

July 11, 2005

Ms. Lourdes Perez
Director
Department of Administration
Government of Guam
Post Office Box 884
Hagatna, Guam 96910

Dear Ms. Perez:

In planning and performing our audit of the general purpose financial statements of the Government of Guam (GovGuam) for the year ended September 30, 2004, on which we have issued our report dated July 11, 2005, which report was qualified due to our inability to audit tax-related balances and due to the lack of audited financial statements of the Guam Memorial Hospital Authority and the Guam Visitors' Bureau – Component Units, we developed the following recommendations concerning certain matters related to GovGuam's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

Finding No. 1 – Capital Projects Fund

Criteria: Funds should be periodically evaluated for proper presentation and fund validity.

Condition: The "PUAG CIP Fund" appears to have had no activity for five or more fiscal years.

Cause: There appears to be weak internal controls over maintaining and updating fund validity.

Effect: This condition may result in a potential misstatement of account balances.

Prior Year Status: This condition is reiterative of prior year findings.

Recommendation: The auditee should strengthen internal controls over maintaining and updating fund validity.

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

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Finding No. 1 – Capital Projects Fund, Continued

Auditee Response and Corrective Action Plan, Continued:

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

Finding No. 2 – Travel

Criteria:

1. The Division of Accounts should consider whether three price quotations should be obtained before awarding a contract for travel. In the event this criterion is not met, a justification memo should be considered.
2. Travelers must submit travel liquidation documents within fifteen days of return.

Condition 1: In seven of twenty-five samples tested, insufficient price quotations may have been obtained. Additionally, the first five listed below did not contain a justification memo.

	<u>TA #</u>	<u>Dept</u>	<u>GL Acct reference No.</u>	<u>DAYS</u>	<u>Travel Period</u>
1	T0406TP0	098 DYA	5101H022010SE107220	5	11/17-21/03
2	T0406TPR0	139 PHSS	5101H031712EI110220	6	12/9-12/03
3	T0406TP0	503 OHS	5101H030280PA108220	1	05/26/04
4	T0406TP0	544 C&Q	5100X953200CQ010220	8	06/14-18/04
5	T0406TP0	611 C&Q	5100X953200CQ010220	11	06/21-25/04
6	T0406TP0	012 ARG1	51014021623EI113220	6	10/3-9/03
7	T0406TP0	082 AGRI	5101E041622CE102220	5	12/26-31/03

Condition 2: In seven (7) of twenty-five samples tested, travel was not cleared within the required period.

<u>NO.</u>	<u>TA #</u>	<u>Dept</u>	<u>Date of Return</u>	<u>DTT calculation 15 days from date of return</u>	<u>Clear Date as per Travel Schedule PBC</u>	<u>No. of Days Lapsed between 15th day of return and clearance date</u>
1	T0406P0	012 AGRI	4-Oct-03	19-Oct-03	08-Apr-04	172 Days
2	T0406TPR0	029 GEPA	31-Oct-03	15-Nov-03	28-Jan-04	74 Days
3	T0406TPR0	139 PHSS	9-Dec-03	24-Dec-03	12/29/2003	5 Days
4	T0406TPR0	391 PHSS	14-May-04	29-May-04	17-Sep-04	111 Days
5	T0406TPR0	435 GEPA	19-May-04	3-Jun-04	Outstanding	Unknown
6	T0406TPR0	475 GEPA	20-May-04	4-Jun-04	17-Jun-04	13 Days
7	T0406TPR0	478 PHSS	11-Jun-04	26-Jun-04	04-Nov-04	131 Days

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Finding No. 2 – Travel, Continued

Cause: The Division of Accounts should reexamine its travel procedures. The potential for acquiring more expensive travel fares than otherwise would result may be due to the amount of lapsed time from release of travel authorization from the Bureau of Budget and Management Resources to the receipt of travel approval by the Department of Administration.

Effect: There is no known effect on the financial statements; however, noncompliance with travel regulations may occur.

Prior Year Status: The above conditions are reiterative of conditions identified in the prior year.

Recommendation: Strengthen internal control to ensure that sufficient documents are obtained in a timely manner and that documents reflect accurate information. We recommend that justification memos include the preparer's identity and position status as well as the supervisor's approval or acknowledgement.

Auditee Response and Corrective Action Plan:

Criteria 1: Three price quotes:

The three price quote rule has been administered because travel authorizations are considered "small purchases" and must follow small purchase procurement policies. Because of the auditors interpretation the focus on resolving this issue had been on finding ways to consistently have three price quotes per travel request.

DOA has maintained that travel authorizations differ from other small purchases in that there are too many uncontrollable variables to consistently provide three price quotes for every TA. On June 2004, DOA and the auditors agreed the government's current financial situation and "temporary suspensions" from participating travel agencies made it difficult to adhere to the three price quote rule 100% of the time. The justification memo was implemented in June 2004 to document the reasons why three price quotes were not obtained for a particular TA and to help prove that effort was made to obtain the price quotes or there was not enough time to complete the task.

DOA acknowledges the findings of the auditors. In addition to the justification memo DOA has asked BBMR to reject TAs that lack three price quotes.

Criteria 2: Travel Liquidations/Advance

DOA concurs with the findings of the auditor. We are waiting for the response from the Attorney General's Office on the legality of withholding payroll checks. Approval from the AG's office will allow DOA to aggressively implement policies to reduce outstanding travel advances and other receivables such as bounced checks and used tax and so on. A follow up memo dated May 5, 2005 has been sent to the AG's office regarding this matter. Additionally, DOA is currently working with BBMR to implement additional policies to address current travel findings.

1. BBMR will reject all travel authorizations that have insufficient price quotes. All travel requests will be sent back to requesting agency.
2. BBMR will not approve travel authorizations for any traveler who has more than 1 outstanding travel records with the government.

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Finding No. 2 – Travel, Continued

Auditee Response and Corrective Action Plan, Continued:

BBMR and the DOA will send a circular to all government agencies and departments informing them of these policies.

DOA has sent Department of Administration Circular No. 05-018 to all department heads. Attached to this circular is a listing of outstanding travel authorizations per department.

Finding No. 3 – General Fund – Other Revenues

Criteria: Complete documentation should be maintained in support of general ledger transactions and balances.

Condition: A write-off of \$776,896 was charged to GL110026142-Unidentified Tax Collection Account with no corresponding support on file. This adjustment related to bank account balances no longer in existence dating as far back as Fiscal Year 2000. Audit adjustments were proposed to correctly record the related general ledger balances.

Cause: Certain rollover transactions resulting from the ORACLE conversion to AS400 in FY2002 have remained in the general ledger. These transactions were computer generated and were unsupported.

Effect: Misstatements of related accounts could result from this condition.

Recommendation: Journal entries should be properly supported and reviewed to ensure appropriate general ledger accounts are charged.

Auditee Response and Corrective Action Plan: Documentation substantiating these findings was retrieved and is pending audit review.

Finding No. 4 - Overtime

Criteria: Hours worked should be processed on a timely manner to reflect proper cut-off and to ensure the completeness of recorded liabilities.

Condition: Twenty-five high value overtime amounts were judgmentally selected from the payroll registers. It was noted that all relate to employees under the Department of Corrections for hours worked between fiscal years 2001 and 2003. It was further noted that of the 25 samples tested, 8 samples indicated excessive overtime hours claimed ranging between 80 to 131.5 hours per pay period.

There does not appear to be a policy regarding the timely submission of overtime payment requests. Overtime requests from prior fiscal years are held by department heads until such time that funding is available, causing payroll liabilities to remain unrecorded.

Cause: Due to lack of funding during the fiscal year in which the overtime hours were worked, payment of overtime was held pending availability of funding.

Effect: The effect of this condition is a potential understatement of liabilities.

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Finding No. 4 – Overtime, Continued

Recommendation: Requests for supported overtime payments should be submitted the following pay period to ensure recording and processing in a timely manner. This policy should be circulated to all departments to ensure that hours worked are processed in the correct period.

Auditee Response and Corrective Action Plan: A departmental memo has been circulated to all line agencies requesting submission of pertinent documents in support of any pending overtime payments for periods covering Fiscal Years 2004 and prior. We will follow up with reminders to ensure compliance.

Finding No. 5 – Accounts Receivable – Special Revenue

Criteria: A detailed aging report of accounts receivable should be maintained and updated to reflect account validity.

Condition:

For the following accounts, the accounts receivable balance has not changed since the prior year.

<u>Fund</u>	<u>Fund Name</u>	<u>Balance</u>
104	Exxon Overcharge	\$ 78,969
210	Land for the Landless	125,720
237	Government Housing Revolving	99
269	Public Service Recovery	12,445

Cause: There appears to be weak internal controls over ensuring detailed aging reports of accounts receivable are maintained and updated to reflect account validity.

Effect: The condition may result in a potential misstatement of accounts receivable balances.

Prior Year Status: This condition is reiterative of a prior year finding.

Recommendation: The auditee should strengthen internal controls to ensure detailed aging reports of accounts receivable are maintained and updated to reflect account validity.

Auditee Response and Corrective Action Plan: The DOA generally agrees with the cited condition.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

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Finding No. 6 – Travel Advance (All Funds)

Criteria:

1. Travel advances should be cleared in a timely manner. The provisions of the Travel and Transportation Manual Section 1712.02 Recovery of Advances, require that the Director of Administration (DOA) or his/her designee shall assure liquidation of traveler's advances by filing travel vouchers within fifteen (15) days upon return from travel as prescribed in Section 1715 Travel Voucher.
2. The provisions of the GovGuam Travel and Transportation Manual, Section 1712.02c require that the Director of Administration shall initiate recovery of advances by DOA collection policies and procedures by set off of salary due, retirement credit, or otherwise, from any amount due to the Government of Guam or by such other legal method of recovery as may be necessary.

Condition: As of September 30, 2004, \$1,066,083 was advanced relating to travel for training, health care, or legal matters. Of this amount, \$1,008,525 relates to previous fiscal years summarized as follows:

Department	No. of Advances	Amount Outstanding
PHSS	123	\$ 295,477
GEPA	38	102,433
MHSA	24	77,348
DVR-DISID	20	71,144
AHRD	20	58,017
C&O	9	52,736
Gov Offc	29	52,518
Agriculture	21	49,511
GPD	16	48,837
DPW	15	37,656
DOL	12	35,086
Civil Defense	6	20,896
DRT	6	15,435
Law	7	14,468
OHS	7	13,481
BOP	3	11,542
Lt. Gov Offc	2	11,286
DPR	5	8,626
Corrections	7	7,748
GEO	2	7,732
CMEO	1	3,276
DMA-VA)	1	2,626
DYA	2	1,256
DLM	1	1,090
AG	1	400
Other		<u>7,900</u>
Total		\$ <u>1,008,525</u>

An audit adjustment was proposed to record an allowance for uncollectible advances and reduce travel advances to their net realizable value.

Cause: The Government of Guam appears to have weak enforcement of travel clearance policies and collection policies for outstanding receivables.

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Finding No. 6 – Travel Advance (All Funds), Continued

Effect: Receivable balances may be misstated, and cash flows of the Government of Guam may be negatively impacted.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of the Government of Guam.

Recommendation: The Government of Guam should enforce collection policies and stabilize the responsibilities of reconciliation and collections to ensure prompt receipt of overdue amounts. A mechanism to inform the various agencies should be in place to ensure that uncleared accounts are properly communicated.

Auditee Response and Corrective Action Plan: DOA acknowledges the findings of the auditor and is currently working on implementing new policies to help encourage travelers to clear within the 15 day grace period. DOA would like to report that outstanding travel advances per fiscal year has been reduced from 90% to 46% from FY02 to FY03 and down to 9% in FY04. DOA anticipates further reduction in outstanding travel clearances for FY05.

TRAVEL ADVANCES

110012120

	PRIOR YEARS	FY'02	FY'03	FY'04
TOTAL CHARGES	9,200,797.65	536,776.70	603,034.53	687,428.40
TOTAL CLEARANCES	8,664,532.92	283,243.15	414,338.15	627,978.55
A/R BALANCE	536,264.73	253,533.55	188,696.38	59,449.85
	6%	90%	46%	9%

We are waiting for the response from the Attorney General's Office on the legality of withholding payroll checks. Approval from the AG's office will allow DOA to aggressively implement policies to reduce outstanding travel advances and other receivables such as bounced checks and used tax and so on. A follow up memo dated May 5, 2005 has been sent to the AG's office regarding this matter. Additionally, DOA is currently working with BBMR to implement additional policies to address current travel findings.

1. BBMR will reject all travel authorizations that have insufficient price quotes. All travel requests will be sent back to requesting agency.
2. BBMR will not approve any traveler who has more than 1 outstanding travel records with the government.

BBMR and the DOA will send a circular to all government agencies and departments informing them of these policies. DOA has sent Department of Administration Circular No. 05-018 to all department heads. Attached to this circular is a listing of outstanding travel authorizations per department.

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Finding No. 7 – General Fund – Imprest Fund

Criteria: Imprest fund reconciliations are to be prepared on a regular basis.

Condition: At the end of fiscal year 2004, the Treasurer of Guam received remaining portions of petty cash from each department and distributed new checks for the total annual petty cash amount without reconciling the funds.

Cause: Preparation of imprest fund reconciliations were not properly monitored.

Effect: There appears to be weak controls over the accountability of imprest funds. Proposed adjustments were deemed unnecessary due to the immateriality of the potential effect on the financial statements.

Recommendation: We recommend that imprest fund reconciliations occur at least annually, preferably at fiscal year end.

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

Finding No. 8 - Cash

Criteria: Financial statements and bank reconciliations should be prepared on a regular basis.

Condition: The Supreme Court does not prepare financial statements and bank reconciliations.

Cause: There appears to be weak internal controls over ensuring financial statements and bank reconciliations are prepared on a timely basis.

Effect: This condition may result in potential misstatements of the financial statements.

Prior Year Status: The condition is reiterative of prior year audit findings.

Recommendation: The auditee should strengthen internal controls to ensure financial statements and bank reconciliations are prepared on a timely basis.

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Finding No. 8 – Cash, Continued

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

Finding No. 9 – Use Tax Receivable

Criteria:

1. The subsidiary ledger should support the general ledger balance.
2. Accounts receivable should be monitored for collectibility.

Conditions:

1. The use tax subsidiary ledger balance is \$480,000 greater than the general ledger balance.
2. Eight of eight receivables tested were carryover balances from as far back as 1998. Overall, the use tax receivable account appears to be uncollectible. An audit adjustment was proposed to record an allowance for uncollectible accounts to reduce use taxes receivable to their net realizable value.

Cause: No monitoring activity appears to be present to ensure collectibility of these balances.

Effect: This condition results in a potential misstatement of recorded receivables. In addition, the realizable value of the receivables may be overstated by the amount of account balances unlikely to be collected.

Recommendation: We recommend that a more thorough analysis of the Use Tax receivable account occur to ensure that only valid accounts are carried over.

Auditee Response and Corrective Action Plan: DOA concurs with the findings of the auditor. We are currently analyzing the Use Tax Receivable account to insure that only valid accounts are carried over. Revenue and Tax is currently working with our office to identify businesses that are no longer active in their system.

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Finding No. 10 – General Computer Controls

Criteria: General computer controls should focus on management's control of daily functions.

Condition: The following controls are currently not present or are functioning incorrectly:

- Development and Testing of a Disaster Recovery Plan
- Formal Training of IT Staff
- Backup and Retention Policy
- Physical Access to Computer Operations Room
- Anti-Virus Software Policy
- Software and Internet Policy
- Application Change-Control Policy
- Management Review of Application Test Data
- User Request for Application & Database Structure Change Documentation
- Testing of Changes to Application & Database Structure
- Network Systems Performance Management

Cause: There does not appear to be adequate monitoring of the IT function listed above.

Effect: There is a potential for extended system down time and potential system failure due to the lack of written restoration procedures. In addition, the risk of potential fraud is present when system change controls do not exist or are not adequately followed.

Recommendation: We recommend development and implementation of each of the risk controls listed above.

Auditee Response and Corrective Action Plan: The Department of Administration has recently developed and adopted an Enterprise Architecture and Information Technology Strategic Plan, under the guidance of the USDA Graduate School PITI (Pacific Islands Training Initiative) through a US Department of the Interior technical assistant grant. Among the issues addressed in this plan are:

- Disaster Recovery
- IT Staff Training
- Backup and Retention Policy
- Software and Internet Policy
- Application Change Control
- Test Data review
- Application and Database change documentation
- Testing Procedures
- Network management

This Enterprise Architecture and Information Technology Strategic Plan is within DOA's Financial Management Improvement Plan, also under the guidance of and support of USDA-PITI and the Department of the Interior. Policies and procedures are being developed and implemented according to Change Control and Project Management techniques.

With assistance from the Guam Office of Homeland Security, the following are being addressed:

- Anti-Virus and Cyber Security
- Physical Access to the Data Center

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Finding No. 11 – AS/400 Parameter Settings

Criteria: AS/400 Parameter Settings controls should focus on the system's control of daily functions.

Condition: The following controls are currently not present or are functioning incorrectly:

- System Value Settings
- Redundant User Profiles
- IBM Supplied User Profiles
- Assignment of Users to Appropriate User Classes and Special Authorities
- Access to Production
- Menu Security
- AS/400 Audit & History Log Settings
- Public Object Authority Assignment
- Access to Sensitive System Commands
- Public Access to Production Libraries

Cause: There does not appear to be a monitoring activity designed to ensure proper settings and procedures of AS/400 parameter settings as listed above.

Effect: There is a potential system integrity failure due to unauthorized access and unauthorized system changes.

Recommendation: We recommend the development and implementation of each of the risk controls listed above.

Auditee Response and Corrective Action Plan: With DOA's Financial Management Improvement Plan (FMIP), which is also under the guidance of and support of USDA-PITI and the Department of the Interior, policies and procedures are being developed and implemented relative to Change Control and Project Management.

With assistance from the Guam Office of Homeland Security, the following will be addressed:

- Anti-Virus and Cyber Security
- Physical Access to the Data Center

This particular audit finding is being reviewed thoroughly for compliance with the Auditor's recommendations. Upon review, appropriate changes to the Parameter Settings will be made to prevent or mitigate risks.

Finding No. 12 - Encumbrances

Criteria:

- Outstanding encumbrances should be liquidated on a timely basis.
- Amendments to contract agreements should be properly monitored and adjustments to contract amounts should be properly recorded.

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Finding No. 12 – Encumbrances, Continued

Conditions:

1. Of 103 samples tested, five outstanding encumbrances as of 09/30/04 were subsequently cancelled.

<u>Encumbrance No.</u>	<u>Account No.</u>	<u>Encumbrance</u>
E041754001	5100AO41754PM006361	\$105,785
Q044200163	5101H034200IB102450	495,896
C020601470	5251D981015CI608230	157,079
C020601472	5251D987800CI605230	88,724
P046A04710	5101B041729MA101230	41,875

The above encumbrances were cancelled as they were no longer valid.

2. Detail tests revealed that of 103 samples tested, twelve outstanding encumbrances had no subsequent payments for in excess of a year and the underlying appropriation lapsed.

<u>Encumbrance No.</u>	<u>Account No.</u>	<u>Encumbrance</u>	<u>Payment</u>	<u>Outstanding over a year</u>
1. C020601360	5100D0215CI602230	\$ 300,000	\$ 58,000	\$ 242,000
2. C990604571	5209A001633CE209233	321,300	0	321,300
3. C020601790	5209A023200GA201233	136,853	0	136,853
4. C980602131	5253A982200TP253230	87,533	0	87,533
5. P026X00191	5404X025100SM502240	68,705	14,490	53,915
6. C020602920	5101H011732EI107280	182,129	0	182,129
7. C980602751	5101F971098IB121450	293,640	79,830	213,809
8. C980602752	5101F971098IB121450	208,026	0	208,026
9. W022200006	5101B022298PA101280	135,000	0	135,000
10.W010900038	5101H000920SE105280	258,000	145,819	112,180
11.C020602920	5101H011732E107280	305,231	123,101	182,129
12.C030602000	5101H031713EI109280	150,000	22,236	<u>127,763</u>
			Total:	\$ <u>2,002,637</u>

The above encumbrances were subsequently cancelled as they were no longer valid.

3. A review of the aging of encumbrance accounts for all funds indicated open encumbrances dated as far back as fiscal year 1988.

<u>Year</u>	<u>Amount</u>
1988	\$ 5,850
1990	41,000
1991	5,053
1994	17,703
1996	215,078
1997	423,280
1999	<u>260,606</u>
Total	\$ <u>968,570</u>

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Finding No. 12 – Encumbrances, Continued

Cause: Long outstanding encumbrances remain open with no review as to their validity.

Effect: An overstatement of encumbrances may result from this condition.

Recommendation:

1. Accounting procedures should include adjustments of invalid encumbrances.
2. Accounting procedures should include review of outstanding encumbrances older than a year to verify their validity.
3. The encumbrances should be reviewed to ensure their validity.

Auditee Response and Corrective Plan: DOA agreed that the above amounts under Conditions 1 and 2 should be unencumbered. DOA adjusted the ledger as of June 16, 2005 to reflect such cancellations.

Condition #1:

Enc No.

E041754001-- \$105,785.86 was cancelled due to FY04 services have been fully paid to GPA.
P046A04710 -- \$41,876.76 de-enc due to acct had expired 09/30/04.

Condition #2: P026X00191 \$53,915.78 de-enc due to no activity since FY03

Condition #3: 100% of outstanding Purchase Orders FY01-FY03 have been liquidated. FY04 obligations have been liquidated as of Aug 2004 transaction date. I am still in the process of liquidating all (locally funded & local matching) FY04 POs. 100% Federally funded encumbrances possessing expenditure end date 09/30/05 will remain open to that period only.

Finding No. 13 - Appropriation

Criteria: Annual local match appropriations (B type appropriations) should not carryover to the subsequent year, unless the corresponding grant is extended or an encumbrance is recorded before the end of the fiscal year. For accounts with encumbrances, appropriations carried over should only be the corresponding local share.

Condition: Amounts carried over in the local annual match appropriation do not correspond to the amount carried over in the federal grant account. The amount of the local match carryforward should not exceed 50% of the federal program encumbrances that are carried forward. Of 32 continuing appropriations tested, eight samples represented “B” type appropriations. Of the eight samples, we noted this condition existed in the six samples summarized in the table below.

Account	Per GPFS	FY05 AS400	Per Audit	Difference
5100B041729MT950290	\$1,522,545	\$1,522,545	\$355,708	\$1,166,838
5100B041728MT951290	\$ 455,794	\$ 455,794	\$ 12,807	\$ 442,987
5100B041730MT951290	\$ 258,799	\$ 258,799	\$ 0	\$ 258,799
5100B041720MT950290	\$ 314,997	\$ 314,997	\$ 28,197	\$ 286,800
5100B041170MT950290	\$ 162,183	\$ 162,183	\$ 46,882	\$ 115,301
5100B041723MT950290	\$ 180,570	\$ 180,570	\$ 24,953	\$ 155,617

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Finding No. 13 – Appropriation, Continued

Cause: The lapse and obligation date of the local match account do not coincide with the dates used in the federal grant account. The lapse and obligation date in the local match account were used to determine the applicable appropriation carried forward. For the above items, the date for local match was “12/31/04”; however, for the federal account, it was “9/30/04.” We determined that the federal account date was the accurate date.

Effect: This scenario resulted in a misstatement of continuing appropriations. Furthermore, carrying forward appropriations in excess of the amount encumbered could result in improper expenses in the subsequent period.

Recommendation: Dates used for both federal and local account should be the same as authorized by the grant and be duly approved by the authorized departments to ensure the proper carryover of appropriations.

We understand that expenses charged to local accounts are directly linked to the federal grant accounts, which is system generated. However, a manual journal entry can still be made and be charged to the local account. Although it is a policy of GovGuam to prohibit charging directly to the local account, errors could be made. Hence, as a preventive control, the amount to be carried forward should correspond only to the amount carried forward in the federal grant account. With this in place, less time would be spent monitoring improper JV’s made to the local account. Erroneous charges can be easily identified as the ending fund balance at the end of the year would be negative as a result of improper charging.

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years’ recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

Finding No. 14 – Bond Covenant Compliance

Criteria: Bond covenants for the LOB Series 2001 requires that the Government must “furnish financial statements to each major national investment rating service which initially rated any Series of Bonds, and to each Bondholder...within six months after the close of each fiscal year...”

Condition: The Government of Guam has not yet furnished their bond rating agency with the latest copy of their financial statements, audited or otherwise, prepared in accordance with GAAP.

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Finding No. 14 – Bond Covenant Compliance, Continued

Cause: There appears to be weak internal controls over ensuring that financial statements are prepared and furnished the bond rating agencies.

Effect: The Government may be in violation of bond covenant requirements.

Prior Year Status: This condition is reiterative of a prior year finding.

Recommendation: The Government should strengthen internal controls to ensure financial statements are prepared and provided the responsible investment rating services.

Auditee Response and Corrective Action Plan: The DOA agrees with this finding. The DOA, in the past has always been providing audited financial statements that were completed after the six months window of submitting financial statements. The DOA, in the future will submit an un-audited financial statements in lieu of an audited version to comply with the bond covenant with the stipulation that the audited financial statements will also be submitted upon completion and availability.

Finding No. 15 - Appropriation

Criteria: Annual local match appropriations (B type appropriations), should not carryover in the subsequent year, unless the corresponding grant is extended or an encumbrance was made before the end of the year. For accounts with encumbrances, corresponding appropriations should be carried over.

Condition: GovGuam did not carryover the appropriation for the encumbrance of the local share for account “5100B031730MT963290 – Support Services MT Account” amounting to \$890,834. This grant is overmatched and as the federal share was already exhausted, all encumbrances should be charged to the local account. As of end of fiscal year 2003, there was still an available balance in this account which lapsed, were allowed to carryover and was applied to another expenditure account in fiscal year 2004, as authorized by public law.

Cause: GovGuam failed to carryover the appropriation.

Effect: This condition resulted in a negative account balance, making the expenditure unfunded as the appropriation was redirected to another expense account in fiscal year 2004. In addition, this also resulted in an overstatement of the amount carried over in FY04 as lapses from FY03.

Recommendation: The Government of Guam should review and monitor the appropriation for encumbrances to ensure such are appropriately funded. As all the encumbrances for federal grants are only recorded in the Fund 101, the corresponding Fund 101 account should also be revisited at the end of the fiscal year, to ensure agreement in both local and federal accounts.

Auditee Response and Corrective Action Plan: As a corrective action, all 5100 local matching accounts, especially the overmatch accounts, will be given an expenditure end date, lapse date, and obligation end date similar to the expenditure end date of the 5101 federal accounts, which means the 90 days liquidation period is included. This will then prompt the AS400 system to carry over the available balances of the local accounts to the next fiscal year thus eliminating the negative balances of the account.

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Finding No. 16 - Appropriation

Criteria: All expenditures with object codes other than Z and X codes, should have a corresponding appropriation sufficient to cover related expenses.

Condition: GovGuam did not load the appropriation for the account "5100C960201CH001111 - CHI - APPROP RECEIPTS." The appropriation in this account is based on revenue generated by "The Chamorro Heritage Institute". The agency deposited its collections from sales of books and other items to a DOA account; however, the receipt was posted as unidentified collections, and therefore, loading of the appropriation was deferred. In fiscal year 2005, the amount represented as being carried forward as a continuing appropriation was the total of the receipts, less the negative account balance. However, as of report date, it appears that the receipt is not yet identified as no appropriation was loaded in the account.

Cause: The untimely identification of the receipt resulted in the untimely loading of the appropriation.

Effect: This condition resulted in a negative balance in the account, making the expenditure unfunded.

Recommendation: All receipts should be timely identified and be posted appropriately to ensure that corresponding expenditures are properly funded.

Auditee Response and Corrective Action Plan: The DOA generally agrees with the cited condition.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

Finding No. 17 – Supporting Documentation

Criteria: All expenses should be supported by substantiating documents. Furthermore, such documents should be maintained on file and be made available for review.

Condition: For the following transactions, supporting invoices were not provided to substantiate related expenses.

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Finding No. 17 – Supporting Documentation, Continued

Condition, Continued:

Account No.	Tran Code	Transaction Date	TNO Batch	Vendor	Amount
5202C049967SE202361	190	09/22/2004	9446	G0767401	\$ 600,000
5202C049967SE202361	190	04/22/2004	110281	G0767401	\$ 359,689
5293A041722MA293290	190	11/24/2003	102159	G0742101	\$ 499,277
5293A041722MA293290	190	11/24/2003	102482	G0742101	\$ 500,000
5293A041722MA293290	190	11/24/2003	102970	G0742101	\$ 171,522
5293A041722MA293290	190	09/07/2004	15994	G0742101	\$ 260,531
5293A041722MA293290	190	08/13/2004	9496	G0742101	\$ 318,985

Cause: There appears to be weak internal controls over ensuring proper documentation of expenses.

Effect: This condition may result in potential misstatements of Special Revenue Fund expenses.

Prior Year Status: The condition is reiterative of prior year findings.

Recommendation: The auditee should strengthen internal controls to ensure proper documentation of expenses and the supporting documents should be made available for review.

Auditee Response and Corrective Action Plan: Documentation substantiating these findings were retrieved and are pending audit review.

Finding No. 18 – Appropriation – Accounts with Negative Balances

Criteria: Certain federal grants require exhaustion of the local share first in the initial grant year. The federal share would be utilized in the subsequent year. In the subsequent year, no expenditure should be charged to the local share unless a grant over expenditure occurs.

Condition: Account 5100G032640MT950290 – Basic Support Local Match, is the matching account of a 2-year federal grant (Basic Support), which meets the above criteria. Fiscal year 2004 is the second year of the grant. Therefore, no expenditure should have been charged to the local account as it was already exhausted in fiscal 2003. However, in fiscal year 2004, expenses were still allocated to the local matching account despite the fact that the corresponding federal grant account was not yet fully utilized.

Cause: There was one object code in the federal account that was not updated in the current year and therefore expenses were automatically allocated to the local account.

Effect: The automatic allocation of the expense from the federal account resulted in a negative account balance.

Recommendation: We recommend that a review be performed on this type of account. In addition, negative balances should be periodically monitored and investigated to detect errors at the earliest moment.

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Finding No. 18 – Appropriation – Accounts with Negative Balances, Continued

Auditee Response and Corrective Action Plan: As a corrective action, after the last day authorized by the federal grant to pay a vendor, the grantee will send a memo to DOA requesting that all outstanding encumbrances be liquidated. Then the grantee will send an allotment modification to the Bureau of Budget and Management requesting to remove all existing available funds from the expired grant. All expenses incurred thereafter will go to the unposted section of the AS400. Review will then be done periodically to ensure if the charges are allowable. If so, the grantee will then have to do the modifications necessary for the charges to be posted on the account.

Finding No. 19 – Solid Waste – Accounts Receivable

Criteria: Payments should be applied to individual invoices to reflect correct aging of customer accounts.

Condition: Payments received are not being matched against related invoices. This makes it virtually impossible to create an accurate aging of accounts receivable.

Cause: There is no system in place to apply payments to applicable invoices.

Effect: No accurate aging of accounts receivable was created, which would provide an indication of the collectability of the accounts.

Recommendation: A system should be implemented to ensure proper invoicing and application of payments against related invoices.

Auditee Response and Corrective Action Plan: DOA concurs with the findings of the auditor. Our office is actively working with DPW and is planning to re-enforce the billing and collection areas of Tipping fees for both the commercial and residential consumers. Additionally, the public laws are closely being examined to insure that the government has the legal authority to establish and enforce new policies and procedures and outline the responsibilities of the participating vendors.

Finding No. 20 – Supporting Documentation

Criteria: All revenue should be supported by documents substantiating the transaction. Furthermore, supporting documents should be made available for review.

Condition: For the transactions listed below, the supporting information/documents were not provided for review.

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Finding No. 20 – Supporting Documentation, Continued

Condition, Continued:

PER AS400					SUBSELECTION			
GL Account	Tran Code	Date	TNO	Amount	Tran Date	Form		Amount
360151603	593 1	21 2004	JD03012104	\$ 90,525	N/A	N/A	N/A	N/A
360251501	593 2	12 2004	J040800273	200,000	N/A	N/A	N/A	N/A
360251501	593 2	23 2004	JD03022304	393,990	2/24/2004	980066099	800084183	\$238,200
360251501	593 3	23 2004	JD03032304	340,040	3/23/2004	980066099	800084183	210,000
360251501	593 4	20 2004	JD03042004	241,500	4/27/2004	980066099	N/A	241,500
360251501	593 9	24 2004	JD05092404	226,970	09/24/04	960000160	2004028292	226,970
324551110	593 5 6	2004	JD02050604	73,682	5/05/2004	A040002241	N/A	48,072
320150602	593 101	2003	J040612663	10,061	N/A	N/A	N/A	N/A

Cause: There appears to be weak internal controls over ensuring proper documentation of revenues.

Effect: This condition may result in potential misstatements of Special Revenue Fund revenues.

Prior Year Status: This condition is reiterative of prior year findings.

Recommendation: The auditee should strengthen internal controls to ensure proper documentation of revenues and the supporting documents should be made available for review.

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

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Finding No. 21 – Appropriation – Accounts with Negative Balances

Criteria: All expenditures should be properly appropriated.

Condition: A total of \$1,904,942 of accounts containing negative balances were included in the calculation of continuing appropriations, summarized by department, as follows:

Department/Division	Code	Amount
Department of Public Health	1730	\$ 942,555
Pongsona Local Match	293	235,639
Department of Public Health	1725	124,921
DISID	2640	181,058
Department of Public Health	1723	166,428
CHI - APPROP RECEIPTS	201	52,697
Department of Public Health	1755	50,822
Mayors' Council	2816	43,777
Mental Health	2334	34,380
Department of Public Health	1728	32,924
Law	1170	16,376
GEPA	2200	12,354
Mayors' Council	2811	4,889
Military Affairs	3720	2,513
Department of Public Health	1720	1,370
Mayors' Council	2800	1,158
Military Affairs	3730	621
Agriculture	1612	462
Customs and Quarantine	3200	83
Youth Affairs	2010	48
Mayor's Council	2810	<u>45</u>
		<u>\$1,904,942</u>

Cause: The cause of this condition is inadequate monitoring and reconciliation of negative balances.

Effect: Continuing appropriation balances may be materially misstated.

Recommendation: Accounts with negative balances should be reviewed at the end of the year and the disposition should be appropriate.

Auditee Response and Corrective Action Plan: The Department of Administration provided specific responses to particular findings and generally concurs with the recommendations.

The Department of Administration undertook corrective measures and focused in providing resolutions to prior years' recurring audit findings and audit opinion qualifications. The entire Federal accounts receivable was restructured to reflect accounts receivable by Federal grantor agency instead of individual grantee agency. The Department of Administration also focused on the completion of the fixed assets listing and the resolution of the solid waste landfill issue. As a result, two qualifications were removed.

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Finding No. 21 – Appropriation – Accounts with Negative Balances, Continued

Auditee Response and Corrective Action Plan, Continued:

The Department of Administration hired additional accountants and may need to hire more to have that comfort level of efficiency. With these additional accountants, the Department of Administration will aggressively resolve remaining recurring audit findings and prevent the occurrence of any new findings.

The Department of Administration will maintain its focus on any remaining opinion qualification and pursue aggressively for its resolution.

* * * * *

We have communicated certain matters noted during our audit of the financial statements of the Government of Guam for the year ended September 30, 2004, which we considered to be reportable conditions in our report dated July 11, 2005.

This report is intended solely for the information and use of the management of the Government of Guam and the Office of the Public Auditor of Guam.

We wish to express our appreciation for the cooperation of the staff and management of the Government of Guam during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

