



# Office of Public Accountability

## A Report to the Citizens of Guam

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### Our Mission

To improve the public trust, we audit, assess, analyze, and make recommendations for accountability, transparency, effectiveness, efficiency, and economy of the Government of Guam independently, impartially, and with integrity.

### Our Vision

Guam is the model for good governance in the Pacific.

### Our Objective

To improve the audited entity's effectiveness, efficiency, and economy, and promote good governance.

### Our Goals

- Maintain independence.
- Deliver timely, reliable, and non-partisan reports.
- Advance staff competence.
- Increase public knowledge of OPA's mission and work.
- Build and improve relations with government entities.

OPA Hotline: 47AUDIT (28348)

For fraud, waste, abuse, citizen concerns, and audit requests, call the OPA Hotline or visit [www.guamopa.org](http://www.guamopa.org). All communications are held in confidence.

For Fiscal Year (FY) 2011

Issued August 2012

## “Auditing for Better Government”

Since the establishment of the Office of Public Accountability (OPA) in July 1992 by Public Law (P.L.) 21-122, the people and Government of Guam (GovGuam) have relied on OPA to ensure the effective and efficient administration, management,



and accountability of public funds. The Public Auditor and her dedicated corps of skilled professionals continue to work together with government agencies to improve their performance and ensure the transparency and accountability of government funds for the benefit of our island. OPA audits provide oversight, insight, and foresight into government activities and operations.

To achieve our mission, we:

- Endeavor to fulfill the highest standards of our profession and the expectations of the public to the best of our ability;
- Uphold the highest ethical standards in the performance of our work and encourage such standards throughout GovGuam;
- Commit to quality as the main principle governing our work;
- Perform our work with diligence, conscientiousness, and due professional care;
- Foster a partnership with our staff to enable them to reach their full potential and contribute to their growth and long-term success; and
- Work collaboratively with the entities that we audit and with the contracted auditors we employ so as to harmoniously develop improved financial controls.

## OPA Receives Full Compliance on Quality Control Review



Government Auditing Standards require an audit organization to undergo a quality control review every three years. OPA is audited by the members of the Association of Pacific Islands Public Auditors. In October 2011, OPA received its fourth full compliance rating since 2002 and for the first time, no management letter was issued. Full compliance rating is the highest rating for audit organizations. Additionally, OPA's operations are annually audited by independent auditors Deloitte and Touche, LLP.

# Progress in FY 2011

## Performance Audits

Performance audits are audits that improve the effectiveness and efficiency of government operations. Since 2001, OPA issued 121 performance audit reports, made 581 recommendations, and identified \$146.6 million (M) in financial impact. Financial impact refers to questioned costs, waste and abuse, lost or unreported revenues, un-reconciled accounts, and possible cost savings.

Calendar Year	Reports Issued	Recommendations Issued	Financial Impact
2011	12	39	\$ 14.5M
2010	9	37	\$ 22.6M
2009	7	6	\$ 1.4M
2008	10	28	\$ 9.7M
2007	18	51	\$ 24.3M
2006	19	76	\$ 20.9M
2005	9	49	\$ 6.2M
2004	14	91	\$ 16.4M
2003	10	77	\$ 26.8M
2002 & 2001	12	127	\$ 3.8M
<b>Totals</b>	<b>120</b>	<b>581</b>	<b>\$146.6M</b>

In 2011, OPA issued 12 performance audits that provided six oversight, four insight, and two foresight reviews. The 12 performance audits had 39 recommendations and identified \$14.5M in financial impact, which equates to a return on investment of 1,151% when compared to OPA's FY 2011 budget of \$1.3M.

## Financial Audits

Financial audits are a key element in assessing the overall performance and annual financial health of government entities to ensure the accuracy, completeness, and fair representation of the entity's operations.

Calendar Year	# of Reports	# of Findings	Questioned Costs
2011	19	40	\$ 0.8M
2010	18	47	\$ 0.2M
2009	18	70	\$ 3.1M
2008	18	88	\$ 3.3M
2007 & Prior Years	127	1,525	\$55.8M
<b>Totals</b>	<b>200</b>	<b>1,770</b>	<b>\$63.2M</b>

Of the FY 2010 financial audits issued in 2011, 14 agencies issued their reports within six months and only two component units had questioned costs. However, improvements are still needed as five agencies received qualified opinions on their compliance audits with 23 findings.

As the Government-Wide financial statement audit received clean opinions for the last five years, GovGuam must now strive for the issuance of a Comprehensive Annual Financial Reporting (CAFR) as required by the Guam Organic Act. A CAFR provides expanded information as to how government funds are expended.

## Procurement Appeals

The procurement appeals process is an expedited procedure to resolve protests about a solicitation or contract. For a vendor to come before OPA, the vendor must first submit the protest to the government agency and be denied relief by the agency. The goal of OPA is to resolve an appeal within 90 to 120 days of filing. To accomplish this, we strive to render a decision within 30 days after the formal hearing.

Calendar Year	Procurement Appeals Filed	Decisions	Dismissals
2011	21	13	8
2010	10	4	6
2009	12	5	7
2008	12	7	5
2007	11	7	4
2006	3	1	2
<b>Total</b>	<b>69</b>	<b>37</b>	<b>32</b>

Sixty-nine appeals have been filed with the OPA since the office was given this responsibility in 2006. In 2011, 21 procurement appeals were brought before the Public Auditor. Of the 21 appeals, 13 received decisions and eight were dismissed. Dismissals include stipulations, cancellations, and withdrawal of appeals. These numbered 16 out of the 32 dismissals. A stipulation is where the parties have come to a mutual agreement.

## OPA Expenditures

For FY 2011, OPA's total appropriation was \$1,263,866 and expenditures were \$1,185,571. Expenditures consist of salaries and benefits (73%), contractual services and training (12%), rent (9%), equipment and capital outlays (5%), and other (2%).

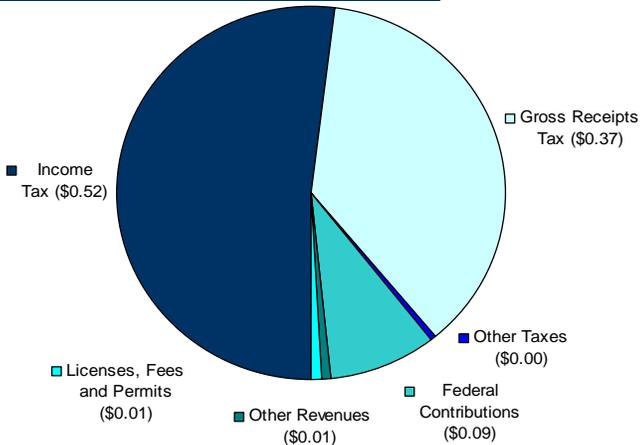
Expenses	FY 2011	FY 2010
Salaries and Benefits	\$ 867,384	\$ 774,041
Rent	\$ 102,594	\$ 94,856
Contractual	\$ 79,024	\$ 95,056
Training	\$ 58,265	\$ 50,842
Equipment	\$ 28,949	\$ 18,850
Capital Outlays	\$ 24,929	-
Travel	\$ 7,727	\$ 14,175
Supplies	\$ 7,214	\$ 10,560
Telephone and Utilities	\$ 5,333	\$ 6,304
Miscellaneous	\$ 4,152	\$ 3,662
<b>Totals</b>	<b>\$ 1,185,571</b>	<b>\$ 1,068,346</b>

Types of Decisions	Number of Decisions
Appeal Upheld (for the vendor)	16
Appeal Denied (for government)	15
Appeal Upheld in Part and Denied in Part	6
<b>Total</b>	<b>37</b>

# GovGuam's Finances

## General Fund Revenues - Where Did Our Funds Come From?

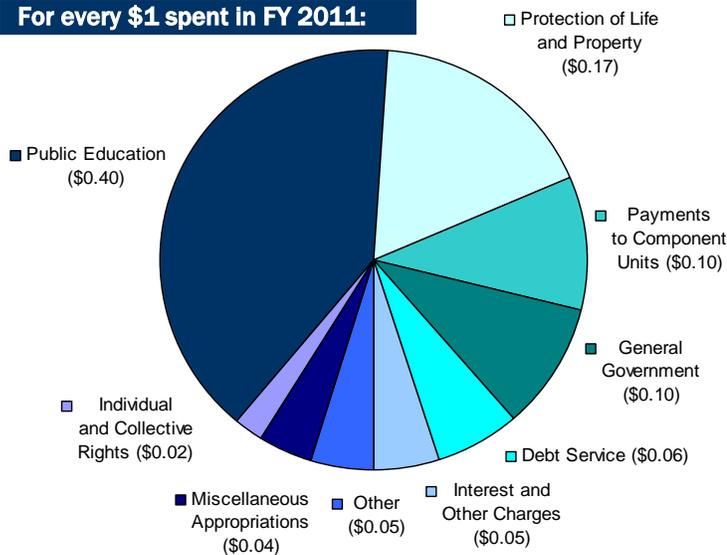
For every \$1 collected in FY 2011:



Revenues	FY 2011	FY 2010
Taxes:		
Income	\$ 282,409,535	\$ 239,251,660
Gross Receipts	\$ 200,047,641	\$ 188,621,364
Other Taxes	\$ 2,549,493	\$ 3,490,942
<b>Total Taxes</b>	<b>\$ 485,006,669</b>	<b>\$ 431,363,966</b>
Federal Contributions (Section 30 & Other Fees)	\$ 48,269,340	\$ 41,252,409
Use of Money and Property and Other Revenues	\$ 4,732,187	\$ 13,804,640
Licenses, Fees and Permits	\$ 4,542,485	\$ 4,546,349
<b>Total Revenues</b>	<b>\$ 542,550,681</b>	<b>\$ 490,967,364</b>

## General Fund Expenditures - Where Did We Spend It?

For every \$1 spent in FY 2011:



Expenditures	FY 2011	FY 2010
Public Education	\$ 183,078,429	\$ 204,166,004
Protection of Life and Property	\$ 79,138,045	\$ 78,943,168
Payments to Component Units	\$ 47,226,155	\$ 49,834,892
General Government	\$ 44,513,450	\$ 47,828,161
Debt Service	\$ 28,577,269	\$ 43,041,598
Interest and Other Charges	\$ 23,108,677	\$ 18,027,410
Other (Public Health, Recreation, Community Services, and Economic Development)	\$ 21,529,964	\$ 27,287,674
Miscellaneous Appropriations	\$ 18,636,819	\$ 19,411,979
Individual and Collective Rights	\$ 10,585,296	\$ 11,356,950
<b>Total Expenditures</b>	<b>\$ 456,394,104</b>	<b>\$ 499,897,836</b>
Net, Other Financing Uses (OFS)	\$ 133,053,738	\$ 62,137,020
<b>Total Expenditures &amp; OFS</b>	<b>\$ 589,447,842</b>	<b>\$ 562,034,856</b>

## Independent Audit

The FY 2011 GovGuam Financial Audit, issued nine months after year-end on June 30, 2012, resulted in an unqualified "clean" opinion from Deloitte and Touche, LLP. However, GovGuam continues to receive a qualified opinion on its compliance report. Eight out of ten audit findings were material weaknesses. There were \$41,790 in questioned costs, bringing the total unresolved questioned costs to \$1.4M dating back to FY 2007.

## Budget to Actual

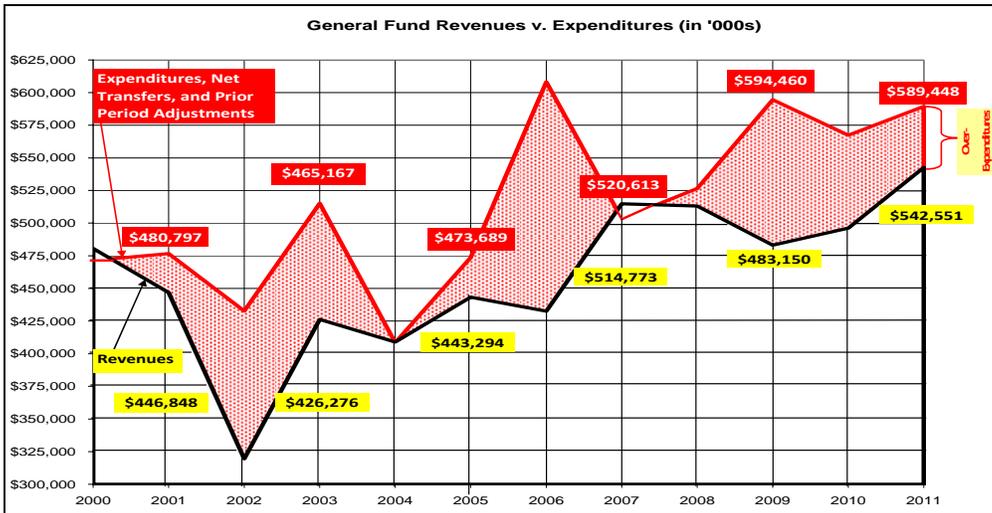
For the past decade, GovGuam's annual budget authorized deficit spending, meaning GovGuam planned to spend more than revenues brought in. The over-expenditure or shortfall must then be financed by borrowing money or not paying other obligations, such as tax refunds. **Note:** FY 2008 and 2009 do not include bond proceeds. FY 2004 and 2007 surpluses were due to audit adjustments from the overestimation of tax refunds.

FY	Final Budget	Actual
2002	\$ (28,026,184)	\$ (113,027,878)
2003	\$ (74,190,664)	\$ (88,890,973)
2004	\$ (10,059,815)	\$ 529,187
2005	\$ (49,702,187)	\$ (30,880,568)
2006	\$ (60,230,870)	\$ (157,736,441)
2007	\$ (36,354,139)	\$ 15,275,791
2008	\$ (103,787,398)	\$ (76,061,918)
2009	\$ (34,526,848)	\$ (132,368,319)
2010	\$ (71,458,660)	\$ (71,067,492)
2011	\$ (48,354,286)	\$ (46,897,161)

# Future Challenges and Outlook

## GovGuam Deficit

GovGuam continues to live beyond its means. For every \$1 GovGuam brought in revenues, it spent \$1.09. For FY 2011, GovGuam's expenditures of \$589.5M exceeded revenues of \$542.6M, resulting in a deficit of \$46.9M. The deficit occurred from an overestimation of revenues of \$17.3M, \$35.9M unbudgeted expenditures, and \$11.1M in other expenditures.



Reducing the deficit will require a combination of not just lower expenditures, but also enhanced revenues, and shoring up of revenue leakages. OPA's 2012 Audit Work Plan considers some of these initiatives such as a review of qualifying certificates and tax credits, Gross Receipts Tax exemptions, and comparison of real property tax rates.

## Antiquated Financial Management System

To garner a clean opinion for FY 2011, 27 audit adjustments were made. These adjustments are indicative of an accounting infrastructure in need of technical assistance and upgrade. While the audit was issued in accordance with law or nine months after year-end, nine months is far too long in today's online world. Over 3,800 governments and 40 states participate in the Government Finance Officer Association's Certificate of Excellence in Financial Reporting Program which require audits and CAFRs to be issued within six months after year-end. Our goal is to have GovGuam do the same.

GovGuam's antiquated financial management system has outlived its usefulness in today's modern technological world with the non-integration of the tax systems at Department of Revenue and Taxation with the Department of Administration (DOA), the manual inputting of tax returns, and manual operations for major areas such as capital improvement projects and inventory of equipment.

Receiving clean audits is just a starting point. Timely, useful, and accurate financial data is needed throughout the year to effectively manage government operations and to ensure that government funds are being provided to the right people, at the right place, at the right time, and for the right purpose.

## Staff Recruitment and Retention

The Public Auditor has stated that OPA staff is the most important asset. Staff define OPA's character and capacity to perform. Accordingly, the retention, recruitment, compensation, and promotion of staff continue to be our primary concerns. OPA faces difficulty in human resource management due to the bureaucratic and lengthy hiring process, and the low pay compensation package administered by DOA. The Public Auditor has requested that OPA staff be allowed overtime as other professionals such as nurses, police officers, and firefighters.

## Procurement Advisory Council

P.L. 31-93 established the Guam Procurement Advisory Council to improve, address, and modernize government contracting. Council membership includes the Public Auditor.

## Give Us Your Opinion

Please tell us what other information you would like in this report by contacting Joy Bulatao at 475-0390 ext. 216 or [jbulatao@guamopa.org](mailto:jbulatao@guamopa.org); or Jerrick Hernandez at ext. 203 or [jhernandez@guamopa.org](mailto:jhernandez@guamopa.org).