

August 26, 2020

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, 2019, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated August 26, 2020 and which includes a reference to other auditors and emphasis-of-matters paragraphs for the restatement of beginning net position of the aggregate discretely presented component units and for the impact of 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, other matters involving GovGuam's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated August 26, 2020, 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 + Touche LLP". The signature is written in a cursive, slightly stylized font.

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving GovGuam’s internal control over financial reporting as of September 30, 2019, that we wish to bring to your attention:

A. DEPARTMENT OF ADMINISTRATION (DOA) DIVISION OF ACCOUNTS

(1) Fiscal Year Close and General Ledger Reconciliations

Comment 1: As of July 2020, DOA had not closed the general ledger for the fiscal year ended September 30, 2019.

Comment 2: Prepayments of \$4.5M were for lease payments that should be reported as expenditures. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend DOA hire additional experienced personnel to assist in maintaining the general ledger, and to engage in periodic scrutiny of liability and asset accounts for ongoing pertinence, so that such is timely performed to facilitate the audit process.

(2) Deposits and Other Liabilities

Comment # 1: Approximately \$4.2M of collections were recorded as General Fund liabilities. Such include \$1.8M of collections related to bus operations and \$2.4M collected from law enforcement agencies. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Comment # 2: Approximately \$1.3M of recorded General Fund accrued liabilities were not valid as of September 30, 2019. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Comment # 3: Approximately \$1.5M of recorded other governmental funds accrued liabilities were not valid as of September 30, 2019. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Prior year status: The above comment # 1 is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA investigate the validity of recorded deposit and other liability accounts. Furthermore, we recommend that collections be appropriately recorded and that expenditures incurred be charged against the respective agency approved budget.

(3) Opening Fund Balances

Comment: Opening fund balances were not reconciled. The following variances were noted:

	Ending Balance per 2018 Financial <u>Statements</u>	Beginning Balance per 2019 General <u>Ledger</u>	Unreconciled <u>Variance</u>
General Fund	\$ (113,438,111)	\$ (108,937,635)	\$ (4,500,476)
DMHSA Receiver Fund	\$ (63,494)	\$ (398,487)	\$ 334,993
MIP Payment Revolving Fund	\$ 18,270	\$ (661,729)	\$ 679,999
Off-Island Treatment Fund	\$ (13,213)	\$ 666,787	\$ (680,000)

Audit adjustments were proposed to correct opening fund balance amounts.

Recommendation: We recommend DOA perform timely reconciliations of opening fund balances before the close of year end.

A. DEPARTMENT OF ADMINISTRATION (DOA) DIVISION OF ACCOUNTS, CONTINUED

(4) Pension liability for Governors, Lieutenant Governors and Judges

Comment: The net pension liability does not include pension annuities for retired Governors, Lieutenant Governors, and Judges. Based on a performance audit issued by the Office of Public Accountability (OPA Report No. 15-03), an unrecorded liability of approximately \$6.5M exists. As this amount was not considered material to the financial statements, no audit adjustment was proposed. During the year ended September 30, 2019, DOA made pay-as-you-go pension contributions to the GovGuam Retirement Fund of \$635K.

Recommendation: We recommend DOA coordinate with GovGuam's Retirement Fund to incorporate the pension annuities for the above in the annual pension actuarial valuation.

(5) Transaction Processing System (TPS) Receipts

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

Recommendation: We recommend GovGuam scrutinize missing receipt sequences and periodically monitor the reasons for such occurrences to ascertain that no system issues occurred.

(6) Interfund Transfers

Comment: Transfers between bank accounts for debt service obligations should be based on actual cash transactions. During the year ended September 30, 2019, the Debt Service Fund (Fund 354) within the separate Tourist Attraction Fund audit reported an interfund receivable of \$659K due from the Tourist Attraction Fund (Fund 206). This receivable was the result of recording transfers between bank accounts based on budget allotments. An audit adjustment was proposed to correct this error.

Recommendation: We recommend DOA record transfers between bank accounts based on actual cash transactions.

(7) Special Revenue Fund Deficits

Comment: Certain special revenue funds incurred expenditures in excess of revenues resulting in interfund payable balances of \$1.9M for which repayment may not be expected within a reasonable time due to continuing fund deficits. Special revenue funds with fund deficits include:

Guam Museum Fund (Fund 244)	\$ 374,865
Indirect Cost Fund (Fund 632)	806,692
Public Recreation Services Fund (Fund 620)	143,967
Public Transit Fund (Fund 317)	341,582
Safe Streets Fund (Fund 217)	<u>142,477</u>
	<u>\$ 1,809,583</u>

As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

A. DEPARTMENT OF ADMINISTRATION (DOA) DIVISION OF ACCOUNTS, CONTINUED(7) Special Revenue Fund Deficits, Continued

Recommendation: We recommend DOA limit a special revenue funds ability 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.

(8) Unreleased Checks

Comment: Checks of \$3.4M were not released and were in the custody of the Treasurer of Guam or the Division of Accounts at year end. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend DOA reclassify unreleased checks as liabilities and reinstate cash as of fiscal year end.

(9) Cost of Living Allowance (COLA) Reimbursements

Comment: COLA reimbursements of \$2.5M collected from autonomous agencies were not correctly recorded as contributions from component units. Collections were netted against expenditures. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend DOA be consistent in recording such other reimbursements as revenue.

(10) Due from Legislature

Comment: GovGuam's General Fund (Fund 100) has recorded an uncollected advance of \$726K due from the Legislature since 2015.

Recommendation: We recommend DOA pursue collection through offset of the Legislature's General Fund budget appropriations.

B. CHILD SUPPORT ENFORCEMENT DIVISION / DIVISION OF ACCOUNTSUnclaimed Checks – Child Support

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between DOA and the Child Support Enforcement Division (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 15 years. As of September 30, 2019, the unreconciled difference between CSED's schedule and DOA's financial statement was \$2.2M.

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

B. CHILD SUPPORT ENFORCEMENT DIVISION / DIVISION OF ACCOUNTS, CONTINUED

Unclaimed Checks – Child Support, Continued

Recommendation: We recommend that GovGuam 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. GUAM LEGISLATURE

Opening Fund Balances

Comment: Legislature opening fund balances were not reconciled. The following variances were noted:

		Ending Balance per 2018 Financial <u>Statements</u>		Beginning Balance per 2019 General <u>Ledger</u>		Unreconciled <u>Variance</u>
Operations Fund	\$	899,841	\$	2,080,898	\$	(1,181,057)
Jury Trust Fund	\$	429,121	\$	542,674	\$	(113,553)

Subsequent adjustments were recorded to correct opening fund balance amounts.

Recommendation: We recommend the Guam Legislature perform reconciliations before the close of the fiscal year end.

D. UNIFIED COURTS

(1) Opening Fund Balances

Comment: Unified Courts opening fund balances were not reconciled. The following variances were noted:

		Ending Balance per 2018 Financial <u>Statements</u>		Beginning Balance per 2019 General <u>Ledger</u>		Unreconciled <u>Variance</u>
Operations Fund	\$	5,899,243	\$	6,118,204	\$	(218,961)
Jury Trust Fund	\$	14,388	\$	428,076	\$	(413,688)
Judicial Client Service Trust Fund	\$	2,167,243	\$	2,553,584	\$	(386,341)
Safe Streets Trust Fund	\$	46,550	\$	(116,325)	\$	162,875

Audit adjustments were proposed to correct opening fund balance amounts.

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

Recommendation: We recommend the Unified Courts perform reconciliations before the close of year end.

D. UNIFIED COURTS, CONTINUED

(2) 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 the Government of Guam as the majority of the balance accrued is payable to the associated victim.

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

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

E. CUSTOMS AND QUARANTINE AGENCY

Absence of a Signed Lease Agreement

Comment: Rental and administrative fees charged to the Customs and Quarantine Agency of \$3.3M were not supported by a signed lease agreement.

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

Recommendation: We recommend a lease agreement or relevant documentation be updated to document that lease expenditures are properly approved and supported.

F. GUAM FIRE DEPARTMENT (GFD)

Ambulance Service

Comment:

- Remittances received from ambulance services were recorded net of gross revenue less service fees from an outsourced service provider. This condition resulted in a \$179K revenue understatement.
- Accounts receivable of \$1.2M identified by the outsourced service provider was not recorded or analyzed. As this amount was not considered material to the financial statements, no audit adjustment was proposed.
- Reconciliation and review of remittances is not performed by the Guam Fire Department to assess completeness and accuracy of presented information from the outsourced service provider.

Recommendation: We recommend that revenues, expenditures, and accounts receivable related to ambulance services be properly recorded and be timely recognized. We also recommend DOA and GFD review and reconcile information received from the service provider to assess completeness and accuracy.

G. DEPARTMENT OF REVENUE AND TAXATION (DRT)**(1) Taxes**

Comment: The \$125M income tax provision for the 2019 refund liability was determined using the same assumptions for tax years 2018 and 2017, and did not incorporate an analysis of the impact of the Tax Cuts and Jobs Act (TCJA). Due to the significant limitation of human resources and the manual nature of the income tax processing system, DRT was only able to process a limited number of 2019 returns. Accordingly, a robust analysis by DRT of the impact of the TCJA on the 2019 refund liability, if any, was not possible. Subsequent audit procedures performed indicated the refund liability was overstated by \$11M. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

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

Recommendation: We recommend DRT perform an annual analysis of the income tax provision. Additionally, DRT should be provided with sufficient human resources to facilitate the timely processing and examination of income tax returns.

(2) Tax Credits

Comment 1: Corporate income tax credits abated to Qualifying Certificate (QC) taxpayers have the option to either take the credit in the form of a refund or carry forward to future tax years. At September 30, 2019, DRT advised DOA that QC corporate refund liabilities were \$4.9M; however, no liability was recorded. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Comment 2: TPS identified approximately \$1M of additional tax credits in 2019; however, a reconciliation was not provided by DRT to identify the GRT tax credits and composition of such.

Recommendation: We recommend DRT provide tax credit information to DOA to facilitate recording of corporate refund liabilities and related financial statement footnote disclosures as required under GASB 77.

H. DEPARTMENT OF CORRECTIONS (DOC)**(1) Timely Federal Bureau of Prisons (FBP) Reimbursement**

Comment: The DOC Inmates Revolving Fund reported a \$1M fund deficit due to the lack of timely submission for reimbursement to the FBP for costs incurred by DOC for housing U.S. prisoners and detainees. Costs incurred for the months of February 2019 to September 2019 were not timely billed resulting in the fund deficit. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend DOC should timely submit requests to the FBP for reimbursement on a monthly basis.

(2) Unrecorded Liabilities

Comment: Approximately \$4.3M of unpaid vendor invoices were in custody of the Department of Corrections primarily relating to medical related costs incurred by inmates. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

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

I. GUAM ELECTION COMMISSION

Unreported Cash

Comment: The Guam Election Commission (GEC) maintained \$541,565 of depository accounts that were not timely reported to DOA as of September 30, 2019 for inclusion in GovGuam's financial statements. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend GEC timely provide financial information to DOA for the purpose of inclusion in GovGuam's annual financial statements.

SECTION II - 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.