enhanced 911 Emergency Reporting System Fund** (Fund 281) and **GFD Capital Revolving Fund (Fire, Life, Medical, Emergency Fund)** (Fund 231) to the General Fund to finance the GF operations. We are all aware that these permanent transfers are unrelated to the legislative intent of the SRF.

For Fiscal Year 2018, there is a high risk that the General Fund *may not be able* again to reimburse the funds it has taken from the SRFs. DOA needs to reimburse the net amounts owed by the General Fund to the Special Revenue Funds during its year-end closing process.

Pending receipt of data from DOA-Division of Accounts, we encourage you to refrain from acknowledging permanent transfers, which the DOA Director may request, post year-end.

Respectfully,


Benjamin J.F. Cruz
Public Auditor

received
1055 11/14/18
[Handwritten signature]

Appendix 7:
SRFs' Expenditures Exceeding Appropriations/Revenues

Fund #	Fund Name	Expenditures	Appropriation	Excess of Expenditures over Appropriations	Revenues	Excess of Expenditures Over Revenues
FY2017						
632	Indirect Cost Fund	\$ 1,531,827	\$ 1,642,288	None	\$ 1,208,964	\$ 322,863
232	Manpower Development Fund	\$ 649,807	\$ 1,619,549	None	\$ 225,277	\$ 424,530
FY2016						
263	Police Services Fund	\$ 1,713,618	\$ 1,767,259	None	\$ 1,207,951	\$ 505,667
647	Section 2718 Fund	\$ 15,243,673	\$ 1,200,000	\$ 14,043,673	\$ 2	\$ 15,243,671
632	Indirect Cost Fund	\$ 1,582,238	\$ 1,634,613	None	\$ 668,886	\$ 913,352
209	Customs, Agriculture and Quarantine Inspections Fund	\$ 13,588,613	\$ 14,868,918	None	\$ 13,563,377	\$ 25,236
222	Land Survey Revolving	\$ 3,156,744	\$ 3,111,311	\$ 45,433	\$ 3,215,706	None
FY2015						
202	Streetlight Fund	\$ 4,809,906	\$ 4,818,685	None	\$ 4,062,533	\$ 747,373
647	Section 2718 Fund	\$ 20,572,173	\$ 7,920,442	\$ 12,651,731	\$ 1,543,115	\$ 19,029,058
632	Indirect Cost Fund	\$ 1,650,352	\$ 1,626,489	\$ 23,863	\$ 879,003	\$ 771,349
209	Customs, Agriculture and Quarantine Inspections Fund	\$ 13,591,352	\$ 14,226,655	None	\$ 12,960,927	\$ 630,425
222	Land Survey Revolving	\$ 3,171,953	\$ 3,095,832	\$ 76,121	\$ 2,538,874	\$ 633,079
232	Manpower Development Fund	\$ 1,661,698	\$ 1,751,307	None	\$ 1,623,928	\$ 37,770
FY2014						
632	Indirect Cost Fund	\$ 1,666,488	\$ 1,840,802	None	\$ 887,770	\$ 778,718
209	Customs, Agriculture and Quarantine Inspections Fund	\$ 13,447,135	\$ 13,705,338	None	\$ 13,229,580	\$ 217,555
222	Land Survey Revolving	\$ 3,032,212	\$ 3,243,905	None	\$ 2,543,987	\$ 488,225
232	Manpower Development Fund	\$ 1,412,101	\$ 1,458,508	None	\$ 1,366,689	\$ 45,412
FY2013						
235	DPW Building and Design	\$ 628,126	\$ 612,005	\$ 16,121	\$ 794,074	None
647	Section 2718 Fund	\$ 8,432,753	\$ 7,500,000	\$ 932,753	\$ 6,827,273	\$ 1,605,480
209	Customs, Agriculture and Quarantine Inspections Fund	\$ 11,952,014	\$ 6,534,152	\$ 5,417,862	\$ 10,256,121	\$ 1,695,893
222	Land Survey Revolving	\$ 2,984,453	\$ 3,227,764	None	\$ 2,966,187	\$ 18,266
232	Manpower Development Fund	\$ 1,634,991	\$ 2,212,643	None	\$ 1,312,501	\$ 322,490
632	Indirect Cost Fund	\$ 1,737,962	\$ 1,827,665	None	\$ 1,562,138	\$ 175,824

Appendix 8:
SRF Fund Balances

Fund No.	Fund Name	Total Permanent Transfers Out to GF	Separate Bank Account	FY 2017		FY 2016		FY 2015		FY 2014		FY 2013	
				Cash Balance	Fund Balance	Cash Balance	Fund Balance	Cash Balance	Fund Balance	Cash Balance	Fund Balance	Cash Balance	Fund Balance
281	Enhanced 911 Emergency Reporting Systems Fund	\$ 3,880,716	Yes	\$ -	\$ 158,833	\$ -	\$ 116,646	\$ -	\$ 51,497	\$ -	\$ -	\$ -	\$ 1,478,300
655	Limited Gaming Fund	\$ 1,834,260	Yes	\$ -	\$ 2,242,051	\$ -	\$ 1,882,417	\$ -	\$ 1,155,002	\$ -	\$ 1,689,650	\$ -	\$ 223,688
600	Environmental Health Fund	\$ 1,788,958	Yes	\$ -	\$ 11,512	\$ -	\$ 148,263	\$ -	\$ 153,641	\$ -	\$ -	\$ -	\$ 813,284
241	Health Professional Licensing Fund	\$ 1,148,487	Yes	\$ -	\$ 44,529	\$ -	\$ 231,215	\$ -	\$ 42,086	\$ -	\$ -	\$ -	\$ 444,087
663	Police Patrol Vehicle & Equipment	\$ 291,206	Yes	\$ -	\$ 142,034	\$ -	\$ 318,016	\$ -	\$ 186,701	\$ -	\$ -	\$ -	\$ -
669	CLT Survey & Infrastructure	\$ 321,263	Yes	\$ -	\$ 458	\$ -	\$ 173,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
415	Chamorro Loan Guarantee Fund	\$ 320,105	Yes	\$ -	\$ 517,725	\$ -	\$ 742,261	\$ -	\$ 650,000	\$ -	\$ 512,282	\$ -	\$ 501,963

Fund #	Fund Name	Legislation	Governance Framework		
			Responsible Agency	Responsible Official/Signatory	Other Pertinent Provision
619	Recycling Revolving Fund	PL 27-38	GEPA	GEPA Administrator	
205	Territorial Educational Facility	PL 22-19 amended by PL-23-14	Not Specified	Not Specified	After GF has been fully reimbursed, balance shall remain in the TEF and funds shall be appropriated for the purpose of constructing, refurbishing and replacing educational facilities.
208	Guam Highway Fund	5 GCA Section 54102 & PL 11-82	DPW	DPW Director	Vouchers should be certified by the DPW Director. DPW Director shall render an accounting of transactions of the fund to the Governor & Legislature.
281	Enhanced 911 Emergency System Reporting Fund	12 GCA Section 12304 & PL 25-55	DOA	DOA Director	To be administered by DOA, GFD is responsible for operating & maintaining the 911 system.
231	Fire, Life, and Medical Emergency Fund (GFD Capital Revolving Fund)	PL 22-52 & PL 28-68 (Part 1)	GFD & DOA	DOA Director	DOA Director shall administer the funds. Release of funds upon request of Fire Chief.
655	Limited Gaming Fund	PL 32-60	Not Specified	Not Specified	The fund shall be examined and reported by the DOA Director as required by law. DOA releases appropriated funds to the agency.
600	Environmental Health Fund	PL 25-120	DPHSS Division of Environmental Health	Not Specified	To support the function of Division of Environmental Health.
202	Street Light Fund	PL 27-38	Not Specified	Not Specified	Funds reserved for the Guam Power Authority.
235	DPW Building & Design Fee Fund	PL 33-66	DPW	DPW Director	Director certifies use of funds.
241	Health Professional Licensing Fund	PL-21-33	Health Professional Licensing Office	Not Specified	None
213	Guam Contractors Fund/Contractors License Board Fund	PL -30-11	Contractors License Board	Not Specified	Requisition submitted by Executive Director or personnel & countersigned by Chairman.
602	Healthy Futures Fund	PL 27-05/ PL 30-166 Section 2 (d)	Not Specified	Not Specified	\$1.0M allocated to GMHA.
263	Police Services Fund	PL 24-23 Section 77134	DOA	DOA Director	To be administered by DOA for the benefit of GPD.

Fund #	Fund Name	Legislation	Governance Framework		
			Responsible Agency	Responsible Official/Signatory	Other Pertinent Provision
663	Police Patrol Vehicle & Equipment Revolving Fund.	PL 32-205 Section 3602	GPD	Not Specified	To be maintained by DOA for the sole benefit of GPD.
245	Guam Environmental Fund	PL-21-10 Section 2	GEPA	GEPA Administrator	
630	Department of Land Management (DLM) Building Construction	PL-29-46 Section 60901-905	DLM	DLM Director & DOA Director	The Director of Land Management, together with the Director of Administration, shall invest money held in the DLM Building Construction Fund in any type of investment approved for the Retirement Fund.
669	CLT Survey & Infrastructure Fund	21GCA Section 75124	CLTC	CLT Commission	Expenditures shall be made pursuant to a resolution by CLTC.
415	Chamorro Loan Guarantee fund	PL 12-226 Section 13502 and 13511 (h)	CLTC	CLTC Certifying Officer	
272	Controlled Substance Diversion Fund	PL 24-149 Section 67.301 (b-d)	DOA	DPHSS	All fees shall be forwarded to DOA for use as provided in the law.
647	Section 2718 Fund	PL 31-77 Section 23	Not Specified	Not Specified	
632	Indirect Cost Fund	PL 29-113 Section 221501-504	DOA	DOA	Expended for: (1) DOA; (2) BBMR; (3) OPA; (4) Guam State Clearinghouse; and (5) GDOE.
209	Customs, Agriculture, & Quarantine Inspections Fund	PL 23-96 Section 6 (page 7)	Dept. of Agriculture	Director	
		11 GCA Chapter 28	Customs & Quarantine Agency	Director	
325	Criminal Injuries Fund	PL 20-155 Section 86.95 (page 14) /8 GCA Chapter 161	Criminal Injuries Compensation Commission	Attorney General of Guam	
222	Land Survey Revolving	21 GCA Chapter 60, Section 60602 to 605/PL-14-48	DLM	Director	
232	Manpower Development Fund	PL 25-123 Section 2 (page 6 & 7)/PL-18-48	GDOL	Not Specified	

List of Inactive Special Revenue Funds

Fund	Fund description	Begin date	End date	Last Activity	Confirmed on AS400	Prior Audit Recommendations			
					Balance	DOA to Close Account	Legislature to Repeal	DOA to Consolidate	Legislature to Consolidate
1 102	GMTA	10/10/2003	9/09/2004	Inactive	\$ -			✓	
2 107	POST FUND	10/10/2003	9/09/2020	7 Yrs	\$ -		✓		
3 109	DOE FEDERAL GRANTS FUND	10/10/2009	9/09/2020	Inactive	\$ -				
4 201	HOUSING REVOLVING FUND	10/10/2003	9/09/2020	3 Yrs	\$ (294,954.01)	✓			
5 207	VETERANS BONUS	10/10/2003	9/09/2004	11 Yrs	\$ -	✓			
6 212	PARKS AND RECREATION REVOLVING	10/10/2003	9/09/2004	11 Yrs	\$ -			✓	
7 216	IDDRF (DISABILITIES FUND)	10/10/2003	9/09/2020	7 Yrs	\$ -		✓		
8 219	LOST BOOK FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
9 220	CHAMORRO LANGUAGE COMMISSION	10/10/2003	9/09/2004	Inactive	\$ -	✓			
10 221	PRINTING REVOLVING FUND	10/10/2003	9/09/2020	6 yrs	\$ 0.05	✓			
11 227	CZM - CLOSED PL28-150 CH IV 2C	10/10/2003	9/09/2006	Inactive	\$ -	✓			
12 233	CUSTOMS INSPECTION FUND	10/10/2003	9/09/2004	Inactive	\$ -				
13 234	GUAM HOUSING CORP REVOLVING FD	10/10/2003	9/09/2020	7 Yrs	\$ -	✓	✓		
14 237	GOV'T HOUSE REVOLVING FUND	10/10/2003	9/09/2020	6 yrs	\$ 0.35				
15 238	PROGRAM DEVELOPMENT FUND	10/10/2003	9/09/2020	6 yrs	\$ -		✓		
16 242	COASTAL ZONE MANAGEMENT FUND	10/10/2003	9/09/2004	Inactive	\$ -				
17 243	FARMERS/FISHERMAN'S	10/10/2003	9/09/2004	10 Yrs	\$ -		✓		
18 248	GUAM BEAUTIFICATION FUND	10/10/2003	9/09/2004	11 Yrs	\$ -		✓		
19 249	MUNICIPAL LITTER DEFCACEMENT	10/10/2003	9/09/2004	Inactive	\$ -		✓		
20 256	2011 BUSINESS PRIVILEGE TAX	10/10/2011	10/10/2012	5 Yrs	\$ -				
21 262	AUTONOMOUS INFRAST COLLECTION	10/10/2003	9/09/2020	5 Yrs	\$ (0.25)		✓		
22 264	DRUG TREATMENT & ENFORCEMENT	10/10/2003	9/09/2004	Inactive	\$ -		✓		
23 266	BOARD OF ACCOUNTANCY	10/10/2003	9/09/2020	6 yrs	\$ 0.40				
24 271	1999 SPG REVOLVING FUND	10/10/2003	9/09/2020	10 Yrs	\$ -		✓		
25 273	ABANDONED VESSELS FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
26 274	KOMITEA PARA TIYAN FUND	10/10/2003	9/09/2020	7 Yrs	\$ -				
27 277	FIREFIGHTERS EQUIPMENT REPLCMT	10/10/2003	9/09/2020	7 Yrs	\$ -		✓		
28 278	OFF-ISLAND TRAVEL FUND	10/10/2003	9/09/2020	7 Yrs	\$ -		✓		
29 279	PERSONNEL RESERVE FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
30 280	OVERTIME FUND	10/10/2003	9/09/2020	6 yrs	\$ (0.40)		✓		
31 286	UTILITY BANK FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
32 287	LIVESTOCK FUND	10/10/2003	9/09/2020	Inactive	\$ -		✓		
33 290	BARBERING AND COSMETOLOGY FUND	10/10/2003	9/30/2020	Inactive	\$ -		✓		
34 291	AVAILABLE FUND NUMBER	10/10/2003	9/09/2020	Inactive	\$ -				
35 292	MEDICAID AND MIP ASSISTANCE	10/10/2003	9/09/2020	Inactive	\$ -				✓
36 294	MHSA FUND	10/10/2003	9/09/2020	Inactive	\$ 989.00				
37 296	HEALTHCARE SYS PRIVATIZATION	10/10/2003	9/09/2004	Inactive	\$ -		✓		
38 302	LAND SURVEY FUND	10/10/2003	9/09/2004	Inactive	\$ -			✓	
39 303	INCOME TAX RESERVE	10/10/2003	9/09/2020	Inactive	\$ (518,983.20)				
40 304	OCEAN FREIGHT FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
41 305	CAHA OET & CEF	10/10/2003	9/09/2020	Inactive	\$ -		✓		
42 306	GOVT CLAIMS FUND	10/10/2003	10/10/2003	Inactive	\$ -				
43 308	LAW ENFORCE GRANT TRUST FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
44 309	AGANA FRACTIONAL LOT FUND-ISF	10/10/2003	9/09/2020	Inactive	\$ (90,169.40)		✓		
45 316	OFF-ISL SPORTS	10/10/2003	9/09/2004	Inactive	\$ -		✓		
46 318	INSTRUCTIONAL PERSONNEL	10/10/2003	9/09/2004	Inactive	\$ -	✓			
47 323	RETRO PAY FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
48 324	HAZARDOUS SUBS EXP	10/10/2003	9/09/2004	Inactive	\$ -	✓			
49 331	PUNTAN DOS AMANTES PARK TRUST	10/10/2003	9/09/2004	Inactive	\$ -		✓		
50 350	CONSTR DEDEDO PRECINT/CRIMELAB	10/10/2003	9/09/2004	Inactive	\$ -		✓		
51 356	PCB RECOVERY FUND	10/10/2003	9/09/2004	Inactive	\$ -	✓			
52 402	GUAM MASS TRANSIT AUTHORITY	10/10/2003	9/09/2004	Inactive	\$ -			✓	
53 410	CHAMORRO HOME LOAN	10/10/2003	9/09/2020	Inactive	\$ -				✓
54 411	CHAMORRO COMMERCIAL LOAN	10/10/2003	9/09/2020	4 Yrs	\$ -				✓
55 412	CHAMORRO HOME REPAIR	10/10/2003	9/09/2020	Inactive	\$ -				✓
56 413	CHAMORRO HOME DEVELOPMENT	10/10/2003	9/09/2020	Inactive	\$ -				✓
57 414	GUAM EDUCATIONAL ASSISTANCE	10/10/2003	9/09/2020	Inactive	\$ -				✓
58 417	SOLID WASTE OPERATIONS FUND	2/02/2010	10/10/2012	5 Yrs	\$ -				
59 503	EDUCATION FACILITIES FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
60 606	LOST AND DAMAGED TEXTBOOKS	10/10/2003	9/09/2004	Inactive	\$ -		✓		
61 609	MUNICIPAL RECYCLING PROCEEDS	10/10/2003	9/09/2004	Inactive	\$ -		✓		
62 610	COMMUNITY ADVANCEMENT FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
63 612	GUAM POLICE DEPT LOAN FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
64 613	GPD SPECIAL ASSESSMENTS FUND	10/10/2003	9/09/2004	Inactive	\$ -		✓		
65 615	UOG HIGHER EDUCATION ENDOWMENT	1/01/2001	9/09/2020	Inactive	\$ -				

Appendix 10: List of Inactive Special Revenue Funds

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66	621	UNRESERVED FUND BALANCE FUND	10/10/2005	9/09/2020	3 Yrs	\$	-				
67	622	EVERY CHILD IS ENTITLED TO EDU	10/10/2005	9/09/2020	9 Yrs	\$	-				
68	623	ROAD AND POTHOLE REPAIR FUND	10/10/2005	9/09/2020	Inactive	\$	-				
69	626	INTERIM TRANSITION COORD COMM	11/11/2004	9/09/2020	7 Yrs	\$	-				
70	627	SCHOOL IMPROVEMENT FUND	10/10/2005	9/09/2020	Inactive	\$	-				
71	631	CAPITOL DISTRICT FUND	4/04/2008	9/09/2020	Inactive	\$	-				
72	633	CENSUS 2010 FUND	7/07/2009	9/09/2020	2 Yrs	\$	-				
73	634	HISTORIC PRESRV ARCHAEOLOG MITIG	1/01/2009	9/09/2020	4 Yrs	\$	-				
74	635	GUAM UNARMED COMBAT COMMISSION	7/07/2009	9/09/2020	2 Yrs	\$	-				
75	641	GUAM CANCER TRUST FUND	2/02/2010	9/09/2020	2 Yrs	\$	15.00				
76	644	PRISON INDUSTRIES REVOLVING	7/07/2008	9/09/2020	2 Yrs	\$	(1,568.77)				
77	648	OFFICE OF THE ATTORNEY GENERAL	11/11/2011	9/09/2020	Inactive	\$	-				
78	651	GUAM PROCUREMENT ADVISORY FUND	9/09/2011	9/09/2020	2 Yrs	\$	(1,931.00)				
79	652	HOST COMMUNITY FUND	7/07/2010	9/09/2020	2 Yrs	\$	(52.92)				
80	654	BEVERAGE CONTAINER RECYCLING	12/12/2010	9/09/2020	Inactive	\$	-				
81	660	VETERANS AFFAIRS FUND	12/05/2005	9/30/2020	Inactive	\$	-				
82	664	OFF-ISLAND EDUCATION TRAINING	11/17/2011	9/30/2020	Inactive	\$	-				
83	665	EARLY CHILDHOOD PROGRAM FUND	8/30/2013	9/30/2020	Inactive	\$	-				
84	667	ALCOHOL BEV COMPL FEES & FINES	7/05/2013	9/30/2020	Inactive	\$	-				
85	670	VETERANS CEMETARY TRUST FUND	3/04/2016	9/30/2030	Inactive	\$	-				
86	672	GUAM PUBLIC LIBRARY LEASING FD	3/04/2016	9/30/2999	Inactive	\$	-				
Grand Total of Inactive Special Revenue Funds						\$	(907,659.95)	14	30	4	6

Appendix 11:
DOA Management Response

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Lourdes A. Leon Guerrero
Governor
Joshua Tenorio
Lieutenant Governor

DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE
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Post Office Box 884 * Hagåtña, Guam 96932
TEL: (671) 475-1101/1250 * FAX: (671) 477-6788



Edward M. Birn
Director
Edith C. Pangelinan
Deputy Director

February 27, 2019

Mr. Benjamin J.F. Cruz
Public Auditor
Office of Public Accountability
Suite 401, Pacific News Building, 238 Archbishop Flores Street
Hagatna, Guam 96910

Subject: Draft Audit Report – Department of Administration (DOA) Special Revenue Funds

Buenas yan Hafa Adai Mr. Cruz,

Thank you for your letter of February 14, 2019 to which was attached draft audit report – Department of Administration (DOA) Special Revenue Funds.

Department of Administration (DOA) understands that there are many issues associated with the accounting of Special Revenue Funds (SRF) by the Government of Guam. DOA's comments are set out below.

General Fund (GF) and Special Revenue Funds

SRF's are established to account for revenue intended by legislation or other instrument to be expended on a specific purpose or purposes. As indicated in the audit report, Guam has a large number of SRF's (108 active, 86 inactive). This is an unusual situation. In the Government's Basic Financial Statements for FY2017, the total value of fund balances at the end of the year was \$61M. The State of California manages seven (7) major SRF's and a group of minor SRF's totaling 11.7b. Guam's Legislature created each of the SRF's for which DOA is required to account.

By definition, General Fund is the principal operating fund of the Government of Guam and accounts for all transactions not accounted for in another fund. As noted in the audit report, for each of the years under audit, there was a deficit on the GF balance. The result of these deficits is that the GF is required to pay out more cash than it takes in. The cause of this deficit falls outside the scope of this audit; the effect is that the resulting cash shortfall can only be met by increasing payables or by using cash not otherwise committed by SRF's.

It is agreed that the intent of SRF's is to isolate the activity from the stresses that press down on the GF. The financial statements clearly demonstrate that some obligations of the GF

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DOA Management Response

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Memo – Benjamin J. Cruz – Public Auditor, OPA
February 27, 2019
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would not have been met, had not funding been transferred from SRF's. Some jurisdictions, notably again California, permit borrowing (subject to financing cost and repayment) from SRF's rather than leave funds idle. DOA agrees that GF has been required in certain instances to subsidize deficits in some SRF's without documenting permanent transfers, and cash may be required to return certain inactive funds to balance in order to close off those funds.

It should be noted that the practice of transferring funds from SRF's to GF because of continued GF deficits began before 2004 and has been a feature of each year's cash provisioning. Any such transfers were reported in the Basic Financial Statements for each fiscal year which are audited by GovGuam Independent Accountants.

CONCLUSION AND RECOMMENDATIONS:

It is the policy of DOA that SRF's should be utilized for their intended purpose. Agency Directors who are responsible for funds associated with their agencies have the primary responsibility for managing these funds in accordance with their enabling legislation. DOA does not sanction the accumulation of unused funds in SRFs as this is also a departure from the intention of enabling legislation. However, DOA is also responsible for the financial management of GovGuam. If cash is needed to bridge the gap between revenues and accumulated and mandated appropriations, SRFs may be the only source of funding.

DOA proposes two changes to the practices outline in the subject audit report:

1. That interfund borrowing be permitted by legislation up to a limit of fifty percent (50%) of the available fund balance before such borrowing.
2. That any such borrowing be effected by a note which defines the repayment terms of the loan and which carries an interest rate based on LIBOR (London Inter-Bank Offered Rate). A copy of such note will be provided to the relevant agency director and if applicable, board chairman.

It should be recognized that no agency directors were requested to acknowledge permanent transfers for FY2018. It is noted that the Public Auditor sent a letter to agency directors encouraging them to refrain from acknowledging transfers, however, DOA should also stress that the General Appropriations Act for FY2018 did permit such transfers.

With respect to the specific recommendations of the audit:

DOA, Agency Directors and Fund Administrators:

1. Generally agree, but please refer to comments above.

Appendix 11:
DOA Management Response

Page 3 of 3

Memo – Benjamin J. Cruz, Public Auditor, OPA
February 27, 2019
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DOA Director:

1. Please refer to comments above.
2. Agree, but replace wording "...before the end of each fiscal year." With "...within a reasonable period of time.
3. Agree, but this procedure was implemented in September 2018 and strengthened in January 2019.
4. Agree
5. Agree
6. Agree, subject to the GF transferring to those SRFs being recommended for repeal on closure which carry fund deficits.

DOA is of the opinion that these transfers should not be classified as "questioned costs" as any such transfers were reported as "other financing sources, not expenditures or revenues" in the audited financial statements. We consider the appropriate classification to be "other financial impact".

DOA thanks the staff of the Office of Public Accountability for its professional courtesy and attentiveness during the course of this audit.

Should you have any further questions regarding this matter, please do not hesitate to contact me at 475-1250/1101 or email at edward.birn@doa.guam.gov.

~~Sensaramente,~~



EDWARD M. BIRN
Director
Department of Administration

cc: Edith C. Pangelinan, Deputy Director, DOA
Gaudencio Rosario, Deputy Financial Manager, Division of Accounts, DOA
Mary Grace Edrosa, General Accounting Supervisor, Division of Accounts, DOA
Michael Cabral, General Accounting Supervisor, Division of Accounts, DOA
Director's File

Appendix 12:
Status of Audit Recommendations

No.	Addressee	Audit Recommendation	Status	Action Required
1	DOA Director Agency Directors/ Fund Administrators	Strictly comply with the provisions of the SRFs' enabling legislations on deposits, use for intended purposes, fund transfer restrictions, disbursements, and transfer approvals.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
2	DOA Director	Refrain from borrowing cash (funds) from the SRFs to fund general government expenses without prior authorization and approval from Agency Directors or Fund Administrators.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
3	DOA Director	Ensure that all interfund borrowings must be paid before the end of the fiscal year.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
4	DOA Director	Properly document approval and authorization for the TOG to perform electronic fund transfers.	CLOSED Implemented in September 2018 and Refined in January 2019.	Please provide the target date and title of official(s) responsible for implementing the recommendation.
5	DOA Director	Develop written plans, policies, and procedures, to ensure consistency in the opening, closing, interfund transfers, accounting, monitoring, reconciliation, and reporting of special fund accounts.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
6	DOA Director	Establish and implement fund management controls to ensure that SRFs are effectively managed and used for its intended purpose.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.

Appendix 12:
Status of Audit Recommendations

No.	Addressee	Audit Recommendation	Status	Action Required
7	DOA Director	Recommend to the Legislature the repeal or closure of existing inactive or duplicated SRFs and comply with the prior audit recommendations on their repeal or closures.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
8	Legislature	Ensure that enabling legislations clearly define the agency and administrators, and their roles and responsibilities in managing SRFs when creating new SRFs.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
9	Legislature	Ensure that enabling legislations are consistent in requiring separate bank accounts for SRFs to strictly enforce the no commingling of funds.	OPEN	Please provide the target date and title of official(s) responsible for implementing the recommendation.
10	Legislature	Immediately act on recommendations to repeal inactive funds.	OPEN Implemented in September 2018 and Refined in January 2019.	Please provide the target date and title of official(s) responsible for implementing the recommendation.

Appendix 13:**Glossary of Agency/Departments' Acronyms**

CLTC	Chamorro Land Trust Commission
DLM	Department of Land Management
DOA	Department of Administration
DOA-DA	Department of Administration – Division of Accounts
DPR	Department of Parks and Recreation
DPW	Department of Public Works
DRT	Department of Revenue and Taxation
GDOE	Guam Department of Education
GEPA	Guam Environmental Protection Agency
GFD	Guam Fire Department
GMHA	Guam Memorial Hospital Authority
GPD	Guam Police Department
GovGuam	Government of Guam
GPT	Guam Preservation Trust
MCOG	Mayors Council of Guam
OPA	Office of Public Accountability
PUC	Public Utilities Commission
SRF	Special Revenue Fund
TOG	Treasurer of Guam



**Department of Administration
Special Revenue Funds
Report No. 19-02, March 2019**

ACKNOWLEDGEMENTS

Key contributions to this report were made by:

Anna Manibusan, Audit Staff
Andriana Quitugua, CFE, Auditor-in-Charge
Thyrza Bagana, CGFM, Audit Supervisor
Yukari Hechanova, CPA, CIA, CGFM, CGAP, CGMA, Deputy Public Auditor
Benjamin J.F. Cruz, Public Auditor

MISSION STATEMENT

**To ensure public trust and good governance in the Government of Guam,
we conduct audits and administer procurement appeals, with objectivity, professionalism,
and accountability.**

VISION

**The Government of Guam is the model for good governance with OPA leading
by example as a model robust audit office.**

CORE VALUES

**Objectivity: To have an independent and impartial mind.
Professionalism: To adhere to ethical and professional standards.
Accountability: To be responsible and transparent in our actions.**

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- **Visit our website at www.opaguam.org**
- **Call our office at 475-0390**
- **Fax our office at 472-7951**
- **Or visit us at Suite 401, DNA Building in Hagåtña**

All information will be held in strict confidence.