

*Management Letter*

**Government of Guam**

*Year Ended September 30, 2022*





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Management and Those Charged with Governance  
Government of Guam

In planning and performing our audit of the financial statements of the Government of Guam (GovGuam), as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GovGuam's internal control. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **A. DIVISION OF ACCOUNTS**

### **Due from Legislature**

Comment: GovGuam's General Fund recorded an advance of \$726K due from the Legislature since 2015.

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

### **Special Revenue Fund Deficits**

Comment: Certain special revenue funds for various reasons have incurred expenditures in excess of revenues and or grants received, which resulted in interfund payable balances of \$2.7M. Repayment of these balances may not be expected within a reasonable time due to continuing fund deficits. As no alternative funding source is available, we have proposed operating transfers from the General Fund.

## **A. DIVISION OF ACCOUNTS, Continued**

### **Special Revenue Fund Deficits, Continued**

Recommendation: We recommend DOA limit the ability of special revenue funds to incur expenditures in excess of revenues collected. Furthermore, we recommend DOA ascertain those collections from non-appropriated funds, such as the Guam Museum and the Guam Regional Transit Authority are reported to DOA on a quarterly basis. Finally, we recommend DOA periodically analyze special revenue fund deficits for interfund payable balances that may not be expected to be repaid; thereby requiring the reporting of operating transfers.

### **Deposits and Other Liabilities**

Comment 1: Approximately \$1.2M of General Fund accruals were not valid as of September 30, 2022. The overstatement was included in the Summary of Uncorrected Misstatements.

Comment 2: General Fund includes an accounts payable balance of \$1.156M that is over 7 years old (GL 110021593). Such is included in the summary of uncorrected misstatements to be written off.

Comment 3: General Fund includes an accounts payable balance of \$3.696M that is over 4 years old (GL 110021591 and GL 129321590). Such is included in the summary of uncorrected misstatements to be written off.

Comment 4: Approximately \$1.9M of claims liabilities were not reported as of September 30, 2022. The understatement was included in the Summary of Uncorrected Misstatements.

Comment 5: Approximately \$6.6M of unclaimed checks were not escheated to the General Fund as of September 30, 2022. The understatement was included in the Summary of Uncorrected Misstatements.

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

### **Revenues**

Comment: Approximately \$1.5M of invoices for bus operations were not recorded as of September 30, 2022 (DPW Invoice B021 45 thru 84 & B022 21 thru 60).

Recommendation: We recommend DOA consider current staffing patterns and how best to facilitate timely completion of the audit process which includes periodic scrutiny of account balances and reconciliations.

## **B. DIVISION OF ACCOUNTS, Continued**

### **Transaction Processing System (TPS) Receipts**

Comment: TPS populations identified 21,779 in missing receipt # sequences. When a transaction is cancelled, reversed, or corrected, the TPS system automatically generates a new receipt # and replaces the previously assigned receipt #. The previously assigned receipt # is not searchable, and receipt # sequences are not monitored by management. While there is no risk that cash is understated or misappropriated due to other mitigating controls, all receipt # sequences should be accounted for.

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

### **Capital Assets**

Comment: Approximately \$28M (322 items) of fully depreciated vehicle, equipment, and fixtures older than 20 years were still on the capital asset register as of September 30, 2022.

Recommendation: We recommend DOA to consider checking if these items were disposed or still existing as of date.

### **Expenditures**

Comment: Major Governmental expenditures (General Fund) include amounts that were not recorded in the correct period. A transaction for \$555K (D211300252-4), represented expenditures that were incurred in the prior year. A projected understatement of prior year expenditures and liabilities approximates \$1,878K.

Recommendation: We recommend the Government strengthen internal controls to facilitate recording liabilities in the correct period.

### **Due from Guam Memorial Hospital Authority (GMHA)**

Comment: The General Fund includes amounts due from GMHA of approximately \$7.813M. A proposed adjustment was included in the summary of uncorrected misstatements to allow or write off the receivable.

Recommendation: We recommend the Government receivables due from GMHA be considered for collectability.

## **CHILD SUPPORT ENFORCEMENT DIVISION / DIVISION OF ACCOUNTS**

### **Unclaimed Checks - Child Support**

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between DOA and CSED are on-going regarding the reconciliation between the AS400 and the APASI system to support unclaimed checks and reconcile aged balances, which date back more than 20 years. At September 30, 2022, a \$2.194M unreconciled difference between the AS400 and APASI exists.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: Continue to address the Collaborative Action Plan, which entails the following:

1. Inquiry from the bank to obtain copies of all associated records, (cash collections and checks/EFT payments) during the period the child support accounts were held.
2. Seek legislation to establish a period after which unclaimed child support payments will escheat to the Government. Since bank records are incomplete or are unavailable for two financial institutions prior to 2004, DOA and CSED are seeking legislation to waive the diligent effort requirements before unclaimed child support payments can be escheated for the period prior to 2004.

## **GUAM FIRE DEPARTMENT (GFD)**

### **Accrued Payroll**

Comment: Unpaid night differential, hazardous, and overtime pay of \$431,781 were not provided to the Department of Administration for accrual.<sup>1</sup>

Recommendation: We recommend personnel costs unpaid as of fiscal year end be provided to the Department of Administration for accrual.

## **UNIFIED COURTS OF GUAM**

### **Monitoring of Probation Accounts**

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

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

**DEPARTMENT OF CORRECTIONS (DOC)**

**Unrecorded Liabilities**

Comment: \$2.8M of unbudgeted and unrecorded liabilities from current and previous years were identified by DOC that primarily related to medical related costs incurred by inmates. Due to the lack of information provided by DOC, DOA was not able to determine if these liabilities were already paid or recorded. As this amount was not considered material to the financial statements, no audit adjustment was proposed.<sup>1</sup>

The above comment was reiterated in the prior year audits.

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

**GUAM DEPARTMENT OF REVENUE AND TAXACTION (DRT)**

**Tax Credits**

Comment: For three of three (or 100%) of tax credit samples selected for testing, such were not traceable to the monitoring schedule of tax credit and abatements redeemed during the fiscal year ended September 30, 2022.

Recommendation: We recommend tax credits and abatements redeemed go through an approval process to prevent over redemption of awarded tax credits and abatements by individuals or entities.

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

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

*Ernst + Young LLP*