

**Guam Veterans Affairs Office
Non-Appropriated Funds Follow Up**

**Performance Audit
October 1, 2011 through May 31, 2016**

**OPA Report No. 16-07
September 2016**



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EXECUTIVE SUMMARY
Guam Veterans Affairs Office Non-Appropriated Funds Follow Up
Report No. 16-07, September 2016

The Guam Veterans Affairs Office (GVAO) Non-Appropriated Funds (NAF) - Veterans Affairs Fund and the Veterans Cemetery Trust Fund (Cemetery Fund) - were grossly mismanaged and not accounted for. Due to the significant lack of internal controls over the GVAO's NAFs, we could not assure that receipts were accurate and complete and disbursements were appropriate and authorized. We questioned all \$290,000 in NAF operating disbursements. Additionally, there were significant federal grants compliance deficiencies administered through the Cemetery Fund. Overall, there was no improvement from our prior audit, OPA Report No. 12-01, issued in March 2012. We found:

- Incomplete and/or missing records and supporting documents including bank statements, invoices, burial claims and other receipts amounting to \$8,076.
- No evidence of proper review and approval of disbursements amounting to \$281,924, leading to possible abuse of the petty cash system, unsubstantiated reimbursement of advanced funds, no fixed assets inventory, and procurement laws and regulations not followed.
- NAF bank accounts signatories were changed to a single signatory- the Administrator 2.
- Mandated reports not submitted and official website not updated.

The NAF accounts movement from October 1, 2011 to May 31, 2016 are as follows:

| | Veterans Affairs Fund | Cemetery Fund | Total |
|------------------------------------|--------------------------|---------------|-----------|
| Beginning balance, October 1, 2011 | \$1,301 | \$451 | \$1,752 |
| Receipts: | | | |
| Cemetery construction/renovation | - | 3,280,292 | 3,280,292 |
| Burial reimbursement claims | - | 245,486 | 245,486 |
| Others | 24,910 | 9,215 | 34,125 |
| Subtotal | 24,910 | 3,534,993 | 3,559,903 |
| Disbursements: | | | |
| Cemetery construction/renovation | - | 3,270,581 | 3,270,581 |
| Operations | 25,462 | 264,538 | 290,000 |
| Subtotal | 25,462 | 3,535,119 | 3,560,581 |
| Ending balance, May 31, 2016 | \$749 | \$325 | \$1,074 |

Federal Cemetery Grants

In April 2015, the OPA learned of GVAO's \$3.3 million federal grant while preparing to commence the GVAO follow-up audit. The grant was received in Fiscal Year (FY) 2014 for the Guam Veterans Cemetery construction and did not pass through the Guam State Clearinghouse or the Department of Administration (DOA). As such, our follow-up audit was suspended and the matter was referred to the Government of Guam's independent auditors, who eventually qualified its opinion on the grant in the FY 2014 Single Audit due to lack of documentation. In FY 2015,

the grant was tested again after some documents were subsequently located. The independent auditors concluded there were significant deficiencies in internal control.

Incomplete and/or Missing Records and Supporting Documents

We could not verify the completeness of receipts and appropriateness of disbursements because there were minimal records and supporting documents to substantiate transactions. In addition, there were no internal controls to monitor and ensure that all burial reimbursement claims were timely processed, all receipts have been deposited, and all disbursements were reviewed and properly approved. Due to a large number of missing documents, we subpoenaed certain bank statements and other documentation in order to compile GVAO's transactions.

No Evidence of Proper Review and Approval of Disbursements

We found no evidence of NAF disbursement reviews prior to payments other than the signatures on the check copies. As such, we cannot determine whether disbursements were valid and authorized, and whether applicable procurement regulations were applied. NAF disbursements were mostly for fixed assets, repairs, petty cash, supplies, etc. Although we did not find evidence of deliberate attempts to misappropriate the NAFs, certain descriptions notated on the check copies such as "petty cash", "loan repayment", and "reimbursements" raise questions about the appropriateness of the disbursements without supporting documentation.

In addition, GVAO did not properly handle its petty cash system, there were unsubstantiated material reimbursements to former Administrators, did not have a monitoring schedule for NAF purchased assets, and did not prepare or post required NAF reports on its website. In essence, petty cash and reimbursements were used to circumvent the formal procurement process.

No Monitoring of Burial Reimbursement Claims

We were not able to ascertain whether all burial claims were processed and received due to missing records. However, from the limited documentation, we found that the U.S. Department of Veterans Affairs reimbursed GVAO \$245,486 for veterans' burial costs from October 2011 to January 2016. The last reimbursement GVAO received was for December 2014 burials. Subsequent burials should be timely processed to prevent the two-year filing period from lapsing.

Single Signatory on Bank Accounts

In April 2016, the Administrator 2 changed the NAF bank signatories to himself as a single signatory, and claimed that the change was based on Public Law (P.L.) 33-138 issued in March 2016. However, we found the implementation of the change was not consistent with the P.L.

Other matters regarding significant payroll delays and the vague reporting lines for the GVAO Administrator and the Commission also came to our attention during our audit.

Conclusion and Recommendations

We question the \$290,000 in GVAO operating disbursements due to the gross mismanagement and lack of accountability over the NAFs, little to no internal controls to safeguard the NAFs, no Commission oversight, and no accounting infrastructure supported by competent personnel. Accordingly, we made six recommendations, including another agency such as the Department of Military Affairs or the DOA be given the responsibility to handle GVAO's NAFs.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our follow-up audit of the Guam Veterans Affairs Office (GVAO) Non-Appropriated Funds (NAFs) from October 1, 2011 to May 31, 2016. The audit was initiated in response to the concerns raised by a 33rd Guam Legislature Senator as to the status of recommendations made in the prior audit, OPA Report No. 12-01, and the accountability of the NAFs.

The audit objective was to determine whether the GVAO's NAFs were properly managed and accounted for in accordance with applicable laws, regulations, and best practice.

The scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

Title 10 of the Guam Code Annotated (G.C.A.) Section (§) 67100 created the GVAO within the Office of the Governor and established the GVAO Administrator as a member of the classified service, subject to the direction and control of the Governor. However, in practice, the GVAO Administrator is designated as an *unclassified* Special Assistant.

Under § 67102, GVAO is responsible for administering all local laws, programs, and services owed to veterans of the United States (U.S.) Armed Forces and/or their dependents and survivors. GVAO assists in preparing, submitting, and presenting any claim against U.S. Department of Veterans Affairs (USDVA) for compensation, pension, burial, health care benefits, life insurance, vocational rehabilitation, employment, or other entitled benefits pursuant to Title 38, U.S. Code of Veterans Benefits. The GVAO is also responsible for coordinating with respective military branches for burial honors and internment for deceased veterans and eligible dependents at the Guam Veterans Cemetery.

Guam Veterans Commission

Title 10 G.C.A. § 67107 established the Guam Veterans Commission (Commission) comprised of nine members representing various Guam veterans' groups. Commission members serve voluntarily, without compensation, for a term of three years.

The Commission meets monthly and responds to grievances regarding benefits and services to Guam veterans. The Commission also advises the Administrator about veterans' matters and the Administrator is required to respond to the Commission Chairman's written requests for information or action within four weeks of receipt.

The Commission was responsible for the expenditure of GVAO's NAFs: Veterans Cemetery Trust Fund and Veterans Affairs Fund. However, effective March 2016, Public Law (P.L.) 33-138

reassigned the responsibility of the Veterans Cemetery Trust Fund solely to the Administrator. The law also added the Administrator as an approver to the expenditures of the Veterans Affairs Fund along with a member of the Commission.

Non-Appropriated Funds

The GVAO manages two NAFs, each serving different purposes. Separate non-interest bearing checking accounts were established for these funds.

1. Veterans Affairs Fund

As established by Title 10 G.C.A. § 67106 and § 67109, gifts and donations are deposited in the Veterans Affairs Fund and used to maintain the GVAO office and Veterans Cemetery and to sponsor veterans' events. Donations are used as intended by the donor, consistent with the GVAO's goals and objectives. The GVAO Administrator shall be the administrator of the Fund, may issue warrants of expenditures, and shall maintain a record of all donations and expenditures.

A quarterly report is required to be submitted to the Governor, the Legislature, and the Public Auditor, and posted on the GVAO's website.

2. Veterans Cemetery Trust Fund (Cemetery Fund)

Title 10 G.C.A. § 67105.1 requires any money paid by the Federal government to the Government of Guam (GovGuam) for the Guam Veterans Cemetery to be deposited in the Cemetery Fund and used for the maintenance of the cemetery. Normally, these are USDVA reimbursements for veterans' burials. USDVA determines the amount of reimbursement per burial claim.

An annual report of the Cemetery Fund's expenditures was required to be submitted to the Legislature. P.L. 33-138 amended this requirement to quarterly reports to the Commission, Governor, and Guam Legislature, and posted on the GVAO's website.

Meanwhile, GVAO also received proceeds from the federal cemetery grants from the USDVA through this account.

Federal Cemetery Grants

In April 2015, while preparing to commence a follow-up audit of the GVAO, the Office of Public Accountability (OPA) learned that GVAO was administering a multi-million dollar federal grant. In 2013, USDVA awarded \$3.4 million (M) in federal cemetery grants to the GVAO, of which \$3.3M was actually received. The grants did not pass through the Guam State Clearinghouse and the Department of Administration (DOA) and were administered solely by GVAO through the Cemetery Fund.

We referred the matter to the GovGuam independent auditors who at that time, were conducting the FY 2014 Single Audit. As such, we placed our follow-up audit on hold until the Single Audit was issued to avoid duplicating efforts.

Accordingly, the FY 2014 Single Audit released in June 2015 noted a qualified opinion on GVAO's compliance for state cemetery grants, which were audited as a major program, mainly because grant-related documentation could not be provided during the period of review. GovGuam was also cited for an incomplete Schedule of Expenditures of Federal Awards.¹

For the FY 2015 Single Audit, OPA requested the independent auditors perform follow-up procedures after some documents were subsequently located. The cemetery grants were not tested as a major program in FY 2015. The independent auditors concluded that a significant deficiency in internal control over compliance² existed due to the following conditions:

- 1) Grant expenditures totaling to \$729,634 were not fully supported with vendor invoices, receiving reports, and/or payment requests. However, the costs were not questioned because evidence of federal grantor approval was validated by the SF 271 Outlay Report and Request for Reimbursement for Construction Programs.
- 2) For RFP OVA 13-001, a selection analysis was not provided. Only the selected contractor's proposal and evaluation sheet was provided. No costs were questioned because available documentation showed that five companies picked up Request for Proposal packets, evidencing competition, and there were no known procurement appeals to date.

The independent auditors recommended that management should coordinate further with the federal grantor, contractors, and the financial institution to obtain copies of missing documents to fully substantiate the grant expenditures.

Refer to Appendices 3 and 4 for the FY 2014 and FY 2015 Single Audit Reports excerpts, respectively, and to Appendix 5 for the details of cemetery grants receipts and disbursements.

Former Key Employees

The following are former key employees within our audit scope and their employment terms per DOA:

| Designation | Official Term Per DOA |
|------------------------------------|-------------------------------------|
| Administrator 1 | March 2011 ³ to May 2015 |
| Administrative Officer/Assistant 1 | February 1983 to March 2016 |
| Administrator 2 | July 2015 ³ to May 2016 |
| Administrative Officer/Assistant 2 | April 2016 to June 2016 |

As of the date of this report, as indicated above, the Administrator 2 and Administrative Officer/Assistant 2 have resigned. The Governor appointed an Acting Administrator until a permanent Administrator is appointed.

¹ Finding Nos. 2014-001, 2014-004, and 2014-008

² Finding No. 2015-009

³ The Administrator 1 and Administrator 2 were appointed by the Governor and held office at GVAO on January 3, 2011 and April 30, 2015, respectively, or few months prior to officially hiring them through DOA.

Results of Audit

We determined that GVAO NAFs were grossly mismanaged and not accounted for in accordance with the applicable laws, regulations, and best practice and we questioned all \$290,000 in NAF operating disbursements. There was a significant lack of internal controls over the NAFs, which increased the NAFs' susceptibility to misappropriation. We cannot be assured that receipts were accurately recorded and completely deposited and disbursements were appropriate and authorized. Furthermore, there were significant compliance deficiencies for federal grant funds administered through the Cemetery Fund. Overall, there was no improvement from our prior audit, OPA Report No. 12-01, issued in March 2012. We found:

- Incomplete and/or missing records and supporting documents including bank statements, invoices, burial claims, and other receipts amounting to \$8,076.
- No evidence of proper review and approval of disbursements amounting to \$281,924, leading to possible abuse of the petty cash system, unsubstantiated reimbursement of advanced funds, no fixed assets inventory, and procurement laws and regulations not followed.
- NAF bank accounts signatories were changed to a single signatory- the Administrator 2.
- Mandated reports not submitted and official website not updated.

Other matters regarding significant payroll delays and vague reporting lines for the GVAO Administrator and the Commission also came to our attention during our audit.

Incomplete and/or Missing Records and Supporting Documents

GVAO could not provide sufficient records, schedules, and/or supporting documents for \$290,000 in NAF operating disbursements. The very limited documents provided, such as invoices and receipts, were placed in boxes with no proper sequence or label. As an alternative, we subpoenaed certain NAF bank documents that were either missing or not provided by GVAO in order to reconstruct transactions from October 1, 2011 to May 31, 2016. The NAFs' roll-forward balances are shown in Table 1.

Table 1: Roll-forward Balances of Non-Appropriated Funds

| | Veterans Affairs Fund | Cemetery Fund | Total |
|---|--------------------------|------------------|-----------|
| Beginning balance, October 1, 2011 | \$1,301 | \$451 | \$1,752 |
| Receipts: | | | |
| Cemetery construction/renovation (See Appendix 5) | - | 3,280,292 | 3,280,292 |
| Burial reimbursement claims (See Table 5) | - | 245,486 | 245,486 |
| Others | 24,910 | 9,215 | 34,125 |
| Subtotal | 24,910 | 3,534,993 | 3,559,903 |
| Disbursements: | | | |
| Cemetery construction/renovation (See Appendix 5) | - | 3,270,581 | 3,270,581 |
| Operations (See Chart 1 and Table 2) | 25,462 | 264,538 | 290,000 |
| Subtotal | 25,462 | 3,535,119 | 3,560,581 |
| Ending balance, May 31, 2016 | \$749 | \$325 | \$1,074 |

A substantial portion of the operating receipts and disbursements have only been identified through the memo notations on the copies of available checks deposited and issued.

An important step that can be taken to prevent fraud is for management to establish and maintain an effective internal control structure. Documentation is a basic fundamental internal control to safeguard assets, such as NAFs, that did not exist at GVAO. We therefore recommend that the NAF bank accounts and record-keeping be relinquished from GVAO to the Department of Military Affairs (DMA) or DOA. DMA or DOA may then facilitate review of receipts, review of disbursements prior to check disbursements (including petty cash replenishment), and preparation of bank reconciliation.

No Evidence of Proper Review and Approval of Disbursements

We found no evidence of NAF disbursements reviews prior to actual payments other than the signatures on the check copies. We could not validate whether disbursements were valid and authorized and whether procurement regulations were applied, when applicable. Although we did not find evidence of deliberate attempts to misuse or misappropriate the NAFs, certain descriptions notated on the check copies such as “petty cash”, “loan repayment”, and “reimbursements” raise questions as to the validity and appropriateness of those disbursements without supporting documentation.

Breakdown of NAF operating disbursements of \$290,000 is shown in Chart 1.

Chart 1: Breakdown of \$290,000 Operating Disbursements

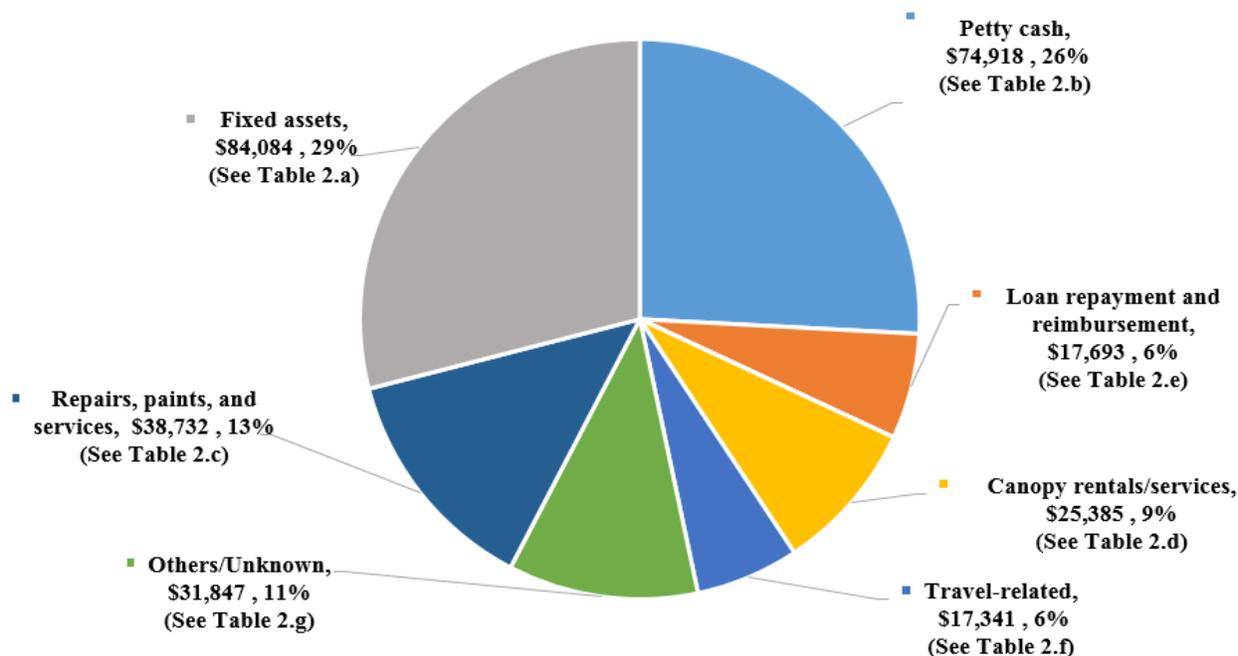


Table 2 shows operating disbursements by category and NAF account, as well as other details such as dates, payee, and description.

Table 2: Details of Operating Disbursements per Category

| | Veterans Affairs Fund | Cemetery Fund | Total | % to Total |
|----------------------------------|--------------------------|------------------|------------------|---------------|
| Fixed Assets | \$0 | \$84,084 | \$84,084 | 29% |
| Petty Cash Replenishment | 2,000 | 72,918 | 74,918 | 26% |
| Repairs, Paints, and Services | 4,000 | 34,732 | 38,732 | 13% |
| Others/Unknown | 19,462 | 12,385 | 31,847 | 11% |
| Canopy Rentals | - | 25,385 | 25,385 | 9% |
| Loan Repayment and Reimbursement | - | 17,693 | 17,693 | 6% |
| Travel Related | - | 17,341 | 17,341 | 6% |
| Total | \$25,462 | \$264,538 | \$290,000 | 100% |

| Date | Payee | Description | Veterans Affairs Fund | Cemetery Fund | Total |
|--|--------------------|--------------------------------------|--------------------------|------------------|-----------------|
| <u>Table 2.a – Fixed Assets</u> | | | | | |
| 1/30/12 | Third-party Vendor | Mule tires | \$- | \$250 | |
| 1/30/12 | Third-party Vendor | Mower, chain saw, bush cutter, etc. | - | 8,400 | |
| 2/3/12 | Third-party Vendor | Office printer | - | 194 | |
| 2/6/12 | Third-party Vendor | Computer | - | 1,044 | |
| 2/9/12 | Administrator 1 | Notebook | - | 520 | |
| 3/23/12 | Third-party Vendor | Diesel 4-wheel drive | - | 15,005 | |
| 8/20/12 | Third-party Vendor | Bush cutters, mowers, etc. | - | 11,392 | |
| 10/9/12 | Third-party Vendor | Water blaster | - | 2,935 | |
| 11/15/12 | Administrator 1 | Air condition | - | 1,029 | |
| 3/11/13 | Administrator 1 | Office equipment/supplies | - | 7,950 | |
| 5/9/13 | Third-party Vendor | Trailer | - | 2,680 | |
| 7/31/13 | Third-party Vendor | Lifter | - | 13,456 | |
| 9/5/13 | Third-party Vendor | Copier | - | 4,103 | |
| 9/16/13 | Third-party Vendor | Speaker system | - | 7,806 | |
| 9/30/13 | Administrator 1 | Church truck | - | 1,055 | |
| Feb 2016 | Administrator 2 | Belt deck, wash basin, air-con, etc. | - | 6,265 | |
| Subtotal - Fixed Assets | | | \$- | \$84,084 | \$84,084 |

| <u>Table 2.b – Petty Cash Replenishment</u> | | | | | |
|--|-----------------|------------|-----|-------|--|
| 5-Dec-11 | Cash | Petty cash | \$- | \$500 | |
| 27-Jan-12 | Administrator 1 | Petty cash | - | 500 | |
| 17-Feb-12 | Administrator 1 | Petty cash | - | 500 | |
| 27-Mar-12 | Administrator 1 | Petty cash | - | 500 | |
| 28-Mar-12 | Administrator 1 | Petty cash | - | 1,500 | |
| 17-May-12 | Administrator 1 | Petty cash | 500 | - | |
| <i>(Forward)</i> | | | | | |

| Date | Payee | Description | Veterans Affairs Fund | Cemetery Fund | Total |
|--|---------------------------------------|--------------------|----------------------------------|--------------------------|-----------------|
| 24-May-12 | Administrator 1 | Petty cash | \$500 | \$- | |
| 1-Jun-12 | Administrator 1 | Petty cash | - | 1,000 | |
| 11-Jul-12 | Administrator 1 | Petty cash | - | 1,000 | |
| 17-Aug-12 | Administrator 1 | Petty cash | - | 1,000 | |
| 30-Aug-12 | Administrator 1 | Petty cash | - | 1,500 | |
| 20-Sep-12 | Administrator 1 | Petty cash | - | 2,000 | |
| 15-Nov-12 | Administrator 1 | Petty cash | - | 2,000 | |
| 13-Dec-12 | Administrator 1 | Petty cash | - | 2,000 | |
| 9-Jan-13 | Administrator 1 | Petty cash | - | 2,500 | |
| 14-Jan-13 | Administrator 1 | Petty cash | - | 1,000 | |
| 1-Feb-13 | Administrator 1 | Petty cash | - | 2,000 | |
| 11-Mar-13 | Administrator 1 | Petty cash | - | 2,500 | |
| 29-Mar-13 | Administrator 1 | Petty cash | - | 2,500 | |
| 7-May-13 | Administrator 1 | Petty cash | - | 2,500 | |
| 24-May-13 | Administrator 1 | Petty cash | - | 2,500 | |
| 31-May-13 | Administrator 1 | Petty cash | - | 5,000 | |
| 4-Jul-13 | Administrator 1 | Petty cash | - | 5,000 | |
| 27-Aug-13 | Administrator 1 | Petty cash | - | 5,000 | |
| 10-Sep-13 | Administrator 1 | Petty cash | - | 6,000 | |
| 27-Sep-13 | Administrator 1 | Petty cash | - | 5,000 | |
| 22-Nov-13 | Administrator 1 | Petty cash | - | 4,800 | |
| 7-Jan-14 | Administrator 1 | Petty cash | - | 1,500 | |
| 15-Apr-14 | Administrator 1 | Petty cash | - | 1,643 | |
| 3-Sep-14 | Administrator 1 | Petty cash | - | 2,000 | |
| 4-Sep-14 | Administrator 1 | Petty cash | - | 2,500 | |
| 30-Oct-14 | Administrator 1 | Petty cash | - | 3,000 | |
| 6-Nov-14 | Administrator 1 | Petty cash | 500 | - | |
| 14-Nov-14 | Administrative Officer/Assistant 1 | Petty cash | - | 500 | |
| 12-Dec-14 | Administrator 1 | Petty cash | 500 | - | |
| 1-Apr-15 | Administrator 1 | Petty cash | - | 1,475 | |
| Subtotal - Petty Cash Replenishment | | | \$2,000 | \$72,918 | \$74,918 |

Table 2.c – Repairs, Paints and Services

| | | | | | |
|---|--------------------|--|----------------|-----------------|-----------------|
| 28-Mar-12 | Third-party Vendor | 15 5 Gal White Paint | \$- | \$1,475 | |
| 20-Aug-12 | Third-party Vendor | Backhoe services | - | 750 | |
| 24-Jul-13 | Third-party Vendor | Plumbing services | - | 350 | |
| 5-Aug-13 | Third-party Vendor | Backhoe services | - | 371 | |
| 7-Oct-13 | Third-party Vendor | Backhoe services | - | 1,007 | |
| 22-Apr-15 | Third-party Vendor | Paint supplies | - | 2,577 | |
| Feb 2016 | Administrator 2 | Sewer repair, leaks at the cemetery, paints, etc. | - | 25,202 | |
| 23-May-16 | Third-party Vendor | Crypt repair | 4,000 | - | |
| 23-May-16 | Third-party Vendor | Crypt repair | - | 3,000 | |
| Subtotal – Repairs, Paints, and Services | | | \$4,000 | \$34,732 | \$38,732 |

| Date | Payee | Description | Veterans Affairs Fund | Cemetery Fund | Total |
|---|--------------------|----------------------------|-----------------------|-----------------|-----------------|
| Table 2.d – Canopy Rentals | | | | | |
| 7-Jun-12 | Third-party Vendor | Canopies and chair rentals | \$- | \$2,715 | |
| 16-Nov-12 | Third-party Vendor | Canopy rental | - | 4,140 | |
| 10-Jun-13 | Third-party Vendor | Tents | - | 3,755 | |
| 2-Dec-13 | Third-party Vendor | Canopy rental | - | 2,300 | |
| 16-Dec-14 | Third-party Vendor | Canopy services | - | 6,000 | |
| 26-Mar-15 | Third-party Vendor | Canopy rental | - | 6,475 | |
| Subtotal - Canopy Rentals/Services | | | \$- | \$25,385 | \$25,385 |

| | | | | | |
|---|------------------------------------|--------------------|------------|-----------------|-----------------|
| Table 2.e – Loan Repayments and Reimbursements | | | | | |
| 30-Oct-14 | Administrator 1 | Loan reimbursement | \$- | \$5,925 | |
| 10-Nov-14 | Administrative Officer/Assistant 1 | Loan reimbursement | - | 518 | |
| 30-Jan-15 | Administrator 1 | Loan repayment | - | 5,200 | |
| 30-Jan-15 | Administrative Officer/Assistant 1 | Loan repayment | - | 550 | |
| 8-Apr-16 | Administrator 2 | Reimbursement | - | 5,500 | |
| Subtotal - Loan Repayments and Reimbursements | | | \$- | \$17,693 | \$17,693 |

| | | | | | |
|---|--------------------|--------------------------|------------|-----------------|-----------------|
| Table 2.f – Travel-Related Disbursements | | | | | |
| 13-Aug-12 | Third-party Vendor | Plane tickets | \$- | \$4,042 | |
| 17-Aug-12 | Administrator 1 | Check Unreadable | - | 879 | |
| 29-Aug-12 | GVAO Employee | Per Diem | - | 615 | |
| 5-Sep-12 | Third-party Vendor | Registration fees | - | 400 | |
| 6-Sep-12 | GVAO Employee | Per Diem | - | 615 | |
| 19-Oct-12 | Administrator 1 | Per Diem | - | 1,105 | |
| 22-Oct-12 | Third-party Vendor | Plane ticket | - | 1,564 | |
| 1-Feb-13 | Administrator 1 | Per Diem | - | 1,648 | |
| 1-Feb-13 | Administrator 1 | Registration fees | - | 250 | |
| 4-Feb-13 | Third-party Vendor | Itinerary for conference | - | 2,079 | |
| 9-Apr-13 | Administrator 1 | Per Diem | - | 2,261 | |
| 29-Jul-15 | Administrator 2 | Plane ticket | - | 1,883 | |
| Subtotal - Travel-Related Disbursements | | | \$- | \$17,341 | \$17,341 |

| | | | | | |
|---|--------------------|--|------|-----|--|
| Table 2.g – Others/Unknown Disbursements | | | | | |
| 4-Oct-11 | Unknown | Unknown | \$89 | \$- | |
| 11-Oct-11 | Unknown | Unknown | 500 | - | |
| 15-Nov-11 | Unknown | Unknown | 500 | - | |
| 26-Mar-12 | Third-party Vendor | Social Hall Fee Charge | 100 | - | |
| 4-Jun-12 | Third-party Vendor | Memorial day refreshments | - | 950 | |
| 6-Jun-12 | Third-party Vendor | Freedom Birds | - | 200 | |
| 19-Nov-12 | Unknown | Unknown | 560 | - | |
| 21-Feb-13 | Third-party Vendor | FY 2013 National Association of State Directors of Veterans Affairs dues | - | 800 | |

(Forward)

| Date | Payee | Description | Veterans Affairs Fund | Cemetery Fund | Total |
|--|--------------------|--|-----------------------|------------------|------------------|
| 12-Sep-13 | Third-party Vendor | Unknown | \$- | \$400 | |
| 22-Nov-13 | Unknown | Unknown | 500 | - | |
| 25-Nov-13 | Third-party Vendor | Veterans Day sandwiches | - | 1,900 | |
| 7-Jan-14 | Unknown | Unknown | 1,600 | - | |
| 23-May-14 | Unknown | Unknown | 400 | - | |
| 4-Feb-15 | Unknown | Unknown | 213 | - | |
| 13-Apr-15 | Cash | Cleaning supplies | - | 705 | |
| 24-Mar-16 | Third-party Vendor | Unknown | 5,000 | - | |
| 1-Apr-16 | Third-party Vendor | Unknown | 5,000 | - | |
| 5-Apr-16 | Third-party Vendor | Unknown | 5,000 | - | |
| Feb 2016 | Administrator 2 | Office supplies, food, vehicle repairs, gas, etc. | - | 7,148 | |
| Various | Bank | Bank fees | - | 282 | |
| Subtotal - Others/Unknown Disbursements | | | \$19,462 | \$12,385 | \$31,847 |
| Grand Total – Operating Disbursements | | | \$25,462 | \$264,538 | \$290,000 |

A summary of operating disbursements by payee is shown in Table 3.

Table 3: Total Disbursements by Payee

| Payee | Veterans Affairs Fund | Cemetery Fund | Total | % to Total |
|------------------------------------|-----------------------|------------------|------------------|-------------|
| Third-party Vendors | \$19,100 | \$114,515 | \$133,615 | 46% |
| Administrator 1 | 2,000 | 99,740 | 101,740 | 35% |
| Administrator 2 | - | 45,998 | 45,998 | 16% |
| Unknown Payees | 4,362 | - | 4,362 | 2% |
| Administrative Officer/Assistant 1 | - | 1,568 | 1,568 | 1% |
| GVAO Employees | - | 1,230 | 1,230 | 0% |
| Cash | - | 1,205 | 1,205 | 0% |
| Bank | - | 282 | 282 | 0% |
| Total | \$25,462 | \$264,538 | \$290,000 | 100% |

Of the \$290,000 in NAF operating disbursements, Table 4 shows that 51% or \$147,738, was paid to the former Administrators. Administrator 1 was paid \$101,740 and Administrator 2 was paid \$45,998. The majority of the checks were signed by the former Administrators themselves and a Commission officer, until bank signatories were changed in March 2016 to include only the Administrator 2. In particular, check #1266 amounting to \$5,500 for the Administrator 2 was signed by him alone, along with other vendors' checks. Refer to **Single Signatory on Bank Accounts** in this report. Check details are provided in Appendices 6 and 7.

Table 4: NAF Disbursements Paid to the Former Administrators

| | Administrator 1 | Administrator 2 | Total |
|--|------------------|-----------------|------------------|
| Petty cash | \$73,918 | \$- | \$73,918 |
| Fixed assets, paints and major repairs | 10,554 | 31,467 | 42,021 |
| Loan repayments and reimbursements | 11,124 | 5,500 | 16,624 |
| Travel-related (including per diem) | 5,265 | 1,883 | 7,148 |
| Others/Unknown | 879 | 7,148 | 8,027 |
| Total | \$101,740 | \$45,998 | \$147,738 |

Possible Abused Petty Cash System

Chart 1 shows that petty cash was the second highest category at 26%, or \$74,918 of the total NAF operating disbursements, which is an unusually high amount. In normal practice, petty cash funds typically do not exceed \$500 and are used to pay for small items (such as postage) when it is impractical to pay with a check. However, because the cash is readily available, it is prone to abuse and misuse and adequate internal controls should be instituted to protect it.

We found that the GVAO did not appropriately handle petty cash in the following ways:

- Incompatible duties were not segregated and the petty cash custodian authorized disbursements, approved payments, and maintained very limited records.
- No evidence of review by the Commission of the breakdown of disbursements prior to replenishing the petty cash fund paid primarily to the Administrator 1.
- Replenishments were inconsistent and ranged from \$500 and gradually increased to \$6,000 towards the end of the audit scope.
- The majority of the petty cash replenishments were made in whole rounded amounts (i.e., \$500, \$1,000 up to \$6,000).

There were at least 34 checks totaling \$73,918 paid to Administrator 1 with the description, “petty cash”. Based on the limited documents, petty cash was either handled by the Administrator 1 or the Administrative Officer/Assistant 1 and was used for refreshments, lunch plates, Memorial Day events supplies, office supplies, etc. Table 2.b shows the listing of petty cash replenishments.

In addition to these payments to the Administrator 1 for petty cash replenishments, there were disbursements to reimburse both Administrators and Administrative Officer/Assistant 1 for advanced funds.

We recommend to administer a nominal (i.e., no more than \$500) petty cash fund at GVAO with proper segregation of incompatible duties. DMA or DOA may then facilitate review and approval of the petty cash replenishment.

Reimbursement for Advanced Funds and Loan Repayments

From February 2016 to April 2016, three checks totaling \$45,998 were paid to Administrator 2 for personal funds he advanced since he assumed the position in May 2015. Of this amount, supporting receipts and invoices for two checks⁴ signed by two members of the Commission totaling \$40,498 were provided. The check for the remaining \$5,500 was signed by the Administrator 2 himself and supporting documents were not provided. We were also informed by the Administrator 2 that he was still holding some additional receipts and invoices for possible reimbursements.

The Administrator 2 indicated that the advances were paid to immediately improve the GVAO for the benefit of the veterans: organizing the office space, evaluating and hiring employees, providing burial services and cemetery renovations, facilitating Memorial Day events, etc.

These advances and loans were made despite available funds in the GVAO general fund appropriation budget. Per the Bureau of Budget and Management Research's (BBMR) Consolidated Revenue/Expenditure Report's total expenditures for GVAO were \$327,201 as of April 2016, representing 52% of its \$631,767 Fiscal Year (FY) 2016 budget appropriation. The Administrator 2 said that he did not have the personnel and time to process payment requests through DOA in order to immediately implement the improvements he desired.

We also noted "loan repayments" disbursements to the Administrator 1 and the Administrative Officer/Assistant 1. We were unable to determine the nature of these loan repayments. Table 2.e shows the loan repayments and reimbursements for which supporting documents were not provided.

The volume of reimbursements and petty cash replenishments paid to the Administrators were slightly over half of the NAF operating disbursements with very little supporting documentation. This is indicative of a poor approach towards accountability and safeguarding the NAFs exacerbated by the lack of review by the Commission. Another issue is petty cash replenishments and loan reimbursements were used to circumvent GovGuam's formal procurement process.

Guam Procurement Law and Regulations Not Followed

Title 5 G.C.A. § 5004(b) states that Guam Procurement Law shall apply to every expenditure of public funds irrespective of their source, including federal assistance funds. Generally, evidence of competition should be obtained through positive written quotations or telephonic quotations for small purchases up to \$15,000.⁵

We did not find any evidence that the GVAO applied and followed applicable procurement law and regulations. Table 5 summarizes the operating disbursements that should have been purchased in compliance with the procurement law and regulations.

⁴ Pertains to Check Nos. 1257 and 1261 totaling to \$40,498 reimbursed to the Administrator 2. Supporting receipts were provided, hence we were able to identify the nature of expenses which we classified under repairs and paints, fixed assets, travel-related, and others/unknown expenditures.

⁵ 2 G.A.R § 3111(c)(1) and 2 G.A.R § 3111(e)

Table 5: Purchases Subject to Procurement Laws and Regulations

| Nature of Disbursements | Amount |
|-------------------------------|------------------|
| Purchase of fixed assets | \$84,084 |
| Repairs, paints, and services | 38,732 |
| Canopy rentals | 25,385 |
| Travel-related | 10,447 |
| Others | 30,665 |
| Total | \$189,313 |

Excludes check disbursements noted as "petty cash", unsubstantiated reimbursements, etc.

No Inventory of Purchased Fixed Assets

GVAO NAF disbursements for fixed assets and equipment amounted to \$84,084 or 29% of the total operating disbursements (excluding paints, services and repairs). We found that there is no fixed assets monitoring schedule nor proper asset identification for accountability. Lack of monitoring and accountability for fixed assets susceptible to potential loss or damage. Table 2.a summarizes the identified purchased fixed assets by check date.

Completeness of Burial Claims and Other Receipts Cannot Be Verified

There were no records found for burial claims processed, approved, and paid. We were also not able to identify \$15,375 in various donations and fundraising monies. Therefore, we cannot ascertain whether all reimbursable burial claims were timely processed and received or whether all donations were appropriately identified and deposited.

Burial Claims

The USDVA reimburses GVAO ranging from \$300 to \$747 for the burial of eligible veterans whose deaths are non-service related. These claims should be filed within two years of the veteran's burial or cremation date. There were 11 checks received from the USDVA for burial reimbursement claims as shown in Table 6.

Table 6: Burial Reimbursement Claims Received from USDVA

| No. | Deposit Date | Period Covered | Amount |
|--------------|--------------|----------------------|------------------|
| 1 | 22-Nov-11 | Not specified | \$37,800 |
| 2 | 19-Mar-12 | Feb 2008 to May 2009 | 24,300 |
| 3 | 7-Aug-12 | Aug 2011 to Mar 2012 | 31,000 |
| 4 | 17-Jan-13 | Apr to Jul 2012 | 22,000 |
| 5 | 28-May-13 | Aug 2012 to Jan 2013 | 33,582 |
| 6 | 21-Aug-13 | Feb to Apr 2013 | 25,992 |
| 7 | 26-Aug-14 | Not specified | 5,776 |
| 8 | 27-Oct-14 | Sep to Dec 2013 | 10,252 |
| 9 | 23-Jan-15 | Sep to Dec 2013 | 5,812 |
| 10 | 13-Nov-15 | Not specified | 20,115 |
| 11 | 28-Jan-16 | Aug to Dec 2014 | 28,857 |
| Total | | | \$245,486 |

Based on Table 6, the last reimbursement claim processed was for burials as of December 2014. If subsequent burials are not timely processed, the two-year filing period will lapse and the GVAO may forfeit its reimbursement claims.

Subsequent to our scope, GVAO received a \$50,443 check dated August 19, 2016 representing reimbursement from USDVA for burial claims from previous months. We estimate that GVAO still has \$146,004 reimbursements to be processed/claimed for burials as of FY 2016.

Despite subsequent receipt of some burial reimbursements, we recommend all veteran burials from January 2015 be immediately reconciled and pending reimbursement claims be submitted to USDVA. Moving forward, the Commission, DMA, or DOA should institute a regular review monitoring procedure to ensure that burial reimbursement claims are accurately and timely processed.

Other Receipts

GVAO also received \$34,125 from appropriations, various donations, and fundraising activities. Of this amount,

- \$18,750 was received from the Guam Visitors Bureau in February 2016 per P.L. 33-66 for a grave directory, replacement of waterlines, and ground maintenance equipment.
- We cannot determine the purpose of \$6,500 received from the Administrator 1 in April 2015.
- The remaining \$8,875 was received from various donors for fundraising activities, such as car washes, which ranged from \$30 to \$700. We observed only loose bank deposit slips, receipt slips, and copies of checks, but we were unable to trace the support to a particular bank deposit.

Single Signatory on Bank Accounts

In March 2016, the Administrator 2 changed the NAF bank signatories from at least two authorized signers (Administrator 1 and Commission officers) to only the Administrator 2 as the single signatory. According to the Commission Secretary, two signatures have always been required for NAF check disbursements.

The Administrator 2 claimed that the action was based on P.L. 33-138 enacted in March 2016, which amended certain provisions of the NAFs:

- Veterans Cemetery Trust Fund – “Expenditures from the fund shall be by direction of the Administrator.”
- Veterans Affairs Fund – “The Administrator and a member of the Commission shall approve all expenditures paid from the fund.”

However, the P.L. did not explicitly limit the NAFs to only one signatory and the Commission was not aware of the signatory change. There are no meeting minutes that acknowledged or approved this change.

Having only one signatory does not segregate incompatible duties, does not provide any checks and balances, and compromises the NAFs’ safekeeping. This also creates operational concerns

when the signatory is not available. Therefore, we recommend that the single signature be rescinded forthwith and require at least two signatures on all NAF disbursements.

Mandated Reports Not Submitted and Official Website Not Updated

We found only three reports disclosing gifts and donations that the GVAO received from October 2011 to May 2016. We did not find other reports required by 10 G.C.A. Chapter 67:

- a) Annual Veterans Cemetery Trust Fund Expenditures Report for submission to the Veterans Commission, the Governor, and the Legislature (§ 67105.1). This was amended to quarterly reporting through P.L. 33-138;
- b) Quarterly Report of Solicitation, Acceptance, Utilization, and Administration of Gifts, Bequests, and Donations for submission to the Governor, the Speaker of Legislature, and the Public Auditor (§ 67106 and § 67109); and
- c) Guam Veterans Registry which shall be updated no less than semiannually (§ 67110).

In addition, the GVAO's official website still currently shows the former employees and citizen centric report as of FY 2010. Further, no financial reports and minutes of the Commission's meetings have been posted.

We recommend that the required reports be prepared and posted on the GVAO website immediately to comply with the law.

Other Matters

During our audit, other operational matters came to our attention regarding payroll and organizational structure that did not directly affect the NAFs. However, these matters do affect the GVAO's control environment and should be addressed.

Significant Delays and Issues with Payrolls

We learned that the payrolls for seven purported GVAO employees were significantly delayed (some approximately six months). The employees started working for GVAO without DOA's approval, which resulted in significant delays in payroll. According to DOA, GVAO lacked the full understanding and compliance with DOA's Personnel Policies and Procedures. In addition, there was a lack of active communication and follow-ups on the status of the Request for Personnel Action (RPA) after it was submitted to BBMR in December 2015.

The issues included:

- For three employees – Job qualification issues where a certain license was required;
- For two employees – Hired without BBMR budget clearance; and
- For two employees – Processed at lower pay grade/step by DOA despite RPA requesting a higher pay grade/step.

The RPAs were eventually processed and approved by DOA in April and May 2016; however, at pay grades/steps lower than the initial RPAs for most of the seven employees.

Refer to Appendix 8 for summarized payroll information.

Vague Structure of Authority and Administration over GVAO

Per Title 10 G.C.A. Chapter 67, the GVAO Administrator receives and considers the Commission's recommendations and advice. However, the functional reporting line is not defined for the Commission and the GVAO Administrator.

Per Title 10 G.C.A. § 67100, the Governor of Guam appoints the GVAO Administrator to serve under the Governor's direction and control. In practice, the Governor appoints a Special Assistant as the Administrator. While the Commission was previously given authority to approve disbursements from the NAFs, it currently has no direct authority in terms of the administration and control over the GVAO, but are mere advisors.

Conclusion and Recommendations

We concluded that the gross mismanagement and lack of accountability of GVAO NAFs were caused by a lack of internal controls including an adequate accounting infrastructure to safeguard the NAFs. There were no improvements from our prior audit issued in March 2012, OPA Report No. 12-01. As a result, we questioned all \$290,000 in NAF disbursements and are not assured as to the appropriateness of the disbursements and the completeness of receipts.

Despite 10 G.C.A. Chapter 67 requiring the Administrator to be responsible for maintaining complete and accurate records of all NAF receipts and disbursements, our audits have shown that GVAO is not capable to responsibly administer the NAFs. As there are no policies and procedures in place, disbursements were made out of the NAFs mainly at the former Administrators' discretion. In addition, petty cash and reimbursements were used to circumvent GovGuam's formal procurement process.

The mismanagement of NAFs was exacerbated by the Commission's lack of oversight of GVAO's finances. The absence of good governance structures and lack of adherence to basic governance principles such as overseeing results, accountability reporting, and correcting findings, increases the risk of misuse.

Internal controls at the very basic and fundamental levels begins with the control environment, which must be established by the Commission and the Administrator setting a positive attitude towards internal control. It demonstrates the commitment to integrity and ethical values by setting the tone at the top. After establishing an effective control environment, management should begin addressing other internal control components, including:

- Risk assessment – management assesses the risks facing the entity (including fraud) and develop responses to those risks.
- Control activities – management establishes policies and procedures to achieve objectives and respond to risks in the internal control system.
- Information and communication – management uses quality information to support the internal control system.
- Monitoring – management assesses the internal control system to stay aligned with changes in objectives, environment, laws, resources, and risk.

The Administrator and Commission share the responsibility for implementing and monitoring internal controls over the NAF receipts and disbursements. Commission officers provide appropriate oversight. Any suspected breakdown or deficiencies in the checks and balances should be reported at Commission meetings, properly documented, and appropriate corrective action taken.

Therefore, to improve accountability over the handling of the GVAO NAFs, we recommend to the GVAO Commission and Administrator to:

1. Relinquish the NAF bank accounts and record-keeping from the GVAO to DMA or DOA. DMA or DOA may then facilitate review of receipts, review of disbursements prior to check disbursements (including petty cash replenishment), and preparation of bank reconciliation.
2. Administer a nominal (i.e., no more than \$500) petty cash fund at GVAO and properly segregating incompatible duties.
3. Immediately reconcile and submit reimbursement claims to USDVA for veteran burials from January 2015 as the two-year allowable filing period is fast approaching. Moving forward, the Commission, DMA, or DOA should institute a regular review monitoring procedure to ensure that burial reimbursement claims are accurately and timely processed.
4. Immediately notify the bank to correct the signatories and explicitly require at least two signatures on all NAF disbursements.
5. Prepare the required reports and post them to the GVAO website immediately to comply with the law.
6. Establish fundamental internal controls at GVAO to improve checks and balances, accountability, and oversight on the NAFs.

Classification of Monetary Amounts

| | Finding Description | Questioned Costs | Unrealized Revenue ⁶ |
|----------|---|-------------------------------|---------------------------------|
| 1 | Largely incomplete and/or missing records and supporting documents | \$8,076⁷ | \$ - |
| | | | |
| 2 | Completeness of receipts cannot be verified⁶ | | |
| | Burial reimbursement claims | \$ - | \$ - |
| | Other receipts | \$ - | \$ - |
| | Subtotal | \$ - | \$ - |
| | | | |
| 3 | No evidence of proper review and approval of purchases and disbursements | | |
| | Guam Procurement Law and Regulations not followed | 148,815 ⁸ | \$ - |
| | Possible abused petty cash system | 74,918 ⁹ | \$ - |
| | Reimbursement for advance expenditures and loan repayments | 52,691 ¹⁰ | \$ - |
| | Single signatory on bank accounts | 5,500 ¹¹ | \$ - |
| | Subtotal | \$281,924 | \$ - |
| | | | |
| 4 | Mandated reports not submitted and official website not updated | \$ - | \$ - |
| | | | |
| 5 | Other matters | \$ - | \$ - |
| | Total | \$290,000¹² | \$ - |

⁶ Due to very limited documents available, we were unable to estimate whether the burial reimbursement claims processed as of December 31, 2014 were complete. In addition, we were also unable to identify whether all other receipts between October 2011 and May 2016 have been appropriately deposited.

⁷ These are all other expenditures not covered under item no. 3, which mainly includes expenditures under \$500 and per diems.

⁸ Pertains to purchases amounting to \$500 and above, excluding petty cash, unsubstantiated reimbursements, and certain reimbursements to the Administrator 2.

⁹ Pertains to all check disbursements noted as "Petty cash" without proper support or documented prior approvals.

¹⁰ Pertains to reimbursements or loan repayments to the former Administrators and Administrative Officer/Assistant 1, but excludes footnote no. 11.

¹¹ Pertains to one check issued and signed solely by the Administrator 2 for himself.

¹² The total operating expenditures of \$290,000 were considered as questioned costs because we found these to be either unsupported, unallowable, or may be improper.

Management Response and OPA Reply

A draft report was transmitted to the following parties:

1. A Senator in the 33rd Guam Legislature who requested the follow up audit of GVAO NAFs;
2. A Senator in the 33rd Guam Legislature who is the Chairperson for Committee on Veterans' Affairs;
3. GVAO Acting Administrator;
4. GVAO Commission Chairman; and
5. DOA Director.

We met and briefed the above parties on the report findings and recommendations in September 2016.

The GVAO Acting Administrator submitted a response representing GVAO and the Commission on September 28, 2016 concurring with the audit recommendations. See Appendix 9 for the GVAO's management response.

The DOA Director submitted a response on September 27, 2016 and concurs with the audit recommendations. However, she disagreed with the draft report where it mentioned that DOA was not actively communicating with GVAO about the RPAs. Hence we re-phrased the report accordingly. See Appendix 10 for DOA's management response.

The legislation creating OPA requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, we will be contacting the Legislature to provide target dates and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation shown by the GVAO and the DOA during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Objective, Scope & Methodology**

The audit objective was to determine whether the GVAO's NAFs were properly managed and accounted for in accordance with applicable laws, regulations, and best practice.

The scope of our audit was from October 1, 2011 to May 31, 2016 and included the Veterans Affairs Fund and the Veterans Cemetery Trust Fund receipts and disbursements.

Our audit methodology included a review of local laws and regulations, prior audits, and other information pertinent to the GVAO's NAFs. We also performed the following:

- Obtained copies of bank statements from GVAO and DOA.
- Inspected available supporting documents pertaining to the movements in NAFs such as copies of issued checks, receipts, and invoices at GVAO and DOA.
- Issued subpoenas to the bank for the production of bank statements, records of changes in bank signatories, certain receipts and disbursements not available at GVAO or DOA.
- Compiled receipts and disbursements per bank statements in order to reconstruct summarized financial information such as burial reimbursement claims received, disbursements by nature of expenses, among others.
- Extracted information from the GovGuam Single Audit Reports for FY 2014 and FY 2015, which contained the independent auditor's opinion on compliance and report on internal control over financial reporting.
- Obtained Notice of Personnel Actions from DOA, as well as RPAs from GVAO, for employees with payroll issues and summarized the relevant information.
- Interviewed and conducted various meetings with key GVAO employees and the Commission to gain a general understanding of certain financial processes. Meetings were also held to provide them the initial audit findings and obtain their comments on those findings. We also met with the Acting Administrator to provide some background information and status of our audit.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2:**Prior Audit Coverage**

OPA Report No. 12-01, Guam Veterans Affairs Office Non-Appropriated Funds issued in March 2012

The review of the GVAO NAFs found that the Commission did not perform its fiduciary responsibility to provide oversight or adequately monitor GVAO's finances and operations. Instead, the Commission relied extensively on the former Administrators. Findings in this report were as follows:

- Pre-numbered receipts were not used
- Receipts were not reconciled to deposits
- Pre-signed blank checks
- Guam Procurement Law and Regulations not followed
- Disbursements without supporting documents
- Unauthorized travels
- Bank reconciliation not performed
- Financial and tax filing reports not prepared and submitted
- Lack of segregation of incompatible duties

Several recommendations were issued to improve management and accountability of NAFs, such as (1) immediately discontinue the practice of signing blank checks and require the Administrator to provide supporting documents prior to all disbursements, (2) perform monthly bank reconciliations and prepare monthly financial statements to ensure that all cash collected and disbursed are accurately accounted for, and (3) maintain list of all claims submitted to the USDVA.

Despite several follow-up letters sent to GVAO, we received no detailed plans to correct findings noted in the prior audit report. Our follow-up audit also confirmed that there were no actions implemented to improve GVAO's policies and procedures in relation to its management of the NAFs.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001
CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories
 20.205 DOT Highway Planning and Construction
CFDA Program: 64.203 DVA State Cemetery Grants
Area: Equipment and Real Property Management
Area: Capital Assets
Questioned Costs: \$0

Criteria:

1. In accordance with the applicable equipment management requirements, grantees that acquire equipment with Federal funds are required to perform a physical inventory of the property and reconcile results with property records at least once every two years. Such property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data, including the date of disposal and sale price of the property. In addition, adequate maintenance procedures must be established to keep the property in good condition.
2. Asset acquisitions and, or applicable related financing agreements and construction projects in progress are recorded to the general ledger in a timely manner.

Condition:

1. The Government of Guam has not performed the required comprehensive physical inventories of its property in FY 2014 or in the two prior years. We are unable to assess the overall cumulative monetary value of this deficiency. However, a summary of total capital outlays over the past five years for the Government of Guam's FY 2014 major programs is as follows:

| Program CFDA #s | 2014 Purchases | 2013 Purchases | 2012 Purchases | 2011 Purchases | 2010 Purchases | Total |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------|
| 1. 10.551/10.561 | \$ 0 | 0 | 14,995 | 14,500 | 0 | 29,495 |
| 2. 11.419 | \$ 0 | 9,998 | 0 | 0 | 0 | 9,998 |
| 3. 11.482 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 4. 15.875 | \$ 2,420,836 | 2,853,009 | 573,017 | 564,249 | 1,201,607 | 7,612,718 |
| 5. 16.738 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 6. 17.258/17.259/17.278 | \$ 70,403 | 22,490 | 0 | 0 | 0 | 92,893 |
| 7. 20.205 | \$ 625,334 | 5,557,352 | 538,071 | 6,064,230 | 11,506,775 | 24,291,762 |
| 8. 20.616 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 9. 64.203 | \$ 3,276,844 | 0 | 0 | 0 | 0 | 3,276,844 |
| 10. 93.150 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 11. 93.224 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 12. 93.558 | \$ 0 | 0 | 0 | 0 | 0 | 0 |
| 13. 93.778 | \$ 0 | 0 | 0 | 12,550 | 0 | 12,550 |

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001, Continued
CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories
CFDA Program: 20.205 DOT Highway Planning and Construction
CFDA Program: 64.203 DVA State Cemetery Grants
Area: Equipment and Real Property Management
Area: Fixed Assets
Questioned Costs: \$0

Condition, Continued:

2. GovGuam acquired capital assets under financing agreements as of 09/30/14, but did not record the acquisitions and debt service obligations until eight months after the fiscal year end. Total assets under capital leases aggregate \$78,024,200 for the Tiyan lease and the Okkodu expansion project.
3. GovGuam did not report \$9M in construction in progress until eight months after fiscal year end.
4. GovGuam did not record \$3.2M in capital assets acquired through CFDA 64.203 State Cemetery Grants.

Cause:

1. Noncompliance with applicable equipment management requirements has been a continuing finding from prior audits, and Government of Guam management is still in the process of effecting corrective action and of developing an equipment management system that complies with applicable equipment management standards. Efforts are being made to tag all equipment with bar code property identification labels. Until the Government completes tagging of all equipment, it will not be able to conduct a comprehensive physical inventory.
2. Processes over inventory and reconciliation of the fixed assets register are not routine.

Effect:

The Government is in noncompliance with applicable equipment management requirements. The underlying capital outlays are not considered questioned costs as corrective action is in progress. This noncompliance applies to the following major programs, for which cumulative capital outlays over the past five years exceed FY 2014 materiality levels: CFDA numbers 15.875, 20.205, and 64.203. Furthermore, capital assets within the financial statements or related disclosures could be misstated and the valuations of such may not reflect existing business circumstances and economic conditions in accordance with accounting policies being used.

A potential misstatement of capital assets within the financial statement or related disclosure could exist.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001, Continued
CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories
CFDA Program: 20.205 DOT Highway Planning and Construction
CFDA Program: 64.203 DVA State Cemetery Grants
Area: Equipment and Real Property Management
Area: Fixed Assets
Questioned Costs: \$0

Prior Year Status:

The lack of properly recording capital assets was reported as finding 2013-001.

Recommendation:

The Government of Guam should complete tagging of all equipment and conduct a physical inventory immediately thereafter.

Routine inventory and reconciliation against the fixed assets register should occur. The fixed assets register should be descriptive to assist in distinguishing assets and allow for their monitoring. Furthermore, periodic communication should occur with other agencies or departments in order to determine the percentage of completion of capital assets that are being constructed.

The Division of Accounts should investigate whether additional personnel well-versed in accounting reconciliations and processes may be required to allow for timely review and recordation of capital assets, especially given the substantial capital asset construction that is currently being undertaken by the Government of Guam. Furthermore, coordination with DPW and other engineering firms must occur at project commencement so that accounts are established to track capital costs and to allow for the preparation of periodic reports documenting a project's percentage of completion.

Auditee Response and Corrective Action Plan:

As of to date, Government of Guam has tagged and inventoried 98% of equipment from 2014 and prior years as noted on previous audits as well as simultaneously working on tagging equipment acquired for the current fiscal year to ensure that tagging and physical inventory requirements do not fall behind. Physical inventory of assets for line agencies will continue hence forth. The remaining 2% that have not been tagged are equipment that has been disposed and waiting documentation to confirm disposition. Communication with line agencies is an on-going process to ensure that agency operations are interrupted at the very minimum and to ensure good communication with those concerned.

Training to ensure compliance with applicable equipment management requirements is currently on going for equipment/property custodians and those responsible for the accountability of such equipment such as the heads of the respective agencies as well as their certifying officers. Training agenda includes familiarity of compliance of federal requirements to include all procedures for accountability in order for equipment can be located accordingly during physical inventory.

Those in charge of acquiring such assets are informed during the training to ensure that adequate maintenance procedures must be included to ensure good working conditions for purchased equipment and to keep proper documentation when such maintenance occurs and by ensuring that funds are budgeted so that equipment does not stay on standstill due to lack of funding requirements for necessary repairs.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001, Continued
CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories
CFDA Program: 20.205 DOT Highway Planning and Construction
CFDA Program: 64.203 DVA State Cemetery Grants
Area: Equipment and Real Property Management
Area: Fixed Assets
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

The fixed assets team is developing the standard operating procedure for fixed assets that the line agencies will have to mirror to fit the needs of their agency requirements. This document will serve as the guideline that all agencies will follow to comply with federal regulations and to meet all the requirements with regards to physical inventory, tagging, maintenance processes, etc. It will also dictate all appointed custodians and all stakeholders are aware of their duties and responsibilities and consequences if policies and procedures are not adhered to.

Currently, there are two limited term employees that have assisted in the improvement efforts to ensure that the program does not fall back to its previous condition. Continuity of current procedures will ensure that physical inventory and tagging of equipment will continue hence the necessity for Government of Guam to have permanent personnel for fixed assets who are well versed and have the knowledge in reconciliation and processes that are required to ensure compliance of all requirements. In addition, Government of Guam is working on funding requirements to retain current personnel to include training for current module and Fixed Assets Software to ensure reconciliation of register is conducted routinely.

Fixed assets staff will work with management to ensure coordination with DPW upon project commencement so that Capital Improvement Projects are monitored and recorded accordingly. In addition, the fixed assets team will work with management and all stakeholders to establish in indexing processes for accountability of said projects.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
Federal Agency: U.S. Department of Veterans Affairs
CFDA Program: 64.203 State Cemetery Grants
Federal Award No.: GU-11-03
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria:

In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented to be allowable under Federal awards.

Furthermore, in accordance with applicable procurement requirements, grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

A total of \$3,280,292 in Federal funds was received from the grantor; however, the Government of Guam could not provide documentation, such as payment requests, purchase orders, contracts, vendor invoices, and receiving reports, to substantiate program costs.

Furthermore, the Government of Guam did not provide documentation, such as requests for bid/proposal, bids/proposals received, rationales for selection or rejection, and bases for contract price to substantiate full and open competition in the selection of vendors.

Cause:

Program transactions were not centrally processed at the Government of Guam's Division of Accounts, and the Program Administrator represented that the program office was burgled prior to audit fieldwork. Therefore, documentation is not available.

Effect:

The Government of Guam is in noncompliance with applicable allowable costs/cost principles requirements and with applicable procurement requirements. No questioned cost is presented as the Government of Guam was able to correspond with the grantor to obtain evidence of approved costs.

Recommendation:

Government of Guam management should coordinate further with the grantor agency, contractors and the financial institution to obtain copies of such supporting documentation as payment requests, purchase orders, contracts, invoices, receiving reports, and procurement records to substantiate costs in accordance with applicable allowable costs/cost principles requirements and with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

The Government of Guam has not provided a response.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-008
Area: Schedule of Expenditures of Federal Awards

Criteria:

In accordance with OMB Circular A-133, the Schedule of Expenditures of Federal Awards shall provide total Federal awards expended for each individual Federal program.

Condition:

During fiscal year 2014, the Government of Guam incurred expenditures and received federal funding for the expansion and improvement of the Guam Veterans Cemetery under CFDA Program 64.203 State Cemetery Grants. During the performance of the audit, we noted the Schedule of Expenditures of Federal Awards had not included approximately \$3.2M in Federal expenditures. The Government of Guam recorded a post-closing adjustment to record the program revenues, expenditures, and accruals for FY 2014.

Cause:

The Government of Guam has a centralized process for federal award applications. GovGuam's Division of Accounts (DOA) relies on this process so that all of GovGuam's federal awards are accounted for in the financial management system and reported in the Schedule of Expenditures of Federal Awards for each fiscal year. The department which applied for Federal funding under CFDA 64.203 acted independently and did not communicate with other departments involved in the centralized process for federal award applications. Controls over financial reporting did not operate effectively.

Effect:

The Schedule of Expenditures of Federal Awards was initially incomplete and in noncompliance with requirements of OMB Circular A-133, and the financial statements were misstated. There is a potential for future federally funded activities to occur outside the centralized process for federal award applications and to continue undetected and unrecorded by DOA.

Recommendation:

The Government of Guam should strengthen controls over the centralized process for federal award applications. The responsible official should communicate the formalized process to all GovGuam departments and enforce the process so that all federal award activities are timely accounted for in the financial management system and timely reported in the Schedule of Expenditures of Federal Awards.

Auditee Response and Corrective Action Plan:

The Government of Guam has not provided a response.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-009
 Federal Agency: U.S. Department of Veterans Affairs
 CFDA Program: 64.203 State Cemetery Grants
 Federal Award No.: GU-11-03
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$0
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$0

Background:

CFDA Program 64.203 State Cemetery Grants was tested as a major program during the FY 2014 Single Audit of the Government of Guam. In the FY 2014 Single Audit, testing resulted in a qualified compliance opinion and material weaknesses due to a lack of documentation, such as invoices, receiving reports, procurement files, and evidence of a physical inventory.

Subsequent to our report dated on June 29, 2015, the Office of Public Accountability – Guam became aware that documents were located and requested that we test the available documents. Therefore, we performed follow-up procedures on the available documentation for CFDA 64.203, which is a non-major program with \$0 expenditures in FY 2015.

Criteria:

In accordance with applicable allowable costs/cost principles requirements, costs must be adequately documented to be allowable under Federal awards.

Furthermore, in accordance with applicable procurement requirements, grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

1. For 5 (or 45%) of 11 expenditure transactions, the Government of Guam did not provide sufficient documentation, such as vendor invoices (INV), receiving reports (RECV), and/or payment requests (REQ) to substantiate the following program costs:

| | <u>Date</u> | <u>Check No.</u> | <u>Reference</u> | <u>Amount</u> | <u>Documents Not Provided</u> |
|-----|-------------|------------------|------------------|---------------|-------------------------------|
| (a) | 04/21/14 | 1216 | RFP OVA 13-001 | \$ 17,841 | RECV, REQ |
| (b) | 12/18/14 | 1243 | RFP OVA 13-001 | \$ 56,812 | RECV, REQ |
| (c) | 04/17/15 | 1250 | GU-11-03 | \$ 278,028 | REQ |

No questioned cost is presented as we examined evidence of the contractor's performance of contract terms and conditions and of the grantor's approval of costs reported in the SF 271 Outlay Report and Request for Reimbursement for Construction Programs, including ancillary communications between the grantor and grantee that provide a sufficient level of assurance that the grantor had reviewed the supporting invoices and receiving reports prior to approval.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-009, Continued
 Federal Agency: U.S. Department of Veterans Affairs
 CFDA Program: 64.203 State Cemetery Grants
 Federal Award No.: GU-11-03
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$0
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$0

Condition, Continued:

| | <u>Date</u> | <u>Check No.</u> | <u>Reference</u> | <u>Amount</u> | <u>Documents Not Provided</u> |
|-----|-------------|------------------|------------------|---------------|-------------------------------|
| (d) | 03/06/14 | 1215 | GU-11-04 | \$ 130,500 | INV, RECV, REQ |

The vendor invoice was dated 12/20/13 and totaled \$104,920 for 72.02% work completed, whereas the vendor was paid more than 2 months later for 90% of the contract price. The unsupported difference of \$25,580 is not presented as a questioned cost as we examined the grantor's approval for costs of \$145,000 reported in the SF 271 Outlay Report and Request for Reimbursement for Construction Programs, including ancillary communications between the grantor and grantee that provide a sufficient level of assurance that the grantor had reviewed the supporting invoices and receiving reports prior to approval.

| | <u>Date</u> | <u>Check No.</u> | <u>Reference</u> | <u>Amount</u> | <u>Documents Not Provided</u> |
|-----|-------------|------------------|------------------|---------------|-------------------------------|
| (e) | 04/22/14 | 1219 | N/A | \$ 246,653 | INV, RECV, REQ |

This payment appears to be for services received in fiscal year 2013; however, such expenditures were not presented in the Schedule of Expenditures of Federal Awards for FY 2013, and full reporting is effected in FY 2014. No questioned cost is presented as we examined evidence of the contractor's performance of contract terms and conditions, such as designs and drawings, and the grantor's approval of costs for \$246,653 reported in the SF 271 Outlay Report and Request for Reimbursement for Construction Programs, including ancillary communications between the grantor and grantee that provide a sufficient level of assurance that the grantor had reviewed the supporting invoices and receiving reports prior to approval.

- For 1 (or 33%) of 3 procurement transactions, procurement documentation was incomplete. For RFP OVA 13-001, no proposals and no selection analysis was provided other than the proposal and evaluation sheet of the selected contractor. No questioned cost is presented as available documentation shows that five companies picked up request-for-proposal packets, evidencing competition, and we are not aware of any related procurement appeals.

Cause:

Program transactions were not centrally processed at the Government of Guam's Division of Accounts, and the then Program Administrator represented that the program office was burglarized prior to commencement of their audit. Therefore, complete documentation was not available.

Effect:

The Government of Guam is in noncompliance with applicable allowable costs/cost principles requirements and with applicable procurement requirements. No questioned cost is presented as the Government of Guam was able to correspond with the grantor to obtain evidence of approved costs.

GOVERNMENT OF GUAM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-009, Continued
Federal Agency: U.S. Department of Veterans Affairs
CFDA Program: 64.203 State Cemetery Grants
Federal Award No.: GU-11-03
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Recommendation:

Government of Guam management should coordinate further with the grantor agency, contractors and the financial institution to obtain copies of such supporting documentation as payment requests, purchase orders, contracts, invoices, receiving reports, and procurement records to substantiate costs in accordance with applicable allowable costs/cost principles requirements and with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

The General Accounting Supervisor(GAS), Federal Branch of DOA will continue to actively coordinate with the contractors, financial institution, treasurer/secretary of the Guam Veterans Commission and grantor agency to obtain copies of supporting documentation to substantiate costs in accordance with applicable procurement requirements as well as with applicable allowable costs/cost principles. A new Administrator for the GVAO was recently appointed to oversee the operations of the GVAO; DOAs Director together with the GAS, Federal Branch will be meeting with the new Administrator to address current issues such as bank reconciliations, lack of management of accounting records, reconciliation of petty cash funds, reconciliation of cash receipts, little to no control of checks issued by GVAO due to pre-signed checks, non-compliance of procurement laws and regulations , etc. and to provide recommendations to ensure future compliance with all federal grant requirements and accounting policies and procedures. In addition, they will coordinate with the new Administrator to help obtain documentation from contractors that have yet to provide DOA with supporting documents needed.

DOA will work closely with the Administrator and staff to assist in the implementation of immediate internal controls to comply with accounting policies and procedures as well as records management requirements. DOAs GAS, Federal Branch will assist the Administrator and assigned staff to develop standard operating procedures to comply with federal requirements as well as proper record keeping for accountability and adherence to policy for all staff members to maintain consistency and understanding of all requirements in procurement, cash management, etc.

Appendix 5:**Federal Cemetery Grants Receipts and Disbursements****Table 1: Transaction Listing by Date**

| Date | Grant No. / Vendor | Receipt | Disbursement | Balance |
|--------------|---------------------------|-----------------------|-----------------------|----------------|
| 2/27/14 | Grant No. FAI:GU-11-04 | \$145,000.00 | \$- | \$145,000.00 |
| 3/6/14 | Vendor 1 | - | 130,500.00 | 14,500.00 |
| 4/8/14 | Grant No. FAI:GU-11-03 | 286,296.00 | - | 300,796.00 |
| 4/17/14 | Grant No. FAI:GU-11-03 | 75,060.00 | - | 375,856.00 |
| 4/21/14 | Vendor 2 | - | 17,640.63 | 358,215.37 |
| 4/22/14 | Vendor 2 | - | 246,653.00 | 111,562.37 |
| 5/16/14 | Grant No. FAI:GU-11-03 | 208,491.30 | - | 320,053.67 |
| 5/16/14 | Vendor 3 | - | 75,060.00 | 244,993.67 |
| 5/16/14 | Vendor 3 | - | 208,491.30 | 36,502.37 |
| 6/23/14 | Grant No. FAI:GU-11-03 | 106,591.50 | - | 143,093.87 |
| 6/30/14 | Vendor 3 | - | 106,591.50 | 36,502.37 |
| 7/30/14 | Vendor 1 | - | 15,181.96 | 21,320.41 |
| 9/10/14 | Grant No. FAI:GU-11-03 | 555,282.00 | - | 576,602.41 |
| 9/29/14 | Vendor 3 | - | 555,282.00 | 21,320.41 |
| 12/10/14 | Grant No. FAI:GU-11-03 | 1,004,559.00 | - | 1,025,879.41 |
| 12/18/14 | Vendor 3 | - | 941,299.40 | 84,580.01 |
| 12/18/14 | Vendor 2 | - | 56,812.47 | 27,767.54 |
| 3/20/15 | Grant No. FAI:GU-11-03 | 899,011.80 | | 926,779.34 |
| 3/30/15 | Vendor 3 | - | 615,528.70 | 311,250.64 |
| 4/17/15 | Vendor 3 | - | 278,028.10 | 33,222.54 |
| 5/20/15 | Vendor 2 | - | 23,511.51 | 9,711.03 |
| Total | | \$3,280,291.60 | \$3,270,580.57 | |

Table 2: Totals by Grant Number and Vendor

| Grant No. / Vendor | Description | Total Receipt (Disbursement) |
|---------------------------|--|-------------------------------------|
| Grant No. FAI:GU-11-04 | | \$145,000.00 |
| Grant No. FAI:GU-11-03 | | 3,135,291.60 |
| Vendor 1 | Operations and maintenance work | (145,681.96) |
| Vendor 2 | Architectural and engineering services | (344,617.61) |
| Vendor 3 | Expansion and improvement work | (2,780,281.00) |
| Balance | | \$9,711.03 |

Appendix 6:**Disbursements Paid to the Administrator 1**

| Date | Description | Check No. | Amount |
|--------------|---|------------------|---------------------|
| 27-Jan-12 | Petty Cash | 1145 | \$500.00 |
| 9-Feb-12 | Acer Notebook & Bag for PC | 1150 | 519.99 |
| 17-Feb-12 | Petty Cash | 1151 | 500.00 |
| 27-Mar-12 | Petty Cash | 1154 | 500.00 |
| 28-Mar-12 | Petty Cash | 1155 | 1,500.00 |
| 1-Jun-12 | Petty Cash | 1157 | 1,000.00 |
| 11-Jul-12 | Petty Cash | 1160 | 1,000.00 |
| 17-Aug-12 | Petty Cash | 1167 | 1,000.00 |
| 17-Aug-12 | Unreadable | 1168 | 879.00 |
| 30-Aug-12 | Petty Cash | 1171 | 1,500.00 |
| 20-Sep-12 | Petty Cash | 1172 | 2,000.00 |
| 19-Oct-12 | JSU Per diem | 1175 | 1,105.00 |
| 15-Nov-12 | Air conditioner | 1177 | 1,029.00 |
| 15-Nov-12 | Petty Cash | 1178 | 2,000.00 |
| 13-Dec-12 | Petty Cash | 1180 | 2,000.00 |
| 9-Jan-13 | Petty Cash | 1181 | 2,500.00 |
| 14-Jan-13 | Petty Cash | 1182 | 1,000.00 |
| 1-Feb-13 | Per Diem | 1184 | 1,648.22 |
| 1-Feb-13 | Petty Cash | 1185 | 2,000.00 |
| 1-Feb-13 | Conference Registration Fees (To reimburse credit card) | 1187 | 250.00 |
| 11-Mar-13 | Petty Cash | 1188 | 2,500.00 |
| 11-Mar-13 | Office equipment / supplies | 1189 | 7,950.21 |
| 29-Mar-13 | Petty Cash | 1191 | 2,500.00 |
| 9-Apr-13 | Per Diem | 1192 | 2,261.70 |
| 7-May-13 | Petty Cash | 1193 | 2,500.00 |
| 24-May-13 | Petty Cash | 1195 | 2,500.00 |
| 31-May-13 | Petty Cash | 1196 | 5,000.00 |
| 24-Jul-13 | Petty Cash | 1199 | 5,000.00 |
| 27-Aug-13 | Petty Cash | 1203 | 5,000.00 |
| 10-Sep-13 | Petty Cash | 1204 | 6,000.00 |
| 27-Sep-13 | Petty Cash | 1207 | 5,000.00 |
| 30-Sep-13 | Church Truck | 1209 | 1,055.00 |
| 22-Nov-13 | Petty Cash | 1212 | 4,800.00 |
| 7-Jan-14 | Petty Cash | 1213 | 1,500.00 |
| 15-Apr-14 | Petty Cash | 1220 | 1,643.00 |
| 3-Sep-14 | Petty Cash | 1233 | 2,000.00 |
| 4-Sep-14 | Petty Cash | 1234 | 2,500.00 |
| 30-Oct-14 | Loan reimbursement | 1237 | 5,924.44 |
| 30-Oct-14 | Petty Cash | 1239 | 3,000.00 |
| 30-Jan-15 | Loan repayment | 1246 | 5,200.00 |
| 1-Apr-15 | Petty Cash | 1252 | 1,475.00 |
| 17-May-12 | Petty Cash | 1039 | 500.00 |
| 24-May-12 | Petty Cash | 1040 | 500.00 |
| 6-Nov-14 | Petty Cash | 1057 | 500.00 |
| 12-Dec-14 | Petty Cash | 101 | 500.00 |
| Total | | | \$101,740.56 |

Appendix 7:

Disbursements Paid to the Administrator 2

| Date | Description | Check No. | Amount |
|--------------|--------------------|------------------|--------------------|
| 1-Feb-16 | Reimbursements | 1257 | \$20,060.53 |
| 26-Feb-16 | Reimbursements | 1261 | 20,437.23 |
| 8-Apr-16 | Reimbursements | 1266 | 5,500.00 |
| Total | | | \$45,997.76 |

Appendix 8: Summarized Payroll Information

| Employee | Request for Personnel Action | | | | BBMR Sign-Off Date | Notification of Personnel Action from DOA | | | | Variance |
|--------------------------|------------------------------------|-----------|-------|---|--------------------|---|-----------|-------|------------------------|----------------|
| | Submission Dates | Per Annum | Grade | Title | | Effective Date | Per Annum | Grade | Title | |
| | A | | | | | B | | | | C = A-B |
| Employee 1 ¹³ | 9/22/15 | \$26,520 | H-01 | Planning Technician 1 | - | - | - | - | - | \$6,630 |
| | 3/8/16 | \$33,150 | H-07 | Planning Technician 1 | 3/22/16 | 4/20/16 | \$26,520 | H-01 | Planning Technician 1 | |
| Employee 2 ¹⁴ | 10/21/15, 12/10/15, 01/13/16 | \$17,769 | C-01 | Clerk | - | - | - | - | - | \$8,751 |
| | | \$23,171 | F-01 | Administrative Aide | - | - | - | - | - | |
| | 3/8/2016 | \$26,520 | H-01 | Service Representative | - ¹⁶ | 5/3/16 | \$17,769 | C-01 | Office Aide | |
| Employee 3 ¹⁴ | 12/2/15 | \$23,171 | F-01 | Administrative Aide / Clerk Typist 1 | - | - | - | - | - | \$8,751 |
| | 3/8/16 | \$26,520 | H-01 | Service Representative | - ¹⁶ | 5/3/16 | \$17,769 | C-01 | Office Aide | |
| Employee 4 ¹⁵ | 1/12/16 | \$26,520 | H-01 | Cemetery Worker | - | - | - | - | - | \$7,480 |
| | 1/12/16 | \$26,520 | H-01 | Cemetery Worker | 3/22/16 | 4/21/16 | \$19,040 | D-01 | Laborer | |
| Employee 5 ¹⁵ | 12/2/15 | \$23,171 | F-01 | Administrative Aide | - | - | - | - | - | \$7,480 |
| | 3/8/16 | \$26,520 | H-01 | Cemetery Worker | 3/22/16 | 4/21/16 | \$19,040 | D-01 | Laborer | |
| Employee 6 ¹⁵ | 12/2/15 | \$26,520 | H-01 | Cemetery Worker | - | - | - | - | - | \$7,480 |
| | 3/8/16 | \$26,520 | H-01 | Cemetery Worker | 3/22/16 | 4/21/16 | \$19,040 | D-01 | Laborer | |
| Employee 7 ¹³ | 1/27/16 | \$46,553 | K-10 | Administrative Officer | 3/22/16 | 4/20/16 | \$33,911 | K-01 | Administrative Officer | \$12,642 |

¹³ Ranked at lower pay grade by DOA despite justifications provided by the Administrator 2.

¹⁴ Hired prior to release of budget appropriation intended for the job implementation.

¹⁵ Job qualification issues, such as certain license is required for the position.

¹⁶ We did not find BBMR's approval sign-offs for these RPAs.



GOVERNMENT OF GUAM
DEPARTMENT OF MILITARY AFFAIRS
DIPATTAMENTON ASUNTUN MILITAR
430 Army Drive, Bldg. 300
Barrigada, Guam 96913-4421

RECEIVED

OFFICE OF PUBLIC ACCOUNTABILITY

BY: EDLYN DAUSA

DATE: 09/28/2016 (VIA EMAIL)

28 September 2016 TIME: 12:08 AM PM

Memorandum OVA16-08

To: Doris Flores Brooks, CPA, CGFM
Public Auditor, Office of Public Accountability

From: Brigadier General Roderick Leon Guerrero
The Adjutant General, Guam National Guard

Subject: Response to the Guam Veterans Affairs Office Non-Appropriated Funds
Follow Up Audit

Buenas yan Hafa Adai!

Thank-you for a through and detailed audit. I was not surprised of your findings and want to assure you that I have taken steps to improve the accountability of funds and record keeping.

Since I took over and took physical custody of the two checking accounts for the Veterans Affairs Fund and the Guam Veterans Cemetery Funds, checks have not been written from both accounts. Formally, I notified the signatories of the checking accounts to freeze the Veterans Affairs Fund and the Guam Veterans Cemetery Fund, this was done on September 26, 2016, until such time that internal controls are established to include adequate accounting infrastructure to safeguard the NAFs. A thorough assessment will be completed of the handling of these accounts with a suspense date of 90 days from 1 October 2016.

Once better record keeping is established, GVAO will determine if the NAF bank accounts and record-keeping should go to the Department of Administration (DOA). DOA may then facilitate review of receipts, review of disbursements prior to check disbursements (including petty cash replenishment), and preparation of bank reconciliation.

I am working on consolidating GVAO with Department of Military Affairs. Consolidating the two government of Guam agencies, will provide additional resources to GVAO and better manage the office.

Should you have any questions or concerns, please contact my office at 735-0406.

Dangkulo na si Yu'os Ma'ase!

Very Respectfully,



Roderick R. Leon Guerrero,
Brigadier General, Guam National Guard
The Adjutant General

Appendix 10:
Management Response – Department of Administration Page 1 of 4



Eddie Baza Calvo
Governor
Ray Tenorio
Lieutenant Governor

DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE
(Ufisinan Direktot)
590 South Marine Corps Drive
Suite 224, G1TC Building, Tamuning, Guam 96913
Post Office Box 884 * Hagåtña, Guam 96932
TEL: (671) 475-1101/1250 * FAX: (671) 477-6788



Christine W. Baleto
Acting Director
Joseph L.G. Rios, Jr.
Deputy Director

September 27, 2016

Ms. Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of Public Accountability
Suite 401, DNA Building
258 Archbishop Flores Street
Hagatna, Guam 96910

Håfa adai Public Auditor Brooks,

Transmitted herewith is the Department of Administration's Management Response to recommendations provided by the Office of Public Accountability under the Guam Veterans Affairs Office Non-Appropriated Funds Follow up Audit.

Should you have any questions, or wish to discuss the responses further, please feel free to contact me at my office 475-1250.

Si Yu'os Ma'åse'

Christine Baleto
Director

RECEIVED
OFFICE OF PUBLIC ACCOUNTABILITY
BY: EDWIN DALRYM
DATE: 9/27/16
TIME: 4:05 AM PM

Appendix 10:
Management Response – Department of Administration Page 2 of 4

DOA Management Response
GVAO NAF
Performance Audit – October 1, 2011 through May 31, 2016

Comment on Page 16 entitled "Significant Delays and Issues with Payrolls Processed by DOA": The report indicates the payroll for seven employees were delayed due GVAO's lack of understanding and compliance of DOA's Personnel Policies and Procedures. It also further states that there was a lack of active communication and follow-ups on the status of the Request for Personnel Action (RPA) between GVAO, DOA, and BBMR.

Response: Although we concur that there was a lack of understanding and compliance by GVAO, the issue regarding delays in processing wages were not due to a lack of active communication and follow-ups on the RPA. These individuals allege that they had been working since 2015; however, there were no GG1s actually submitted to either BBMR or DOA until March of 2016. Therefore, communication from either BBMR or DOA could not occur when no documents were submitted to effectuate employment. To be clear, there was no delay in payroll processing for this time frame since these individuals were not employees of the Government. According to our records, DOA received GG1s for these individuals in March 2016 and promptly processed their paperwork so that employment commenced in April 2016.

With respect to the issues cited, please note that GVOA submitted a GG1 for a Limited Term Appointment (LTA) above step 1. This is not permissible pursuant to 4 GCA § 6205. Please find attached a copy of the letter sent to the Administrator of GVOA which provides detailed justification why we are not able to process requests of above step recruitment.

Recommendations 1-5: DOA concurs with these recommendations and has recommended to the Administrator of GVOA; Department of Military Affairs; and the Governor's office that oversight and control of all accounting functions be transferred to the Department of Administration. DOA has the infrastructure and controls already in place to safeguard NAFs. We will be working with the various parties to determine the best course of action and implement these accordingly.

Appendix 10:
Management Response – Department of Administration Page 3 of 4



Edward Baza Calvo
Governor
Raymond S. Tenorio
Lieutenant Governor

GOVERNMENT OF GUAM
(GUBETNAMENTON GUÁHAN)
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)

HUMAN RESOURCES DIVISION
(Dibision Inadilanto Yan Guinaha Para Tactao)
Post Office Box 884 * Hagåtña, Guam 96932
TEL: (671) 475-1154/1186 * FAX: (671) 477-7100



Christine W. Baletto
Acting Director
Anisia B. Terlaje
Deputy Director

HRD NO.: OG16-317

APR 08 2016

MEMORANDUM

To: Administrator, Office of Veterans Affairs
From: Manager, Human Resources Division
Subject: **Review for Above-Step Recruitment**
RE: [REDACTED], **Administrative Officer**
[REDACTED], **Planning Technician I**

Buenas yan Háfa Adail! This is in reference to the Office of Veterans Affairs Limited Term Appointment Request for Personnel Action (GG-1's) received, March 28, 2016 to recruit for the above mentioned positions at an above-step.

Based on our review, the Department of Administration is unable to process the request to employ [REDACTED] as a full-time employee at an Above-Step Recruitment. The request is based upon the following authority:

- Title 4, Guam Code Annotated, Section 6205 relative to the ability of the Appointing Authority to petition the Department of Administration (DOA) for recruitment at a higher step not to exceed Step 10, because of recruitment difficulty or exceptional qualification.
- Chapter 6, Section 6.001 (a)(b), of the current Department of Administration's Personnel Rules and Regulation.
- CSC Resolution No. 95-02 relative to the above-step recruitment for initial employment.

Pursuant to 4 GCA § 6205 Recruitment Above-Step:

"Step 1 of the Pay Grade assigned to a classified position shall be the regular rate for initial employment in any department or agency. The appointing authority, or the head of an agency, department or public corporation listed in 4 GCA § 4105(a) may petition the Director of Administration, the Judicial Council (as to Judicial Branch employment) or the agency department or public corporation's governing board or commission (as to an agency, department or public corporation listed in 4 GCA §4105(a)) for recruitment at a higher step not to exceed Step 10, because of documented recruitment difficulty or exceptional qualifications. The petition shall be posted on the agency's website for ten (10) days (Saturdays, Sundays and government of Guam holiday excepted). This petition shall be made before an applicant is hired...."

The Department of Administration can only process the Limited Term Appointment (GG-1's) at Step 1 of the Pay Grade assigned to the classified positions at this time. If the Office of Veterans Affairs intends to move forward with the Above-Step Recruitment our office recommends that a request be made to the Department of Administration with a justification for an Above-Step Recruitment. The approval will be based on recruitment difficulty and/or

Appendix 10:

Management Response – Department of Administration Page 4 of 4

exceptional qualifications. In the event the Above-Step Recruitment is approved, transparency requirements must be done prior to employment (post on the media, radio stations, newspaper and your web-site). Please note in the event the Above-Step Recruitment does not comply with § 6303.1 the request is considered void.

In addition, should the Office of Veteran Affairs wish to request for an Above-Step Recruitment in the future; the request would have to be for filling a classified full-time position.

Should you require additional information, please contact the Human Resources Division, Recruitment Branch at 475-1263/1201. *Dangko na Agradesimiento!*


SHANE G.L. NGATA

| | |
|---|--------------------|
| <input checked="" type="checkbox"/> | Approved |
| <input type="checkbox"/> | Disapproved |
|  | |
| Christine W. Baletto, Acting Director Department of Administration | |
| Date: | APR 08 2016 |

Attachment

Appendix 11:
Status of Audit Recommendations

| No. | Addressee | Audit Recommendation | Status | Action Required |
|-----|-----------------------------------|--|--------|--|
| 1 | GVAO Commission and Administrator | Relinquish the NAF bank accounts and record-keeping to the DMA or DOA. DMA or DOA may then facilitate review of receipts, review of disbursements prior to check disbursements (including petty cash replenishment), and preparation of bank reconciliation. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |
| 2 | GVAO Commission and Administrator | Administer a nominal (i.e., no more than \$500) petty cash fund at GVAO properly segregating incompatible duties. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |
| 3 | GVAO Commission and Administrator | Immediately reconcile and submit reimbursement claims to USDVA for veteran burials from January 2015 as the two-year allowable filing period is fast approaching. Moving forward, the Commission, DMA, or DOA should institute a regular review monitoring procedure to ensure that burial reimbursement claims are accurately and timely processed. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |
| 4 | GVAO Commission and Administrator | Immediately notify the bank to correct the signatories and explicitly require at least two signatures on all NAF disbursements. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |
| 5 | GVAO Commission and Administrator | Prepare the required reports and post to the GVAO website immediately to comply with the law. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |
| 6 | GVAO Commission and Administrator | Establish fundamental internal controls at GVAO to improve checks and balances, accountability, and oversight on the NAFs. | OPEN | Please provide target date and title of official(s) responsible for implementing the recommendation. |



**Guam Veterans Affairs Office
Non-Appropriated Funds Follow Up
Report No. 16-07, September 2016**

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
Yuka Hechanova, CPA, CIA, CGFM, CGAP, CGFM, Audit Supervisor
Edlyn Dalisay, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

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