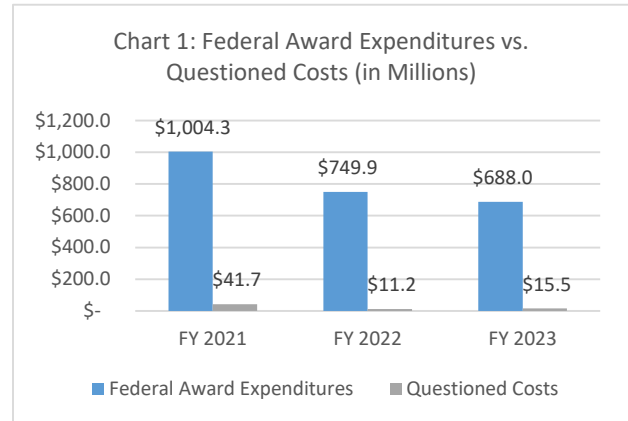




Compliance Highlights
Government of Guam Financial Audit
Fiscal Year 2023

February 13, 2025

The Government of Guam (GovGuam) received unmodified (clean) opinions from independent auditors Ernst & Young LLP (EY) on its fiscal year (FY) 2023 financial statements and compliance over major federal programs, except for nine federal programs for which a qualified opinion was issued. GovGuam and its line agencies' expenditures of federal awards have decreased from \$749.9 million (M) in FY 2022 to \$688M in FY 2023. GovGuam did not qualify as a low risk auditee.



EY identified 34 findings in FY 2023, of which:

- Six material weaknesses and one significant deficiency were identified in GovGuam’s internal control over financial reporting; and
- Sixteen material weaknesses and 11 significant deficiencies were identified in GovGuam’s internal control over compliance, with total federal questioned costs of \$15.5M.

Internal Control Over Financial Reporting

EY rendered an unmodified opinion related to the preparation of GovGuam’s FY 2023 financial statements, but identified the following six material weaknesses and one significant deficiency related to GovGuam’s internal control over financial reporting:

*Material Weaknesses (*Repeat finding)*

- GASB 24 Transactions for SNAP and P-EBT (2023-001)
 - SNAP and P-EBT transactions totaling \$183.1M were not reported as revenues and expenditures, resulting in noncompliance with applicable GASB 24 requirements.
- Revenue Recognition (2023-003)
 - Revenues of five governmental funds were not correctly recognized, resulting in the misstatement of grant revenues and related receivables or payables to federal agencies.
- OPEB Census Data and EY Actuary (2023-004)
 - For members tested, there were (1) discrepancies between census data and enrollment/personnel records; and (2) apparent duplicates related to an overlap of life insurance benefits resulting in a \$7.1M overstatement in the OPEB liability; and (3) an estimated \$51.2M related to the mortality assumption was identified as an understatement of the OPEB liability.
- Tax Receivable (2023-005)
 - Delinquent taxes receivable that are measurable but not due within 12 months were not timely recorded. Taxes receivable and the related estimated allowance for uncollectible receivables amounting \$17.9M for FY 2023 were corrected after the year-end.

- Special Revenue Fund Deficits (2023-006)
 - Expenditures of three special revenue funds exceeded their revenues and/or grants received, resulting in fund deficits of \$18.1M and a related interfund payable to the General Fund (GF). EY proposed operating transfers if the interfund payable of \$18.1M to the GF are not expected to be repaid.
- Capital Assets (2023-007*)
 - (1) As of October 2024, reconciliations were still ongoing and no post-closing adjustments were provided to adjust capital assets; (2) capital asset subsidiary ledgers included details of transactions from the general ledger, and were not organized by project; (3) one Construction in Progress project tested was completed as of September 30, 2023, but not transferred to depreciable assets and (4) capital assets were not assessed for impairment as of November 26, 2024.

Significant Deficiency

- General Ledger and Schedule of Expenditures of Federal Awards Reconciliation (2023-002)

Internal Control Over Major Federal Programs

For GovGuam’s compliance over major federal programs, EY rendered qualified opinions on nine federal programs and unmodified opinions on all other major federal programs. The following programs received qualified opinions resulting from findings mostly classified as material weaknesses, due to GovGuam’s noncompliance with the corresponding program requirements:

| Finding # | Assistance Listing # | Program or Cluster Name | Compliance Requirement |
|-----------|----------------------|--|--|
| 2023-008 | 10.551 10.561 | SNAP Cluster | Special Tests and Provisions – Quality Control and Program Integrity |
| 2023-009 | 10.551 10.561 | SNAP Cluster | Special Tests and Provisions – ADP System for SNAP |
| 2023-010 | 11.031 | Broadband Infrastructure Program | Reporting |
| 2023-011 | 15.875 | Economic, Social and Political Development of the Territories | Equipment and Real Property Management |
| 2023-012 | 15.875 | Economic, Social and Political Development of the Territories | Procurement and Suspension and Debarment |
| 2023-017 | 21.027 | Coronavirus State and Local Fiscal Recovery Funds | Procurement and Suspension and Debarment |
| 2023-019 | 21.029 | Coronavirus Capital Projects Fund | Reporting |
| 2023-020 | 21.029 | Coronavirus Capital Projects Fund | Sub recipient Monitoring |
| 2023-022 | 66.600 | Environmental Protection Consolidated Grants for the Insular Areas – Program Support | Program Income |
| 2023-023 | 66.600 | Environmental Protection Consolidated Grants for the Insular Areas – Program Support | Reporting |
| 2023-024 | 84.425 | Education Stabilization Fund | Matching, Level of Effort, Earmarking |
| 2023-025 | 84.425 | Education Stabilization Fund | Reporting |
| 2023-026 | 93.323 | Epidemiology and Laboratory Capacity for Infectious Diseases | Equipment and Real Property Management |
| 2023-027 | 93.323 | Epidemiology and Laboratory Capacity for Infectious Diseases | Procurement and Suspension and Debarment |
| 2023-030 | 93.575 93.596 | CCDF Cluster | Reporting |
| 2023-031 | 93.575 93.596 | CCDF Cluster | Sub recipient Monitoring |

Internal Control Over Compliance

For FY 2023, EY identified 16 material weaknesses and 11 significant deficiencies in GovGuam's internal control over compliance, with total federal questioned costs of \$15.5M. Several of these findings are also repeat findings from the prior year audits.

*Procurement and Suspension and Debarment (*Repeat finding)*

- Material weakness (2023-012*, 2023-017*, 2023-027*)—Total Questioned Costs—\$5.0M
 - 2023-012: For procurement of non-payroll program expenditures: (1) no procurement file was provided; (2) documentation relative to a subrecipient's vendor selection was not retained; and (3) less than three informal price quotations required for small purchases were on file. As a result, GovGuam is in noncompliance with applicable procurement requirements. Questioned costs totaled \$515K.
 - 2023-017: For procurement of non-payroll program expenditures: (1) less than three informal price quotations required for small purchases were on file; (2) documentation in the procurement file was insufficient to justify availability of an item from a single supplier; and (3) the procurement file for ten vendors was not provided. Questioned costs totaled \$4.0M.
 - 2023-027: For procurement of non-payroll program costs: (1) less than three informal price quotations required for small purchases were on file; (2) the procurement file for five vendors was not provided; and (3) documentation in the procurement file was insufficient to demonstrate compliance with sole source procurement. Questioned costs totaled \$478K.
- Significant deficiency (2023-021)

*Reporting (*Repeat finding)*

- Material weakness (2023-010, 2023-019, 2023-023, 2023-025, 2023-030)
 - 2023-010: A subaward of \$11.4M was not reported in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS), which resulted in noncompliance with applicable reporting requirements; however, GovGuam subsequently reported the required information in the FSRS in October 2024.
 - 2023-019: A subaward of \$759K was not reported in the FSRS, which resulted in the appearance of noncompliance with applicable reporting requirements relative to special reporting for FFATA requirements.
 - 2023-023: Amounts reported for the semi-annual SF-425 Federal Financial Report reporting period ended September 30, 2023 did not agree with the underlying accounting records, which resulted in noncompliance with applicable reporting requirements. Over/under reporting ranged between \$31K and \$507K. DOA disagreed with this finding, as they believe they have complied with submitting the reporting in a timely manner. The timing of the required reporting is believed to cause discrepancies between posted reported amounts and expenditures reported in AS400, of which there is no provision to adjust previously reported values. The implementation of the Federal Module in the Guam Financial Management Information System is expected to automate and improve this process.
 - 2023-025: (1) Two subawards of \$4.3M were not reported in the FSRS; and (2) there is a \$56K variance in expenditures reported by the Guam Community College on USASpending.gov versus what was reported in a GEER I report submitted in FY 2023. This resulted in the appearance of noncompliance with applicable reporting requirements relative to special reporting for FFATA requirements.
 - 2023-030: (1) Grant expenditures for 2019 through 2023 are not accurately supported by accounting records, with a variance of \$936K; and (2) 25 subawards totaling \$11.0M were not reported in the FSRS. This resulted in noncompliance with applicable reporting requirements; however, DOA expressed views similar to Finding No. 2023-023 for this finding. DOA also noted the upcoming expiry of the FSRS system in March 2025.
- Significant deficiency (2023-013, 2023-014*, 2023-016*, 2023-033*)

*Special Tests and Provisions (*Repeat finding)- Total Questioned Costs- \$27K*

- Material weakness (2023-008, 2023-009*)
 - 2023-008: (1) Applications from permanent and temporary government employees were not included in the Post-Disaster Report; and (2) there was no documentation for required individual case reviews.
 - 2023-009: For four case files tested, data obtained from PHPro does not have files to substantiate all case file information input in the system. Further, one case incorrectly processed the household size of the applicant, resulting in an overpayment. This resulted in noncompliance with applicable special tests and provisions requirements for the ADP System for SNAP. Questioned costs totaled \$27K; however, the Department of Public Health and Social Services (DPHSS) disagreed with the finding, as additional information and documentation was provided to address three of the cases.
- Significant deficiency (2023-032, 2023-034*)
 - 2023-032: Questioned costs totaled \$145K
 - 2023-034: Questioned costs totaled \$122K

*Subrecipient Monitoring (*Repeat finding)*

- Material weakness (2023-020, 2023-031)–Total Questioned Costs-\$9.5M
 - 2023-020: No subaward documentation was provided to substantiate communication of the subaward’s terms and conditions for one subrecipient amounting to \$759K.
 - 2023-031: For subrecipients tested, (1) the CCDF Program did not monitor if subrecipients spent funds according to sub award terms and conditions; and (2) the CCDF Program passed through \$831.5K to a subrecipient without verifying if the subrecipient met the Single Audit requirements. Questioned costs totaled \$9.5M; however, DPHSS disagreed with this finding, as they stated that related regulations do not outline specific reporting requirements for subgrants, and the requirement of such are subject to the discretion of the lead agency. Additionally, the use of subrecipients by the lead agency in administering the [CCDF] program is to be documented in a written agreement depending on the role the subrecipient is asked to assume.
- Significant deficiency (2023-018*)

*Equipment and Real Property Management (*Repeat finding)*

- Material weakness (2023-011*, 2023-026*)
 - 2023-011 and 2023-036: The latest physical inventory of GovGuam properties was in January 2016; however, reconciliation has not been completed. As of September 30, 2023, the required bi-annual physical inventory and reconciliation were not performed. This resulted in noncompliance with applicable equipment and real property management requirements.

Matching, Level of Effort, Earmarking

- Material weakness (2023-024)
 - 2023-024: Final 2023 expenditure data for elementary/secondary education, higher education, and overall Outlying Area spending has not been submitted. The preliminary projected GovGuam Maintenance of Effort deficiency amounted to \$1.3M. This resulted in the appearance of noncompliance with applicable matching, level of effort, earmarking requirements relative to maintenance of effort requirements.
- Significant deficiency (2023-028): Questioned costs totaled \$63K

Other Areas of Deficiencies

- Material weakness –Total Questioned Costs-\$645K
- Program Income (2023-022): (1) Program income records of the Guam Environmental Protection Agency (GEPA) did not agree with accounting records resulting in a variance of \$148K; and (2) there was no record to specify the uses of excess program income. This resulted in noncompliance with applicable program income

requirements. GEPA disagreed with this finding, as they stated that program income is used to supplement special revenue funds handled by the department and is not tied to assist or supplement federal awards.

- Significant deficiencies
 - Eligibility (2023-015): Questioned costs totaled \$3K
 - Period of Performance (2023-029): Questioned costs totaled \$41K

Management Letter

EY issued a management letter with 29 comments on deficiencies related to internal control over financial reporting for the Department of Administration (DOA) and several GovGuam entities. DOA's Division of Accounts received the majority of the comments identifying deficiencies as follows:

- 1) Nine comments related to general ledger reconciliations, for which GovGuam management should consider the development and implementation of a Gantt chart that includes at least monthly or quarterly reconciliations of general ledger accounts with corresponding subsidiary ledgers, and an assessment of the need for additional personnel or training. Comments were either included in the communication schedule of uncorrected misstatements or addressed through proposed audit reclassifications or adjustments.
 - a) Opening net position for the General Fund, Tourist Attraction Fund, and Healthy Futures Fund were not reconciled, resulting in variances ranging between \$2.5M and \$4.5M;
 - b) School financed purchase obligations were overstated by \$9.0M;
 - c) GF prepayments of approximately \$4.7M for lease payments were not reported as expenditures;
 - d) GF bank reconciliations included \$1.6M of unreleased checks and \$2.1M of stale dated checks, which understated cash and liabilities. A bank reconciliation included unrecorded cash collections of \$3.5M to reduce taxes receivable due;
 - e) \$1.4M of unrecorded cash transactions in Special Revenue Fund 679-CARES Act Unemployment Assistance Fund;
 - f) Bonds Payable accounts were not adjusted to reflect current year retirements of \$17.7M;
 - g) GASB 87 leases were not adjusted to reflect current year changes. An audit adjustment was proposed to increase lease assets by \$1.3M; depreciation by \$1.7M; and lease liability by \$0.856M;
 - h) GF reported an allowance exceeding receivable balance due by \$1.5M; and
 - i) A Special Revenue Fund bank reconciliation included \$1.4M of unrecorded reconciling items.
- 2) The GF recorded an advance of \$726K due from the Legislature since 2015, for which DOA should pursue collection and consider such through offset of General Fund budget appropriations.
- 3) Seven comments were issued related to accounts payable (AP), deposits and other liabilities, of which six were included in the communication schedule of uncorrected misstatements. EY recommended that DOA consider current staffing patterns and how best to facilitate timely completion of the audit process.
 - a) \$1.2M of GF accruals were not valid, and \$5.6M in GF accruals were not recorded;
 - b) GF includes an AP balance of \$2.3M that is over five years old;
 - c) \$1.9M of claim liabilities were not reported;
 - d) \$7.7M of unclaimed checks were not escheated to the GF;
 - e) \$1.6M of invoices from bus services were not collected or adjusted;
 - f) ARPA Assistance Fund did not accrue \$391K for services incurred during FY 2023; and
 - g) Federal Grant Assistance Fund did not accrue \$2.2M for services incurred during FY 2023.
- 4) Transaction Processing System populations identified 25,519 missing receipt # sequences, which DOA should review and monitor the reasons for such occurrences at least on a monthly or quarterly basis.
- 5) The Special Revenue Fund for Customs, Agriculture and Quarantine Inspection (Fund 209) includes amounts due from the Guam International Airport Authority (GIAA) of \$3.6M, while GIAA recorded a liability to

GovGuam for \$1.5M. No reconciliation has occurred. EY recommended DOA establish internal control policies and procedures requiring reconciliation of amounts due to and from GIAA. Additionally, GIAA should comply with its mandate in Public Law 23-45 to remit all collections within five days of receipt to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

- 6) Fund deficits from the Street Light Fund (Fund 202) of \$489K and the Guam Regional Transit Authority (Fund 317) of \$356K resulted in an interfund payable balances of \$840K due to the General Fund, of which repayment may not be expected within a reasonable time. EY recommended for DOA to periodically analyze special revenue fund deficits for interfund payable balances that may not be expected to be repaid, which would require the reporting of operating transfers.
- 7) The employee retirement classification for two employees were incorrectly designated by the DOA Human Resource Division, which DOA should correct and implement internal controls to determine that the system has correct retirement designations to avoid issues with benefits paid by the employee and employer.
- 8) Adjustments resulting from the adoption of GASB 96 for subscription-based information technology arrangements (SBITAs) had not been determined until October 2024. Total present value of the recorded SBITA liability and asset is \$5.5M with an annual amortization for the current year of approximately \$1.9M. GovGuam should consider the designation of personnel with the necessary skill set and knowledge to prepare and maintain a complete list of GASB 96 SBITAs, as well as the automation of the process through third-party service providers or advisors.
- 9) GovGuam did not assess the impact of potential liabilities for the Medically Indigent Program (MIP) and Medicaid transactions for FY 2023, which GovGuam should revisit and determine a methodology for the accrual of MIP and Medicaid expenditures.
- 10) Receivables due from federal agencies and intergovernmental revenues of \$804K were not recorded when expenditures were determined to meet eligibility requirements. EY recommended that GovGuam hire qualified grant administrators and implement internal controls to monitor grants, perform timely requests for drawdowns, and implement budgetary controls to prevent expenditures from exceeding the grant award amount.

The following five GovGuam entities received management letter comments:

- 1) Treasurer of Guam: Real Property Tax Penalties and Interest
- 2) Public Defender Service Corporation: General Ledger Reconciliations
- 3) Unified Courts: Monitoring of Probation Accounts
- 4) Division of Accounts/Child Support Enforcement Division: Unclaimed Checks – Child Support
 - a) \$2.2M unreconciled difference between AS400 and APASI
- 5) Department of Corrections: Unrecorded Liabilities
 - a) \$2.5M of unbudgeted and unrecorded liabilities from current and previous years. DOA was unable to determine if these liabilities were already paid or recorded.

EY also issued a management letter for the Information Technology Environment with two comments.

For more details, please refer to GovGuam's FY 2023 Reports on Compliance and Management Letter at www.opaguam.org.