



EXECUTIVE SUMMARY
Government of Guam Coronavirus Relief Fund Expenditures-Part I
Report No. 20-08, November 2020

We initiated this performance audit of Coronavirus (COVID-19) Relief Fund (CRF) Expenditures in response to the public’s concern over questionable COVID-19 related expenses. Additionally, Public Law (PL) 35-86, which became law in May 2020, mandated the Office of Public Accountability (OPA) to conduct semiannual audits of all expenditures associated with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This report is Part I of a series of reports and primarily focuses on the CRF processes and the Government of Guam’s (GovGuam) CARES Act budget (Spending Plan).

Our audit found that GovGuam generally followed the policies and procedures provided by the CRF Guidance for State, Territorial, Local and Tribal Governments (herein referred to as “Guidance”). This is relative to the eligibility, necessity, and reasonableness of approved budgeted expenditures in the government’s response to the COVID-19 pandemic. Additionally, the Spending Plan allocation of funds to agencies was generally based on the criteria of eligible expenditures outlined in the Guidance. However, our initial review of the Spending Plan and the supporting documents found that: a) GovGuam lacked specific processes and control activities for the CRF; b) certain approved budget amounts lacked pertinent information and exceeded agencies’ request (\$12.2 million (M)); and c) some approved budgeted expenditures are questionable based on their description and/or cost in the Spending Plan (\$25M).

GovGuam’s Spending Plan Followed Policies and Procedures in the Guidance

Generally, GovGuam followed the policies and procedures in formulating its Spending Plan for \$118M from the CRF. Approved budgeted expenditures were following the eligibility, necessity, and reasonableness outlined in the Guidance. However, GovGuam lacked written specific processes and control activities for the CRF.

GovGuam Lacked Written Specific Processes and Control Activities for the CRF

According to the Standards for Internal Control in the Federal Government, control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Proper controls should be in place for various processes to mitigate the risks of fraud.

GovGuam through the oversight of the Department of Administration (DOA) and Bureau of Budget and Management Research (BBMR) lacked written specific processes and control activities to govern the CRF, which include approvals, authorizations, verifications, reviews of operating performance, security of assets (i.e. purchased and donated supplies, inventories, and fixed assets), and segregation of duties (i.e. person requesting for the release or modification of allotments is different from the person approving them). Some categories of these control activities are proper execution, accurate and timely recording, review, and bank reconciliation, control and disposition of beneficiary’s return checks, and appropriate documentation of transactions including reversal or reclassification of accounting entries.

According to the DOA Director, existing internal control for accounting transactions is applied to the CRF, and according to the BBMR Director, the acceptance of COVID-19 funds come along with policies and procedures provided by the Guidance and they follow the existing internal controls.

Criteria in Spending Plan Fund Allocation to Agencies Followed the Guidance

BBMR formulated the Spending Plan generally based on the criteria of eligible expenditures outlined in the Guidance. However, our initial review of the Spending Plan and the supporting documentation found that certain approved budget amounts lacked pertinent information, exceeded agencies' request; and some are questionable based on their description and/or cost as reflected in the Spending Plan.

Certain Approved Budget Amounts Lacked Pertinent Information

Our review of documents provided by BBMR in the Governor's response to a Senator's request for clarification and justification on the Spending Plan noted that some approved budget amounts lacked pertinent information such as: a) a breakdown or had an insufficient breakdown; b) brief details of budgeted expenditures; and c) without agency request, and exceeded agency request. These approved budget amounts ranging from \$46 thousand (K) to \$7M were for seven agencies, while those for \$47M were for public and business assistance (\$40M) and farmer emergency relief (\$5M).

Per BBMR Director, they were aware that input from a few government departments and agencies included proposed expenditures without a detailed breakdown of the expenses. However, per BBMR, the input the agencies provided was to determine their budget estimates for the anticipated COVID-19 requirement. The disbursement or allotment is dependent on the actual expenses with appropriate documentation to support the release of funds.

Certain Approved Budget Amounts Exceeded Agency's Request

Certain approved budgeted expenditures reflected amounts exceeding the agency's requests. Excesses, ranging from \$875K to \$6M or a total of \$12.2M, were not supported with a clear description of expenses nor with details of a cost estimate. BBMR Director stated that they included the amounts exceeding the government entity's official request based on the request and recommendation of the fiscal management team and approval of the Governor. According to him, there are government entities, which received additional funds for the programs and any unused funds could be identified for reprogramming to assist other program area funding shortfalls.

Approved Budgeted Expenditures Appeared Questionable in Description and/or Cost

Certain approved budgeted expenditures amounting to \$12M appeared questionable as to the nature of the expenses to satisfy the funds' eligibility criteria. Some of these did not have description, descriptions are vague and in general terms or cannot be associated with response to mitigate the effect of the pandemic. Projected costs of certain approved budgeted expenditures totaling \$877K appeared unreasonable due to either the absence of a clear definition of the expenses or the absence of a breakdown with quantity and unit costs and cost estimates. Moreover, budget amounts, particularly costs to improve record-keeping and online tax filing and financial reporting system amounting to \$12M and those categorized "to improve telework capabilities" for \$124K appeared questionable as to their descriptions and/or costs. Overall, questionable budgeted expenditures in these categories amounted to \$25M.

BBMR Director stated that due to time constraints imposed to formulate a COVID-19 budget these estimated cost amounts are based on agencies' requests. He further stated that although the requested dollar amounts are deemed questionable, all proposed expenditures requested were for COVID-19

related purposes. According to him, these amounts were used for budgeting purposes, were not verified by BBMR, and were used as good faith estimates.

Per BBMR Director, the CARES Act budget was prepared at the direction of the fiscal management team based on the input and discussions with agency heads and approved by the Governor who has full discretion on the use of funds. Additionally, he stated that the budget approved by the Governor is neither fixed nor inflexible and therefore can be reprogrammed or reallocated at the Governor's discretion.

Required COVID-19 Monthly Expenditure Report Not Satisfactorily Complied

Guam Public Law No. 35-86, which became effective May 2020, required that Governor submit a report to the Speaker of the Guam Legislature, all COVID-19 expenses within 20 days after the close of each calendar month. Executive Order 2020-13 issued also in May 2020 likewise stated the same *monthly* reporting requirement to be submitted to the Legislature. This reporting requirement had not been complied with as of July 31, 2020. BBMR, however, submitted to the Guam Legislature the Federal Stimulus and Assistance Update for CARES Act and COVID-19 Programs Report as of May 14, 2020 and July 31, 2020. This report was presented on *year to date basis without details of* expenditures, thus did not satisfactorily comply with the reporting requirement. Subsequently, on October 7, 2020, DOA submitted to the Guam Legislature COVID-19 expenditure report as of August 31, 2020, which generally reflected total expenditures per agency.

GovGuam Spent \$34.9M (30%) of the \$118M CRF and \$661.4M (70%) of the \$949.1M Federal Grants Received

As of July 31, 2020, GovGuam had already spent a total of \$34.9M or 30% of its CARES Act Budget of \$118M. Additionally, it spent \$661.4M (70%) of the total \$949.1M received from the US Treasury and other federal grantors.

Conclusion and Recommendations

We recognize the administration's enormous task of ensuring the health and safety of the people of Guam from the COVID-19 pandemic as well as its diligence in working towards Guam's economic recovery. We understand that in the short amount of time to spend the CARES Act funds, drafting specific controls and putting them in place to ensure appropriate spending may not be of utmost priority. However, due to the substantial amount of taxpayer's money allocated to respond to the COVID-19 pandemic, it is highly important to establish mechanisms to provide safeguards and reasonable assurance that federal funds are used for the intended purposes, help ensure program integrity, and address fraud risks. Additionally, compliance with the mandated monthly COVID-19 expenditure report would assure full transparency and accountability. We therefore recommend:

1. DOA Management to design and implement control activities by adopting written policies and procedures specific for the CRF and other financial assistance, if possible sooner, or moving forward.
2. DOA and BBMR Management to satisfactorily comply with the monthly reporting requirement for all COVID-19 expenditures.

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