

Management Letter

Government of Guam

Year ended September 30, 2024



**Shape the future
with confidence**



Shape the future
with confidence

Ernst & Young LLP
231 Ypao Road
Suite 201 Ernst & Young Building
Tamuning, Guam 96913

Tel: +1 671 649 3700
Fax: +1 671 649 3920
ey.com

April 23, 2026

Management and Those Charged with Governance
Government of Guam

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of Guam (GovGuam) as of and for the year ended September 30, 2024, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GovGuam's internal control. Accordingly, we do not express an opinion on the effectiveness of GovGuam's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

A. DIVISION OF ACCOUNTS

Improve Financial Statement Closing Process

Observations:

Comment 1: Opening fund balances were not reconciled with the prior year ending fund balances for the following separately audited financial statements. Details are as follows:

<u>Fund Description</u>	<u>Balance per General Ledger</u>	<u>Per Separately Audited Financial Statements</u>	<u>Variance</u>
Tourist Attraction Fund (206)	\$ ---	\$ 980,068	\$(980,068)
Chamorro Land Trust Operations Fund (624)	1,823,623	2,050,052	(226,429)
Guam Ancestral Lands Operations	15,964,951	16,234,634	(269,693)

Comment 2: A significant number of post-closing adjusting entries were recorded by the Division of Accounts management after provision of the initial unadjusted trial balance.

Comment 3: School financed purchase obligation balances were overstated by \$9.6 million.

Comment 4: At September 30, 2024, General Fund prepayments included \$4.9 million relating to prior year lease payments should be recorded as expenditures. Such is included in the communication schedule of uncorrected misstatements.

Comment 5: At September 30, 2024, General Fund bank reconciliations included \$2.2 million of unreleased checks and \$2.7 million of stale-dated checks. An audit reclassification was proposed to correct the understatement of cash and related accounts payable. In addition, a General Fund bank reconciliation included unrecorded cash collections of \$4.1 million, which was corrected through a post-closing adjustment.

Comment 6: At September 30, 2024, Other Governmental Fund bank reconciliations included unrecorded cash collections of \$2.5 million relating to real property taxes, which was corrected through a post-closing adjustment.

Comment 7: At September 30, 2024, long-term bond obligation liability accounts were not adjusted to reflect current year's debt service principal repayments of \$34.7 million. An audit adjustment was proposed to correct this misstatement.

Comment 8: At September 30, 2024, the trial balance provided by the Division of Accounts was not adjusted to report current year balances of certain GovGuam line agencies including the Guam Ancestral Land Commission and the Chamorro Land Trust Commission.

A. DIVISION OF ACCOUNTS, continued

Improve Financial Statement Closing Process, continued

Observations, continued:

Comment 9: At September 30, 2024, the trial balance provided by the Division of Accounts was not adjusted to report current year balances of certain Special Revenue Funds including the respective separately audited financial statements of the Tourist Attraction Fund (Fund 206) and the Solid Waste Operations Fund (Fund 416).

Comment 10: Unusual balances were noted related to the internal accounts (X-Accounts and Z-Accounts used for monitoring purposes such as advanced funding or reimbursables and work requests.

Comment 11: At September 30, 2024, the trial balance provided by the Division of Accounts was not adjusted to report current year balances of non-appropriated funds from the Municipality of Chalan Pago-Ordot.

Recommendation:

We recommend GovGuam management develop and implement a Gantt chart for financial reporting purposes that includes the reconciliation of general ledger accounts with corresponding subsidiary ledgers at least monthly or quarterly. Furthermore, the Division of Accounts should perform periodic reconciliation of its accounts with other line agencies to ensure an accurate and complete financial reporting.

Long Outstanding
Receivables from Legislature

Observation:

GovGuam's General Fund recorded an advance of \$0.7 million due from the Guam Legislature since 2015.

Recommendation:

We recommend GovGuam management pursue collection from the Guam Legislature and consider such through offset of future General Fund budget appropriations.

A. DIVISION OF ACCOUNTS, continued

Reconciliation of Receivables and Payables
with Component Units

Observation:

GASB Statement No. 14, *The Financial Reporting Entity*, requires that financial statements include proper recognition and reconciliation of inter-entity receivables and payables to ensure accurate reporting of amounts due from and to component units.

During our audit, we noted a difference between the Guam Memorial Hospital Authority (GMHA) receivable balance and the amount confirmed by GMHA, which related primarily to the timing in recording of Medicaid reimbursement payments and medical and dental premium payments. At September 30, 2024, an adjustment of \$1.4 million relating to medical and dental premium payments was corrected through a post-closing adjustment. In addition, we noted a difference of \$0.4 million between the A.B. Won Pat International Airport Authority (ABWPAAA) liability balance and the amount reported by ABWPAAA, which related to the recording of aviation fuel taxes. As the amount was considered immaterial to the financial statements, no audit adjustment was proposed.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures requiring reconciliation of receivables from and payables to component units.

Recognition of GASB 87 Lease Transactions

Observation:

GASB Statement No. 87, *Leases*, requires that leases be recognized by recording the lease liabilities and corresponding right-of-use asset at the commencement of the lease term, with subsequent recognition of amortization and lease payments over the lease term.

During our audit, we noted that the GASB 87 lease inventory was not updated for current year's new leases together with subsequent amortization and payments related to GASB 87 leases. An audit adjustment was proposed to correct the understatement of lease assets, lease liabilities, and amortization expense by \$8.3 million, \$2.4 million, and \$10.2 million, respectively.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures requiring GASB 87 leases be correctly recorded, including the initial recognition of right-of-use assets and lease liabilities for new leases.

A. DIVISION OF ACCOUNTS, continued

Completeness of Liabilities

Observations:

Comment 1: At September 30, 2024, \$1.9 million of claims liabilities related to 2018 legal cases were not recognized. Such is included in the communication schedule of uncorrected misstatements.

Comment 2: At September 30, 2024, \$4.3 million of General Fund liabilities were not recognized. Such is included in the communication schedule of uncorrected misstatements.

Comment 3: At September 30, 2024, \$0.1 million of ARPA Fund liabilities were not recognized. Such is included in the communication schedule of uncorrected misstatements.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures requiring reconciliation with significant vendors be performed on a periodic basis. Management should consider checking subsequent payments if any liabilities were related to the current fiscal year before closing.

Validity of the
Long Outstanding Liabilities

Observations:

Comment 1: At September 30, 2024, \$9.3 million of unclaimed checks were not escheated to the General Fund. Such is included in the communication schedule of uncorrected misstatements.

Comment 2: At September 30, 2024, \$28.9 million of General Fund liabilities and \$1.8 million of Other Governmental Fund liabilities were over five years old, which was corrected through post-closing adjustments.

Comment 3: At September 30, 2024, \$3.4 million of General Fund deposits and other liabilities represented collections not recorded as revenues.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures over monitoring of liabilities to ascertain the validity for those accounts that are long outstanding and for those that have no movement from year-to-year.

A. DIVISION OF ACCOUNTS, continued

Medically Indigent Program (MIP) and Medicaid Accruals

Observation:

At September 30, 2024, GovGuam did not assess the impact of potential liabilities for MIP and Medicaid transactions. An assessment was subsequently performed, indicating a \$16.7 million understatement in unrecorded liabilities, which was corrected through a post-closing adjustment.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures for determining and estimation methodology for unrecorded MIP and Medicaid liabilities.

Recognition of GASB 18 Transactions

Observation:

GASB Statement No. 18. *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* requires the recognition of estimated liability for closure and postclosure care costs based on landfill capacity used to date and the estimates should include any potential changes due to inflation or deflation or applicable laws or regulations.

During our audit, we noted that GovGuam did not reassess the estimated landfill liability for Layon and Ordot postclosure care costs resulting in a \$5.2 million understatement of the recorded liability. An audit adjustment was proposed to correct this misstatement.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures requiring the periodic assessment of the estimated landfill liability in compliance with requirements of GASB 18.

B. PUBLIC DEFENDER SERVICE CORPORATION (PDSC)

General Ledger Reconciliations

Observation:

Opening fund balances were not reconciled with the prior year ending fund balances for the PDSC Operations Fund and the PDSC Alternate Public Defender Fund. An audit adjustment was proposed to correct this misstatement.

B. PUBLIC DEFENDER SERVICE CORPORATION (PDSC), continued

General Ledger Reconciliations, continued

Recommendation:

We recommend GovGuam management establish internal control policies and procedures requiring the reconciliation of opening fund balances to prior year ending fund balances and ensuring that adjustments are recorded in a timely manner.

C. UNIFIED COURTS

Monitoring of Probation Accounts

Observation:

The status of probation cases should be timely monitored to allow for the 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 minimal impact on GovGuam operations as most of the recorded balance is payable to associated victims.

Recommendation:

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

D. CHILD SUPPORT ENFORCEMENT DIVISION (CSED)

Unclaimed Checks for Child Support

Observation:

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/D365 and the APASI system to support unclaimed checks and reconcile aged balances, which date back more than 20 years. At September 30, 2024, a \$2.3 million unreconciled difference between the D365 and APASI exists.

D. CHILD SUPPORT ENFORCEMENT DIVISION (CSED), continued

Unclaimed Checks for Child Support, continued

Recommendation:

We recommend GovGuam management 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.

E. Reporting

ALN 21.026 Homeowner Assistance Fund

Observation:

Expenditures reported in the quarterly report differ from amounts per underlying accounting records and no reconciliation was provided to explain the identified variances, as follows:

<u>Reporting Period Ended</u>	<u>Per Report</u>	<u>Per Accounting Records</u>	<u>Over Reported</u>
6/30/2024	\$ 13,139,249	\$ 13,111,757	(\$27,492)

As represented by the General Accounting Supervisor, the responsible personnel for submitting required reports is no longer employed with the Division of Accounts and the related program is no longer active; therefore, we are unable to obtain any support to certify established internal controls relative to applicable reporting requirements.

Recommendation:

We recommend GovGuam management establish internal control policies and procedures over retention of grant-related documents after period of performance for a period specified by the grant terms and conditions. Responsible personnel should review underlying accounting records and perform reconciliation of the required reports.

E. Reporting, continued

93.575/93.596 CCDF Cluster

Observation:

Expenditures reported in the ACF-696 differ from amounts per underlying accounting records and no reconciliation was provided to explain the identified variances, as follows:

	Reporting for Quarter Ended 06/30/2024 <u>2401GUCCDT</u>	Reporting for Quarter Ended 06/30/2024 <u>2301GUCCDF</u>
Expenditures per ACF-696	\$2,664,611	\$ 93,281
Expenditures per accounting records	<u>2,634,847</u>	<u>288,143</u>
Unreconciled variance	<u>\$ 29,764</u>	<u>\$(194,862)</u>
	Reporting for Quarter Ended 03/31/2024 <u>2301GUCCDF</u>	Reporting for Quarter Ended 06/30/2024 <u>2201GUCCDF</u>
Expenditures per ACF-696	\$ 93,281	\$ 251,903
Expenditures per accounting records	<u>298,094</u>	<u>1,432,852</u>
Unreconciled variance	<u>\$(204,813)</u>	<u>\$(1,180,949)</u>
	Reporting for Quarter Ended 06/30/2024 <u>2201GUCCDD</u>	Reporting for Quarter Ended 12/31/2023 <u>2201GUCCDF</u>
Expenditures per ACF-696	\$ 4,199,561	\$ 251,903
Expenditures per accounting records	<u>4,402,059</u>	<u>1,432,852</u>
Unreconciled variance	<u>\$(202,498)</u>	<u>\$(1,180,949)</u>
	Reporting for Quarter Ended 06/30/2024 <u>2101GUCCC5</u>	
Expenditures per ACF-696	\$ 16,612,360	
Expenditures per accounting records	<u>16,640,750</u>	
Unreconciled variance	<u>\$(28,390)</u>	

Recommendation:

We recommend GovGuam management through the Department of Public Health and Social Services (DPHSS) establish internal control policies and procedures over monitoring controls related to compliance with reporting requirements. Responsible personnel should review underlying accounting records and perform reconciliation of the required reports.

E. Reporting, continued

93.778 Medicaid Cluster

Observation:

Expenditures reported in the CMS-64 differ from amounts per underlying accounting records and no reconciliation was provided to explain the identified variances, as follows:

	Reporting for Quarter Ended 12/31/2023 Federal Award No. 75X0512		
	Federal	Local	Total
Expenditures per CMS-64	\$ 40,289,715	\$ 6,420,431	\$ 46,710,146
Expenditures per accounting records	<u>42,811,624</u>	<u>6,720,074</u>	<u>49,531,698</u>
Unreconciled variance	<u>\$(2,521,909)</u>	<u>\$(299,643)</u>	<u>\$(2,821,552)</u>

	Reporting for Quarter Ended 06/30/2024 Federal Award No. 75X0512		
	Federal	Local	Total
Expenditures per CMS-64	\$22,367,261	\$ 4,177,658	\$26,544,919
Expenditures per accounting records	<u>22,297,253</u>	<u>4,210,763</u>	<u>26,508,016</u>
Unreconciled variance	<u>\$ 70,008</u>	<u>\$(33,105)</u>	<u>\$ 36,903</u>

Recommendation:

We recommend GovGuam management through DPHSS establish internal control policies and procedures over monitoring controls related to compliance with reporting requirements. Responsible personnel should review underlying accounting records and perform reconciliation of the required reports.

ALN 17.225 Unemployment Insurance

Observation:

For the quarter ended 12/31/2023 reporting, we noted a variance of \$181,693 between the cash receipts reported in ETA 9130 against the underlying Budget-To-Actual (BTA) report due to clerical errors made on the BTA.

Recommendation:

We recommend GovGuam management through the Department of Labor establish internal control policies and procedures over monitoring controls related to compliance with reporting requirements. Responsible personnel should review underlying accounting records and perform reconciliation of the required reports.

F. Procurement

Observation:

GovGuam lacks formal policies and procedures regarding procurement of utilities.

Recommendation:

We recommend that GovGuam formally document policies and procedures regarding procurement of utilities.

G. Period of Performance

ALN 15.875 Economic, Social, and Political Development of the Territories

Observation:

During our audit, we noted that the Bureau of Budget and Management Research (BBMR) does not maintain a summary of federal grant awards that are effective during the fiscal year.

Recommendation:

We recommend GovGuam management through BBMR establish internal policies and procedures over preparation of summary of federal grant awards to enable effective monitoring and efficient identification of awards for purposes of period of performance compliance requirements.

ALN 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support

Observation:

During our audit, we noted that the Guam Environmental Protection Agency (GEPA) charged costs to a federal award after the period of performance as follows:

G. Period of Performance, continued

ALN 66.600 Environmental Protection Consolidated Grants for the Insular Areas -
Program Support, continued

<u>Federal Award No.</u>	<u>Transaction Date</u>	<u>Voucher</u>	<u>Description</u>	<u>Amount</u>
M009063190-0	10/31/23	GNJL00007763	EFT_112823	\$ 307
M009063190-0	05/10/24	LABOR000000274	LABOR050424	1,613
M009063190-0	05/10/24	LABOR000000274	LABOR050424	498
M009063190-0	05/10/24	LABOR000000274	LABOR050424	13
M009063190-0	09/27/24	LABOR000000602	Payroll Object Class 111	94
M009063190-0	09/27/24	LABOR000000602	Payroll Object Class 113	39
M009063190-0	08/30/24	LABOR000000592	Payroll Object Class 111	127
M009063190-0	08/30/24	LABOR000000592	Payroll Object Class 113	60
M009063190-0	08/16/24	LABOR000000560	Payroll Object Class 111	254
M009063190-0	08/16/24	LABOR000000560	Payroll Object Class 113	71
M009063190-0	05/31/24	LABOR000000293	LABOR051824	2,751
M009063190-0	05/31/24	LABOR000000293	LABOR051824	40
M009063190-0	05/10/24	LABOR000000274	LABOR050424	2,276
M009063190-0	05/10/24	LABOR000000274	LABOR050424	703
M009063190-0	03/29/24	LABOR000000188	LABOR032324	1,150
M009063190-0	03/29/24	LABOR000000188	LABOR032324	359
M009063190-0	03/29/24	LABOR000000188	LABOR032324	460
M009063190-0	03/21/24	LABOR000000176	LABOR030924	2,904
M009063190-0	03/21/24	LABOR000000176	LABOR030924	897
M009063190-0	03/21/24	LABOR000000176	LABOR030924	36
M009063190-0	12/15/23	GNJL00010175	LABOR1202	768
M009063190-0	12/15/23	GNJL00010174	LABOR1202	2,488
M009063190-0	12/06/23	GNJL00008692	EFT_121123	6,489
M009063190-0	12/06/23	GNJL00008691	EFT_121123	64
M009063190-0	11/07/23	GNJL00014284	LABOR1104	106
M009063190-0	11/07/23	GNJL00014258	LABOR1104	53
M009063190-0	10/31/23	GNJL00007761	EFT_112823	200
M009063190-0	10/25/23	GNJL00006871	LABOR1021	2,709
M009063190-0	10/25/23	GNJL00006745	LABOR1021	1,306
M009063190-0	10/18/23	GNJL00005605	EFT_111623	3,376
M009063190-0	10/16/23	GNJL00004925	J24TRL0013	(200)
M009063190-0	12/01/23	GNJL00007818	LABOR1118	2,370
M009063190-0	12/01/23	GNJL00007817	LABOR1118	7,676
M009063190-0	11/07/23	GNJL00014239	LABOR1104	27
M009063190-0	11/07/23	GNJL00014227	LABOR1104	9
M009063190-0	10/25/23	GNJL00006827	LABOR1021	2,089
M009063190-0	10/25/23	GNJL00006709	LABOR1021	1,027
				<u>\$ 45,209</u>

Recommendation:

We recommend GovGuam management through GEPA establish internal policies and procedures over the monitoring of compliance with period of performance compliance requirements.

H. ALN 93.778 Medical Assistance Program: Special Tests and Provisions -
ADP Risk Analysis and System Security Review

Observation:

During our audit, we noted that the DPHSS and Office of Technology (OTECH) 2023 ADP Risk Analysis and System Security Review, dated May 03, 2024, did not explicitly specify the frequency, timing, scope and results/conclusions of the ADP risk analysis and system security review performed. Furthermore, the report is not independently reviewed outside of OTECH.

Recommendation:

We recommend OTECH explicitly specify in its ADP Risk Analysis and System Security Review Report the frequency, timing, scope and result/ conclusion of the ADP risk analyses and system security review. Also, we recommend the report be independently reviewed by another party/ organization outside of OTECH.

I. Federal Grants-in-Aid (FGIA) Module

Observation:

During our audit, we noted that the FMIS Federal Grants-in-Aid (FGIA) module does not contain grant information such as document numbers and grant periods related to grant amendments. Additionally, we noted inconsistencies in the reflected grant award numbers, grant start date and end dates between the FGIA module and grant award documents.

Recommendation:

We recommend GovGuam management implement enhanced internal control, and validation checks to ensure that all grant-related information, including document numbers, grant periods, grant award numbers, grant start date and end dates, are accurately captured and maintained. Furthermore, grant information should be regularly updated to reflect any amendments or changes to the terms of the award.

J. Cash Management

Observation:

During our audit, we noted that a cash management policy over federal programs not covered under the Treasury State Agreement and funded under the reimbursement method has not been formally documented.

Recommendation:

We recommend GovGuam management establish written cash management policies and procedures over federal programs that are funded under the reimbursement method.

This communication is intended solely for the information and use of GovGuam management, others within the organization, and the Office of Public Accountability - Guam, 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.

At this time, we would like to thank all the staff and management of GovGuam for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,

Ernst + Young LLP