



# Office of the Public Auditor

Budget Presentation  
28th Guam Legislature  
Fiscal Year 2007



# Mission Statement

- We audit, assess, and analyze government activities with integrity, independence and impartiality to improve the accountability, effectiveness, and efficiency of the Government of Guam.
- Our motto is “*Auditing for Better Government*”



# Mission Statement cont.

- We seek to serve the public interest by providing the Governor, the Legislature and the people of Guam with reliable and unbiased analysis and recommendations to improve government operations in support of the fiscal well being of our island and our people.



## Year 2005 in Review

Nine audits and analyses were completed in calendar year 2005. These audits identified over \$8 million in waste, abuse, misspent expenditures and forgone revenues. These audits made 49 recommendations to improve the accountability and operational efficiency of the audited entities.



# Audits Completed in CY 2005

- Guam Fire Department Emergency Procurement of Fire Trucks (Legislative Mandate)
- Guam Council on the Arts and Humanities Non-Appropriated Funds (Accountability)
- Guam Economic Development and Commerce Credit Card Charges and Travel Expenditures (Investigative)
- Dededo Mayor's Non-Appropriated Funds (Accountability)
- Implementation of Salary Increments (Analysis)



# Audits Completed in 2005

- Government of Guam Leases (Analysis)
- Port Authority of Guam Goodwill and Morale Association (Investigative)
- Superior Court of Guam Judicial Building Fund (Accountability)
- Chamorro Land Trust Commission Non-Appropriated Funds (Accountability & Compliance)



# Audits Completed in 2005

- Guam Fire Department
  - Legislature waived all procurement regulations for the purchase of three fire trucks for \$735K
  - GFD Fire Chief did not disclose the Court Injunction GFD was under in a previously failed emergency procurement for fire trucks
  - Legislature urged not to waive procurement regulations for any purchase



# Audits Completed in 2005

- Judicial Building Fund
  - JBF expenditures of \$999,730 not in compliance with procurement regulations
  - JBF expenditures of \$3M not approved by Judicial Council
  - Budget over expenditures by line items and over expenditures of \$176,550 in one year
  - Lobbying expenditures of \$564,039
  - Lost rent revenue of \$245,553 to Court Employees' Association



# Audits Completed in 2005

- Chamorro Land Trust Commission
  - Licenses to use government lands issued to private businesses at less than 16 cents per sq. meter per year for 1,474,936 sq. meters
  - Licenses issued without any guidelines or regulations resulting in favorable terms and conditions to some businesses
  - Uncollected revenues of \$420,345 due to lack of monitoring system
  - \$221,589 in improper procurement



# Audits Completed in 2005

- Chamorro Land Trust continued
  - Foregone revenue of \$89,550 plus allowed licensee to retain 50% proceeds of \$104,027
  - Paid \$72,970 on defaulted loan yet borrower continues to live on land without any repayment to the Commission
  - Lacked a system of monitoring loan guarantees of over \$6.5M
  - Annual financial information not reported to Legislature



# Audits Completed in 2005

- GEDCA Credit Card Charges and Related Travel
  - Questionable and abusive charges of \$206,549 by key members of management
    - Chief Financial Officer-\$106,174
    - Business Development Director--\$48,567
    - Special Projects Coordinator--\$31,742
    - Finance & Administration Director--\$16,030
    - Business Development Manager--\$4,036
  - Business class travel of \$115,858 allowed
  - Expenditures of \$17,598 lacked documentation



# Audits Completed in 2005

- Dededo Mayor's Non-appropriated Funds
  - \$1.3 million in lost revenue for failing to charge the mandated \$20 vendor fee permit, charged only \$10 fee
  - \$314,807 of procurement exceptions
  - Revenues of \$659,000 not reported to the Legislature
  - \$134,000 of un-reconciled cash collections



# Audits Completed in 2005

- Government of Guam Leases
  - Office space leased by 45 government entities was 390,355 sq. ft for \$6,581,091 annually
    - 151,408 sq.ft. or \$1.50 sq. ft. with utilities
    - 178,078 sq. ft. or 92 cent sq. ft. without utilities
    - No minimum requirement as to what should be paid as common area costs
  - Legislature urged to initiate long term plans to acquire and build facilities to house government entities



# Audits Completed in 2005

- Port Goodwill and Morale Association
  - Un-supported payments of \$22,691 to officers
  - Un-supported payments of \$11,059 to members
  - Unallowable expenditures of \$6,567
- Guam Council of Arts and Humanities
  - \$53,564 of expenditures made without Board approval
  - \$10,414 of undocumented expenses



# Audits Completed in 2005

- Government of Guam Salary Increments
  - \$12.3M to restore salary increments government wide
  - \$4.7M for line entities of which \$3.7M for one-step increment and \$1M for multiple step increments
  - \$4.3M for autonomous entities except GMH
  - \$2.5M for GPSS
  - \$761K for Judicial Branch



# Fraud, Waste and Abuse Identified by OPA since 2001

- \$ 8M in 2005
- \$26M in 2004
- \$20M in 2003
- \$ 9M in 2001 and 2002
- \$63M
- Waste & abuse, possible fraud, lost revenue opportunities identified by OPA audits



# Financial Audits

## Improvements in 2005

- 1 GCA 1909(a) requires all financial audits to be issued by June 30 (9 months after year end)
- Federal Single Audit deadline is also June 30
- We reviewed, analyzed, and expanded upon 26 financial audits of autonomous agencies and the General Fund that identified \$2.1 million in questioned costs with 236 audit findings
- Questioned costs declined significantly from \$13.1M in CY 2004



# Financial Audits

- The General Fund audit was issued July 30<sup>th</sup> just one month past the due date and the earliest issuance thus far
- General Fund questioned costs were \$514,486, the lowest in over five years
- DOA resolved \$17M in prior year questioned costs; balance of questioned costs is \$25.1M of which \$12.5M FEMA related typhoon expenditures
- GMH and GVB only entities unable to issue timely audits with FY 2004 audit still outstanding<sup>18</sup>



# General Fund Audit

- General Fund audit now reflects \$848M in capital assets, accumulated depreciation of \$157M for net capital assets of \$691M
- EITC Liability of \$60M recorded
- Liability of \$17M to close Ordot dump reflected
- Audit opinion has only three qualifications
  - Two component units not included GMH & GVB
  - Inability to verify the sufficiency and accuracy of tax related balances provided by DR&T



# Financial Audits Results

- Over the past 4 years we have seen improvement in the audits with lower questioned costs and fewer audit findings. However the Government's Deficit of \$313M has yet to be addressed
- CY 2005
  - \$2.1M Questioned Costs
  - 236 Audit Findings
  - Management Letter—21 Findings



# Financial Audits Results

- CY 2004
  - \$13.1M Questioned Costs
  - 485 Audit Findings
  - Management Letter—29 Findings
- CY 2003
  - \$22M Questioned Costs
  - 260 Audit Findings
- CY 2002
  - \$10M Questioned Costs & 181 Audit Findings



# Deterrence Factor

- Based on our audits four government officials entered into plea agreements, two found guilty at trial, two were re-indicted and awaiting trial, and three were indicted and awaiting trial
  - GMTA Director & GIAA Deputy Director entered into plea agreements for credit card abuse
  - Former Asst. Recreation Administrator entered into plea agreement for misapplication of entrusted funds



# Deterrence Factor

- Former Deputy Director of CLTC entered into plea agreement for official misconduct and misapplication of entrusted funds
- Former Deputy Director of GMTA convicted of fraudulent use of a credit card and official misconduct
- Former GIAA Executive Manager convicted of fraudulent use of a credit card and official misconduct. Case pending motion to void the jury's verdict



# Deterrence Factor

- Former Retirement Director initial indictment dismissed; subsequently re-indicted for theft by deception, conspiracy and official misconduct, awaiting trial
- Former Governor of Guam initial indictment dismissed; subsequently re-indicted for theft by deception, conspiracy and official misconduct, awaiting trial
- Former Governor's Chief of Staff indicted for theft by deception, conspiracy and official misconduct, awaiting trial



# Deterrence Factor

- Former GMH Deputy Administrator indicted for official misconduct and improper influence over notary, awaiting trial
- GMH employee indicted for official misconduct and unlawful exercise of notary function, awaiting trial



# Deterrence Factor

- Greater awareness, accountability and transparency among government entities except those small entities with checking accounts
- Mayors of Guam generally reporting non-appropriated funds financial activities
- The effect of the deterrence factor is reflected in the decline in HOTLINE tips as well as more timely resolutions and follow-up



# OPA Website

- OPA Website [www.guamopa.org](http://www.guamopa.org) provides the public accountability and transparency by allowing access to all OPA audit reports and financial audits of government entities
- Each year more people access the website. In 2005 we received 144,782 recorded hits , a 59% increase over 2004 & the largest number thus far.
  - 91,220 hits in 2004, a 35 % increase from 03
  - 67,556 hits in 2003, a 94% increase from 02
  - 34,750 hits in 2002



# Audits in Progress

- Review of Special Revenue Funds
- Credit Cards: GVB & GHURA
- Office of the Public Guardian Trust Funds
- Emergency Procurement & Declaration by Executive Orders & Emergency Certificates
- Department of Parks & Recreation Follow up
- Department of Administration Returned Checks Follow up
- Review of Stale Dated Checks



# Auditing for Better Government

- For the first three years OPA audits focused on uncovering waste and abuse and possible fraud and we will continue to focus resources to these areas
- In our fourth and fifth years we performed accountability and internal controls audits and analysis of programs
- In our 6th year we will continue our core accountability, compliance and investigative audits and conduct follow up reviews of past audits and implementation of recommendations



# Strategic Goals

- Enhance recruitment practices, training programs, and retention methods so that OPA may achieve broader skill sets in order to conduct other types of audits and analysis
  - Secure funding levels to expand staff capacity
  - Expand quality and diversity of staff to include non-accounting backgrounds such as public administration, political science, management, finance, economics, international business etc.
  - Enhance training opportunities



# Strategic Goals

- Seek Federal Grants for Training
- Government Auditing Standards require staff to have 40 hours of Continuing Professional Education annually
- Increase the variety of audits to include a mix of economy and efficiency, descriptive, program, compliance, analysis as well as investigations of possible fraud, waste and abuse
  - Develop Annual and Three-Year Work Plan
  - Obtain feedback from elected officials



# Strategic Goals

- Encourage timely Implementation of OPA Recommendations
  - Communicate preliminary findings to auditee during fieldwork
  - Develop concise recommendations that can be implemented
- Increase visibility of OPA HOTLINE



# Additional Responsibilities

- The Legislature has passed over 28 laws affecting and expanding the role of OPA
- Procurement Appeals Hearing Officer
- Coordinator for Ethics training for elected and appointed public officials
- Independent observer—Privatization of GWA (GTA privatization completed)
- Determination and certification of de-appropriation of funds by departments who fail to meet legislative reporting requirements



# Additional Responsibilities

- High Risk Monitoring of Federal Grants of the Guam Public School System
- Reporting center for certain funds
  - Emergency declaration expenditures
  - Typhoon expenditures
  - Mayors' non appropriated funds—quarterly
  - Veterans Affairs donations—quarterly
  - GPD Asset Forfeiture Fund—annually
  - Guam Football (Soccer) Federation and Guam Baseball Federation—annually



# Additional Responsibilities

- Biennial compliance audit of Public Market Revolving Fund and triennial audit of GPD Asset Forfeiture Fund



# Investigative Section

- We hired our first investigator in May 2004 to handle our HOTLINE tips and to follow up and coordinate our audits with the Attorney General's Office for indictment & prosecution
- Until recently, Guam was one of the few Pacific Public Auditors' Office that did not have an investigative section



# HOTLINE Tips

- Prior to 2004, OPA staff addressed over 40% of our HOTLINE tips and concerns. In 2004 our investigator addressed over 80% of HOTLINE tips and concerns. In 2005 we experienced the lowest number of HOTLINE tips ever or 116.
- The drop in HOTLINE tips can be attributed to the deterrence factor where more government workers have entered into plea agreements or found guilty at trial and government employees are becoming more aware that wrong actions have consequences.



## HOTLINE Tips

- We received 743 HOTLINE items
  - 2005—116
  - 2004—175
  - 2003—144
  - 2002—145
  - 2001—163



# Training Grant

- Working with DOI OIG we applied for and received a \$152,350 reimbursable training grant from DOI Office of Insular Affairs for auditor and investigator training at DOI Office of the Inspector General. Training grant to end Sept. 30, 2006
- A second reimbursable training grant for \$140,000 was submitted to DOI OIA and awaiting approval
- Three staff attended the IG Academy for basic non investigator training at Glynco



# Training Grant

- Three staff received 8 weeks on-the-job training at DOI IG Albuquerque office
- Five staff received training to become Certified Government Financial Managers
- Five staff attended training sponsored by the Guam Society of CPAs and AGA
- Two staff scheduled for on-the-job training at DOI IG Lakewood office for 8 weeks, Feb. 2006
- Investigator scheduled for on-the-job training at DOI IG Sacramento office for 6 weeks, Feb. 2006



# Staff Composition

## Staff of 16

- 3 Certified Public Accountant and 1 CPA candidate awaiting license and 1 CPA candidate
- 1 Certified Internal Auditor and 3 CIA candidates
- 1 Certified Fraud Examiner
- 2 Certified Government Financial Manager & 2 CGFM candidates
- 1 MBA, 1 Master of Organizational Management & 1 Master of Accountancy
- 5 Non-accounting majors – political science, public administration, finance & economics, intl. bus.



# Staff Turnover & Retention

- In Jan. 2005 we lost one experienced senior auditor and was unable to replace that person until August 2005
- From the initial staff of 8 recruited in 2001 only one individual remains. Staff turnover has been a continuing problem for several years. Other government agencies and private business have lured staff with higher salaries
- Mixed blessing—we lose good people but agencies are improved internally



# Staff Retention

- Local CPA firms and autonomous agencies continue to provide higher salaries to staff
- We lost six employees in the past several years mainly due to higher salaries
- OPA salaries must remain competitive if we are to retain staff for which hundreds of hours of training have been invested in their professional development



# GovGuam Audit Spending

- GovGuam spends less than 3 tenths of 1 percent of total revenues for audits or \$2M, \$1M for financial audits and \$950K for OPA
- With a FY 2005 appropriation of \$868,132 we identified nearly \$9M in waste, abuse, improper procurement and lost revenue opportunities in 2005



# Funding OPA Provides Return on Investment

- DOI Deputy Asst. Secretary David Cohen stated treatment of territories Public Auditors will be a factor in determining discretionary DOI grants. The more funds and independence to OPA, the more federal grants for Government of Guam.
- Discretionary capital improvement grant funding for Guam increased from \$1.3M to \$3.4M
- Modest increases in OPA funding provides for more audits that increase accountability and transparency, identifies waste and abuse, possible fraud, loss revenue opportunities, potential savings, and increases operational efficiency & effectiveness.



# Future Audits Planned

- When selecting audits we apply a risk based approach to audit selection, identifying those areas that have the highest risk of loss or mismanagement of funds.
- High risk areas have been small entities that have checking accounts. OPA audits of entities with checking accounts have consistently shown a lack of understanding of the importance of internal controls, checks and balances, lack of monitoring and oversight, improper procurement and lack of financial reporting.



# Future Audits Planned

- We give priority to requests for audits from elected and public officials and issues from our HOTLINE.
- We welcome the Legislature's and the Governor's input in areas that they suggest should be audited or analyzed.
- Audit of Leave Sharing Program
- Review of Medically Indigent Program
- Audit of Credit Cards at the Judicial Branch
- Audit of Customs & Quarantine Operations



# Futures Audits Planned

- Ancestral Lands Commission checking accounts
- Chamorro Land Trust Commission residential and agricultural leases
- Follow up of GPD Asset Forfeiture Fund and Evidence Security
- Vehicle Inventory and compliance with P.L. 28-90 requirement that government vehicles be publicly identified
- Procurement audit of Guam Public School System



# Increase in Appropriation

- FY 2006 Budget Appropriation of \$950,000 allowed OPA to increase our staff to 16. However the 16<sup>th</sup> position has not been fully funded.
- We again express our heartfelt appreciation and thank you to the Legislature for its support of OPA.
- The Legislature also appropriated \$100,000 for the new Procurement Appeals Function to be conducted by OPA.



# FY 06 Appropriation

• Salaries & Benefits	\$871,281
• Rent & Janitorial	\$ 76,500
• Contractual	11,000
• Supplies & Equipment	2,000
• Travel	4,000
• Telephone	6,000
• Other	<u>1,614</u>
Total (+\$22,395 2005 carryover)	\$ 972,395



# FY 2007 Budget Request

- We request a budget of \$1,105,000, an increase of \$155K from our FY 2006 appropriation of \$950K.. This would allow OPA a staff of 16 fully funded and one special projects coordinator.
- For FY 2004 & 2005 our budget remained constant at \$868,132 then increased to \$950K in FY 2006.
- By comparison the CNMI OPA has a budget of \$2,228,602 with a staff of 31.



# FY 07 Budget Request

• Salaries & Benefits	\$ 975,500
• Rent & Janitorial	76,500
• Contractual	26,000
• Supplies	4,000
• Equipment	6,700
• Travel	6,000
• Telephone & water	8,650
• Other	<u>1,650</u>
Total	<u>\$ 1,105,000</u>



# Procurement Appeals

- \$100,000 was appropriated for the Procurement Appeals Function. The designation of OPA as Procurement Appeals Hearing Officer is an indication of the integrity of OPA. We are humbled by the confidence the Legislature has bestowed upon us and will endeavor to ensure a fair and balanced playing field for all appeals.
- An Attorney IV has been hired to begin March 1, 2006. The initial duties of the Attorney are to develop rules and regulations that will govern the appeals process so that appeals may begin.



# Procurement Appeals cont.

- Attorney will also serve as legal counsel to OPA and could initiate civil action to compel implementation of OPA audit recommendations.
- We plan to conduct procurement training and ethics for all government employees involved in procurement.
- Long term goal—update procurement rules and regulations and law so that Guam's procurement function is brought into the 21<sup>st</sup> century.



# FY 06 Appropriation Procurement Appeals

• Salaries & Benefits	\$82,000
• Contractual	3,600
• Rent	5,800
• Equipment	6,300
• Supplies	1,000
• Other	<u>1,000</u>
• Total	\$100,000



# Procurement Appeals

## FY 2007 Budget Request

- Procurement officer/OPA Legal Counsel will begin March 1, 2006. As a result we estimate \$13K carryover to 2007. Therefore we request a budget of \$105,000 or a \$5,000 increase from FY 2006 appropriation of \$100,000.



# FY 2007 Budget Request Procurement Appeals

• Salaries & Benefits	\$104,500
• Rent	8,600
• Contractual	3,900
• Supplies and Other	2,000
• Sub-Total	\$118,000
• Estimated carryover from 06	<u>13,000</u>
• Request	\$105,000



# FY 2006 Budget Comparison

## CNMI

Total Gov Revenues -

Budget - \$2.2 million

Staff- 31( 18 in audit, 5  
investigators, 3 in compliance,  
2 legal, 2 admin. & PA)

PA Salary \$100,000

Formula: 1% Tot. Gov Rev/\$1  
million base

Financial Audits paid by agencies

## Guam

FY 04 Total Govt. Revenues - \$1.2  
billion, autonomous entities  
\$567M

General & Special Rev. Funds -  
\$658 million

Budget Actual - \$950K Audit &  
Investigation + \$100K  
Procurement Appeals

Staff - 17 (13 in audit, 1  
investigator, 1 admin, 1  
attorney & PA)

PA Salary - \$100,000

Formula: None

Financial Audits paid by  
autonomous agencies