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Government of Guam Federal Indirect Cost Recovery

Internal Audit Section Report No. 2024-01

January 31, 2024

The Department of Administration (DOA) Internal Audit Section (IAS) completed IAS Report No. 2024-01, Government of Guam Federal Indirect Cost Recovery.

Reason for Audit

This audit was initiated upon the request of the DOA Director due to the concern over the recovery of federal indirect costs from Federal grants the government of Guam administers.

The audit objectives were to:

1. Identify the financial impact of indirect costs from federal grants on Government of Guam revenues; and
2. To determine whether the Government of Guam charges appropriate indirect costs for federal grants it administers.

The period of our review encompassed October 1, 2021 through September 30, 2022.

Results of Audit

Based on the Internal Audit Section's assessment, the audit team noted the following:

- There is a need for a creation and implementation of standard operating procedures outlining standardized procedures and internal controls relative to indirect costs. These internal controls should ensure tracking of budget deviations, verification of whether all relevant direct costs are accounted for, documentation of recorded costs and approval, and system updates and control.
- Observed transfers indicate a redirection funds from indirect costs to other cost objects. Reallocations were identified within the indirect costs' allotments, raising concerns about the accurate representation of expenses in the organization's financial records.
- Discrepancies in the application of the negotiated indirect rates, including \$1,057,232 in unrealized revenue, were observed impacting the accuracy and completeness of indirect cost reporting.
- Discrepancies were identified in adjusting indirect cost in conjunction to changes in direct salaries. The corresponding adjustment to indirect cost was inconsistently implemented.
- There is a need for improvement relating to the oversight and monitoring of indirect cost.
- While it was not part of our audit scope, instances of erroneous recording of indirect cost were identified, totaling \$207 thousand (K). Additionally, expenditures from the indirect cost fund exceeded its budgeted amount by \$110,930.

Conclusion and Recommendation

Our audit found that internal controls could be designed more effectively to ensure that SOPs relative to the recovery of indirect costs are consistently implemented for all federal awards and financial controls are in place to ensure financial responsibility.

We have made a total of 10 recommendations to the DOA Chief Financial Officer to improve processes moving forward. The DOA Chief Financial Officer has acknowledged our recommendations and has designed improvement actions to address them.

The full report has been prepared solely for the use of DOA Management. The information in the full report is deemed confidential and not for public distribution.