



Speaker Won Pat <speaker@judiwonpat.com>

Messages and Communications

Speaker Won Pat <speaker@judiwonpat.com>

Mon, Aug 17, 2015 at 1:56 PM

To: Guam Legislature Clerks Office <clerks@guamlegislature.org>

8/17/2015 8/17/2015 Office of Public Accountability

Pursuant to P.L. 30-127; Citizen Centric Report (CCR) for 2014

33-15-0750

Forwarded message

From: Clariza Mae Roque <croque@guamopa.org>
Date: Mon, Aug 17, 2015 at 10:39 AM
Subject: Office of Public Accountability 2014 Citizen Centric Report
To: "Speaker Judith T. Won Pat" <speaker@judiwonpat.com>
Cc: Doris Flores Brooks <dfbrooks@guamopa.org>, Yuka Hechanova <yhechanova@guamopa.org>

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Office of Public Accountability 2014 Citizen Centric Report as required by Public Law 30-127.

Should you have any questions or concerns, please feel free to contact me.

Best Regards,

Clariza Mae G. Roque
Auditor II
Office of Public Accountability - Guam
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Ufisinan I Etmás Ge'helo'Gi Liheslaturan Guáhan
Office of Speaker Judith T. Won Pat, Ed.D.
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Office of the Speaker
Judith T. Won Pat, Ed.D.

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Office of Public Accountability

A Report to the Citizens of Guam

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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 & 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.

Hotline

(671) 47AUDIT (28348)

Calendar Year 2014

July 2015

“Auditing for Good Governance.”



For 14 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) with dependable and reliable information, unbiased analyses, and objective recommendations on how to best use government resources in support of the well-being of our island and its constituents.

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. In addition to OPA's performance audits and oversight of financial audits, OPA is tasked to hear and decide all appeals of procurement protest decisions between vendors and GovGuam agencies as well as to respond to legislative mandates and requests to review other government-related activities. Increasing public awareness, improving government efficiency and effectiveness, and promoting better understanding of OPA's mission, work, and impact are important aspects of the OPA Strategic Plan.

The OPA Hotline is the confidential avenue all citizens can use to submit concerns about possible government waste, abuse, or fraud. The information received on the Hotline helps OPA assess risks in the government and determine where to focus resources. OPA assures the public that all information provided is held in the strictest confidence.

OPA Receives Full Compliance on Quality Control Review



Guam OPA received its fifth “Full Compliance” rating and it was the second time no Management Letter was issued. Full compliance rating is the highest rating for audit organizations. Government Auditing Standards require audit organizations to undergo a quality control review (peer review) every three years. OPA was audited for the sixth time by the Association of Pacific Islands Public Auditors (APIPA) in October 2014. Additionally, independent auditors Deloitte & Touche annually audit OPA's financial statements as part of the annual Government-wide financial audit and have not issued any management letter comments for the last several years.

Progress in CY 2014

Performance Audits

Performance audits are audits that improve the effectiveness and efficiency of government operations. In Calendar Year (CY) 2014, OPA issued seven performance audits that collectively made 10 recommendations and identified over \$10.6 million (M) in questioned costs and other financial impacts.

We provided six insight reviews and one foresight review which identified areas of revenue leakage and increased costs. For example, in OPA Report No. 14-01, GovGuam's total public indebtedness (debt subject to the debt ceiling, debt not subject to the debt ceiling, and other primary government liabilities) increased by 54% from \$1.02 billion (B) in fiscal year (FY) 2008 to \$1.57B in FY 2013 (unaudited). GovGuam's FY 2012 debt-per-capita of \$8,810 is the highest burden on its citizens compared to prior years and amongst other insular governments.

In OPA Report No. 14-04, the accuracy of \$3M in uncollected Hotel Occupancy Tax (HOT) tax receivables could not be verified. Between CY 2008 and CY 2013, taxes due from 10 taxpayers were inaccurately assessed at the obsolete HOT rate of 10% instead of the current HOT rate of 11% or the Gross Receipts Tax rate of 4%.

In OPA Report No. 14-06, we found that the Department of Corrections does not have an effective management strategy to operate under high capacity demand pressures. According to the International Centre for Prison Studies, as of April 2013, Guam had the highest pre-trial remand rate in the world with 272 detainees per 100,000 of the island's population.

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 2014, of the 24 financial audits, 12 were issued within six months after fiscal year end, 8 were issued within nine months, and 4 were issued after nine months.

There were 50 findings related to internal control over financial reporting and the Single Audit, of which 19 were material weaknesses among 6 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 systems. Proper documentation was not maintained to ensure applicants were eligible for various government programs. Several agencies have not completed physical inventories and accounting systems were not in place. For over a decade, GovGuam has not performed a comprehensive physical inventory of its properties and has been noncompliant with applicable equipment management requirements.

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.

Thirteen procurement appeals were brought before the Public Auditor in 2014. Of the 13 appeals, OPA rendered decisions on 9 appeals, dismissed one after the Appellant and Purchasing Agency settled via stipulated agreement, dismissed one after the Appellant withdrew, and two moved to the Superior Court. Appeals ranged from air conditioning equipment, Special Education mini buses, CCTV surveillance systems, telecommunications systems, diesel fuel oil, school buses, and refuse collection trucks. These appeals collectively amounted to over \$53.9M in procurement value.

The goal of OPA 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 nine decisions, four were rendered within 30 days, four were rendered between 30 to 60 days, and one was rendered more than 60 days.

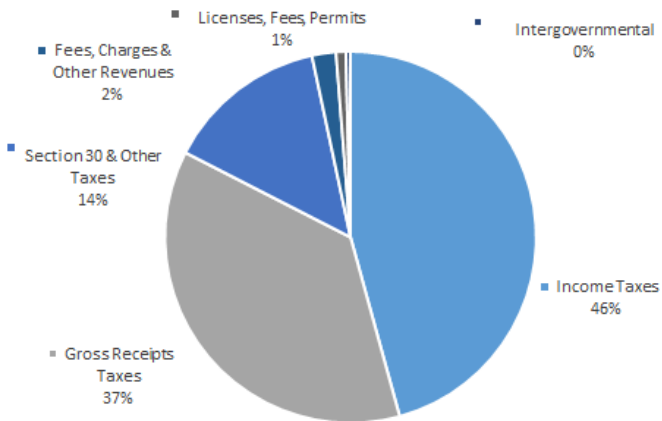
Website Redesign

OPA launched its redesigned website, www.opaguam.org, on January 1, 2015. The website features improved user-friendly navigation, more organized content, and mobile device accessibility.



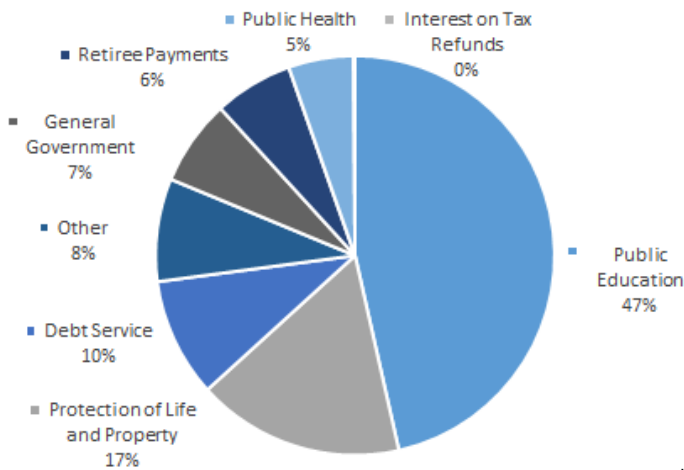
GovGuam's FY 2014 Finances

Government Revenues - Where Did Our Funds Come From?



REVENUES	FY 2014	FY 2013
Income Taxes	\$ 296,185,527	\$ 261,848,998
Gross Receipts Taxes	\$ 238,249,400	\$ 221,672,983
Section 30 Federal Income Tax	\$ 87,998,215	\$ 96,104,113
Other Taxes	\$ 3,463,914	\$ 2,731,647
Subtotal Taxes	\$ 625,897,056	\$ 582,357,741
Other revenues	\$ 7,865,511	\$ 13,332,562
Fees and Charges	\$ 5,661,222	\$ 7,101,793
Licenses, Fees, Permits	\$ 5,594,294	\$ 5,454,970
Intergovernmental	\$ 2,545,406	\$ 2,388,344
Subtotal Other Revenues	\$ 21,666,433	\$ 28,277,669
TOTAL REVENUES	\$ 647,563,489	\$ 610,635,410

Government Expenditures - Where Did We Spend It?



EXPENDITURES	FY 2014	FY 2013
Public Education	\$ 370,593,159	\$ 287,773,897
Protection of Life and Property	\$ 134,059,434	\$ 92,310,739
Debt Service	\$ 76,816,896	\$ 75,899,121
Other	\$ 66,383,283	\$ 59,593,879
General Government	\$ 55,504,357	\$ 51,392,812
Retiree Payments	\$ 51,003,253*	\$ 44,074,156*
Public Health	\$ 42,173,356	\$ 37,475,008
Interest on Tax Refunds	\$ 923,109	\$ 1,096,019
TOTAL EXPENDITURES	\$ 797,456,847	\$ 649,615,631
Other Financing Sources, Net	\$ 87,951,396	\$ 11,170,668
Net Change in Fund Balance (Deficit)	\$ (61,941,962)	\$ (27,809,553)

* Special Revenue Section 2718 funds of \$6,388,394 and \$8,432,738 were noted for FY 2014 and FY 2013 under retiree payments, respectively.

OPA Expenditures

For FY 2014, OPA's total appropriation was \$1.3M and expenditures were \$1.2M. OPA's expenditures primarily consisted of salaries and benefits (69%), contractual services (14%) and rent (9%). The increase in Salaries and Benefits expenditures was due to the implementation of the Competitive Wage Act of 2014. OPA continues to hold the line and maintain its expenditures each fiscal year.

Note: Performance audits, procurement appeals, and financial audits are on a CY basis, while the financials are on a FY basis.

EXPENSES	FY 2014	FY 2013	FY 2012
Salaries and Benefits	\$ 854,834	\$ 770,920	\$ 795,973
Contractual	\$ 171,391	\$ 164,948	\$ 125,720
Rent	\$ 107,723	\$ 102,594	\$ 102,594
Miscellaneous	\$ 48,543	\$ 44,680	\$ 3,166
Travel	\$ 18,301	\$ 35,000	\$ 52,333
Equipment	\$ 17,191	\$ 17,966	\$ 8,233
Training	\$ 12,921	\$ 11,110	\$ 12,487
Supplies	\$ 4,511	\$ 7,575	\$ 7,674
Telephone and Utilities	\$ 2,879	\$ 2,781	\$ 3,174
TOTAL	\$ 1,238,294	\$1,157,574	\$1,111,354

Future Challenges and Outlook



To Become Low Risk Auditees

The Guam Community College is the only GovGuam entity to maintain the low risk auditee status for 13 consecutive years. OPA aspires for GovGuam and all its component units that receive federal funds to become low risk auditees. This will require agencies to not have any material weaknesses in internal controls and no findings in any of its federal programs for two consecutive years. Becoming a low risk auditee gives our people and the Federal government confidence in our ability to manage federal funds.

Further, OPA is encouraging legislation to require 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.

Deficit Continues & Monitoring of Earned Income Tax Credit (EITC)

The Government-Wide financial statements present another aspect of GovGuam's financial status because it includes long-term debt and capital assets. In FY 2014, GovGuam's unrestricted net position reported a deficit of \$871.6M. In addition, the tax liability continues to increase due to the EITC, an unfunded federal mandate that GovGuam is required to pay without any contribution from the taxpayer. The relationship of EITC paid compared to the tax refunds paid continues to grow from Tax Year 2000 of 11% to Tax Year 2013 of 46%. GovGuam's FY 2014 estimated provision for unpaid tax refunds was \$99.3M, of which \$56M is for tax returns filed for EITC.

New Financial Management Information System (FMIS)

GovGuam's current FMIS is antiquated as it was acquired in the late 1980s. Significant investment in technology is needed to provide regular, current, and reliable financial information and include a new FMIS that is fully integrated between DOA, DRT, and other agencies.

Defined Contribution (DC) Employees Retirement At Risk

According to the Retirement Fund, the average DC retirement balance is less than \$40K, which arises from the member and employer contributions and is set by law at five percent (5%) of base pay. When DC plan members retire, their benefits are based on their retirement account balances. To ensure a reliable stream of retirement income, the Fund is working with the Legislature for alternatives that would provide members a reasonable opportunity to build sufficient post-retirement benefits.

Bill No. 002-33 proposed a hybrid plan combining a Defined Benefit (DB) plan for DC employees with a 1% mandatory savings contribution. However, because the plan is less generous than the current



DB plan, another major component should be Social Security. GovGuam employees should have the opportunity to become members of the Federal Social Security system.

As a result of the Legislature's Resolution No. 379-32, Congresswoman Bordallo introduced H.R. 5274 in July 2014 to allow GovGuam employees to be covered under Social Security. To date, no action was taken on this bill.

Staff Recruitment and Retention

OPA staff recruitment, compensation, promotion, and retention continue to be among OPA's primary concerns after 14 years. OPA's 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. OPA's main challenges continue to be the low compensation package and the bureaucratic and lengthy hiring process.

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 autonomy, and staff resources in order to perform the work required.

To address these issues, the OPA has requested in its FY 2016 Budget for the Legislature to:

- Approve OPA's Compensation Study;
- Approve the carryover of personnel lapses from FY 2015 to FY 2016;
- Exempt OPA from BBMR allotment control like other elected offices and the Judiciary; and
- Authorize the hiring of limited term employees to assist in clerical and other administrative duties.

Future Outlook and Goals

- To become a model robust audit office, OPA has embarked on a self-assessment review of the Supreme Audit Institutions Performance Measurement Framework. This assessment covers seven domains, such as independence, audit standards, and human resources and leadership, to identify OPA's strengths and weaknesses.
- Transition of manual work papers to TeamMate, an automated audit management software.
- Outreach efforts at nominal costs include procurement training and serving on the Education Financial Supervisory Commission and the DOC Blue Ribbon Commission.

Give Us Your Opinion

Please tell us what you think about our report by contacting Clariza Roque at 475-0390 ext. 216 or croque@guamopa.org.