

May 29, 2021

Mr. Edward M. Birn
Director
Department of Administration
Government of Guam
P.O. Box 884
Hagatna, GU 96910

Dear Mr. Birn:

In planning and performing our audit of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) for the year ended September 30, 2020, which collectively comprise GovGuam's basic financial statements (on which we have issued our report dated May 29, 2021 and which includes a reference to other auditors and an emphasis-of-matter paragraph for the impact of COVID-19), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GovGuam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies involving GovGuam's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Governor of Guam, also dated May 29, 2021, on our consideration of GovGuam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

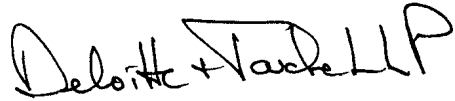
This report is intended solely for the information and use of the management of GovGuam and the Office of Public Accountability and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Deloitte.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Department of Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Tatchell LLP" is on the right. The "T" in "Tatchell" is particularly large and has a distinctive shape.

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving GovGuam's internal control over financial reporting as of September 30, 2020, that we wish to bring to your attention:

A. DEPARTMENT OF ADMINISTRATION (DOA) DIVISION OF ACCOUNTS**(1) Transaction Processing System (TPS) Receipts**

Comment: TPS populations identified 139,425 of missing receipt # sequences. When a transaction is cancelled, reversed or corrected, the TPS system automatically generates a new receipt # and replaces the previously assigned receipt #. The previously assigned receipt # is not searchable, and receipt # sequences are not monitored.

While there is no apparent risk that cash is understated or misappropriated due to the presence of other mitigating controls, all receipt # sequences should be accounted for.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA review missing receipt # sequences and monitor the reasons for such occurrences on a monthly or quarterly basis to ascertain that no system issues occurred.

(2) Opening Fund Balance

Comment: DOA Division of Accounts did not reconcile opening fund balance and the following variances were noted:

	<u>Ending Balance per 2019 Financial Statements</u>	<u>Balance per 2020 General Ledger</u>	<u>Unreconciled Variance</u>
General Fund 100	\$ (73,968,086)	\$ (73,850,244)	\$ (117,842)
Federal Grants Fund 101	147,606	(13,609,016)	13,756,622
Territorial Education Facility Fund 205	1,419,124	1,301,136	117,988

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA perform reconciliations of fund balance before the close of year end.

(3) Uncollected Receivables

Comment: GovGuam's General Fund (Fund 100) recorded the following uncollected balances:

- 1) Advance of \$726K due from the Guam Legislature (unresolved since FY 2015).
- 2) Receivables of \$724K for fuel costs due from the Guam Department of Education.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA pursue collection of these amounts.

SECTION I - DEFICIENCIES, CONTINUED

A. DEPARTMENT OF ADMINISTRATION (DOA) DIVISION OF ACCOUNTS, CONTINUED

(4) Special Revenue Fund Deficits

Comment: Certain special revenue funds incurred expenditures in excess of available revenue, which resulted in interfund payable balances of \$3.9M. As no alternative funding source was available, the General Fund absorbed the amount.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA monitor and limit the ability of special revenue funds to incur expenditures in excess of revenues collected. Furthermore, we recommend DOA ascertain that collections from non-appropriated funds, such as the Guam Museum and the Guam Regional Transit Authority are reported to DOA on a quarterly basis.

(5) General Ledger Reconciliations

Comment: General ledger reconciliations should be periodically performed, and a best practice is to perform such at least quarterly.

Various reconciliation matters were identified such as: lease expenditures recorded as prepayments, recording collections as liabilities, recording unreleased checks as reductions of cash, bank reconciling items corrected six months after year end, understatements and overstatements of accruals, unreconciled differences in grant receivables and deferred revenues, the recognition of grant contributions and receivables due from a grantor when expenditures are incurred, and the recognition of deferred revenues from the grantor when expenditures were not incurred.

The amounts identified were either not considered material to the financial statements or were corrected as of September 30, 2020.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA consider the current staffing pattern and how best to facilitate timely completion of the audit process and to assist in the periodic scrutiny of account reconciliations.

(6) Retired Governors, Lieutenant Governors and Judges Pensions

Comment: The net pension liability does not include pension annuities for retired Governors, Lieutenant Governors, and Judges. Based on a performance audit issued by the Office of Public Accountability (OPA Report No. 15-03), an unrecorded liability of \$13.1 million exists. For the year ended September 30, 2020, the General Fund recognized pay-as-you go contributions to the GovGuam Retirement Fund of \$707K.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOA coordinate with the GovGuam Retirement Fund to incorporate the above pension annuities in the annual pension actuarial valuation.

SECTION I - DEFICIENCIES, CONTINUED

B. CHILD SUPPORT ENFORCEMENT DIVISION (CSED) / DIVISION OF ACCOUNTS

Unclaimed Checks - Child Support

Comment: Based on the Collaborative Action Plan dated December 2011, continuing efforts and communications between DOA and CSED are on-going regarding the reconciliation between the AS400 and the APASI system to support unclaimed checks and to reconcile aged balances, which date back more than 20 years. At September 30, 2020, a \$1.975M unreconciled difference between the AS400 and APASI exists.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: Continue to address the Collaborative Action Plan, which entails the following:

1. Inquiry from the bank to obtain copies of all associated records, (cash collections and checks/EFT payments) during the period the child support accounts were held.
2. Seek legislation to establish a period after which unclaimed child support payments will escheat to the Government. Since bank records are incomplete or are unavailable for two financial institutions prior to 2004, DOA and CSED are seeking legislation to waive the diligent effort requirements before unclaimed child support payments can be escheated for the period prior to 2004.

C. PUBLIC DEFENDER SERVICES CORPORATION (PDSC)

Opening Fund Balance

Comment: PDSC did not reconcile opening fund balance and the following variances were noted:

	<u>Ending Balance per 2019 Financial Statements</u>	<u>Beginning Balance per 2020 General Ledger</u>	<u>Unreconciled Variance</u>
Operations	\$ 1,189,633	\$ 1,187,472	\$ 2,161
Alternate Public Defender	\$ 484,590	\$ 340,150	\$ 144,440

Recommendation: We recommend PDSC perform reconciliations of fund balance before the close of year-end.

D. GUAM ELECTION COMMISSION (GEC)

Unreported Cash

Comment: At September 30, 2020, GEC maintained depository accounts of \$975K that were not timely reported to DOA for inclusion in GovGuam's financial statements. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend GEC timely provide financial information to DOA for the purpose of inclusion in GovGuam's annual financial statements.

SECTION I - DEFICIENCIES, CONTINUED**E. UNIFIED COURTS OF GUAM**Monitoring of Probation Accounts

Comment: The status of probation cases should be timely monitored to allow issuance of official court orders for the closure and write-off of uncollectible accounts. The related allowance is \$5.3M, which includes expired probation cases that have had no movement for more than ten years. The non-collection has had minimal impact on GovGuam as most of the balance accrued is payable to the associated victim.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend the status of probation cases be monitored to allow for legal and timely write-off of expired probation cases.

F. DEPARTMENT OF CORRECTIONS (DOC)**(1) Timely Federal Bureau of Prisons (FBP) Reimbursement**

Comment: The DOC Inmates Revolving Fund (Fund 214) reported a \$850K fund deficit due to the lack of timely submission for FBP reimbursement for costs incurred by DOC for housing U.S. prisoners and detainees. Specifically, costs incurred for the months of February 2020 to September 2020 were not timely billed. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend timely reimbursement submissions by DOC.

(2) Unrecorded Liabilities

Comment: \$2.9M of unbudgeted and unrecorded liabilities from current and previous years were identified by DOC that primarily relate to medical related costs incurred by inmates. Due to the lack of information provided by DOC, DOA was not able to determine if these liabilities were previously paid or recorded. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Prior year status: The above comment is reiterative of conditions identified in the prior year audit.

Recommendation: We recommend DOC and DOA work with the Guam Legislature to establish a realistic budget and explore potential cost savings measures such as on-site visits from Guam Department of Public Health and Social Services rather than using the Guam Memorial Hospital.

G. CUSTOMS AND QUARANTINE AGENCY (CQA)Unrecorded Liabilities

Comment: \$1M of unrecorded liabilities relating to CQA lease rental and janitorial fees for March 2020 through September 2020 due to the Guam International Airport Authority (GIAA) were not recorded. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend CQA recognize liabilities for incurred lease expenditures.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters as of September 30, 2020, that we wish to bring to your attention:

A. GENERAL SERVICES AGENCY (GSA)

(1) Expired Contract

Comment: The contract for the Department of Administration (DOA)'s office space rental expired in 2019. A holdover clause from the contract allows DOA to continue occupying the space for an additional fee. As of March 31, 2021, there has been no renewal or Invitation for Bid (IFB) issued.

Recommendation: We recommend GSA monitor contract terms to timely prepare and issue IFB's.

(2) Emergency Procurement

Comment: GSA utilized emergency procurement procedures for routine services provided to the Guam Police Department.

Recommendation: We recommend GSA comply with procurement policy rules and regulations and monitor contract terms to timely prepare and complete competitive procurement processes.

B. UNIFIED COURTS OF GUAM

(1) Loan Covenants

Comment: The \$15M loan facility includes a financial covenant requiring audited financial statements to be provided not later than 120 days following the close of each fiscal year. No audited financial statements were available as required by stipulated loan covenants.

Recommendation: We recommend the Court comply with required loan covenants. Additionally, we recommend the Court work with the bank and consider if the terms of this loan covenant should be amended.

(2) Unpaid Traffic Citations

Comment: At September 30, 2020, the Court recorded \$595K of unpaid traffic citations; however, a daily updated list of unpaid traffic citations with a cumulative balance of \$4M - \$5M is provided and publicly available on the Court's website. It is our understanding that the list may include citations that are disputed or are pending court settlement.

Recommendation: We recommend the Court pursue collection and continue efforts to identify and determine necessary parameters to produce more accurate public information.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND INHERENT LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

GovGuam's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.