

July 13, 2022

Mr. Edward M. Birn
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Mr. Birn:

In planning and performing our audit of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) for the year ended September 30, 2021, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated July 13, 2022 and which includes a reference to other auditors and an emphasis-of-matter paragraph for the impact change in accounting principle and COVID-19), 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, we considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies involving GovGuam's internal control over financial reporting and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated July 13, 2022, on our consideration of GovGuam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Department of Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving GovGuam's internal control over financial reporting as of September 30, 2021, that we wish to bring to your attention:

A. DIVISION OF ACCOUNTS

(1) Transaction Processing System (TPS) Receipts

Comment: TPS populations indicated 110,377 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.

(2) Uncollected receivables

Comment 1: GovGuam's General Fund recorded the following uncollected balances:

- 1) An advance of \$726K due from the Legislature since 2015.
- 2) Receivables of \$305K for fuel costs from the Guam Department of Education.

Comment 2: On May 25, 2021, a \$3M advance to Guam Memorial Hospital Authority was processed. No collection, offset, or plan of action to collect such advance has been formulated as of June 2022.

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

(3) 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 \$1.955M. 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.

SECTION I – DEFICIENCIES, CONTINUED

A. DIVISION OF ACCOUNTS, CONTINUED

(3) 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 that 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.

(4) Deposits and Liabilities

Comment 1: Approximately \$3.1M of collections were recorded as General Fund liabilities. Such includes \$1M of collections related to bus operations and \$2.1M collected from law enforcement agencies. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Comment 2: Approximately \$1.9M of claims liabilities were not reported as of September 30, 2021. The understatement was included in the Summary of Uncorrected Misstatements.

Comment 3: Approximately \$1.9M of General Fund accruals were not valid as of September 30, 2021. The overstatement was included in the Summary of Uncorrected Misstatements.

Comment 4: General Fund includes an accounts payable balance of \$1.156M that is over 6 years old (GL 110021593). Such is included in the summary of uncorrected misstatement to be written off.

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.

(5) Revenues

Comment: Payment to a component unit for \$844K was incorrectly recorded as a reduction of revenues, thereby understating revenues and expenditures. An adjustment was proposed to correct this misstatement.

Recommendation: We recommend disbursements be correctly reported.

(6) Electronic Fund Transfers (EFT)

Comment: Bank reconciliations as of September 30, 2021, include EFT's that were not approved. Of \$8.458M of EFT's tested, \$613K were not approved until after fiscal year end. The total projected understatement of related cash and liabilities approximates \$1.136M.

Recommendation: We recommend cash transactions be processed when such is approved.

SECTION I – DEFICIENCIES, CONTINUED

A. DIVISION OF ACCOUNTS, CONTINUED

(7) Expenditures

Comment: Nonmajor Governmental expenditures include amounts that were not recorded in the correct period. A transaction for \$20K (D209977CS041), represented expenditures that were incurred in the prior year. The projected understatement of prior year expenditures and liabilities approximates \$947K.

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

B. CHILD SUPPORT ENFORCEMENT DIVISION (CSED) / 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 to reconcile aged balances, which date back more than 20 years. At September 30, 2021, a \$1.990M 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.

C. PUBLIC DEFENDER SERVICES CORPORATION (PDSC)

General Ledger Reconciliation

Comment 1: PDSC did not reconcile opening net position. The following variances were noted:

	Ending Balance per 2020 Financial Statements	Beginning Balance per 2021 General Ledger	Unreconciled Variance
Operations	\$ 1,476,617	\$ 1,485,391	\$ 8,775
Alternate Public Defender	\$ 679,435	\$ 379,769	\$ 299,666

Comment 2: PDSC did not reconcile Government of Guam Appropriations for FY2021. Adjustments were proposed to reverse deferred revenues as current year appropriation revenues totaling \$526,293.

SECTION I – DEFICIENCIES, CONTINUED

C. PUBLIC DEFENDER SERVICES CORPORATION (PDSC)

General Ledger Reconciliation, Continued

Comment 3: Transfers within funds did not reconcile.

Recommendation: We recommend PDSC perform reconciliations of opening net position and GovGuam appropriations before the close of the fiscal year. Additionally, transfers within funds should be correctly recorded with a corresponding transfer in and transfer out.

D. UNIFIED COURTS

Monitoring of Probation Accounts

Comment: The status of probation cases should be timely monitored to allow for the issuance of official court orders for the closure and write-off of uncollectible accounts. The related allowance is \$5.3M, 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 accruals are payable to the associated victim.

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

E. DEPARTMENT OF CORRECTIONS (DOC)

(1) Timely Federal Bureau of Prisons (FBP) Reimbursement

Comment: Approximately \$336K for detainee confinement and transportation billings incurred for the months of June 2021 to September 2021 were not timely billed to FBP. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend timely submission by DOC for FBP reimbursement.

(2) Unrecorded Liabilities

Comment: \$2.5M 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.

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.

F. CUSTOMS AND QUARANTINE

Unrecorded Liabilities

Comment: \$1M of unrecorded liabilities relating to CQA lease rental and janitorial fees due to the Guam International Airport Authority (GIAA) were not recorded. The understatement of liabilities was included in the summary of uncorrected misstatements.

Recommendation: We recommend CQA recognize liabilities for lease expenditures incurred.

SECTION I – DEFICIENCIES, CONTINUED

G. GUAM FIRE DEPARTMENT

Accrued Payroll

Comment: Unpaid night differential, hazardous, and overtime pay of \$431,781 was not provided to the Department of Administration for accrual.

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

H. GUAM DEPARTMENT OF REVENUE AND TAXATION

Gross Receipt Tax

Comment: Gross receipt tax transactions filed online with multiple tax classifications do not appear to undergo monitoring of revenue classifications.

Recommendation: We recommend monitoring procedures be considered to assess if the correct funds are ultimately credited.

I. GUAM LEGISLATURE

Interfund Transfers

Comment: Interfund transfers did not reconcile at the end of the fiscal year by \$125,000.

Recommendation: We recommend interfund transfers are correctly recorded and should net to zero. A reconciliation should be performed at least before the close of the fiscal year end.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters as of September 30, 2021, that we wish to bring to your attention:

A. GENERAL SERVICES AGENCY (GSA)

(1) Untimely Issuance of Bids

Comment: Lease agreements for office space rentals expired, but Invitation for Bids (IFBs) were not timely issued.

Department	Lease Expiration	Bid Issuance
Department of Administration	2019	04/01/2022 GSA-033-22
Department of Labor	August 2020	03/29/2021 GSA-021-21
Department of Integrated Services for Individuals with Disabilities	2020	03/18/2021 GSA-016-21

Recommendation: We recommend GSA and the respective departments monitor lease terms to timely prepare and issue IFBs.

(2) Emergency Procurement of Telephone Services

Comment: GSA utilizes emergency procurement procedures for telephone services provided to the Guam Department of Revenue and Taxation. Per GSA, an Invitation for Bid (IFB) cannot be started due to lack of guidance from the Office of Technology and funding.

Recommendation: We recommend GSA collaborate with the Office of Technology to issue an IFB.

(3) Issuance of Request for Quotation (RFQ)

Comment: A vendor submitted a quotation for services related to the transportation and monitoring of quarantined travelers due to COVID-19 on 09/18/2020; however, the RFQ was not issued until 10/01/2020.

Recommendation: We recommend GSA issue the RFQ before conducting solicitation of services.

B. GUAM DEPARTMENT OF PUBLIC WORKS (DPW)

Procurement Files

Comment: Procurement files stored at DPW related to P216P00502 & P216P00507 were not made available for examination.

Recommendation: We recommend improved organization of procurement files.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A deficiency 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND INHERENT LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GovGuam's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.