



Government of Guam FY 2011 Compliance Highlights

July 5, 2012

The Government of Guam's (GovGuam) Fiscal Year (FY) 2011 Single Audit Reports on Compliance and Internal Controls remain problematic. GovGuam has received qualifications on its Single Audit since FY 1991, our earliest records on file. Independent auditors Deloitte and Touche, LLP rendered a qualified opinion on five of the twelve major programs. There were 10 findings, eight of which were material weaknesses. Among the material weaknesses were the lack of capital assets reconciliation, no inventories of equipment purchased, ineligible applicants in the Temporary Assistance for Needy Families (TANF) and Medicaid programs, the Department of Administration's (DOA) inability to timely close its books, lack of follow-up of tax receivables such as excise taxes, and an incompatible tax scanner.

On the other hand, the amount of questioned costs was \$41,790 in 2011, compared to just \$3,734 in 2010. However, there were no questioned costs in 2009.

Federal Program Funding

GovGuam and its line agencies expended \$270.3 million (M) in federal awards from 14 grantor agencies. An additional \$99.4M was from the U.S. Department of Education (DOE), of which \$85.9M was previously reported in Guam DOE's FY 2011 financial audit.

Of the 14 grantor agencies, the largest amount of grants came from the Department of Agriculture for \$116.3M, of which \$105.4M was for the Supplemental Nutrition Assistance Program (Food Stamps). The next largest grantor was the Health and Human Services at \$51.5M for the various welfare programs, such as Medicaid at \$14.8M and TANF at \$4.8M. The third largest grantor was the Department of Transportation for \$49.6M, of which \$37.1M is for Highway Planning and Construction.

Single Audit Findings

Ten findings were identified in the Single Audit, eight of which were material weaknesses. Among the eight material weaknesses are:

- **Eligibility (2011-02).** For the past 12 years, the Department of Public Health and Social Services has not utilized the Income Eligibility Verification System (IEVS) to determine income and resource eligibility of its welfare program applicants. Specifically, several applicants in the TANF and Medicaid programs were ineligible due to the lack of required documentation (i.e., work registration, school records, social security cards, consistent names of household members, renewal application, etc.). In several instances, the calculated gross household income exceeded the allowable ceiling or the maximum

60-month benefit period. These exceptions resulted in questioned costs of \$13,786 for TANF and \$28,004 for Medicaid.

- **Fixed Assets (2011-05).** As the number of capital projects increased significantly over the past several years, GovGuam continues to struggle with recording and maintaining these fixed assets as the systems are manual. Specifically, three projects were initially recorded as Construction Work in Progress: Layon Landfill (\$22.2M), Southern Region Health Center (\$640 thousand), and Northern Region Pool Complex (\$2.1M), which resulted in an understatement of capital assets prior to the proposed audit adjustments. This occurred due to the government's antiquated financial management systems which do not interface between DOA and the Department of Public Works, coupled with lack of personnel.
- **Post-Closing and Fund Balance Adjustments (2011-06 and 2011-07).** Due to GovGuam's antiquated systems, DOA is unable to close its books timely. FY 2011's books closed nearly eight months after year-end, resulting in numerous post-closing adjustments and reconciliations, coupled with the lack of quarterly reconciliations. The current system has outlived its usefulness and is need of upgrade as it does not interface with Department of Revenue and Taxation (DRT).
- **Revenues (2011-09) and Income Tax Refund Liability Account (2011-10).** The Guam Customs and Quarantine Agency has \$4.8M in uncollectible import and use taxes as of September 30, 2011. The DRT acquired a scanner, which was found to be incompatible with the agency's existing systems and subsequently proved unusable. As a result, DRT reverted to the manual processing of income tax returns and is unable to determine the amount of income tax refund liability on a regular basis.

Resolving Prior Year Questioned Costs

GovGuam continues its efforts to reduce outstanding questioned costs. As of FY 2011, GovGuam resolved \$927,000 in prior year questioned costs, resulting in \$1.4M remaining.

Management Letter

The auditors issued a separate management letter containing five findings relating to lack of reconciliation with petty cash accounts, expired encumbrances still outstanding and lacking documentation, missing gross receipts tax (GRT) forms, miscalculation of income tax and GRT revenues, and lack of journal voucher documentation.

To view the reports in their entirety, visit our website at www.guamopa.org.