



# Office of Public Accountability

## A Report to the Citizens of Guam

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Calendar Year 2013

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### “Auditing for Good Governance.”



#### 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.

#### Our Goals & 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.

#### O.P.A. 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.

For 13 years, Guam’s first elected Public Auditor, Doris Flores Brooks has been at the helm of the Office of Public Accountability (OPA). Together with her dedicated corps of skilled professionals, OPA has provided the people and Government of Guam (GovGuam) dependable and reliable information, unbiased analyses, and objective recommendations on how best to use the government resources in support of the well-being of our island and its constituents.

OPA has worked with government agencies to improve their performance and ensure transparency and accountability of government funds for the benefit of our island. OPA audits provide oversight, insight, and foresight into government activities and operations. In addition to OPA’s performance audits and oversight of financial audits responsibilities, OPA is tasked to hear and decide all appeals of procurement protest decisions between vendors and agencies.

We were pleased to host the 16th PASAI Congress in September 2013. Auditor Generals and Public Auditors from over 25 Pacific nations and territories met in Guam to adopt PASAI’s long-term strategic plan (2014–2024), which will provide guidance and direction as to how audit institutions can improve accountability, transparency, and governance throughout the Pacific. At the opening of the Congress, the Public Auditor took on the role as Chairperson of PASAI.



# Progress in 2013

## Performance Audits

Performance audits are audits that improve the effectiveness and efficiency of government operations. In 2013, OPA issued six performance audits that collectively made 16 recommendations and identified over \$16.6M in questioned costs and other financial impacts.

We provided five insight reviews and one oversight review which identified areas of revenue leakage and increased costs. For example:

In OPA Report No. 13-02, GEDA's Qualifying Certificate Program revealed that the total financial impact is unknown even after being in existence for 50 years and QCs awarded to the insurance industry are more generous and were awarded regardless of the economic impact; and

In OPA Report No. 13-03, the audit identified \$15.7M in unrealized, lost and forgone tax revenues and \$858K in questioned costs related to real property taxes. Real property tax rates and property values are among the lowest in the nation.



In OPA Report No. 13-05, an analysis of government personnel costs showed that costs increased by \$86M or 15% over 5 years. The largest growth went into areas of education, health, and public safety, consistent with past and current administration priorities.

## Procurement Appeals

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

Sixteen procurement appeals were brought before the Public Auditor in 2013. Of the 16 appeals, 8 received decisions, 5 were dismissed after Appellant and Purchasing Agency's resolution via stipulated agreements, 1 moved to Superior Court and then to Supreme Court, 1 was dismissed because OPA lacked jurisdiction, and 1 was dismissed because it was an untimely appeal. Appeals ranged from air conditioning units and maintenance, police patrol vehicles, and specialty retail concession amounting to over \$16.5M in procurement value in 2013.

The goal of OPA is to issue timely procurement appeal decisions. Appeals should be resolved within 90 to 120 days of the appeal filing. Correspondingly, decisions should be rendered within 30 to 45 days of the conclusion of the appeal hearing.

## Financial Audits

Financial audits are essential in 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 annually.

OPA staff monitor and oversee the financial audits to ensure timely completion. In 2013, of the 24 financial audits, 11 were issued within six months after fiscal year end, 10 were issued within nine months, and 3 were issued after 12 months.

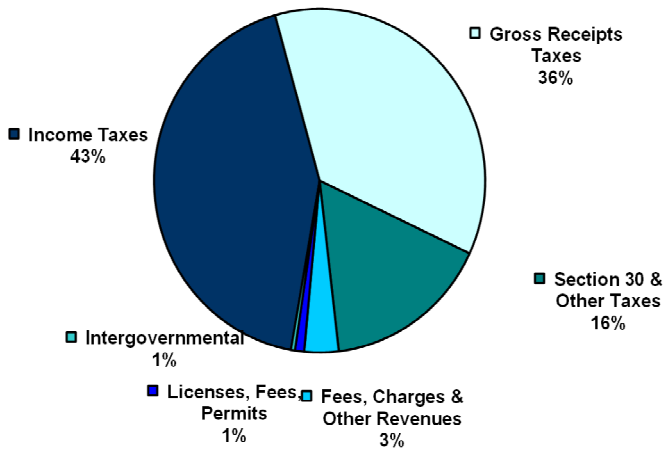
There were 53 findings related to internal control over financial reporting and the Single Audit, of which 24 were material weaknesses among 9 agencies. The term "Single Audit" refers to one audit being performed on all federal programs versus separate audits of each federal program.

The top three material weaknesses were related to eligibility, equipment and real property management, and accounting and financial reporting procedures. Proper documentation has not been maintained to ensure applicants are eligible for various government programs. Some agencies also have not completed physical inventories and accounting policies have not been developed.



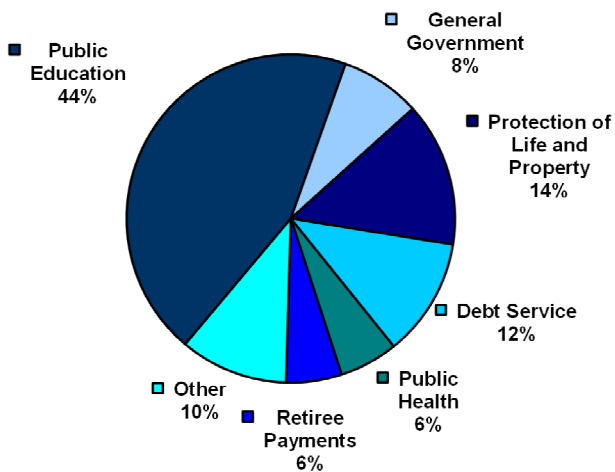
# GovGuam's Finances

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



Revenues	FY 2013	FY 2012
Income Taxes	\$ 261,854,651	\$ 284,823,341
Gross Receipts Taxes	\$ 221,672,983	\$ 221,443,640
Section 30 Federal Income Tax	\$ 96,104,113	\$ 53,125,949
Other Taxes	\$ 2,725,994	\$ 2,459,927
Subtotal Taxes	\$ 582,357,741	\$ 561,852,857
Other revenues	\$ 13,332,562	\$ 13,709,681
Fees and Charges	\$ 7,101,793	\$ 9,103,196
Licenses, Fees, Permits	\$ 5,454,970	\$ 7,587,723
Intergovernmental	\$ 2,388,344	\$ 3,907,254
Subtotal Other Revenues	\$ 28,277,669	\$ 34,307,854
<b>Total Revenues</b>	<b>\$ 610,635,410</b>	<b>\$ 596,160,711</b>

## Government Expenditures - Where Did We Spend It?



Expenditures	FY 2013	FY 2012
Public Education	\$ 287,773,897	\$ 257,933,587
Protection of Life and Property	\$ 92,310,739	\$ 80,456,682
Debt Service	\$ 75,899,121	\$ 79,439,548
Other	\$ 68,026,617	\$ 49,517,781
General Government	\$ 51,392,812	\$ 86,498,392
Public Health	\$ 37,475,008	\$ 44,026,496
Retiree Payments	\$ 35,641,418	\$ 43,706,859
Interest on Tax Refunds	\$ 1,096,019	\$ 11,171,090
<b>Total Expenditures</b>	<b>\$ 649,615,631</b>	<b>\$ 652,750,435</b>
Other Financing Sources, Net	\$ 11,170,668	\$ 389,858,435
<b>Net Change in Fund Balance (Deficit)</b>	<b>\$ (27,809,553)</b>	<b>\$ 333,268,711</b>

## OPA Expenditures

For fiscal year (FY) 2013, OPA's total appropriation was \$1.3M and expenditures were \$1.2M. OPA's expenditures primarily consisted of salaries and benefits (67%), contractual services (14%) and rent (9%). Increase in miscellaneous expenditures were related to the PASAI Congress that was hosted by our office in September 2013. The OPA continues to hold the line and maintain its expenditures each fiscal year.

Expenses	FY 2013	FY 2012	FY 2011
Salaries and Benefits	\$ 770,920	\$ 795,973	\$ 867,384
Contractual	\$ 164,948	\$ 125,720	\$ 79,024
Rent	\$ 102,594	\$ 102,594	\$ 102,594
Miscellaneous	\$ 44,680	\$ 3,166	\$ 4,540
Training	\$ 35,000	\$ 52,333	\$ 57,877
Equipment	\$ 17,966	\$ 8,233	\$ 28,949
Travel	\$ 11,110	\$ 12,487	\$ 7,727
Supplies	\$ 7,575	\$ 7,674	\$ 7,214
Telephone and Utilities	\$ 2,781	\$ 3,174	\$ 5,333
Capital Outlays	\$ -	\$ -	\$ 24,929
<b>Totals</b>	<b>\$1,157,574</b>	<b>\$1,111,354</b>	<b>\$1,185,571</b>

# Future Challenges and Outlook



## To Become Low Risk Auditees

Today our financial audits are issued with unqualified “clean” opinions. Questioned costs are now in the tens of thousands, not millions. But improvements in compliance are still needed for good governance. OPA aspires for GovGuam and all its component units to become low risk auditees. This will require agencies to address their findings and have no material weaknesses for two consecutive years.

The Guam Community College is the only agency who is currently a low risk auditee. All entities who receive federal grants should become low risk auditees to give our people and the Federal government confidence in our ability to manage federal funds.

## New Financial Management Information System (FMIS)

As a billion-dollar entity, policymakers need regular, current, and reliable financial information. While regular monthly cash flow reports are provided, it is not sufficient to assess the financial health of the government. What is needed is significant investment in technology to include a new FMIS that is fully integrated between DOA, DRT, and other agencies.

## Government Accounting Standards Board (GASB) Statements

GASB Statement Nos. 67 and 68 related to the Financial Reporting for Pensions will result in significant restatements of financial statements as entities will be required to report its pro rata share of GovGuam’s pension liability, which as of FY 2012 is \$1.5 billion. Adoption of GASB 67 and 68 are in effect for periods after June 2013 and 2015, respectively.

## Defined Contribution (DC) Employees Retirement At Risk

According to Retirement Fund officials the average DC retirement balance is \$40K, which arises from the member and employer contributions and is set by law at five percent (5%) of base pay. With DC benefits being based on retirement balances and not guaranteed annuity payments, a safety net is needed for DC members such as Social Security or some other retirement plan, to ensure a reliable stream of retirement income.

Action has been taken to rectify the inequities between DC and Defined Benefit employees. The Guam Legislature recently passed a resolution to ask our Guam Delegate to allow GovGuam employees to participate in the federal government social security system. The GovGuam Retirement Board recently transmitted a Hybrid Plan to the Guam Legislature.

## Staff Recruitment and Retention

OPA continues to face difficulty in recruitment and retention. The office has gone from a high staffing count of 18 in 2006 and still has not been able to recover in the past 8 years. OPA’s main challenges to recruitment and retention are a low compensation package and the bureaucratic and lengthy hiring process.

Under the purview of DOA HR, OPA is unable to compete with autonomous entities, the federal government, and the private sector, which have greater personnel flexibility. The recent 2014 Hay Study still does not make OPA competitive. This has posed challenges for OPA to retain senior auditors. Two Audit Supervisors have ten years of experience with OPA while the average audit experience of the remaining ten staff auditors is about three years.

Another staffing challenge the OPA faces is the inordinate amount of time to hire in the classified service due to the complex and bureaucratic hiring procedures of DOA.

To address these issues, the OPA has requested in its FY 2015 Budget to:

- Approve OPA’s Compensation Study;
- Give the Public Auditor the authority to hire employees conditionally subject to post review and ratification by Civil Service Commission; and
- Give the Public Auditor the authority to hire a Deputy Public Auditor, an Executive Secretary in the unclassified service, and at least one limited-term clerical staff.

## Give Us Your Opinion

Please tell us what you think about our report by contacting Rachel Field at 475-0390 ext. 218 or [rfield@guamopa.org](mailto:rfield@guamopa.org).