



# Office of Public Accountability

Ufisinan I Kuinentan Pubpliku

# A REPORT TO THE CITIZENS OF GUAM FOR FISCAL YEAR 2015

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impartiality objectivity accountability  
independence  
integrity integrity independence  
accountability transparency

OBJECTIVITY • PROFESSIONALISM • ACCOUNTABILITY

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## ABOUT US

### Our Mission

To ensure public trust and assure good governance, we conduct audits and administer procurement appeals, independently, impartially, and with integrity.

### Our Vision

The Government of Guam is the model for good governance in the Pacific.

OPA is a model, robust audit office.

### Our Goals and Objectives

To ensure the public trust and assure good governance, we will:

- Protect the independence of OPA;
- Deliver impactful, reliable, and quality reports;
- Recruit and retain qualified staff; and
- Increase public knowledge and trust of OPA's mission, work, and impact.

### Our Core Values

#### Objectivity:

To have an independent and impartial mind.

#### Professionalism:

To adhere to ethical and professional standards.

#### Accountability:

To be responsible and transparent in our actions.

## PUBLIC AUDITOR

### DORIS FLORES BROOKS, CPA, CGFM

Public Auditor Brooks is the first elected Public Auditor of Guam and has served the Office of Public Accountability (OPA) for four terms. Doris is the first Chamorro Certified Public Accountant and obtained her MBA from Harvard Business School and graduated with honors from San Jose State University. Through her leadership, most GovGuam agencies are now releasing financial audits within 6-months from the close of the fiscal year.



## OUR SERVICE TO THE PEOPLE OF GUAM

The OPA is an instrumentality of the Government of Guam (GovGuam). OPA's duties to the People of Guam include auditing GovGuam programs and overseeing financial audits of GovGuam agencies independent of the executive (Governor), legislative (Senators), and judicial (Courts) branches.



OPA Staff

OPA works with GovGuam agencies to improve their performance and ensure transparency and accountability of government funds. OPA audits provide oversight, insight, and foresight into government activities and operations. OPA is also tasked to hear and decide on appeals of procurement protest decisions between vendors and agencies.

As part of our Strategic Plan, OPA participated in various community service and outreach efforts to increase public awareness, improve government efficiency and effectiveness, and promote better understanding of OPA's mission and work. The activities included feeding the homeless at the Kusinan Kamalen Karidat; cleaning the Paseo Plaza; donating to the St. Dominic's Senior Home Care; and various speaking engagements to discuss OPA's audit and procurement appeals processes and GovGuam's finances.

## OPA HOSTED THE 26<sup>TH</sup> APIPA CONFERENCE

We were pleased to host the 26<sup>th</sup> Annual Association of Pacific Islands Public Auditors (APIPA) Conference in August 2015. Auditors and finance officers throughout Guam and Micronesia received valuable continuing professional education to help improve accountability and transparency and achieve good governance. The conference offered a wide range of ideas and courses, such as Audit, Government Finance, Grants Management, Leadership, and other courses to help professionals support and provide extended services to their organizations.



APIPA Principals and distinguished guests at the 2015 APIPA Conference.

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## Performance Audits

Performance audits are audits that improve the effectiveness and efficiency of government operations. In Calendar Year (CY) 2015, OPA issued eight performance audits that collectively made 15 recommendations and identified over \$47.3 million (M) in questioned costs and other financial impacts.



The eight performance audits were: (1) GovGuam Use Tax Exemptions and Collections; (2) GovGuam Layon Landfill Tax Credits and Program; (3) GovGuam Special Lifetime Annuities; (4) Department of Labor Unpaid Back Wages; (5) Recycling Revolving Fund; (6) GovGuam Tax Credits Program; (7) Guam Memorial Hospital Authority Inventory Control Over Controlled Substances; and (8) GovGuam Submission of Citizen Centric Reports for FY 2014 and FY 2013.

Since 2001, OPA issued 152 performance audit reports, made 612 recommendations, and identified \$234.1M in financial impact. Annually, OPA issued an average of 10 performance audits, made 41 recommendations, and identified \$15.7M in financial impact.

## Financial Audits

Financial audits are essential in annually assessing the overall financial performance and health of government entities and to determine the accuracy, completeness, and fair representation of the entity's financial statements.

OPA staff monitor and oversee the financial audits to ensure timely completion. Of the 23 FY 2014 financial audits issued in CY 2015, 11 were issued within six months after the fiscal year end, 10 were issued within nine months, and two were issued after nine months.

There were 43 findings related to internal control over financial reporting and the Single Audit, of which 10 were material weaknesses among three agencies. The term "Single Audit" refers to one audit being performed on all federal programs versus separate audits of each federal program.

In the GovGuam Single Audit, the top three material weaknesses were related to equipment and real property management, procurement, and eligibility.

- Since 2000, GovGuam has not performed a comprehensive physical inventory of its properties and has not complied with applicable equipment management requirements.
- The General Services Agency (GSA) sole-sourced contract services for driver and passenger evaluation and survey methodology to UOG, failed to seek to foster full and open competition.
- Proper documentation was not provided to ensure applicants were eligible for various government programs.

## Procurement Appeals

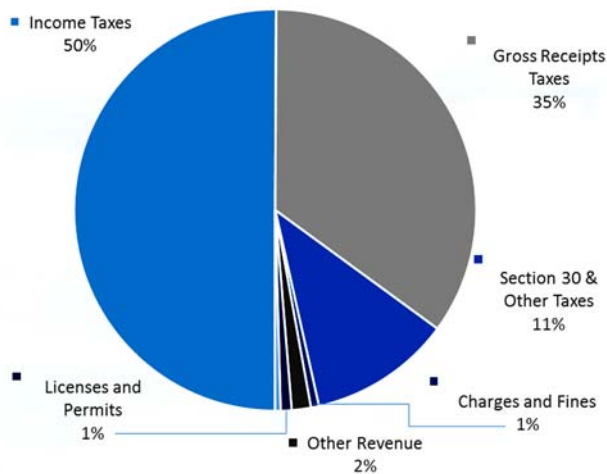
The procurement appeals process is an expedited procedure to resolve solicitation or contract protests. For a vendor to file an appeal with OPA, they must first protest and be denied relief by the government agency.

Of the 17 appeals brought before the Public Auditor in CY 2015, OPA rendered decisions on 10 appeals, dismissed two after the Appellant and Purchasing Agency settled via stipulated agreements, dismissed two due to lack of jurisdiction, dismissed one as the purchasing agency had not made a protest decision, and two moved to the Superior Court. Appeals ranged from specialty retail concession, construction of Bile/Pigua Bridge replacement, Harmon Residential Transfer Station, diesel fuel, telecommunications, vehicles and parts, security guard services, and fireproof filing cabinets. These appeals collectively amounted to over \$23.3M in procurement value.

OPA's goal is to issue timely procurement appeal decisions within 30 to 60 days after the appeal's formal hearing. Further, OPA strives to resolve appeals within 90 to 120 days of an appeal's filing. Of the ten decisions, three were rendered within 30 days, six were rendered within 30 to 60 days, and one was rendered more than 60 days.

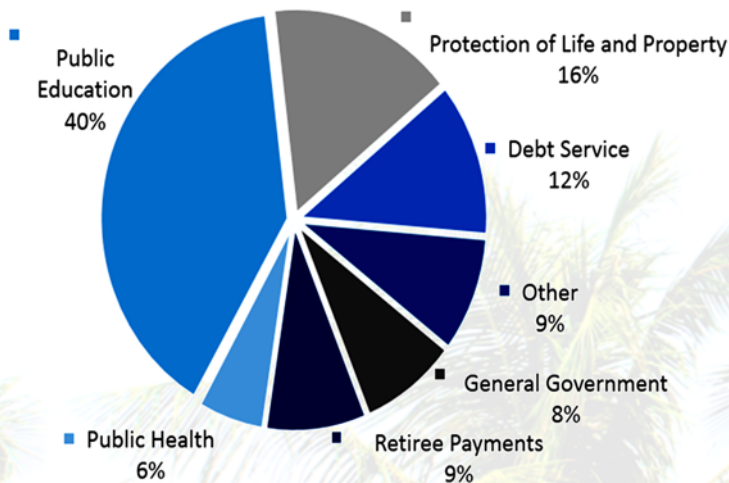
# Government of Guam FY 2015 Finances

## Government Revenues - Where Did Our Funds Come From?



REVENUES	FY 2015	FY 2014
Income Taxes	\$ 324,402,280	\$ 296,185,527
Gross Receipts Taxes	\$ 226,592,159	\$ 238,249,400
Section 30 Federal Income Tax	\$ 71,446,424	\$ 87,998,215
Other Taxes	\$ 2,690,963	\$ 3,463,914
<b>Subtotal Taxes</b>	<b>\$ 625,131,826</b>	<b>\$ 625,897,056</b>
Other revenues	\$ 9,996,064	\$ 8,725,702
Charges and Fines	\$ 4,144,732	\$ 4,801,031
Licenses and Permits	\$ 5,636,191	\$ 5,594,294
Intergovernmental	\$ 2,839,778	\$ 2,545,406
<b>Subtotal Other Revenues</b>	<b>\$ 22,616,765</b>	<b>\$ 21,666,433</b>
<b>TOTAL REVENUES</b>	<b>\$ 647,748,591</b>	<b>\$ 647,563,489</b>

## Government Expenditures - Where Did We Spend It?



EXPENDITURES	FY 2015	FY 2014
Public Education	\$ 276,599,153	\$ 370,593,159
Protection of Life and Property	\$ 111,566,515	\$ 134,059,434
Debt Service	\$ 88,970,278	\$ 76,816,896
Other	\$ 63,610,305	\$ 66,383,283
Retiree Payments*	\$ 60,414,832	\$ 51,003,253
General Government	\$ 58,152,002	\$ 55,504,357
Public Health	\$ 39,734,335	\$ 42,173,356
Interest on Tax Refunds	\$ 1,021,759	\$ 923,109
<b>TOTAL EXPENDITURES</b>	<b>\$ 700,069,279</b>	<b>\$ 797,456,847</b>
Other Financing Sources, Net	\$ (7,164,374)	\$ 87,951,396
<b>Net Change in Fund Balance (Deficit)</b>	<b>\$ (59,485,062)</b>	<b>\$ (61,941,962)</b>

\* Special Revenue Section 2718 funds of \$20,572,173 and \$6,388,394 were noted for FY 2015 and FY 2014 under retiree payments, respectively.

## OPA Expenditures

OPA's total FY 2015 appropriation was \$1.4M and expenditures were \$1.3M. OPA's expenditures primarily consisted of salaries and benefits (68%), contractual services (13%), and rent (8%). The slight increase in salaries and benefits was primarily due to the staff's salary increments. The increase in equipment was due to the procurement of the TeamMate audit management software. OPA continues to hold the line and maintain its expenditures each fiscal year.

OPA's finances are audited as part of the annual Gov-Guam-wide financial audit, which may be found at [www.opaguam.org](http://www.opaguam.org). The FY 2015 GovGuam financial audit received a clean audit opinion.

EXPENDITURES	FY 2015	FY 2014	FY 2013
Salaries and Benefits	\$ 872,926	\$ 854,834	\$ 770,773
Contractual	\$ 162,456	\$ 171,391	\$ 166,148
Rent	\$ 107,723	\$ 107,723	\$ 102,594
Equipment	\$ 81,416	\$ 17,191	\$ 17,966
Miscellaneous	\$ 26,494	\$ 61,464	\$ 61,895
Travel	\$ 14,501	\$ 18,301	\$ 11,110
Supplies	\$ 5,994	\$ 4,511	\$ 7,575
Communications	\$ 1,889	\$ -	\$ -
Telephone and Utilities	\$ 1,025	\$ 2,879	\$ 2,781
<b>Total</b>	<b>\$ 1,274,424</b>	<b>\$ 1,238,294</b>	<b>\$ 1,140,842</b>

**NOTE:** Performance audits, procurement appeals, and financial audits are reported on a CY basis, while the financials on this page are reported on a FY basis.



### To Become Low Risk Auditees

Becoming a low risk auditee gives our people and the Federal government confidence in our ability to manage federal funds. The Guam Community College maintained the low risk auditee status for 15 consecutive years. Recently, the Port Authority of Guam received the low risk auditee status for both FY 2014 and FY 2015, and the Guam International Airport Authority for FY 2015. OPA aspires for GovGuam and all its component units that receive federal funds to become low risk auditees. To achieve this, agencies must not have any material weaknesses in internal controls and no findings in any of its federal programs for two consecutive years.

Further, OPA is encouraging legislation requiring financial audits to be completed no later than six months after fiscal year-end. According to the Government Finance Officers Association, there are over 40 states and 3,600 jurisdictions, cities, and counties that issue their audits in this time frame. GovGuam receives and expends over \$1 billion (B), and timely audited information will assist policy makers' decision-making midway through the fiscal year, rather than the last quarter.

### Investment in a new Financial Management Information System (FMIS)

OPA utilizes information technology (IT) to improve the economy, efficiency, and effectiveness of audit and procurement appeals work. OPA transitioned to electronic working papers with the investment in TeamMate, the audit software of choice for the Department of the Interior Office of Inspector General, as well as several members of the Pacific Association of Supreme Audit Institutions.

GovGuam's current FMIS, the AS400, was acquired nearly 40 years ago in the late 1980s. With government revenues exceeding \$1.2B annually, there is an eminent need to update GovGuam's FMIS.

GovGuam should invest in a new FMIS to provide regular, current, and reliable financial information integrating DOA and DRT, as DOA and DRT need to build their respective accounting infrastructures.

### GovGuam Deficit Spending

Another area that continues to plague GovGuam is its penchant for deficit spending (spending beyond the revenues it brings in). GovGuam ended FY 2015 with a \$59.5M deficit, bringing the cumulative fund deficit to \$119.1M.

At the government-wide level, GovGuam's unrestricted net position now stands at \$1.8B, representing two decades of cumulative over spending, and the recognition of unfunded pension liability of over \$800M.

Over the years, GovGuam has financed its deficit spending by issuing long-term bonds. Of the \$1.1B in long-term bonds, \$766.7M was issued to pay for operational expenses such as tax refunds, cost of living allowance for retirees, etc.

A factor contributing to the deficit is the dramatic increase in Earned

Income Tax Credits (EITC), which have gone from 11% of refunds in 2000, or \$6.2M to 43% of refunds, or \$56.8M in 2014. According to the IRS, EITC is among the highest fraud areas with "borrowed" or "fictitious" dependents. DRT must do more forensic analysis to identify false EITC claims.

Other factors include the over estimation of revenues with no corresponding reduction in expenditures and certain preferential benefits. These are politically difficult choices to make and it is easier to overspend than to cut back and face the wrath of the beneficiaries.

### OPA Staff Recruitment Autonomy and Retention

OPA's main challenges continue to be the low compensation package and the bureaucratic and lengthy hiring process affecting OPA staff recruitment, compensation, promotion, and retention. For the past 10 years, operations have been hindered largely due to the shortage of staff. OPA's highest staff complement was 18 full-time staff in 2006 when OPA staff were in the unclassified service.

The Competitive Wage Act of 2014 provided a slight pay increase, but it was not enough to compete with autonomous agencies. Most staff have resigned to accept higher salaries from GovGuam autonomous agencies.

For an effective audit office to function independently, it must have adequate funding, financial and hiring autonomy, and staff resources in order to perform the work required.

To address these issues, among OPA's FY 2017 Budget request were for the Legislature to:

- Approve OPA's new positions pursuant to the Compensation Study;
- Approve a salary adjustment for the Public Auditor;
- Approve the carryover of personnel lapses from FY 2016 to FY 2017.

While Public Law (P.L.) 32-181 authorized the Public Auditor to appoint OPA employees as she deems necessary to carry out the duties of the office, DOA challenged the authority. As such, OPA needs hiring flexibility through an amendment to 1 Guam Code Annotated § 1907, similar to the Attorney General's increased autonomy for financial and personnel matters per P.L. 31-153.

### Future Outlook and Goals

- To become a model robust audit office, OPA will conduct a self-assessment using the Supreme Audit Institutions Performance Measurement Framework, which covers seven domains, such as independence, audit standards, and human resources and leadership, to identify OPA's strengths and weaknesses.
- Outreach efforts include procurement training and serving on the Education Financial Supervisory Commission and the Department of Corrections Blue Ribbon Commission.
- OPA continues to look for ways in which GovGuam can achieve its goals, missions, and objectives, as well as to improve its overall services to the citizens. OPA plans to achieve this by conducting audits that identify revenue enhancement opportunities, prevent revenue leakages, as well as prevent and reduce fraud, waste, and abuse.

#### Give Us Your Opinion

Please tell us what you think about our report by contacting Andriana Quitugua at 475-0390 ext. 205 or [aquitugua@guamopa.com](mailto:aquitugua@guamopa.com).

