
**Management Audit of Guam
Economic Development Authority**

A Report to the
Governor, the
Judiciary and
the Legislature
of the Government
of Guam



**THE PUBLIC AUDITOR
GOVERNMENT OF GUAM**

Management Audit of the Guam Economic Development Authority

SUMMARY

The Guam Economic Development Authority (GEDA) is tasked with assisting in the implementation of an integrated program for the economic development of Guam. It is intended for GEDA to be a catalyst in Guam's economic development. GEDA has successfully provided financial management consultant services for agencies and instrumentalities of the Government of Guam. It also continued to issue revenue bonds, approve businesses qualifying for tax rebates and abatements and provided loans and mortgages.

GEDA is a public corporation and not an instrumentality of the Government of Guam. It believes that the Authority is exempt from complying with Government of Guam laws intended to promote economy, effectiveness, and efficiency in government agencies. Accordingly, we believe that the absence of external oversight makes it imperative that GEDA establish and maintain a strong system of internal management controls.

We evaluated GEDA's system of internal controls related to travel, consulting contracts, credit cards, petty-cash and other operations. We found that GEDA had issued its own written, personnel, travel, procurement, and petty-cash procedures. We also found that there was a degree of management override of basic controls which weakened the internal control system.

Our review showed that GEDA did not enforce or comply with procedures that required all travelers to submit complete and timely expense reports. We found that this condition was prevalent among travelers at the administrative level and travelers from other GOV GUAM agencies. Our review also showed that GEDA did not limit the number of travelers going to the same destination at the same time for the same purpose.

We also found questionable credit card expenditures and unauthorized users of GEDA credit cards. We believe that this condition occurred because the Board of Directors did not exercise oversight over the frequent credit card expenditures. Further, expense reports, when provided, did not adequately justify expenditures.

Our review showed that the Authority did not ensure that proper procedures were followed when it entered into sole source consulting contracts that stemmed from unsolicited offers. The contracts were executed by GEDA even though it had no legitimate need for the specific services. Finally, we found that GEDA made payments to contractors without obtaining proper supporting documentation to substantiate invoices.

RECOMMENDATIONS AND RESPONSE

We recommend that the Administrator enforce procedures that require travelers to submit complete expense reports. Expeditiously promulgate decisions made by the board of directors. Limit the use of GEDA travel funds for persons from other GOVGUAM agencies. Reduce the number of travelers going to the same destination at the same time.

We recommend that the board of directors reduce the Administrator's spending authority to a reasonable amount, and review and ratify credit card expenditures monthly.

We recommend that the Administrator award contracts to consultants only when there is a bona fide need. We also recommend that the Administrator authorize payments to contractors only when all necessary documentation is provided. We further recommend that the Administrator register all contracts with the Department of Administration.

We recommend that the Administrator re-negotiate the current lease to reduce lease costs and excess space.

The Administrator cited initiatives, on-going or completed. All individuals were issued notices of travel reports outstanding and advised that collection procedures will be initiated if no response is received. The written travel policy was amended to announce the board of directors' decision on travel. The Administrator's comment on limiting the number of other agency travelers at GEDA's expense, and reducing the size of groups going to the same place at the same time is "ON-GOING". We believe that in the interest of economy and efficiency GEDA should exercise prudence in sponsoring travel. We found that during the period reviewed the authority spent \$93,895 on travelers from other agencies. Further, GEDA spent more than \$165,000 on groups going to various locations. For example, fourteen (14) persons were in the group that went to Australia.

The Administrator commented that the board reviews and ratifies credit card expenditures monthly via the Monthly Agency Report. We do not believe that this report provides the necessary details for the board to analyze the Administrator's expenses, particularly, for entertainment. GEDA board Resolution No. 96-019 specifically requires the Administrator to report, in detail, on his expenditures.

GEDA pays its contractors directly, therefore, the Administrator does not believe that the authority's contracts should be registered at the DOA. Our rationale for making this recommendation is that although the DOA is not the paying agent for GEDA contracts, the contracts are paid for with Federal funds or funds held in trust for the people of Guam. Accordingly, we believe that all contracts should be filed, recorded, and registered at the DOA where they will be available for public inspection.

The Administrator commented that GEDA's office space is not excessive. We observed that half of the 5th floor of the GITC office space was unfurnished and unoccupied during our on-site work. We are not questioning GEDA's need for a new space; however, we are questioning the reasonableness of GEDA paying \$110,929 for unused space.

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October 2, 1998

ROBERT G.P. CRUZ
PUBLIC AUDITOR

Paul Bordallo, Chairman
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Guam Economic Development Authority
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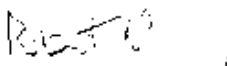
Dear Mr. Paul Bordallo:

We conducted a management audit of the Guam Economic Development Authority from March 1998 to July 1998. A copy of our final audit draft is provided for your review and comments. We discussed the audit findings and recommendations, in detail, with the GEDA staff on August 31, 1998, and at an earlier meeting. We received written comments from GEDA on September 4, 1998. Accordingly, we took GEDA's comments under consideration and made changes to our report, as we deemed appropriate.

During our meeting on August 31, we requested a synopsis of your "Best Practices" so that they can be included in our report. We are also inviting you to let us assist you with any legislative proposal that you are contemplating. Our audit report may be a good forum to introduce your ideas to improve GEDA's legislation.

I would sincerely appreciate your assistance in closing out this audit. All that is necessary is a final response to each recommendation. In each response, please state what steps are being taken to correct the problem, and provide a time frame for completion, or state disagreement and briefly explain your position. Either way, your comments will be included in our report. We would appreciate receiving your response by October 15, 1998 so that we can issue the final report.

Sincerely,


Robert G.P. Cruz

Enclosure
cc Board Members

INTRODUCTION

BACKGROUND

The Guam Economic Development Authority (GEDA) was created by Public Law 8-80 on August 21, 1965. GEDA is tasked with assisting in the implementation of an integrated program for the economic development of Guam. It is intended for GEDA to be a catalyst in Guam's economic development.

The Guam Legislature has mandated the creation of GEDA to achieve the following:

- To promote investments of entrepreneurial capital in Guam, invest in and provide technical assistance in support of its objectives, develop or maintain facilities for lease or sale and provide for the expansion of agricultural, industrial, hospital, housing and other tourist facilities through financial assistance and other means.
- To make loans or guarantees of loans to any persons, firm, or partnership or corporation licensed to do business in Guam in furtherance of the purposes and activities of their charter.
- To issue, sell or dispose of revenue bonds and other obligations from time to time under terms and conditions as the Guam Legislature, by appropriate legislation, may prescribe.
- To purchase from any person, firm, corporation or governmental entity, and to refinance, mortgages on residential real property.
- To act as central financial manager and consultant for those agencies or instrumentalities of the Government requiring financial guidance and assistance.
- To invest its funds in any enterprise, undertaking or other activity which, in its judgment, will further economic development in Guam.

GEDA has six divisions: Accounting, Administration, Programs and Compliance, Industry and Development, Public Finance, and Base Realignment and Closures (BRAC)

GEDA incurred total operating expenses of \$1.9m, in FY 1995, \$2.3m, in FY 1996, and \$2.7m, in FY 1997. The Authority experienced operating losses of \$97k, in FY 95, \$595k, in FY 96, and \$849k, in FY 97.

OBJECTIVE AND SCOPE

The objective of our audit was to determine whether GEDA: (1) is using its resources economically and efficiently (2) is hiring consultants only when there is a bona fide need (3) is acting as the central financial planner and investment banker for all agencies of the Government and (4) is complying with its own internal management controls

We reviewed the Authority's mission, organization, operational policies and procedures encompassing personal service contracts, travel, credit card use, procurement, and other records for the period covering FYs 1995, 1996, 1997 and 1998.

This performance audit was conducted from March 1998 to July 1998 in accordance with the "Government Auditing Standards", issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We adhered to fieldwork standards and reporting standards for performance audits provided in the "Yellow Book" of "Government Auditing Standards". Our fieldwork was performed at GEDA's main office, GIFC building, Suite 511, 590 South Marine Drive, Tamuning, Guam

PRIOR AUDIT COVERAGE

The Public Auditor has issued no prior audit reports on GEDA. A certified public accounting firm issued single audit reports for the years 1994, 1995, and 1996. The public accounting firm did not express an opinion on the internal control structure and its operation. However, the auditors communicated their observations on the internal control structure and its operation to GEDA's management in a separate letter.

In addition, the Office Of Inspector General issued reports in 1987 and 1988 on the Qualifying Certificates Program (No. 88-04) and the Revolving Loan Fund (No. 88-53) that addressed deficiencies in GEDA's administration of these two programs. In 1990 the Office of Inspector General issued a follow-up audit report (No. 91-1-162) on the Qualifying Certificates Program

FINDINGS AND RECOMMENDATIONS

The Guam Economic Development Authority (GEDA) is responsible for assisting in the implementation of an integrated program for the economic development of Guam. One of the ways GEDA is accomplishing its mission is by acting as the central financial manager and consultant for agencies or instrumentalities of the Government of Guam.

GEDA has successfully provided financial management consulting services for the Guam Power Authority, International Airport Authority, the University of Guam and other agencies. It also continued to issue revenue bonds, approve businesses qualifying for tax rebates and abatements, provided loans and purchased mortgages.

We found that, in general, the Authority is accomplishing its mission. However, there were some internal control weaknesses. We believe that these weaknesses can become material if ignored by top management.

SUMMARY OF FINDINGS

GEDA is a public corporation and not an instrumentality of the Government of Guam. It believes that the Government of Guam Procurement Law and Travel Law does not apply to the Authority. Accordingly, it has issued its own procurement and travel procedures. We examined the procedures, and other internal management controls, to determine whether GEDA accomplished its defined goals efficiently, economically, and effectively. Our observations on how well the internal controls are working are the following:

1. GEDA did not comply with its travel policy related to expense reports, or exercise prudence in incurring expenses.
2. GEDA's Board of Directors did not exercise oversight over credit card expenses; therefore, the Authority was unable to determine the propriety of some purchases.
3. GEDA did not determine its requirements for office space prior to leasing more space than it could utilize efficiently.
4. GEDA's procedures for controlling petty-cash funds are inadequate. The propriety of expenditures could not be determined in many cases.
5. GEDA did not ensure that proper procedures were followed when it entered into sole source contracts that stemmed from unsolicited offers.
6. GEDA made questionable payments to consultants without obtaining proper supporting documentation to substantiate invoices.
7. GEDA did not submit contracts to the Department of Administration for filing, recording and registration.
8. GEDA did not prepare and approve minutes from meetings of its Board of Directors promptly and efficiently.

MANAGING AND CONTROLLING TRAVEL

Only employees of GEDA or members of the board of directors should travel at the Authority's expense. Travel should be performed for the direct benefit of GEDA or to fulfill a real and legitimate obligation of the Government of Guam.

GEDA's written travel policy specifically states that "no funds of the Authority shall be expended for off-island travel for the Governor, Lieutenant Governor or any person not an employee or member of the board of the Authority". GEDA's written policy also emphasizes that all off-island travel will be performed for the direct benefit of the Authority or to fulfill a real and legitimate obligation of the Authority or the Government of Guam. GEDA's written travel policy differed from its actual policy. GEDA's Board of Directors approved a change to the policy at a board meeting on June 8, 1995, to permit off-island travel of GEDA's subsidiaries and Government of Guam officials. However, this change was never promulgated in GEDA's official administrative guidelines.

Thirty – eight Percent of all Travel Financed by GEDA was for Persons not Employed by the Authority

GEDA approved 57 travel authorizations for FY 1997, and 55 authorizations as of April 16, 1998 totaling \$219,610, and \$205,217, respectively. We reviewed 32 authorizations for FY 97, and 33 for FY 98. We found that 29 trips costing \$93,895 were approved for persons outside of GEDA. In FY 1997, 14 travel authorizations totaling \$47,868 were approved for persons outside of the Authority (includes 6 authorizations in the amount of \$14,688 for the Governor's office). In FY 1998, 15 Travel authorizations totaling \$46,027 were approved (includes 6 authorizations in the amount of \$14,421 for the Governor's office). The balance, \$64,805, was spent on sixteen trips for Senators and other outside travelers. Although GEDA's unpublished policy permitted the payment of travel expenses for other people outside the Authority, we believe that they are excessive. Particularly, when compared to limitations placed on travel by other Government of Guam agencies.

The Number of Travelers to the Same Destination Should be Limited

In the interests of economy and efficiency government agencies are encouraged to limit the numbers of persons traveling to the same off-island destination for conferences, meetings or other functions. However, this was not the case at GEDA. They spent more than \$165,000 on group travel to the following destinations

<u>Destination</u>	<u>No of Travelers</u>
Australia	11
Australia/Bali	3
Indian Wells, CA	10
New Orleans, LA	9
Puerto Rico	6

Large groups of people, representing the same agency, traveling to the same destination could give the appearance of traveling for pleasure rather than business

GEDA Administrative Personnel and Non- GEDA Employees do not File Timely or Adequate Travel Expense Reports.

The Authority's travel policy requires that within ten (10) days after returning from official travel, a traveler must prepare and submit an expense report accounting for all travel advances. We reviewed 32 travel authorizations for FY 1997, and 33 for FY 1998, to determine if travelers were complying with this requirement. We found that there was general compliance from GEDA rank and file employees. However, board members, administrative personnel and travelers not employed by the Authority were not submitting adequate expense reports, or any reports to justify expenditures. No expense reports were submitted for 11 of 65 travel authorizations reviewed (17 percent). These authorizations were for administrative and higher level travelers involving advances of \$39,333.

Management and Outside Travelers are not Complying with Internal Control Procedures.

If adequate expense reports are not filed it can not be determined whether the expenditures are proper. GEDA can not certify that travelers exercised the same care in incurring expenses that a reasonable and prudent person would under similar circumstances. The fact that advances were made to persons above the line structure of the Authority, or individuals not employed by GEDA, makes it difficult for accounting to enforce collection procedures.

Recommendation

We recommend that the Administrator enforce and comply with procedures that require all travelers to submit complete and timely expense reports

Recommendation

We recommend that the Administrator amend GEDA's Travel Policy to reflect policy changes approved in the June 8, 1995 minutes

Recommendation

We recommend that the Administrator limit the number of non-GEDA employees traveling at the Authority's expense.

Recommendation

We recommend that the Administrator restrict the number of travelers going to the same destination to the minimum necessary to complete the mission

Recommendation

We recommend that the Administrator initiate collection procedures from all travelers when adequate justification and receipts are not provided for all expenditures.

CREDIT CARD USAGE

GEDA's board of directors authorized the Administrator and Deputy Administrator to use credit cards to incur expenses while traveling or in local establishments. It was the board's intention to provide management the flexibility and ability to incur expenses in order to conduct the business and operations of the agency.

Authority is too Broad

The GEDA Board of Directors approved the use of a credit card by the Administrator and Deputy Administrator on June 8, 1995. The board further clarified the use of the credit card on March 16, 1996. The Board authorized the credit card to be used on expenditures described by the line items outlined and contained in the approved operating budget, (travel and transportation, food, refreshments and entertainment) with the stipulation that the authorized users were personally liable for any unauthorized use. In addition, the board approved Resolution No. 96-019, on May 9, 1996, requiring the Administrator to submit a report of entertainment and support expenditures at the next regular meeting of the board so that the same may be ratified.

Inadequate Documentation for Expenditures

We reviewed 31 credit card statements totaling \$113,790, and 318 transactions for 1996, 1997, and 1998. We found that \$22,847 (20%) of the charges was for food and beverages purchased on Guam. A detailed expense report, with receipts, was not provided to the board for ratification or to the accounting division for most of the charges. Even when expense reports were provided to accounting, they were batched, not dated, and did not fully explain why the charges were incurred. We also found questionable charges of \$2,224, for food and refreshments for GEDA staff meetings or meetings with counsel or local government officials. Further, at least two individuals, not previously authorized by the Board, were using the GEDA credit card, accumulating charges amounting to \$16,321.

Unauthorized Users

At least two individuals, not previously authorized by the board, were using GEDA credit cards. The unauthorized users charged more than \$16,000 to the cards. Expenditures were for a broad range of items ranging from gas to alcoholic beverages. Expense reports were not provided to justify charges until they were requested by the accounting division. Even then the reports were inadequate.

No Management Over-sight

This condition occurred because the Board of Directors did not exercise oversight over the frequent credit card transactions. A thorough review of transactions would have shown that many of them were personal in nature and questionable. Further, the Board

did not enforce provisions of the resolution that calls for the Administrator to submit expense reports for ratification. GEDA has not developed and implemented formal policies and procedures to control credit card expenditures. Because there are no controls in place governing credit card use, GEDA is unable to determine the propriety of expenditures

Recommendation

We recommend that the Board of Directors review and ratify administrator's expenditures monthly to ensure over-sight of expenditures.

Recommendation

We recommend that the Administrator certify invoices and credit card statements for payment only after the Board of Directors has ratified his expenses.

PROPER CONTRACTING PROCEDURES

Contracts Should Only Be Entered Into when they Benefit the Authority

GEDA's Procurement Regulations Section 3-104 provides procedures for processing unsolicited offers, and section 3-205 provides procedures for sole source procurements. Section 3-104.01.4 provides that "The unsolicited offer shall be evaluated to determine its utility to the Authority and whether it would be to the Authority's advantage to enter into a contract based on such an offer. Section 3-205.02 states that the determination whether procurement shall be made as a sole source, and the basis therefor, shall be in writing.

Contracts Should be Entered Into Only When There is a Bona-fide Need for the Products or Services

We reviewed four contracts, which resulted from unsolicited offers, and determined that the Authority entered into sole source contracts for services without following proper contracting procedures. The contracts were executed by GEDA although it had no legitimate need for the specific services. GEDA's Procurement Regulations, Section 3-104.01.3, provides in part that to be considered for evaluation an unsolicited offer must be in writing and must be sufficiently detailed to allow a judgment to be made concerning the potential utility of the offer to the authority. Two of the four contracts reviewed were for business consulting services. These services were not unique and could have been obtained through competitive procurement procedures. The offerors, except for BRAC, did not present their offers directly to the Authority, thereby making it impossible for the Authority to determine the potential utility of the offers. Someone, other than the offeror, forwarded three of four unsolicited offers to GEDA for consideration. Although GEDA had not previously expressed a need for these services, consulting contracts were awarded to two consultants for the sum of \$65,596 and \$48,000 respectively for a minimum of 25 hours work per month. The third contract reviewed, between GEDA-GVB and RSG Philippines, also resulted from an unsolicited offer brought to GEDA by the GVB. As a result of negotiations with GEDA and the Guam Visitors Bureau a contract was awarded in October 1996 with GEDA's share being \$45,000. GEDA did not follow sole source contracting procedures before entering into this contract. It was not able to make an adequate determination that the contractor was the best-qualified offeror. Closer scrutiny of this offer would possibly have revealed that it was defective. Subsequently, the contractor failed to perform.

Memorandum of Understanding Resulted after GEDA Refused to Enter Into a Contract

The fourth unsolicited offer did not result in a direct contract between GEDA and the offeror. However it did result in a Memorandum of Understanding, (M.O.U.) dated March 12, 1997, between GEDA and the Port Authority of Guam (PAG), which binds GEDA as effectively as a contract. The M.O.U. requires GEDA to reimburse PAG the sum of \$100,000 towards the \$200,000 annual budget of the Guam Steering Committee.

for BRAC. Earlier, GEDA had refused to enter into a contract with the individual who subsequently became the Guam Steering Committee BRAC Administrator. The unsolicited offer was for GEDA to hire an independent contractor as the executive director for GEDA's BRAC division. When the offer was discussed at a special meeting of GEDA's Board of Directors (December 20, 1996) they agreed that "there was no need for a consultant at this time". By agreeing to the M.O.U. with the PAG, GEDA is, in effect, paying for a consultant's position that it said it did not need. During our audit it received a bill from the Port Authority of Guam for \$427,000 as its share of the GSC BRAC costs (M.O.U. stated that GEDA's cost would be \$100,000).

Utility of Services Offered Can not be Determined

Without proper evaluation of unsolicited offers GEDA can not determine the utility of services offered. As a result, sole source contracts and other agreements are entered into requiring payments for marginal or redundant services or products. When contracts are awarded and there is no legitimate need for the service or product, it gives the appearance that the award is solely to accommodate the contractor.

Recommendation

We recommend that the Administrator evaluate unsolicited offers to determine whether there is a bona fide need for services before entering into a contract.

Recommendation

We recommend that the Administrator ensure that documentation is on file to justify sole source contracts.

CONTRACTOR PAYMENT PROCEDURES

Propriety of Charges can not be Determined without Supporting Documentation

Good internal control policies and procedures require that certain minimum documentation be provided before payments are made for goods or services. The certifying officer is responsible for the existence and correctness of the facts recited in the certificate or otherwise stated on the voucher or its supporting papers and for the legality of the proposed payments. Without adequate documentation to support contractors' invoices, the propriety of the charges cannot be determined.

Contractor was Paid without Providing Adequate Documentation With Invoices

We reviewed internal controls over payments for five consulting contracts. We found that even in cases where little or no documentation was provided the contractor was still paid by GEDA. For example, the Financial Advisory Agreement contract Section 4.03 specifically states that GEDA agrees to reimburse the contractor on a quarterly basis for its reasonable and necessary out-of-pocket expenses incurred in the performance of this agreement. It also states that the contractor shall provide reasonable documentation for all such expenses incurred. Although four quarterly billing invoices on this contract requested reimbursement for out-of-pocket expenses of \$24,783, with no receipts, the contractor was still fully reimbursed. On the GVB/GEDA/RSG Philippine, Inc contract GEDA advanced a payment of \$45,000 to GVB without being properly invoiced. It was later discovered that the contractor did not perform. Further, payments of \$112,596 were made on two consulting contracts although there was no certification that services were received. One consultant attempted to justify his invoice with a form of activity report showing that he had attended a monthly meeting of an advisory board. The other consultant only provided an invoice with no supporting documentation.

Questionable Payments

GEDA made questionable payments of \$182,379, to consultants without obtaining proper supporting documentation to justify invoices, or adequate certification that services were received. The Authority could not substantiate the propriety of payments but it still paid the contractors. No payments should be made unless proper supporting documentation is provided to support the invoices.

Recommendation

We recommend that the Administrator withhold payment of invoices until all necessary documentation is provided.

Recommendation

We recommend that the Administrator ensure that the responsible person who received services certifies acceptance.

CONTRACT APPROVAL AND REGISTRATION

All contracts under which a payment may be made shall be registered with the Department of Administration.

Guam Code Annotated Article 6 Section 22601 provides that all contracts shall, after approval of the Attorney General, be submitted to the Governor for his signature. It also provides that all contracts of whatever nature shall be executed upon the approval of the Governor. Section 22602 provides that: a copy of any contract under which a payment may be made shall be submitted to the Department of Administration for filing, recording and registration. . . No such contract or amendment thereto shall be deemed valid or enforceable until it shall have been so submitted to the Department of Administration and enrolled on the public register.

The Governor signed only one of the sole-source contracts that we reviewed. None of the contracts were registered with the Department of Administration.

The contracts did not go through the proper approval and registration process because GEDA is a public corporation, and not a government instrumentality. GEDA believes that it is not necessarily subject to the various restrictions and rules that apply to instrumentalities and agencies of the executive branch of the Government of Guam. It cited the court case, Bordallo v. Reyes, 1984, as the reason for its belief that it is exempt. In that case the judge ruled that the Guam Visitors Bureau, a public corporation, was not an instrumentality of the Government of Guam. GEDA believes that the judge's ruling applies to it also. Although GEDA believes that it is exempt from the Government of Guam's laws regarding contracts, the Government of Guam may be bound by GEDA's contractual actions. Therefore, we believe that GEDA contracts should be registered with the Department of Administration.

We also believe that because GEDA's contracts do not comply with the GCA they may be invalid and unenforceable if contested.

Recommendation

We recommend that the Administrator register all contracts with the Department of Administration.

CONTROLLING DISBURSEMENTS OF PETTY CASH

A petty-cash fund is a minimal amount of money kept on hand by an agency to meet small expenditures. The fund is periodically reimbursed, usually monthly. One individual (custodian) should be responsible for the fund to maintain control.

GEDA board Resolution No. 92-08 provided policy and procedures for accounting for and controlling petty cash. Two funds were established for \$500 each. One fund is located at the ITC office, and the other fund is in the BRAC office at Adelup. The procedures provide that purchases through petty cash shall be governed by the urgency of the need. The funds shall be used to purchase small items and other minor purchases, which require cash payments due to no open credit account with GEDA. The maximum one line item purchase from the fund shall be \$100.

Petty-cash Should not be Used to Purchase Refreshments for the Office

We reviewed petty cash transactions for the period June 17, 1996 to January 21, 1997 for the BRAC office, and transactions for the period October 1997 to March 1998 for the ITC office. We found that the ITC office and the Adelup office spent \$2,142.00 and \$2,924.00 respectively during these periods. Fifty two percent of the Adelup fund (\$1,121) and twenty two percent of the ITC fund (\$649) was spent for refreshments. Petty cash should be used to purchase items like postage, emergency office supplies, taxi fare etc. When more than half of the fund transactions are for refreshments, it gives the appearance that the fund is being abused.

Weak Internal Controls

We also reviewed internal control procedures for petty cash. We found that: (a) the fund custodian at the ITC office had not been appointed in writing, (b) in many instances the petty cash vouchers do not contain sufficient information to determine if expenditures for refreshments were business related; (c) petty cash is not periodically reconciled by someone independent of the custodianship of the fund; (d) the cash at the Adelup office is not kept in a secure controlled access area, (e) the reimbursement checks to replenish petty-cash were not made payable to the fund custodian; and (f) documents supporting replenishment of the fund were not defaced or perforated to prevent reuse.

Need to Revise Procedures

GEDA's current procedures for controlling the petty cash fund are vague and difficult to enforce. The procedures should be revised to reduce or eliminate procurement of refreshments. Cash should be inventoried periodically on a surprise basis by one who is independent of the fund. Responsibility should be fixed by making reimbursement checks payable to the custodian (this precludes denial of accountability). Under the current

procedures, funds are being replenished with cash although the propriety of expenditures cannot be determined in many instances

Recommendation

We recommend that the Administrator revise petty-cash fund procedures to make them more specific as to the type of purchases that can be made from the fund.

Recommendation

We recommend that the Administrator set specific guidelines on when refreshments can be purchased with petty-cash funds

EXCESS OFFICE SPACE

All agencies which have office space lease contracts should maintain appropriate documents indicating how their office space needs were determined. As a minimum, documents should include a floor and office space plan indicating the number of rooms, room size, and floor space footage needed. Office space leased should be the minimum needed by the agency.

Relocated Offices

Prior to entering into a new lease agreement for office space on the 5th floor of the ITC building, GEDA occupied 6,105 square feet of space on the 9th floor of the building at a cost of \$118,000 per year (includes 26 parking slots) GEDA exercised its option, commencing July 1, 1997 to relocate offices to the 5th floor of the ITC building, acquiring office space aggregating to 8,162 square feet, (an addition of 2,057 square feet) at a cost of \$12,406 per month. The lease stipulated that rent will be renegotiated when the amendment to existing sublease expires on June 30, 1999. The additional office space should have been more than sufficient for GEDA's needs since there was no increase in staffing. Nevertheless, GEDA leased another 4,601 square feet of space, for an additional \$6,671.45 per month for the first year to occupy the entire 5th floor of the ITC building. With no additional increase in staffing or apparent need for more space GEDA more than doubled its office space and increased lease costs from \$118,000 to \$228,929 (a rent increase of \$110,929 per year).

Additional Space Not Required

GEDA did not complete a study to determine its space requirements. It still has a major division located outside the main office. Although the BRAC division is a part of GEDA it is located at the Government complex at Adelup. There are no immediate plans to move the division to the ITC office. Even if the BRAC division was moved to the ITC building there still would be too much unutilized space. In the meantime, money is being spent for space that is not needed. GEDA should determine the minimum space necessary to conduct its business and renegotiate its lease. Another way for GEDA to recover some of its rental costs is to sub-lease excess space.

Recommendation

We recommend that the Administrator initiate a study to determine space requirements.

Recommendation

We recommend that the Administrator renegotiate the current lease to reduce excess space and lease costs.

TIMELY PROCESSING OF BOARD MINUTES

Minutes are official records of actions taken by the board of directors at meetings. They usually contain authorizations for important transactions, contractual arrangements, and support for other major decisions taken by the board of directors. Minutes are usually maintained in a book called, the "Minutes Book." Promptly and Fairly Recording Minutes

In Title 5, Section 8102, of the Guam Code Annotated, the Legislature declared it a policy of the Government of Guam that the formation of public policy and decisions is public and shall not be conducted in secret. Section 8113, of the GCA specifically states that "The minutes of every meeting of each public agency shall be promptly and fairly recorded, shall be open to public inspection and shall include but not be limited to a record of all motions, proposals and resolutions offered, and the results of any votes taken."

Approved Minutes Delayed or Missing

We reviewed the minute book for the period January 5, 1995 to December 2, 1997. During this period 47 meetings were conducted, but properly approved minutes were available for only 36. Eleven sets of minutes, 33 percent, were either missing or not properly approved (missing signatures). Approval time for the minutes that were approved ranged from one to seven months (average time to approve was two months).

Frequent Board Meetings

The delay in compiling and approving minutes increased even more when the Board of Directors approved Resolution No. 96-107, authorizing two regular sessions of the board each month. Sometimes the board holds three regular monthly meetings. According to the board, the additional meetings are necessary because there is too much business to be taken care of in one regular monthly meeting of normal duration. The board receives a \$50.00 stipend for each meeting whether it meets for one hour or eight hours.

Minutes Backlogged

GEDA's legal counsel is responsible for preparing board minutes. GEDA is a public corporation and it is not unusual for a law firm to prepare minutes for a corporation. However, it appears that the legal counsel is unable to keep the minutes current. A chronic backlog of minutes waiting for approval has existed intermittently since 1995. This condition has resulted in lost minutes and delayed board approvals of official actions that may already have taken place. GEDA is a high profile agency with frequent board meetings that may involve some controversy. We believe that GEDA needs to hire or reassign someone to act as board secretary. The primary duty of the board secretary will be to ensure that current and detailed minutes are maintained to provide support for routine business transactions and major decisions taken by the Board of Directors.

Recommendation

We recommend that the Administrator hire a board secretary to prepare minutes and maintain the "Minutes Book".

SUMMARY OF RECOMMENDATIONS

1. We recommend that the Administrator enforce and comply with procedures that require all travelers to submit complete and timely expense reports
2. We recommend that the Administrator amend GEDA's Travel Policy to reflect policy changes approved in the June 8, 1995 minutes
3. We recommend that the Administrator limit the number of non-GEDA employees traveling at the Authority's expense
4. We recommend that the Administrator restrict the number of travelers going to the same destination to the minimum necessary to complete the mission.
5. We recommend that the Administrator initiate collection procedures if adequate justification and receipts are not provided for all expenditures
6. We recommend that the board of directors curtail the Administrator's spending authority
7. We recommend that the board of directors review and ratify the Administrator's expenditures monthly to ensure over – sight of expenditures.
8. We recommend that the Administrator certify invoices and credit card statements for payment only after the board of directors has ratified his expenses.
9. We recommend that the Administrator evaluate unsolicited offers to determine whether there is a bona fide need for services before entering into a contract.
10. We recommend that the Administrator ensure that documentation is on file to justify sole source contracts.
11. We recommend that the Administrator does not authorize payment of invoices until all necessary documentation is provided.
12. We recommend that the Administrator ensure that the person who received services, certifies acceptance.

13. We recommend that the Administrator register all contracts with the Department of Administration.
14. We recommend that the Administrator initiate a study to determine space requirements.
15. We recommend that the Administrator renegotiate the current lease to reduce excess space and lease costs.
16. We recommend that the Administrator revise petty-cash procedures to be more specific on the type of purchases that can be made from the fund.
17. We recommend that the Administrator set specific guidelines on when refreshments can be purchased with petty-cash funds.
18. We recommend that the Administrator hire a board secretary to prepare minutes and maintain the "Minutes Book".

RESPONSE OF THE AFFECTED AGENCY

Comments on Agency Response

We transmitted a draft of the report to the Guam Economic Development Authority on July 17, 1998. We discussed the audit findings, in detail, with the GEDA staff on August 31, 1998, and at an earlier meeting. We received GEDA's preliminary written comments, without supporting documentation, on September 4, 1998. We took the comments under consideration and made changes to our report, as we deemed appropriate. We transmitted a final draft to GEDA's Administrator and the Board of Directors on October 2, 1998. We received final written comments from the Administrator on November 27, 1998, however, GEDA's Board of Directors did not respond. The Administrator's comments are included as attachment 1.

The Administrator took exception to most of our findings. He agreed to take action on seven (7) of eighteen (18) recommendations. Although the Administrator took exception to most of our findings his response did not provide additional evidence that would support different conclusions.

The Administrator cites initial remedies completed, or in progress that are intended to address concerns raised in our report. We believe that these initiatives will strengthen internal controls over travel, particularly in the area of expense reporting. We found that administrative personnel and personnel from other GOVGUAM agencies were delinquent in filing travel expense reports. Although the Administrator disagreed with our recommendation, we believe that in the interest of economy and efficiency, prudence should be exercised in sponsoring travel. In the period reviewed, GEDA spent more than \$165,000 on group travel to the same destination. For example, fourteen (14) persons made the trip to Australia at the same time and for the same purpose.

The Administrator disagreed with our recommendation that his spending authority (up to \$50,000 without prior board approval) be curtailed. GEDA Resolution No. 96-019 specifically requires the Administrator to report in detail on his expenditures so that the Board may ratify them. We do not believe that the Monthly Agency Report provides the necessary detail to allow the Board to analyze the frequent credit card expenditures, particularly expenditures for entertainment. Further, Board oversight of credit card expenditures would have shown that at least two employees, not previously authorized by the board, used the GEDA credit card to accumulate charges amounting to \$16,321.

Our rationale for concluding that GEDA has excess space in the GITC building was based on on-site observations. Contrary to the Administrator's response, we inspected the unused and the occupied space several times during our audit fieldwork. The occupied space was more than adequate to meet GEDA's needs. The unoccupied space, half of the 5th floor of the GITC building, was unfurnished and remained vacant while we were on-site. Even if the BRAC division re-located to the GITC building, there would still be excess space. In fact, GEDA board minutes of August 15, 1996 show that one of the motives for leasing the entire 5th floor of the GITC building was to sublease portions of the floor, which could be profitable for GEDA.



GUAM

ECONOMIC DEVELOPMENT AUTHORITY

An Autonomous Agency of the Government of Guam, USA

Public Auditor

9/4/98



To: Mr. Robert G.P. Cruz
Public Auditor

From: Mr. Ed Untalan
Administrator

Date: September 4, 1998

You will find below my response to the draft report. Please note that in the areas dealing with internal controls, our response includes our comments and corrective action steps taken, if any. With regard to citations in areas not dealing with internal controls, we ask for further clarification.

In the Introductory section of the report, it should be noted that GEDA has six divisions. The Accounting Division was excluded. Also, the operating expenses of GEDA for FY95, '96 & '97 as reported in our annual audited statements is \$1.9M, \$2.3M and \$2.7M respectively (see attachment). These expenses were incorrectly cited on the report.

OBJECTIVE AND SCOPE

The objective and scope noted in the report were to determine whether GEDA:

- 1) is using its resources economically and efficiently;
- 2) is hiring consultants only when there is a bona fide need;
- 3) is acting as the central financial planner and investment banker for all agencies;
- 4) and, is complying with its own internal management controls.

The audit covered the periods from FY 1995, 1996, and 1997. The work performed was in accordance with generally accepted government standards, which included a test of records and other auditing procedures that were considered necessary under the circumstances.

Comments:

An audit over the internal controls provides a review of the adequacy and effectiveness of the agencies controls and procedures. As such, a review of the policies and procedures approved by Board will determine if Management is in compliance with the established operational guidelines. Further, the actions taken by Management will determine if any weaknesses exist, which will subsequently call for corrective action. For the purpose of this response, the type of audit performed for the above is considered a financial and compliance audit.

To determine whether the Agency is using its resources adequately and effective, is hiring consultants only when there is a bona fide need, or is acting as a central financial manager can be difficult as it is subject to interpretation. Rather than a financial or compliance audit, the type of audit performed to cover these areas is a performance audit. To conduct such an audit would require a disclosure of the performance standards and or industry norms to which the agency or its actions are to be compared to. Prior to the final report being produced, we kindly request the disclosure of the performance and industry standards to which the Agency is being compared and that the Authority be allowed to comment on such standards.

*Destination Guam, USA
Tropical Paradise & Island of Opportunities*

PRIOR AUDIT COVERAGE

It was mentioned that a certified public accounting firm issued single audit reports for the years 1994, 1995, and 1996 and the Office of the Inspector General issued reports in 1987, 1988, and 1990.

Comments:

We request that it be noted that the Agency had responded to the reports issued and that any issues raised in the reports have been addressed to the satisfaction of all cognizant parties.

SUMMARY OF FINDINGS

It was mentioned that the procedures and other internal management controls were examined to determine whether GEDA accomplished its defined goal efficiently, economically, and effectively.

Comments:

We request clarification on the above statement, as we understand it to mean that the findings of the financial or compliance audit is used to determine the Agency's performance. Additionally, we request the performance or industry standards that the Agency is being compared.

The following provides a summary response to the findings. We provide a detailed response as an attachment.

- 1) GEDA did not comply with its travel policy related to expense reports. WE AGREE WE DISAGREE with the expenditures for non-GEDA employees and prudence in incurring expenses.
- 2) GEDA's Board of Directors did not exercise over-sight over credit card expenses therefore, the Authority was unable to determine the propriety of some purchases. WE DISAGREE.
- 3) GEDA did not determine its requirements for office space prior to leasing more space than it could utilize efficiently. WE DISAGREE.
- 4) GEDA's procedures for controlling petty-cash funds are inadequate. The propriety of expenditures could not be determined in many cases. WE DISAGREE.
- 5) GEDA did not ensure that proper procedures were followed when it entered into sole source contracts that stemmed from unsolicited offers. WE DISAGREE.
- 6) GEDA made questionable payments to consultants without obtaining proper supporting documentation to substantiate invoices. WE DISAGREE.
- 7) GEDA did not submit contracts to the DOA for filing, recordation and registration. If contested, contracts could be deemed invalid or not enforceable if not enrolled on the public register. WE DISAGREE.
- 8) GEDA did not prepare and approve BOARD minutes promptly and efficiently. WE AGREE.

In closing, we request that we receive a response to our request prior to the final report and that our comments are considered and reflected in the final report.

Attachments:

Detail Response to Management Report
GEDA Travel Policy
Financial Statements – FY95,96,97
GEDA Board Resolution No. 96-019

DETAILED RESPONSE

1) Managing and Controlling Travel

- A) Only employees of GEDA or members of the Board should travel at the Authority's expense. Travel should be performed for the direct benefit of GEDA or to fulfill a real and legitimate obligation of the Government of Guam.

Comment:

WE DISAGREE. As noted in the report, the Board of Director's approved a change to the policy at its June 8, 1995 meeting to permit the travel of GEDA's subsidiaries and Government of Guam officials. Although the change has just been recently reflected on the manual (see Exhibit 1), the Board did approve the change and Management was informed in a several ways:

- 1) Management is required to attend all Board meetings; and,
- 2) The Controller was in attendance at that meeting and was also provided a copy of the minutes.

Further, the real and legitimate obligation of the Authority is develop the economy by providing financial advice to the government, promote Guam as an investment destination, lease land, and provide financial assistance to small businesses. Therefore, any action taken by the Agency is to benefit the Island and not the Authority directly. We strongly feel that all the travel authorized was for the direct benefit of the economic development of the Island and was authorized by the Board.

This is an approved policy by the Board and the comment should be removed from the report. There is no violation of policy.

- B) Thirty-eight percent of all travel financed by GEDA was for Persons not employed by the Authority

Comment:

WE DISAGREE. As noted in the report and as mentioned above, this is an approved policy by the Board and should not be included in the report. There is no violation of policy. Pursuant to our meeting, Mr. Kuykendall's justification as to why it should be reported is subjective and personal and does not reflect an independent/unbiased opinion.

- C) The number of Travelers to the same destination should be limited.

Comment:

WE DISAGREE. Please provide the performance standard with which the Agency is compared. Mr. Kuykendall's justification as to why this should be reported, especially in the absence of any performance measure or standard, appears to be subjective and personal and does not reflect an independent/unbiased opinion. As a note, the Authority carefully plans all travel, particularly promotions, to ensure that its funds are spent efficiently. Marketing plans developed by our consultants and staff provide the venues to attend. The staff develops the details of a promotion. The individuals attending are chosen based on the work required at the event, the objective of the promotion and the audience. It is critical at these events that we demonstrate and convey to the audience that the promotion has the full support and cooperation of all branches of the government.

It should also be noted that although the scope of work defined the period to be from 1995 to 1997, four of the areas cited fall outside the period in review. And as for the only travel cited within the defined period, it should be noted that the travel included attendance for two separate conferences that fell within a one week span. To maximize the travel budgeted, the Board approved the attendance at both as one dealt with GEDA's function as the central financial manager and the other with economic development and financial assistance.

Although the citation includes areas outside the defined scope, we feel all travel is well justified. And, in the absence of any performance measure or standard, the comments should be excluded from the report.

- D) GEDA Administrative Personnel and Non-GEDA employees do not file timely or adequate travel reports.

Comment:

WE AGREE in that the reports are untimely. However, WE DISAGREE with the comment on the adequacy of the travel reports.

With regard to the untimely filing, we request that the following corrective measures be noted in the report.

- 1) All individuals have been issued notices of travel reports outstanding. Failure to submit a report will result in administrative and collection proceedings
- 2) A final notice that will be sent to all travelers informing them that they will be liable for the funds expended if their respective reports are not submitted by 9/21/98.
- 3) We are exploring the use of a computerized expense tracking system to assist GEDA employees in filing timely travel & expense reports.

As for the adequacy of the reports, WE DISAGREE with the citation. All reports that have been filed are scrutinized for appropriateness. The files will show that travelers have been required to reimburse the Agency for unacceptable charges. This is an on-going procedure in the review process. **The comment should be modified to exclude the adequacy of the reports.**

- E) Management and outside travelers are not complying with internal control procedures.

Comment:

Statement is redundant and is already noted in the above citation. **The comments should be merged or purged with the above citation.**

- F) Recommendations:

- 1) The Administrator enforce & comply with procedures that require all travelers to submit complete and timely expense reports - AGREE.
- 2) The Administrator amend GEDA's Travel Policy to reflect the changes approved in the June 8, 1995 minutes. DONE. Should be removed from the report due to immateriality.
- 3) The Administrator limit the number of non-GEDA employees traveling at the Authority's expense. ON-GOING. Should be removed from the report, as this citation has not been adequately justified. We feel management has acted appropriately.
- 4) The Administrator restrict the number of travelers going to the same destination to the minimum necessary to complete the mission. ON-GOING. Should be removed from the report, as this citation has not been adequately justified. We feel management has acted appropriately.
- 5) The Administrator initiate collection procedures from all travelers when adequate justification and receipts are not provided for all expenditures. ON-GOING. Should be removed from the report, as we feel management is acting appropriately.

II) Credit Card Usage

A) Inadequate documentation for expenditures.

Comment:

AGREE. The primary cause has been cited earlier as it is related to the untimely filing of expense/travel reports. Management has submitted all reports and all documentation provided is adequate. To prevent the recurrence, an individual has been assigned to monitor the reports and collect all documentation on a monthly basis. Additionally, Management is instructed to submit all pertinent documentation to the individual assigned immediately after the expense is incurred. However, please adjust the statement regarding the number of statements and transactions to reflect the review period defined on the scope. The statement reflects FY 98.

Additionally, the statement regarding Resolution No. 96-019 is incorrect. The resolution was a result of the Administrator incurring an expenditure of \$30,000 that was in addition to the approved FY budget. As per conversations with the Chairman and the Legal Counsel, the resolution allows the Administrator to incur an expense of up to \$10,000 without prior approval of the Board, and up to \$50,000 with the consent of two Board members. "Provided, however, that in each instance, the Administrator report in detail on such expenditure at the next regular meeting of the board so that the same may be ratified." Suffice it to say, as the Board has approved the budget for the year, this applies only to every instance that an expenditure over the budget is incurred. Our policy does not require Board ratification. To infer that it is specific to and applies to credit card usage is misleading. A credit card is only an avenue of payment. This comment should be removed.

B) Unauthorized Users

Comment:

AGREE. The first individual was asked to replace the Administrator the night before he was scheduled to fly out on a trade mission. Because it was a weekend and there was no way to replace the travel authorizations and advances, the individual was authorized to utilize the Administrator's credit card for the trip. Upon his return, all expenses were scrutinized and the card returned.

A third card was issued to the Chief Financial Officer. The card was issued to be utilized in the event the Administrator or the Deputy was not available to cover the expense. The card has been retrieved. It will be returned upon obtaining Board approval.

All reports and supporting documentation have been submitted.

C) No Management Oversight

Comment:

We DISAGREE. The Board of Directors reviews the financial statements monthly via the Monthly Agency Report. The report contains a budget-to-expense analysis submitted by the Accounting Division. This method adequately addresses the Board's oversight.

The statement that "many of them were personal in nature and questionable" should be excluded from the report. This statement is subjective and can not be justified as a thorough review of the expense reports was never performed by the auditor, a statement he made personally during our August 31st meeting.

Please refer to Letter A above regarding the statement that "the Board did not enforce provisions of the resolution."

This comment should be excluded from the report as the Board provides adequate oversight.

D) Recommendation:

- 1) The Board of Directors review and ratify administrator's expenditures monthly – WE DISAGREE. This is an on-going process via the Monthly Agency Report.
- 2) The Administrator certify invoices and credit card statements for payment only after the Board of Directors has ratified his expenses. WE DISAGREE (see above).

III) Proper Contracting Procedures

- A) Contracts should only be entered into when they benefit the Authority.

Comment:

AGREE.

- B) Contracts should be entered into only when there is a bona-fide need for the products or services.

Comment:

AGREE

- C) MOU resulted after GEDA refused to enter into a contract.

Comment:

DISAGREE. The initial declination came as a result of the illegality of entering into a direct contract. Additionally, the Board and Management did not feel that another consultant to handle solely GEDA issues was necessary.

However, in order to address all the Military issues the government was facing, the Governor created the BRAC STEERING Committee and hired the individual (who is well qualified). The individual was responsible for more than just GEDA issues, but all issues that have a direct impact on the Island's economy. Because of the latter, GEDA was asked to assist in handling the payments via an MOU between the Port and GEDA. GEDA did not enter into a contract directly with the individual.

- D) Utility of Services Offered can not be determined

Comment:

AGREE. GEDA established a procurement policy in April of 1996. Although our Legal Counsel has opined that GEDA does not have to go through the procurement process when seeking professional services, the Board passed the Procurement Policy to establish a sound corporate practice.

E) Recommendation:

- 1) The Administrator evaluate unsolicited offers to determine whether there is a bona fide need. AGREE. ON-GOING. All services are solicited through the RFP process after the determination of the need.
- 2) The Administrator ensures that documentation is on file to justify sole source contracts. AGREE. ON-GOING. All contracts are documented accordingly.

IV) Contractor Payment Procedures

- A) Contractor was paid without providing adequate documentation with invoices.

Comment:

AGREE. This situation has since been rectified. All invoices are paid if adequate documentation is provided, otherwise payment will be withheld. In addition, a request for proper documentation will be sent to all outstanding contracts to satisfy this citation.

- B) Questionable payments

Comment:

This situation has since been rectified. All invoices are paid if adequate documentation is provided, otherwise payment will be withheld. In addition, a request for proper documentation will be sent to all outstanding contracts to satisfy this citation.

- C) Recommendations:

- 1) The Administrator withhold payment of invoices until all necessary documentation is provided. AGREE.
- 2) The Administrator ensure that the responsible person who received services certifies acceptance. AGREE.

V) Contract Approval and Registration

- A) All contracts under which payment is made shall be registered with the Department of Administration.

Comment:

WE DISAGREE. DOA is not the paying agent for a GEDA contract. GEDA pays for all contracts it executes using its own operating funds, therefore it is not necessary for GEDA to register its contracts with the Department of Administration.

- B) The Governor signed only one of the sole-source contracts that we reviewed. None of the contracts were registered with the Department of Administration.

Comment:

WE DISAGREE. In previous court cases, the court ruled that GEDA was not a government instrumentality and cannot be protected by the doctrine of sovereign immunity. Therefore, GEDA is vested with the power to sue and be sued. All contracts entered into by GEDA are valid and enforceable and does not in any way bind the Government of Guam as a result of its actions.

VI) Excess Office Space.

- A) Relocated Offices

Comment:

WE DISAGREE. GEDA's relocation from the 9th to the 5th floor was primarily due to two factors: (1) the configuration of the 9th floor office space was not conducive to a professional office operations. Because we shared the floor with both a hotel and a restaurant the foot traffic was heavy. Security, particularly after normal hours was being compromised. In addition, the total area leased at the onset was approximately 6,000SF and combined with the fact that rooms were originally configured for a hotel, the space just did not allow for sufficient storage of files, equipment and staff.

This led to numerous citations from both OSHA and Public Health for safety and fire code violations. (2) GEDA has been in its 9th floor location since 1987. In the ten years since, the Agency's responsibilities have grown as well as its staffing and equipment needs to accommodate this growth. The cost of renovation to alleviate sub-standard conditions was prohibitive. Further compounding this was the "first right of refusal" option given to the Agency by the landlord to lease the additional space prior to the area being let to a prospective tenant.

All this information was conveyed to the GEDA Board in order for them to make an informed decision. They gave their approval for the relocation in September 1996. This resulted in the acquisition of a permanent Board room which the Agency has been operating without for approximately two years, space to accommodate the additional staff and permanently archive files and records and equally important the mitigation of fire and flood hazards in the event of such catastrophes.

It is our feeling that a thorough review and examination of the records to include an inspection of the premises was not performed. If to the contrary, please enlighten us with the rationale and basis for arriving at such a conclusion.

B) Additional space not required.

Comment:

WE DISAGREE. The satellite office of GEDA's BRAC Division was established to meet the requirements under the transfer of the former SRF properties to the Government of Guam. In addition, its physical location within the SRF facilities allowed it to also serve as a caretaker site to monitor activities within the premises. As you know, the office experienced total destruction by Typhoon Paka. The Agency at the time did not have the resources to absorb BRAC's operations because it also suffered substantial damages from the typhoon. An alternate site needed to be quickly identified to minimize disruptions to its operations. The immediate availability of the Adelup office to allow them to quickly transition and resume operations.

The addition of a permanent boardroom, the eventual relocation of our BRAC staff to ITC and the now completed move of Industry Development to the new space justifies the need of additional space.

VII) Controlling Disbursements of Petty Cash

A) Petty cash should not be used to purchase frequent refreshments for the office.

Comment:

WE DISAGREE. We acknowledge that use of petty cash for the purchase of refreshments. The Agency's petty cash policy allows for such purchases, therefore we cannot comprehend the underlying conclusions absent any statutory restrictions that would define and restrict its usage to postage, taxi fare and the like.

B) Weak internal Controls.

Comment:

WE DISAGREE. The responsibility of the fund was placed on the GEDA receptionist/Administrative Aide. In other words, the petty cash responsibilities are a function of a position and not an individual. The responsibility continued upon the incumbent's replacement. The need for a written appointment is redundant given it is already a part of the position's job standard.

As you know, the adequacy of internal controls must be evaluated and measured by comparing the benefits to be achieved against the costs to be borne. The petty cash requests for refreshments generally range between \$5-\$25. The activities for which the refreshments are dispensed (meetings, workshops, presentations etc. are disclosed on the petty cash request form. The adequacy of information documenting the purchases serves the underlying purpose and objective of establishing the fund, to accommodate "small purchases" and minimize associated administrative and accounting costs.

We concur that the fund is not periodically reconciled however we are confident there is continued vigilance over the fund. Section 2.13 of the petty cash policy requires a monthly reporting to the Accounting Division irregardless of the lack of petty cash activity

Due to logistics, the establishment of a petty cash fund at the BRAC offices was necessary. As to its safekeeping, there is minimal risk involved in that all purchases made under the BRAC petty cash fund is on a reimbursable basis. In other words, petty cash is generally not given in advance of the purchase. By doing so it minimizes the actual amount of petty cash funds on hand because as the fund is replenished it is immediately disbursed to reimburse the employee(s) who advance purchases using their own personal funds.

VIII) Timely Processing of Board Minutes.

A) Promptly and Fairly Recording Minutes

Comment:

WE AGREE The frequency of the meetings and the high turnover of GEDA Board Secretaries have contributed to this condition. However, with the addition of personnel in the administrative capacity the Board Secretary is relieved of certain ministerial functions.

B) Approved Minutes Delayed or Missing

Comment

Board minutes are now up to date and consistently and timely submitted for approval in the ensuing regular meeting of the Board of Directors.

C) Frequent Board Meetings & D) Minutes Backlogged

Comment

WE AGREE