

Report on Compliance

Guam Visitors Bureau

(A Component Unit of the Government of Guam)

Year Ended September 30, 2022



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Contents

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards.....	7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs.....	9
Corrective Action Plan.....	16



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Management and the Board of Directors
Guam Visitors Bureau

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Guam Visitors Bureau (the Bureau), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenditures and changes in net position and of cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated September 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bureau’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Bureau's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Bureau's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Bureau's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

September 26, 2023



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Report of Independent Auditors on Compliance for the Sole Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management and the Board of Directors
Guam Visitors Bureau

Report on Compliance for the Sole Major Federal Program

Opinion on the Sole Major Federal Program

We have audited Guam Visitors Bureau's (the Bureau's) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Bureau's sole major federal program for the year ended September 30, 2022. The Bureau's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Bureau complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its sole major federal program for the year ended September 30, 2022.

Basis for Opinion on the Sole Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Bureau and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the sole major federal program. Our audit does not provide a legal determination of the Bureau's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Bureau's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Bureau's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Bureau's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Bureau's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Bureau's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-004. Our opinion on the sole major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Bureau's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Bureau's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Bureau is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Bureau's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Bureau's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Bureau's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Bureau is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Bureau's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Guam Visitors Bureau as of and for the year ended September 30, 2022, and have issued our report thereon dated September 26, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

September 26, 2023

Guam Visitors Bureau
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

<u>Program Title</u>	<u>Pass Through Organization Identifying Number</u>	<u>Federal Assistance Listing Number</u>	<u>Expenditures</u>
United States Department of the Treasury			
Passed Through from Office of the Governor of Guam	020		
Coronavirus State and Local Fiscal Recovery Funds	020	21.027	\$ 5,474,721
 United States Department of the Interior			
Passed Through from Office of the Governor of Guam	020		
Economic, Social, and Political Development of the Territories		15.875	\$ <u>126,760</u>
TOTAL FEDERAL EXPENDITURES			\$ <u><u>5,601,481</u></u>
Reconciliation to the basic financial statements:			
Federal operating expenses:			
Professional Services			\$ 5,345,500
Personnel			83,848
Miscellaneous			160,625
Materials and Supplies			6,655
Utilities			2,275
Equipment			2,428
Advertising			150
Total Federal Expenditures			\$ <u><u>5,601,481</u></u>

Guam Visitors Bureau
(A Component Unit of the Government of Guam)

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Guam Visitors Bureau (“Bureau”) under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Bureau, it is not intended to and does not present the financial position, changes in net position or cash flows of Bureau.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The Bureau has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Guam Visitors Bureau
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs

Year Ended September 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **Yes** **No**

Identification of major federal programs:

Assistance Listings Number
21.027

Name of Federal Program
Coronavirus State and Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low risk auditee?

 Yes X **No**

Guam Visitors Bureau
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Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

<u>Reference Numbers</u>	<u>Findings</u>
2022-001	Related Party Disclosure
2022-002	Due from Government of Guam
2022-003	Board Approval

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>ALN</u>	<u>Findings</u>	<u>Questioned Costs</u>
2022-004	21.027	Activities Allowed or Unallowed	\$ ---

Guam Visitors Bureau
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001

Area: Related Party Disclosure

Criteria:

Government Accounting Standards Board Codification (GASB Cod.) 2250.107 requires material related party transactions to be disclosed in the notes to the financial statements.

Condition:

For the year ended September 30, 2022, total identified contracted and purchased goods from businesses that were associated with the Bureau's Board of Directors totaled \$366,379. As part of its financial statement close process, the Bureau did not complete its procedures to verify the completeness of its related party disclosures.

Cause:

Bureau management did not implement a process, policy or procedure to determine complete disclosure of related party transactions for the year ended September 30, 2022.

Effect:

The related party disclosure may be incomplete.

Recommendation:

The Bureau should strengthen internal controls and implement a process or policy that allows management to represent and support complete disclosure of related party transactions.

Views of responsible officials:

The Bureau will implement internal controls to determine the completeness of disclosure for related party transactions. Such controls will include verification from the Bureau's Board of Directors ("the Board") to determine vendors who are determined to be a related party as defined by GASB 2250.107.

Guam Visitors Bureau
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-002

Area: Due From Government of Guam

Criteria:

GASB Cod. N50.118 states that recipients of grants considered voluntary non-exchange transactions should recognize receivables only when all applicable eligibility requirements, including time requirements, are met.

Condition:

Amounts due from the Government of Guam for federal program reimbursements were overstated by \$6.5M. Additionally, the related transactions resulted in a \$5.4M overstatement of advances from grantor and an overstatement of \$1.1M in revenues. Post-closing entries were provided to correct these misstatements.

Cause:

The Bureau did not perform reconciliations with the Government of Guam before the fiscal year end.

Effect:

Misstatements were presented that ultimately resulted in a Single Audit. The final resolution of these transactions was provided nine months after fiscal year end.

Recommendation:

Bureau management should reconcile amounts due from the Government of Guam Department of Administration before closing the reporting period to prevent the occurrence of unfunded liabilities or encumbrances.

Views of responsible officials:

The Bureau will implement controls to reconcile amounts due from the Government of Guam Department of Administration. Should it be needed, provisions for doubtful accounts will be placed to prevent occurrence of unfunded liabilities.

Guam Visitors Bureau
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003

Area: Board Approval

Criteria:

1. 12 GCA Chapter 9 subsection 9111 requires purchase orders or letters of authorization in excess of \$24,999, except salaries to be approved by the Board of Directors.
2. The Bureau's travel policy requires travel expenses to be approved by the Board.

Condition:

1. For 5 (or 100%) of 5 travel expenses examined, Board approval was not provided.
2. For 2 (or 67%) of 3 procurement files tested, no Board approval was documented for contracts with fees over \$24,999.

Cause:

Board meetings did not occur between May 2022 through February 2023.

Effect:

The Bureau is in noncompliance with required board approvals for travel expenditures and purchase orders in excess of \$24,999.

Recommendation:

Bureau management should comply with Title 12 GCA Chapter 9 SS 9111 and travel policy.

Views of responsible officials:

On May 2022, the Board voted to postpone meetings until further notice. The Board did not have a meeting until the following fiscal year. Understanding its importance to Guam's post-pandemic economic recovery, the Bureau continued normal operations throughout the fiscal year despite the absence of the Board. The Bureau will resume compliance with 12 GCA §9111 once the Board has resumed meetings.

Guam Visitors Bureau
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-004

Federal Agency: U.S. Department of the Treasury
Pass-Through Entity: Government of Guam
AL Program: 21.027 Coronavirus State and Local Fiscal Recovery Funds
Federal Award No.: COVID-19 American Rescue Plan 2021
Area: Activities Allowed or Unallowed
Questioned Costs: \$ ---

Criteria:

In accordance with applicable activities allowed or unallowed requirements, Fiscal Recovery Funds must be used in one of four eligible use categories. The categories applicable to the Bureau in FY 2022 include the following:

- a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality; and
- b) For the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency.

Furthermore, 2 CFR 200.400(d) requires that accounting practices of the non-Federal entity must provide for adequate documentation to support costs charged to the Federal award.

Condition:

For 5 (or 8%) of 60 transactions tested, aggregating \$2.2 million out of \$5.5 million in total Program expenditures, disbursements were made under contract number C22025-B to a provider of full-service marketing, advertising and public relations services for Guam's 78th Liberation Festivities, including the construction of the Bureau's parade float, broadcasting, and trophies. Such activities do not appear to satisfy the eligible use category of responding to the public health emergency or its negative economic impacts, and no revenue loss calculation is documented to demonstrate the provision of government services to the extent of the reduction in revenue due to the emergency. The total cost charged to contract number C22025 during FY 2022 is \$352,815.

Guam Visitors Bureau
(A Component Unit of the Government of Guam)

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-004, Continued

Federal Agency: U.S. Department of the Treasury
Pass-Through Entity: Government of Guam
AL Program: 21.027 Coronavirus State and Local Fiscal Recovery Funds
Federal Award No.: COVID-19 American Rescue Plan 2021
Area: Activities Allowed or Unallowed
Questioned Costs: \$ ---

Cause:

The Bureau did not effectively establish and implement controls over compliance with applicable activities allowed or unallowed requirements.

Effect:

The Bureau is in noncompliance with applicable activities allowed or unallowed requirements. No questioned cost is reported because the Bureau subsequently obtained written approval on September 20, 2023 from the pass-through entity.

Recommendation:

Responsible personnel should establish and implement controls over compliance with applicable activities allowed or unallowed requirements. Prior to charging costs to the Federal award, responsible personnel should read the applicable guidance from the U.S. Department of the Treasury and ascertain that the activity is an eligible use of Program funds. Furthermore, any prior approvals from the pass-through entity should be obtained in writing and maintained on file to substantiate costs charged to the Federal award.

Views of responsible officials:

The Bureau will implement internal controls over compliance with applicable activities allowed or unallowed. Such controls will include obtaining written approval from the pass-through entity for any project and costs charged to the Federal award.



Guam Visitors Bureau

Corrective Action Plan

For the Year Ended September 30, 2022

Finding No. 2022-001

Views of responsible officials:

The Bureau will implement internal controls to determine the completeness of disclosure for related party transactions. Such controls will include verification from the Bureau's Board of Directors ("the Board") to determine vendors who are determined to be a related party as defined by GASB 2250.107.

Contact Person:

Rudd Gudmalin, Financial Controller

Expected Completion Date:

September 30, 2023

Finding No. 2022-002

Views of responsible officials:

The Bureau will implement controls to reconcile amounts due from the Government of Guam Department of Administration. Should it be needed, provisions for doubtful accounts will be placed to prevent occurrence of unfunded liabilities.

Contact Person:

Rudd Gudmalin, Financial Controller

Expected Completion Date:

September 30, 2023



Finding No. 2022-003

Views of responsible officials:

On May 2022, the Board voted to postpone meetings until further notice. The Board did not have a meeting until the following fiscal year. Understanding its importance to Guam's post-pandemic economic recovery, the Bureau continued normal operations throughout the fiscal year despite the absence of the Board. The Bureau will resume compliance with 12 GCA §9111 once the Board has resumed meetings.

Contact Person:

Rudd Gudmalin, Financial Controller

Expected Completion Date:

September 30, 2023

Finding No.: 2022-004

Views of responsible officials:

The Bureau will implement internal controls over compliance with applicable activities allowed or unallowed. Such controls will include obtaining written approval from the pass-through entity for any project and costs charged to the Federal award.

Contact Person:

Rudd Gudmalin, Financial Controller

Expected Completion Date:

September 30, 2023