

Appendix 4: GEDA Management Response

Page 1 of 3

LOURDES A. LEON GUERRERO
Governor of Guam
I Maga'Haga Guahan

JOSHUA F. TENORIO
Lt. Governor of Guam
I Segundo Na Maga'Lahen Guahan



MELANIE MENDIOLA
Chief Executive Officer/Administrator
Athädi Eksektibu Ofisial/Atmenestradora

CARLOS P. BORDALLO
Deputy Administrator
Sigundon Atmenestrador

October 18, 2022

Benjamin J.F. Cruz, Public Auditor
Office of Public Accountability
Suite 401 DNA Building
238 Archbishop Flores Street
Hagatna, Guam 96910

Hafa adai Public Auditor Cruz:

On behalf of the Guam Economic Development Authority (GEDA), we provide these responses to the Office of the Public Auditor (OPA) concerning our administration of Small Business Pandemic Assistance Program (PAG) and the Commercial Rent Relief Program (RAG) funded under the Coronavirus Relief Fund to aid in the island's economic recovery as directed by Governor Leon Guerrero in Executive Order 2020-40.

We offer these responses to your valuable feedback concerning the administration of the programs. We thank you for the time invested in understanding the scale of processing that was done in a relatively short amount of time, and we plan to utilize your points of feedback as process improvement measures in future program implementation.

To address specific concerns, we respectfully submit our responses.

The OPA identified five awards which were potential overpayments. Of these five awards, GEDA verified that there was input error on the part of GEDA staff in three of the five awards. GEDA has discussed starting the process to address this calculation error by: 1) assessing the materiality of the overpayment and 2) seeking reimbursement from the grantee of any material overpayment.

Of two of the samples GEDA contends were not input errors, we observed this to be the practice of the GEDA case manager exercising discretion in the treatment of replacement or amendment of BPT documentation. While GEDA personnel believed that seeking guidance from the Department of Revenue and Taxation and a subsequent judgement call was an acceptable course of action, in retrospect, this process should have been articulated in the SOP thereby identifying an accountable source of verification. This is a process improvement we are able and willing to implement.

The OPA identified one applicant who was awarded a grant based on one eligible BPT filing and a subsequent same month amended filing. The OPA noted that it appeared unusual, but GEDA did verify the business type as a real estate sales business with rental for income as well which was excluded from the calculation as rentals were ineligible. The OPA recommended that an interview take place to verify any anomalous behaviors among applicants, which GEDA is happy to implement. This was difficult for



this program, due to the sheer volume of applicants coming in to the inbox. However, this point of feedback is welcome and noted accordingly.

The OPA identified one applicant paid twice but reimbursed and noted a possible lapse in control that was effectively identified. The SOP which governs the flow of documents from role to role should articulate one task under final review that involves checking for duplications, input errors, and other erroneous items. We are happy to expand our SOP to accommodate for this very effective process improvement.

The OPA noted that one PAG applicant noted BPT paid but not amounts filed. The GEDA employee although commendable in their creativity to come up with the revenue by dividing the amount paid by 5%, was in fact, in error in making assumptions on behalf of the applicant without verification. Due to the sheer volume of applicants, one on one contact was difficult, but GEDA employees should be reminded that when there are situations outside of the normal course of events, defer to the SOP, or reach out for guidance from management, executive, and legal to document, verify, and only then, proceed.

The OPA noted the lack of articulation in the reconsideration process which led to two samples being approved despite having a lower interruption than the standard threshold. GEDA received 77 total reconsiderations out of 304 applications deemed ineligible. Of those, 76 were subsequently deemed eligible by the reconsideration committee. Reconsiderations were approved on the basis of the applicant providing further support of business interruption including the following circumstances: accounts receivable timing differences (50 reconsiderations) and using other auditable documents to verify interruption in gross revenue, an increase in expenses, or interruption in net income (26 reconsiderations). Of the 77 reconsiderations, only one was denied due to not being open for at least six months. The subject applicant's opening date was March 2020.

The OPA noted that some applications were without complete documentation. Incomplete documentation noted was the SWICA form, which was only necessary to assess employee count for qualification as a small business concern. Thus, not all businesses, many of which had gross receipts which clearly indicated having less than 10 or 15 employees were enforced in having a SWICA form before proceeding. We should have reflected in our SOP that it was not a "need to have" but a "may be requested". This change was identified in subsequent programs and amended accordingly.

With regard to the Small Business Pandemic Rent Assistance Grant, the OPA noted that landlord verifications and lease agreements differed and there was no consistency in the handling of the two. The complexity and uniqueness of the lease contract became apparent in this program. Landlord verifications were utilized in the absence of basic leases. In the future, we would revise our SOP's to accommodate a process for handling complex leases. Discretion at the case manager or project team manager level should have been escalated for further discussion and amendment of the SOP.

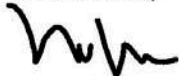
In conclusion, the OPA identified a number of weaknesses in internal control. Of note, we implemented the Pandemic Assistance Grant 2020 at a time when the government and many private offices were shut down, with no additional agency support or supplemental manpower. Local businesses were in a panic and needing aid without delay.

Interestingly enough, a number of the weaknesses identified in the audit of these grant programs were subsequently implemented in the subsequent programs. In addition, the GEDA compliance department holds an internal audit of programs with a sampling of 10% of recipients to check compliance measures and check applicants' attestations of the use of funds with actual documentation of expenditures.

We cannot control human error, but have been making process improvements as we build and execute new programs. We are grateful for any further constructive feedback by the OPA or any concerned member of the community as we continue to work towards stabilizing and rebuilding our economy.

We are honored to have been tasked with the responsibility of rolling out a program of this magnitude by the Office of the Governor. Should you have any further questions or comments, please feel free to contact us.

Si Yu'us Maase,



Melanie Mendiola

CEO/Administrator

Guam Economic Development Authority

Appendix 5:
Status of Audit Recommendations

No.	Addressee	Audit Recommendation	Status
1.	GEDA Administrator	Perform an expansive post review on awards granted, if feasible, or an extensive post review in future award administration.	In process
2.	GEDA Administrator	When appropriate, confirm uncertain and doubtful information or conduct interviews with the applicant for clarification, moving forward.	In process
3.	GEDA Administrator	Moving forward, incorporate criteria, factors, threshold, and processes for reconsiderations on the SOP.	In process
4.	GEDA Administrator	Program guidelines be strictly implemented and documentation requirements be complied with. Necessary amendments be made to the SOP, moving forward.	Complied
5.	GEDA Administrator	For the RAG ineligible award, appropriate action be undertaken if the award is recoverable. Moving forward, implement strict review processes to ensure propriety of awards granted.	In process
6.	GEDA Administrator	Moving forward, ensure that award calculations be consistently based and guided by the SOP.	Complied
7.	GEDA Administrator	Strengthen internal control systems by establishing a written description of staff's responsibilities and clear documentation of review and sign-off processes.	Complied