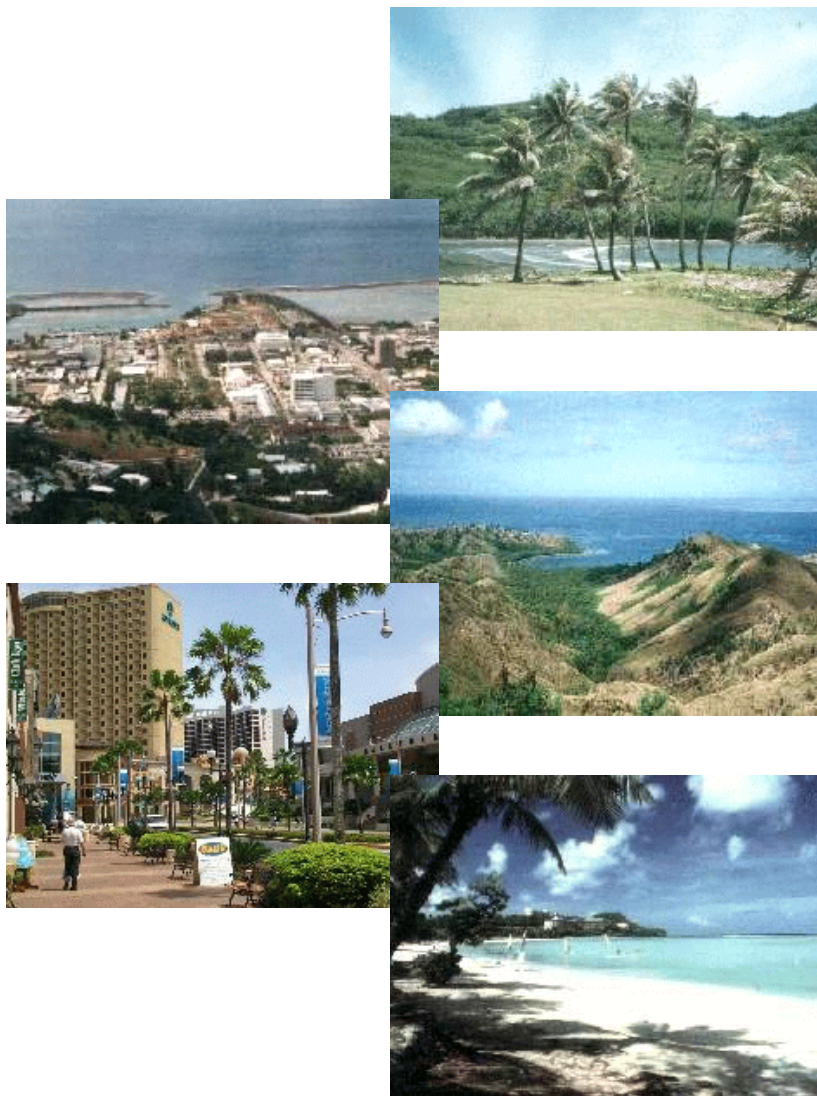


**U.S. Department of the Interior
Office of Inspector General**

Audit Report

Bond Services, Lease Operations, Trust Fund Activities Guam Economic Development Authority Government of Guam



**Report No. 2002-I-0016
March 2002**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Pacific Field Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Tamuning, Guam 96913

March 28, 2002

Mr. Chris Murphy
Chairman, Board of Directors
Guam Economic Development Authority
ITC Building, Suite 511
590 South Marine Drive
Tamuning, Guam 96914

Subject: Audit Report on Bond Services, Lease Operations and Trust Fund Activities,
Guam Economic Development Authority, Government of Guam (Report
No. 2002-I-0016)

Dear Mr. Murphy:

This report presents the results of our audit of the bond services, lease operations, and trust fund activities of the Guam Economic Development Authority.

Please provide a response to this report by April 30, 2002. The response should provide the information requested in Appendix 4 and should be addressed to our Pacific Field Office, 415 Chalan San Antonio, Baltej Pavilion - Suite 306, Tamuning, Guam 96913.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Sincerely,

Arnold E. van Beverhoudt, Jr.
Audit Manager for Insular Areas

cc: Honorable Carl T.C. Gutierrez, Governor of Guam

EXECUTIVE SUMMARY

**Bond Services, Lease Operations and Trust Fund Activities,
Guam Economic Development Authority,
Government of Guam
Report No. 2002-I-016
March 2002**

The Guam Economic Development Authority was established in August 1965 as a public corporation "to assist in the implementation of an integrated program for the economic development of Guam" and "to be a catalyst in the economic development" of Guam by "aiding private enterprise without unfairly competing with it." The Authority is authorized to provide loans, issue revenue bonds, purchase mortgages, and function as the Government's financial advisor and as manager of industrial park leases. In addition, the Authority encourages private sector investment by granting tax rebates and abatements to qualifying businesses under the Qualifying Certificate Program.

The objective of our audit was to determine whether the Guam Economic Development Authority (1) effectively administered the bond and leasing programs, (2) achieved the objectives for which those programs were established, and (3) adequately managed its trust fund activities.

Although the Authority provided significant benefits to the Guam economy through its bonding, leasing, and trust fund activities, we found that there was a need for improvements in certain areas. Specifically:

- 9 Four semi-autonomous agencies of the Government of Guam lost or will lose as much as \$65.1 million as a result of not requesting and/or following financial advice available from the Authority. This occurred because Guam law does not mandate that Government entities comply with or even consider the Authority's advice.
- 9 The Authority lost rental income of as much as \$1.5 million by not renegotiating industrial park leases for 14 lessees who were in violation of one or more conditions of their lease agreements and whose leases did not include rental escalation clauses based on the level of economic activity.
- 9 The Authority's expenditures exceeded revenues by a total of \$3 million during fiscal years 1997 through 2000. These losses resulted, at least in part, because the Authority was not adequately recovering costs related to the administration of the Landowners Recovery Fund.

We made one recommendation to the Governor of Guam and three recommendations to the Authority's Board of Directors to address these issues by (1) proposing legislation to require that all Government of Guam agencies consult with the Authority prior to and during the process of issuing bonds or entering into other financing agreements; (2) reviewing all cases where industrial park lessees have violated their lease agreements and entering into renegotiation of those leases to ensure that the leases contain rent escalation clauses tied to the economic value of the property and that the lessees comply with all lease conditions; (3) establishing formal policies and procedures for the leasing program, providing its lease program personnel with appropriate training, and hiring additional staff as needed for the Program and Compliance Division to effectively carry out its enforcement mission; and (4) reversing all write-offs of loans from the Landowners Recovery Fund, executing promissory notes and assignments with landowners, and filing applicable notices in the Guam courts to ensure repayment of loans for legal fees under the Landowners Recovery Fund program.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

The Governor did not respond to the recommendation that was addressed to him, and the Authority concurred with one of the three recommendations addressed to its Board of Directors. Based on the response, we considered three recommendations unresolved and requested additional information for one recommendation.

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* Redactions were made to Appendix 3 of this report pursuant to the Freedom of Information Act (FOIA) exemption 6, 5 U.S.C. section 552 (b)(6).

INTRODUCTION

BACKGROUND

The Guam Economic Development Authority was established in August 1965 as a public corporation "to assist in the implementation of an integrated program for the economic development of Guam" and "to be a catalyst in the economic development" of Guam by "aiding private enterprise without unfairly competing with it." The Authority is authorized to provide loans, issue revenue bonds, purchase mortgages, and function as the Government's financial advisor and as manager of industrial park leases. In addition, the Authority encourages private sector investment by granting tax rebates and abatements to qualifying businesses under the Qualifying Certificate Program.

The Guam Code Annotated (12 G.C.A. §50103(f)) authorized the Authority to issue, sell, or dispose of revenue bonds and other obligations under such terms as prescribed by the Guam Legislature. In addition, the Code (12 G.C.A. §50103(k)) authorized the Authority to act as a central financial manager and consultant to other Government of Guam entities requiring financial guidance and assistance. Although the Authority was assigned these responsibilities around 1982, the Authority has only been actively involved in the Government's public financing process since 1996. During the period of October 1, 1996 to June 30, 2000, the Authority assisted in the issuance of one general obligation bond (\$76 million) and three revenue bonds (\$399.2 million), and one commercial loan refinancing arrangement (\$27 million). As of fiscal year 2000, the Government of Guam had eight general obligation bonds (\$568.4 million) and nine revenue bonds (\$797.1 million) outstanding. As of June 2000, the Authority was assisting in the preparation of six additional bonds for issuance.

With regard to leasing operations, the Authority had 34 active industrial park leases with total annual rental income of about \$1.2 million based on rental rates in effect as of June 2000. Leases were issued for periods of up to 90 years, with most leases limiting rental rate increases to once every 10 years in amounts not to exceed 10 to 25 percent of the existing rental rates. By renegotiating at least nine of its existing leases, the Authority was able to increase rental income on these nine leases from \$123,272 to \$945,264 per year. Because the primary source of the Authority's operating revenue was rental income, increased rental rates were important to the Authority's ability to meet its financial obligations.

In addition to the industrial park leases, the Authority was responsible for redeveloping the former Naval Ship Repair Facility on Guam. Under the Base Realignment and Closure Commission (BRAC) provisions, the U.S. Navy leased the Ship Repair Facility to the Authority in October 1997. The Authority, through the BRAC GovGuam Steering Committee, subleased the approximately 100-acre property to two corporations for an average rental income of \$721,848.

According to the Authority's annual financial statements, during fiscal years 1997 to 1999, the Authority had net losses for each year, which resulted in an accumulated deficit of \$3 million at the end of fiscal year 1999. For fiscal year 2000, the Authority had a net gain of \$102,991 due to recording of \$1.1 million in previously unrecorded lease revenues from subleasing the former Ship Repair Facility during 1998 through 2000. The Authority's fiscal year 2000 operating budget totaled \$4.2 million. The Authority had a staff of 43 employees as of September 30, 1999, which was reduced to 28 employees as of September 28, 2000.

OBJECTIVE AND SCOPE

The objective of our review was to determine whether the Guam Economic Development Authority (1) effectively administered the bond and leasing programs, (2) achieved the objectives for which those programs were established and (3) adequately managed its trust fund activities. The scope of the audit included a review of operations during fiscal years 1997 to 2000 (through June 2000) and other periods as deemed appropriate. We did not audit the management of the former Naval Ship Repair Facility subleases by the BRAC GovGuam Steering Committee.

This is the third of three reports we plan to issue on the operations of the Guam Economic Development Authority. The other two reports covered (1) economic development loan programs and (2) the qualifying certificate program.

To obtain information on the Development Authority's bond services, lease operations, and trust fund activities, we interviewed officials and/or reviewed records at the offices of the Guam Economic Development Authority, the Guam Housing Corporation, and the Development Authority's independent public accounting firm. We also obtained information from the Guam Department of Administration and the Guam Power Authority.

In addition, we inspected the Lada Estate project site and visited various industrial park premises.

Our review was made, as applicable, 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.

As part of the audit, we evaluated the system of internal controls related to the financial and operational management of the Authority's bond, leasing, and trust fund programs to the extent that we considered necessary to accomplish the audit objective. Based on our review, we determined that the Authority generally achieved the purposes of the bond, leasing, and trust fund programs. However, we identified internal control weaknesses in the areas of providing financial advice for bond administration, renegotiating lease terms and conditions, and processing loans for legal fees under the Landowners Recovery Fund. These weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the U.S. General Accounting Office nor the Office of Inspector General issued an audit report on the financial activities of the Guam Economic Development Authority. However, in October 1998, the Office of the Public Auditor, Government of Guam, issued a report entitled "Management Audit of the Guam Economic Development Authority" (No. PA-01-98). The Public Auditor evaluated the Authority's system of internal controls related to travel, consulting contracts, credit cards, petty-cash and other operations. The report did not discuss any control weaknesses with the Authority's bond, leasing, and trust fund programs. In addition, independent auditors issued single audit reports on the Authority for the periods ending September 30, 1997 to 2000 but did not report any problems with the bond, leasing, and trust fund programs.

FINDINGS AND RECOMMENDATIONS

A. BOND SERVICES

Four semi-autonomous agencies of the Government of Guam lost or will lose as much as \$65.1 million as a result of not requesting and/or following financial advice available from the Guam Economic Development Authority. Although Guam law (12 G.C.A. §50103(k)) designates the Development Authority as the Government's financial manager, to include issuing and assisting in the issuance of bonds, the law does not mandate that Government entities comply with or even consider the Development Authority's advice.

Housing Corporation Bonds

The Guam Housing Corporation ignored the Development Authority's recommendations and issued a \$50 million mortgage revenue bond that was \$30 million larger than the Development Authority had recommended. As a result, the Housing Corporation and Guam residents will most likely lose the use of at least \$30 million in bond proceeds intended for home mortgage loans and incur additional unnecessary costs of about \$12.4 million.

Development Authority Recommendation Not Followed. On April 1, 1998 the Housing Corporation issued \$50 million in housing mortgage bonds for first-time home buyers. The \$50 million bond included \$20 million for individual low interest rate housing loans and \$30 million for housing to be built in a single large housing project at Lada Estates. The Development Authority had strongly recommended limiting the bond issue to \$20 million. However, the Housing Corporation insisted on including in the bond issue the \$30 million for the Lada Estates project.

On April 15, 1998, two large New York underwriters announced the \$50 million "Guam Housing Corporation Single Family Mortgage Revenue Bonds" in their Official Statement. The Official Statement stated, in part:

The Housing Corporation expects the principal amount of Home Mortgages attributable to Lada Estates to account for over 60% of the principal amount of all Home Mortgages originated [under the \$50 million bond issue].

The development plans for Lada Estates contemplate the construction of 400 units.

The Housing Corporation expects construction of the Lada Estates project to begin by June 1998 and to be completed in eight phases, over a period of two years. Approximately 100 units are expected to be completed at the end of the first year. On April 6, the Housing Corporation selected Pegasus Development Corporation, Tamuning, Guam, as the developer for the Lada Estates project.

The bonds were issued during May 1998, but as of August 22, 2001, the Housing Corporation still did not have a contract with a developer to construct housing at Lada Estates.

Potential Losses on Bond Issue. According to Section 143 of the Internal Revenue Code, unused qualified mortgage bond proceeds (not used to purchase home loans within 42 months of the date of issuance) must be used to redeem an equivalent amount of the bonds prior to the end of the 42-month period. According to the bond indenture, the 42-month period will expire on November 1, 2001 and, because no construction has begun on the Lada Estates project, the \$30 million in bonds will have to be redeemed. As of August 22, 2001, we saw no housing construction activity at the Lada Estates project (see Figure 1). Although the Housing Corporation was attempting to use the entire \$50 million for direct loans to first-time home buyers, as of August 22, 2001, only 60 loans totaling \$6.2 million had been closed.



Figure 1. The infrastructure (roads, power, sewer, and water utilities) for the Lada Estates housing project had been constructed. However, as of August 2001, no housing construction had been started.

We also found that, as part of the bond indenture, the Housing Corporation placed \$1 million in escrow, and the entire \$50 million in bond proceeds must be issued in mortgage loans for the Corporation to recover the \$1 million. We estimated that at least \$500,000 of the escrow will be forfeited if the mortgage loans are not made by the November 1, 2001 deadline. The

Housing Corporation's Quality Assurance Officer told us that the Housing Corporation did not begin to actively market the mortgage loans until November 1999 and that the prospects of lending even \$20 million recommended by the Development Authority by November 1, 2001 were low given the small pool of potential borrowers and the remaining available time.

Further, in preparation for the Lada Estates project, the Housing Corporation had contracted for and had constructed the project infrastructure (roads and power, sewer, and water utilities) at a cost of about \$10.5 million. However, the Housing Corporation had planned to pay for the infrastructure by allocating and including the cost in the selling price of the 400 planned houses. Since the Housing Corporation never signed a contract to construct the houses and there did not appear to be much housing demand, it could not pay the infrastructure contractor. As of September 2000, the Housing Corporation owed the infrastructure contractor \$12.4 million, including \$1.8 million of interest on the unpaid \$10.6 million contract amount.

In summary, because it did not follow the financing advice of the Development Authority, the Housing Corporation could lose the use of at least \$30 million in housing mortgage bonds, at least \$500,000 of the \$1 million placed in escrow as part of the bond issuance process, and as much as \$12 million for infrastructure improvements that have little likelihood of being used in the foreseeable future.

Semi-Autonomous Agency Financing

In separate instances, three semi-autonomous Government entities did not seek the Development Authority's financing advice. Consequently, two of the entities lost a total of about \$22.2 million in potential interest revenue and increased loan expenditures.

Guam International Airport Authority. In 1993, the Guam International Airport Authority issued bonds totaling \$240 million to construct a new airport. In structuring the bond issue, the Airport Authority did not use the financing expertise available at the Development Authority to invest the bond proceeds in guaranteed investment contracts structured to allow for the highest interest rate authorized by the U.S. Internal Revenue Service. Instead, the Airport Authority placed the bond proceeds in savings accounts or other accounts with lower interest rates than being paid on the bonds. The Airport Authority's June 15, 1998 "Interim Arbitrage Rebate Analysis" states that due to "negative arbitrage" (unrealized interest earnings) the Airport Authority had lost potential earnings of \$16.1 million. According to the Development Authority's Administrator, the Development Authority did not know prior to the arbitrage analysis (issued 5 years after issuance of the bonds) that the Airport Authority did not place the bond proceeds in investments earning the higher interest rates allowed by the U.S. Internal Revenue Service. By that time, it was too late to reinvest the funds because they had already been expended by the Airport Authority. The Development Authority could have helped the Airport Authority to find investments that were within the authorized investment income rate, thus reducing the unrealized interest earnings by as much as \$16.1 million.

Guam Waterworks Authority. In 1989, the Government of Guam issued a \$49 million general obligation bond with 20 years maturity for the Guam Waterworks Authority. In 1999, the Development Authority assisted the Waterworks Authority in refinancing the 1989 bonds at a lower interest rate. Based on the Development Authority's analysis, the Government of Guam's General Fund could have a cash flow savings in fiscal year 2000 in the amount of \$4.6 million. This cash flow savings would have been the debt service payment that the Waterworks Authority would have made in September 2000 had the bonds not been refinanced. Instead, the 1989 bonds would have been redeemed and the first payment for the new bonds would not have been due until the following year (2001). In addition, there would have been an overall interest expense savings of \$1.5 million over the life of the bonds because of the lower interest rate on the refinanced bonds. However, the bonds were not refinanced. According to a legislative financial consultant, the Development Authority was not able to complete the required actions for guaranteeing the bonds before the April 4, 2000 target date for closing the refinancing transaction.

The Authority's Financial Services Manager stated that a local bank has a first lien on Section 30¹ revenues, which guaranteed the \$27 million Hospital loan (as discussed in the paragraph below). The Manager explained that in order to refinance the Waterworks bond, the Authority needed the bank to subordinate the lien for the Hospital loan to another lien guaranteeing the new Waterworks bond. However, the bank did not agree to such subordination although the Hospital loan already had other substantial guarantees (such as assignment of medical services revenue, a first priority real property mortgage, and a Government of Guam guarantee) in addition to the lien on Section 30 revenues. As of June 2001, the Development Authority was working on another refinancing proposal to present to the Legislature.

Guam Memorial Hospital. In 1997, the Guam Memorial Hospital borrowed \$27 million from a local bank for 12 years at an 8 percent, variable interest rate. Before making the bank loan, the Hospital did not consult with the Development Authority to determine whether there were alternative financing sources and, as a result, the Development Authority did not know about the proposed bank loan until it had already been executed. In addition, in order for the loan to be approved, Section 30 revenues from the Government of Guam's General Fund had to be pledged to guarantee the loan in the event the Hospital defaulted on the loan. As of June 2000, the Development Authority was working with the Hospital to refinance the loan and release the lien on the Section 30 revenues. In the meantime, as of May 2001, the Hospital had already paid more than \$6.1 million in interest on the bank loan.

In contrast to these three examples of agencies not consulting with the Development Authority prior to engaging in financing activities or not following the advice of the Development Authority, in 1999 the Guam Power Authority sought the assistance of the Development Authority in issuing revenue bonds to fund development projects and refinance

¹Section 30 revenues are Federal income taxes withheld from the salaries of military personnel stationed on Guam and rebated by the Federal Government to the Government of Guam.

existing bonds and commercial loans. As a result, the Power Authority was able to reduce interest costs by at least \$11 million.

Recommendation

We recommend that the Governor of Guam submit proposed legislation to the Guam Legislature to amend Title 12, Chapter 50, of the Guam Code Annotated to require that all Government of Guam agencies consult with the Guam Economic Development Authority prior to and during the process of issuing bonds or entering into other financing or refinancing agreements. The proposed legislation should also require that Government agencies provide written justification to the Governor and the Guam Economic Development Authority if the agencies decline to follow the Authority's advice.

Guam Economic Development Authority Response and Office of Inspector General Reply

A draft of this report was delivered to the Governor of Guam on October 15, 2001 and, the Governor's Chief of Staff agreed to ask the Governor to provide a response by December 21, 2001. As of January 8, 2002, a response had not been received from the Governor. In the December 10, 2001 response (Appendix 3) to the draft report from the Authority's Acting Administrator, the Authority concurred with the Recommendation and stated that "in order to ensure that there is consistent information and financial advice given to the Government of Guam, legislation should be introduced to have all Government of Guam agencies adhere to the financial advice that is offered by [the Authority] as the central financial manager for the Government" and to have agencies "provide written justification for action that is contrary to the advice given by the Authority." Nevertheless, because the Recommendation was addressed to the Governor and he did not provide a response, we consider the Recommendation unresolved (see Appendix 4).

B. LEASE OPERATIONS

The Authority lost rental income of as much as \$1.5 million by not renegotiating industrial park leases for 14 lessees who were in violation of one or more conditions of their lease agreements and whose leases did not include rental escalation clauses based on the level of economic activity. For these 14 leases and 2 other leases where lessees were in compliance with their lease agreements, rental increases were limited to once every 10 years and in amounts of only 10 to 25 percent of the existing rental rates. In nine other cases, the Authority had renegotiated lease terms, thereby increasing rental income from \$123,272 to \$945,264 per year. The Authority did not have formal lease policies and procedures, adequate training for existing lease program personnel, or sufficient personnel to meet its lease enforcement workload. Because the Authority's primary source of operating revenue was rental income, the level of such rental income was critical to the Authority's ability to meet its financial obligations.

Lease Escalation Clauses

Of the Authority's 34 industrial park leases, we examined 25 leases for a total area of about 40 acres and with total annual rental payments of about \$1.2 million as of June 30, 2000 (see Appendix 2). Of the 25 leases reviewed, 5 had rental rate escalation clauses tied to economic activity. However, the files for five of the nine leases did not contain any record of the basis for the rental rates or the considerations used during lease renegotiations. As of June 30, 2000, the total annual rental amount for the nine leases had increased from \$123,272 to \$945,264 (667 percent) over the lives of the leases.

The other 16 leases reviewed were for periods of up to 90 years and most had lease terms that limited rental rate increases to once every 10 years and in amounts of only 10 to 25 percent of the existing rental rates. The President of the Guam Board of Realtors told us that, as a general principle, leases lacking escalation clauses based on economic activity should be renegotiated at the earliest opportunity. For these 16 leases, the files did not contain any record of lease renegotiations or the basis for the lease periods and rental rates. In contrast to the 9 leases with escalation clauses based on economic activity, as of June 30, 2000, the total annual rental amount for these 16 leases had increased from \$219,187 to \$270,724 (only 24 percent) over the lives of the leases.

An Authority manager stated that the Authority generally did not attempt to renegotiate leases because higher rental rates would create an economic hardship on the businesses and existing lease language appeared to preclude such action. However, we determined that the Authority was able to renegotiate four of the nine leases with escalation clauses although the original leases did not contain contractual language tying rental payments more closely to current economic activity. This generally occurred if the lessee violated one or more provisions of their leases. We found that for 2 of the 16 leases without escalation clauses, the lessees were in compliance with all lease provisions. However, we believe that the Authority would be able to force a renegotiation of the other 14 leases because the lessees had violated one or more of their lease provisions. For example:

- On December 28, 1970, the Authority issued a 90-year lease to a company for a 5-acre industrial park lot at an annual rental rate of \$5,605 and a provision limiting rent increases not to exceed 10 percent every 10 years (see Figure 2). As of June 30, 2000, the rental rate had increased by \$1,177 to \$6,782, or 17 percent, in almost 30 years. Section 6 of the lease agreement stated that "absolutely no assignment of this lease may be made by the Lessee, but the Lessee may sublease the property leased, or a portion of it, to any third party, subject to the consent of the Lessor and to the approval of the Governor of Guam." Further, Section 8 of the lease agreement stated, "The Lessee shall, during the entire term hereof, keep in full force and effect, a policy of public liability insurance satisfactory to the Lessor . . . naming the Lessee and Lessor as the insured. . . . [T]he Lessee shall deposit with the Lessor before the effective date of this lease, a certified copy of such insurance policy." We determined that the sublessees were paying the primary lessee total rent of about \$856,920 per year, or more than 126 times the \$6,782 per year that the primary lessee was paying the Authority. In addition, the lessee violated Section 8 of the lease by allowing its insurance policy to expire on December 31, 1996. The Authority's Deputy Administrator sent a reminder letter to the lessee on January 22, 1997, but insurance had not been provided as of the time of our audit.



Figure 2. Several companies subleased the property from the primary lessee, producing rental revenue for the lessee at rental rates more than 126 times the rate paid to the Authority by the lessee.

- On November 12, 1971, the Authority issued a 90-year lease to a company for a ½-acre industrial park lot at an annual rental rate of \$2,448 and a provision limiting rent increases not to exceed 10 percent every 10 years (see Figure 3). As of June 30, 2000, the rental rate had increased by \$514 to \$2,962, or 21 percent, in almost 30 years. Section 1 of

the lease agreement stated that the lease was "for the purposes of the Lessee's constructing, maintaining, and operating thereon facilities necessary or incident to its business of warehousing and wholesaling of tires and tubes, batteries and affiliated products, including automotive parts." In addition, Section 8 of the lease agreement stated, "The Lessee shall, during the entire term hereof, keep in full force and effect, a policy of public liability insurance satisfactory to the Lessor . . . naming the Lessee and Lessor as the insured. . . . [T]he Lessee shall deposit with the Lessor before the effective date of this lease, a certified copy of such insurance policy." We determined that the lessee violated Section 1 of the lease because the lessee was no longer conducting an automotive tire business on the lot, but instead was using the lot as an investment property by subleasing it to a third party. The sublessee was paying the primary lessee rent of about \$30,000 per year, or more than 10 times the \$2,962 per year that the primary lessee was paying the Authority. In addition, the lessee violated Section 8 of the lease by allowing its insurance policy on the property to expire on April 29, 1998. The Authority's Compliance and Program Officer sent a reminder notice to the lessee on July 19, 1999, but insurance had not been provided as of the time of our audit.



Figure 3. The property had been subleased by the lessee at a rental rate more than 10 times the rate paid to the Authority by the lessee.

Section 10 of the lease agreements used by the Authority states, "Upon notice and hearing, any failure of the Lessee to conform to any condition of this lease . . . shall cause this lease to be terminated forthwith." Despite this provision, the Authority did not use instances of lessee noncompliance with lease conditions as opportunities for renegotiating leases to achieve more advantageous lease rental rates because the Authority had other higher work

priorities and lacked formal leasing policies and procedures, sufficient compliance enforcement personnel, and adequate employee training. We found no record in the files of the 14 leases without rate escalation clauses that the Authority had attempted to renegotiate the lease terms using the lease violations as leverage for reopening lease negotiations. We estimated that if the Authority was able to renegotiate lease agreements for these 14 leases based on the same level of rental rate escalations obtained on the nine leases where escalation clauses had been negotiated, it could have generated additional rental income of about \$1.5 million per year.

Future Industrial Leases

At the time of our audit, the Authority was in the early stages of planning for the lease of 248 acres of prime industrial and commercial property owned by the Government of Guam adjacent to Guam's international airport. However, the Authority had not developed a leasing system for negotiating and writing new leases to ensure that the Government collects lease revenue commensurate with the value of the leases over their entire term. According to Authority personnel, the Authority had not established a formal leasing process to identify reasonable lease rates, periods, and other conditions because of higher priority work and limited compliance personnel. Without adequate research and leasing procedures, the leasing problems experienced by the Authority for 40 acres of property initially leased out during the 1970's and 1980's could be repeated with this new industrial park development. Therefore, the Authority should establish an effective leasing process with formal lease policies and procedures prior to entering into negotiations for the lease of the 248 acres of property near the Guam airport.

Recommendations

We recommend that the Board of Directors of the Guam Economic Development Authority:

1. Review on a current basis all cases where lessees have violated one or more lease conditions and enter into renegotiation of those leases to ensure that the leases contain rent escalation clauses tied to the economic value of the property and that the lessees comply with all lease conditions. If current noncompliant lessees are not willing to renegotiate their leases and comply with all lease conditions, the Authority should terminate the leases and seek other prospective tenants for the properties.

2. Establish formal policies and procedures for the leasing program, provide its lease program personnel with appropriate training, and hire additional staff as needed for the Program and Compliance Division to effectively carry out its enforcement mission.

Guam Economic Development Authority Response and Office of Inspector General Reply

In the December 10, 2001 response (Appendix 3) to the draft report from the Authority's Acting Administrator, the Authority implied nonconcurrence with Recommendation 1 and

expressed concurrence with Recommendation 2. Based on the response, we request that the Authority reconsider Recommendation 1, which is unresolved, and provide additional information for Recommendation 2 (see Appendix 4).

Recommendation 1. Nonconcurrence implied.

Guam Economic Development Authority Response. The Authority stated that its legal counsel had reviewed each lease agreement in 1996 and determined "that a contract is binding and there is nothing [the Authority] could do to break the lease agreements." In addition, the Authority claimed that 11 of the 14 leases cited in the finding had no violations and "there would have to be major violations of the lease provisions in order to cancel the lease or enter into renegotiations to enforce an increase in the lease payments."

Office of Inspector General Reply. Our review of leases covered the period of October 1, 1996 (beginning of fiscal year 1997) through June 2000. Therefore, almost all of the lease violations cited in the finding occurred after the review performed by the Authority's legal counsel in 1996. All 14 leases cited in the finding had major violations of one or more of the lease provisions. For example, required insurance coverage had expired for nine of the leases during the period of April 1997 through December 1999, for three other leases in December 1996, and for one lease in May 1995. Additionally, 10 of the 14 leases had delinquencies totaling about \$314,000, and two leases had violations of the lease provisions regarding the purpose for the lease and/or assignment of the lease.

We disagree with the Authority's generalized application of contract law principles to the specific facts underlying our recommendation. Nothing precludes the Authority from exercising its contractual right to terminate the lease agreements in question. In fact, the Authority's lease agreements provide recourse for the Authority to cancel the leases for cause. Specifically, Section 10 of the lease agreements states, "Upon notice and hearing, any failure of the LESSEE to conform to any condition of this lease . . . shall cause this lease to be terminated forthwith." (Emphasis added.) This provision does not differentiate between "major" and "minor" violations. The lease examples cited in the finding show that some lessees reaped huge monetary benefits by violating the lease purpose and assignment/subleasing clauses of their lease agreements. Therefore, we believe that it would be economically prudent for the Authority to use the cancellation clause in the lease agreements as leverage to renegotiate more equitable rental fees. If the lessees are uncooperative, the Authority can exercise its right to cancel the leases and seek other tenants for the properties. We have revised Recommendation 1 to require that the Authority review on a current basis all cases (not just the 14 cited in the finding) where lessees have violated lease conditions.

Recommendation 2. Concurrence indicated.

Guam Economic Development Authority Response. The Authority stated that the lease monitoring and litigation process has improved since the establishment of a Compliance and Internal Audit Division and the assignment of an administrative assistant and an additional staff member to focus on the Lease Program. The Authority also stated

that standard operating procedures are being developed that "will provide guidance when entering into new leases, applying escalations and conducting enforcement."

Office of Inspector General Reply. Although the Authority's response indicated that standard operating procedures were being developed, the response did not provide a target date for implementation of the standard operating procedures or for providing appropriate training to Lease Program personnel. Therefore, we request that the Authority provide the additional information indicated in Appendix 4.

C. TRUST FUND ACTIVITIES

The Authority's expenditures exceeded revenues by a total of \$3 million during fiscal years 1997 through 2000. We believe that these losses resulted, at least in part, because the Authority was not adequately recovering costs related to the administration of the Landowners Recovery Fund. The Fund was one of at least 12 trust fund programs that the Authority administered. In most instances, the costs of administering these trust fund programs were reimbursed by the Federal and local governments or by contributions from private businesses. However, this was not the case for the Landowners Recovery Fund.

Landowners Recovery Fund

The Landowners Recovery Fund was established to assist private landowners in their ongoing litigation to challenge the U.S. Government for title to land taken by the military during World War II and land designated as critical habitats for wildlife species. This assistance was provided, at least in part, by providing loans to private landowners to finance litigation. In that regard, the Guam Code Annotated (12 G.C.A. §74108(b)) states that "No single loan . . . shall exceed Two Hundred Twenty Thousand Dollars (\$220,000)." In addition, the Code (12 G.C.A. §74108(c)) states, "Any recipient of a loan shall, at the time the loan is granted, execute a promissory note to Guam Economic Development Authority, payable . . . on demand after the recipient receives court awarded attorney's fees or expenses in connection with the litigation. Any such recipient shall also execute, at the time the loan is granted, an assignment to Guam Economic Development Authority of proceeds ultimately obtained by such recipient in an award of court awarded fees or expenses in connection with litigation." Further, the Code (12 G.C.A. §74108(d)) states, "The Authority shall cause notices to be filed in the Court File of pending litigation setting forth the fact of the making of such assignments and the interests of the Authority under such assignments and setting forth the interest of the Authority and Government of Guam in respect to funds previously provided." Finally, the Code (12 G.C.A. §74121) states, "In the event such private landowners receive monetary damages or any recovery of legal costs in the course of such litigation, they shall reimburse the Landowners Recovery Fund their pro rata share of such damages and costs that the Courts determines in such action represents the value of the services to such landowners rendered by the Special Litigator."

However, contrary to the requirements of the Guam Code, the Authority (1) did not execute promissory notes and assignments to ensure repayment of legal fees paid on the behalf of landowners; (2) did not file notices in the Guam courts to safeguard the interests of the Authority and the Government of Guam; (3) did not ensure that any single loan to landowners did not exceed the \$220,000 loan limit; and (4) had entered into a noncompetitive contract for a special litigator. These conditions occurred because the Authority did not establish policies and procedures for processing loans under the Landowners' Recovery Fund. As a result, the Authority spent at least \$1,418,495 on legal services of the special litigator to represent the Government of Guam and loans to landowners without guarantee of reimbursement by landowners who were successful in their litigations.

Recommendation

We recommend that the Board of Directors of the Guam Economic Development Authority reverse all write-offs of loans, execute promissory notes and assignments with landowners, and file applicable notices in the Guam courts to ensure repayment of loans for legal fees under the Landowners Recovery Fund program. If promissory notes and assignments were already executed, the Authority should contact the Courts and coordinate with the Office of Attorney General to determine whether any of the landowners received court-awarded compensation for legal expenses and initiate collection efforts to recovery amounts owed to the Landowners Recovery Fund.

Guam Economic Development Authority Response and Office of Inspector General Reply

In the December 10, 2001 response (Appendix 3) to the draft report from the Authority's Acting Administrator, the Authority implied nonconcurrence with the Recommendation. Based on the response, we request that the Authority reconsider Recommendation 1, which is unresolved (see Appendix 4).

Recommendation. Nonconcurrence implied.

Guam Economic Development Authority Response. The Authority stated that subsequent to the audit, it had found Demand (promissory) Notes and Assignments of Litigation Proceeds filed with the U.S. District Court of Guam. The Authority also stated that these legal documents were filed by previous administrations and were beyond the control of the Authority's current administration. The Authority further indicated that the loans from the Landowners Recovery Fund were written off previous to the Authority's current administration and that it would be a "futile exercise" to pursue these cases.

Office of Inspector General Reply. The pertinent sections of the Guam Code Annotated (12 G.C.A. § 74108(b), (c), and (d) and § 74121) were enacted to protect the interests of the Authority and the Government of Guam under the Landowners Recovery Fund by establishing procedures for the Fund to be repaid by the borrowers when their land cases were finally adjudicated.

During the audit, we interviewed the Authority's Chief Financial Officer, who stated that no claims (Demand Notes and Assignments of Litigation Proceeds) were filed with the Courts. Although the Authority now states that such documents exist, the response did not indicate whether the Authority had contacted the Courts or coordinated with the Office of Attorney General to determine whether any of the landowners received court-awarded monetary damages, attorney fees, or compensation for other expenses incurred in connection with their cases. Therefore, we believe that the Authority had no basis for writing off any of the loans without making this determination and attempting collection efforts based on the Guam Code Annotated and the Demand Notes and Assignments of Litigation Proceeds filed with the Court. Nevertheless, we have revised the Recommendation based on the response.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Areas</u>	<u>Unrealized Revenues*</u>	<u>Funds to be Put to Better Use*</u>
Bonds Services		\$65,057,469
Industrial Park Leases	\$1,543,024	
Financial Operations	<u> </u>	<u>1,418,495</u>
Totals	<u>\$1,543,024</u>	<u>\$66,475,964</u>

* Amounts represent local funds

INDUSTRIAL PARK LEASES REVIEWED

Lease No.	Property Size in Square Meters	Year Lease Signed	Lease Term Including Options	Original Annual Rental Rate	Current Rental Rate as of June 30, 2000	Amount of Increase in Rental Payments	Does Lessee Have a Sublessee?
1	2,101	1983	30 years	\$8,825	\$48,600*	\$39,775	No
2	3,316	1984	80 years	\$12,480	\$14,352	\$1,872	No
3	3,050	1985	80 years	\$16,138	\$18,559	\$2,421	No
4	11,663	1971	90 years	\$18,072	\$21,867	\$3,795	Yes
5	6,595	1986	75 years	\$32,009	\$35,210	\$3,201	No
6	3,125	1982	50 years	\$11,760	\$62,500*	\$50,740	Yes
7	8,674	1969	80 years	\$4,500	\$12,000*	\$7,500	No-Gov't.
8	8,344	1984	80 years	\$27,571	\$126,299*	\$98,728	Yes
9	4,132	1971	90 years	\$4,896	\$5,923	\$1,027	Yes
10	3,647	1983	30 years	\$15,319	\$19,149	\$3,830	No
11	6,647	1985	80 years	\$25,041	\$27,545*	\$2,504	No-Gov't.
12	3,627	1971	90 years	\$4,350	\$5,263	\$913	Yes
13	3,714	1971	90 years	\$10,000	\$342,300*	\$332,300	Yes
14	2,083	1971	90 years	\$2,404	\$2,909	\$505	Yes
15	2,083	1971	90 years	\$2,448	\$2,962	\$514	Yes
16	5,394	1983	78 years	\$13,800	\$52,537*	\$38,737	Yes
17	9,420	1985	80 years	\$4,050	\$4,658	\$608	Yes
18	8,094	1972	90 years	\$2,428	\$5,875	\$3,447	Yes
19	18,684	1970	90 years	\$5,605	\$6,782	\$1,177	Yes
20	4,047	1981	90 years	\$1,214	\$1,469	\$255	No
21	5,913	1981	90 years	\$1,774	\$2,146	\$372	Yes
22	2,069	1990	72 years	\$36,000	\$39,600	\$3,600	Yes
23	4,660	1996	25 years	\$60,000	\$84,000	\$24,000	No
24	22,660	1970	90 years	\$16,000	\$161,842*	\$145,842	Not Known
25	6,674	1971	90 years	\$5,775	\$111,641*	\$105,866	Not Known
Totals	160,416**			\$342,459	\$1,215,988	\$873,529	

* The Authority renegotiated these lease rental rates.

** About 40 acres (4,047 square meters equals 1 acre).

GUAM ECONOMIC DEVELOPMENT AUTHORITY RESPONSE

Governor
Carl T.C. Gutierrez

Aturidad Inadilanton



Ikunumihan Guahan

Lieutenant Governor
Madeleine Z. Bordallo

December 10, 2001

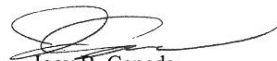
Mr. Samuel Paul
OFFICE OF INSPECTOR GENERAL
Pacific Field Office
415 Chalan San Antonio
Baltej Pavillion, Suite 306
Tamuning, Guam 96913

Hafa Adai, Mr. Paul:

Enclosed with this cover letter is the Guam Economic Development Authority's response to the Audit Report for Bond Services, Lease Operations and Trust Fund Activities. We would like to thank you for the extension on the deadline for the submission of responses to the aforementioned Audit Report.

If you should have any questions, please call Mr. Patrick Matanane or me at 647-4332. I wish you and your staff a very Blessed and Happy Holiday Season.

Regards,


Joey B. Cepeda
Acting Administrator

JBC/pjm

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**RESPONSE TO THE
DEPARTMENT OF INTERIOR
INSPECTOR GENERAL'S
DRAFT REPORT**

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PART I - INTRODUCTION

EXECUTIVE SUMMARY

This document is the Guam Economic Development Authority's (GEDA's) response to the Department of Interior, Inspector General's "Draft," audit report regarding the administration of Bond Services, Lease Operations and Trust Fund Activities.

GEDA finds it necessary to expound on the intent of the statutory language and policy for the GEDA for the scope of the audit to clarify or avoid any issues reported in the "Draft," from being misconstrued by any reader of the report.

Statutory and Policy Intent

GEDA agrees with the interpretation of Title 12 G.C.A. § 50103 (f) and Title 12 G.C.A. § 50103 (k) of the Guam Code Annotated. GEDA as mandated by statute is the central financial manager for the Government of Guam and acts as manger for leasehold properties for the properties under its purview.

Additionally, please note that the audited financials show 40 employees at the end of fiscal year 1999 and 35 employees at the end of fiscal year 2000. This is contrary to the 43 employees as of September 30, 1999 and 28 employees as of September 28, 2000.

PART II – BOND SERVICES

Program Administration

The report contains no commentary of the actual “administration” of the program as it relates to processing, documentation, underwriting analysis or tracking. It is therefore presumed by GEDA that the audit found that said processes in the operations of Bond Services are satisfactory.

The ultimate decision is made by GEDA’s Board of Directors in recommending or not recommending bond financing or other financing to provide necessary funding for the Government of Guam’s necessary capital expenditure needs.

Achievement of Objectives

As mentioned in the draft audit, GEDA is working on six additional bond issues to provide for the island’s capital needs and significant savings for previously issued bonds. To date the GEDA has issued the Government of Guam Limited Obligation Bonds 2001 Series A (Highway Refunding). It has advised the Government in and has capitalized on \$2,700,000.00 of savings for its’ Government.

In addition to the Highway Refunding, it has securitized Tobacco Settlement proceeds in order to provide for working capital expenditures and accelerate capital improvement projects within the island’s higher level educational institutions and local government healthcare facilities.

Findings and Recommendations

No comment with regard to the auditor’s findings and recommendations.

Audit Recommendation

Recommendation

“We recommend that the Governor of Guam submit proposed legislation to the Guam Legislature to amend Title 12, Chapter 50, of the Guam Code Annotated to require that all Government of Guam agencies consult with the Guam Economic Development Authority prior to and during the process of issuing bonds or entering into other financing or refinancing agreements. The proposed legislation should also require that the Government agencies provide written justification to the Governor and the Guam Economic Development Authority if the agencies decline to follow the Authority’s advice.”

**Response to the Department of Interior
Inspector General's Draft Report**

Response

Concur with the recommendation. In order to ensure that there is consistent information and financial advice given to the Government of Guam, legislation should be introduced to have all Government of Guam agencies adhere to the financial advice that is offered by GEDA as the central financial manager for the Government. We agree that legislation is needed for other agencies within the Government of Guam to provide written justification for action that is contrary to the advice given by the Authority.

**Response to the Department of Interior
Inspector General's Draft Report**

PART III – LEASE OPERATIONS

Findings and Recommendations:

Loss of \$1.5 million in rental income by not renegotiating industrial park leases for 14 leases that were in violation of one or more conditions of their lease agreements

Failure to include rental escalation clauses based on the level of economic activity.

Response:

A majority of the industrial park leases were executed in the 1970's. The three (3) industrial parks managed by the Authority (i.e. E.T. Calvo, Cabras and Harmon) were established by the Government of Guam to generate economic activity that fall with the M-1 Zone or light-industrial activities.

Being that these industrial parks were the first to be developed in Guam, economic leases were created to entice small manufacturing/industrial business to establish the industrial park area. It was through these leases that the parks now serve as the arm to the two port facilities and commercial activities.

The lease agreements illustrate rental increases, which are part of the agreement between the lessor and lessee. Usually, escalations are adjusted every 5 or 10 years with an increase in rent around 5 to 10 percent. The lease amounts were determined back in the 1970's when industrial activities were at a minimum, as a result, promotional incentives were necessary. Additionally, appraisals were not a requirement during that time.

As cited in the audit report, 14 lessees were in non-compliance for failure to adhere to the insurance provision as required in each lease agreement. Our review of the lease files, show that 3 of the 14 lease tenants did not meet the insurance provision for 1997. The copies are attached.

The following is a list of the 14 lessees cited as not adhering to the insurance provision with their status done upon our review:

1. [REDACTED] – Compliance, all Insurance provisions in file.
2. [REDACTED] - Compliance, all Insurance provisions in file.
3. [REDACTED] (2 leases) - Compliance, all Insurance provisions in file.
4. [REDACTED] – Non-compliance. There were no 1997 Insurance provision in file. However, the copies of the Insurance policies for the years 1998 and 1999 are in file.
5. [REDACTED] - Compliance, all Insurance provisions in file.
6. [REDACTED] - Compliance, all Insurance provisions in file.
7. [REDACTED] - Non-compliance. There were no 1997 Insurance provision in file.
8. [REDACTED] (2 leases) - Compliance, all Insurance provisions in file.

**Response to the Department of Interior
Inspector General's Draft Report**

9. [REDACTED] - Compliance, all Insurance provisions in file.
10. [REDACTED] - Compliance, all Insurance provisions in file.
11. [REDACTED] - Compliance, all Insurance provisions in file.
12. [REDACTED] – There was a problem encountered with the 1996 provision, please refer to attachment. This probably caused none submission of a copy of the 1997 Insurance policy. This tenant has been evicted.

Referring to the payment provision, the audit cited 7 lease tenants for failure to pay the required rent to the Authority during 1998 and 1999. Our review shows that only 1 of the 7 lease accounts was in arrears. [REDACTED] was the only lessee in arrears.

The following is a listing of the seven (7) lease tenants cited and the status of the payment provision.

1. [REDACTED] – Lease payments are current and were paid.
2. [REDACTED] - Lease payments are current and were paid.
3. [REDACTED] - Lease payments are current and were paid.
4. [REDACTED] - Lease payments are current and were paid.
5. [REDACTED] - Lease payments are current and were paid.
6. [REDACTED] (2 leases) – There was a fire and improvements done to the lease property that may have hindered payment of the lease. Lease payments are current and were paid.
7. [REDACTED] - Lease payments are current and were paid.

In response to increasing lease payments of these leases, there would have to be major violations within the lease contracts in order to cancel and/or force the lease payment increases. The following notes the nine (9) leases reviewed for escalation.

1. [REDACTED]
2. [REDACTED]
3. [REDACTED]
4. [REDACTED]
5. [REDACTED]
6. [REDACTED]
7. [REDACTED]
8. [REDACTED]
9. [REDACTED]

All leases have basic escalation clauses. The five leases that are referred to as having no justification for escalation increases have basic rental escalation clauses within the lease agreement.

**Response to the Department of Interior
Inspector General's Draft Report**

Audit Recommendation

Recommendation 1

Review the 14 cases where leases have violated one or more of the lease conditions and enter into renegotiations of those leases to ensure that the leases contain rent escalation clauses tied to the economic value of the property.

Response:

In 1996 the Authority had Legal Counsel review each lease agreement. Their response is that a contract is binding and there is nothing GEDA could do to break the lease agreements. Additionally, we have reviewed the fourteen (14) leases said to be in violation. Out of the fourteen (14) said to have one or more violations, eleven (11) had no violations. Again, there would have to be major violations of the lease provisions in order to cancel the lease or enter into renegotiation to enforce an increase in the lease payments.

Recommendation 2

Establish formal policies and procedures for the leasing program, provide its lease program personnel with appropriate training and hire additional staff as needed for the Program and Compliance Division to effectively carry out its enforcement mission.

Response:

Concur with the recommendation. The Authority made changes to ensure that compliance monitoring is accomplished. Through the creation of the Compliance and Internal Audit Division, objectives of the compliance program guidelines are being and will continue to be met. The focus of the Compliance team has been evident during the first year of the reorganization. The QC Program, Lease Monitoring and "In Litigation" process have seen dramatic improvements and closure to some outstanding cases.

The accomplishments could not have been achieved without the help from Management by reorganizing, providing an Administrative Assistant and now an additional staff member to focus on the Lease Program.

Additionally, the focus has allowed for the development of Standard Operating Procedures (SOPs) for the Industrial Park Lease Program. When adopted, the SOPs will provide guidance when entering into new leases, applying escalations and conducting enforcement.

PART IV: TRUST FUND ACTIVITIES

Findings and Recommendations:

Contrary to the requirements of the Guam Code, the Authority:

1. Did not execute promissory notes and assignments to ensure repayment of legal fees paid on the behalf of landowners;

Response: Subsequent to the audit, the Authority had located files that were dated over twenty (20) years ago. Within the files Demand Notes were executed by the previous administration.

2. Did not file notices in the Guam courts to safeguard the interests of the Authority and the Government of Guam;

Response: Again, within the files that the Authority had located, which were dated over twenty years ago, there were executed Assignments of Litigation Proceeds filed with the U.S. District for the territory of Guam. These assignments were executed by the borrower and his/her attorney, the Authority officials at the time and representatives from the U.S. District Court for the territory of Guam.

3. Did not ensure that any single loan to landowners did not exceed the \$220,000 loan limit;

Response: Once again, upon reviewing documents for the old files, loans that were issued did not exceed the statutory limitation for funds borrowed against the Loan Recovery Fund. Our records show that fund disbursed against the Loan Recovery Fund did not exceed the statutory limit.

4. Had entered into a noncompetitive contract for a special litigator.

Response: Again, this was done close to ten years ago. With regard to contracts requiring specialized litigation, at the time, counsel for the Authority was responsible for decimation of proposals and selection of the litigator with Board approval. Litigation that is specialized usually would not have a large pool to select from.

Additionally, land claimants were responsible for the retention of their litigators. GEDA had no authority to intervene in such matters for the individual land claimants. However, with regard to environmental impact and Wildlife Refuge issues, GEDA had the authority to intervene in the San Francisco litigation and oppose wildlife refuge or critical habitat. Furthermore, GEDA could hire counsel to investigate and assert claims to challenge the transfer of administrative control of Ritidian Point from the Department of Navy to U.S. Fish and Wildlife Service.

**Response to the Department of Interior
Inspector General's Draft Report**

Audit Recommendation

Recommendation:

“We recommend that the Board of Directors of the Guam Economic Development Authority execute promissory notes and assignments with landowners and file applicable notices in the Guam courts to ensure repayment of loans for legal fees under the Landowners Recovery program.”

Response:

Subsequent to the audit, GEDA has located files containing Demand Notes and Assignment of Litigation Proceeds filed with the U.S. District Court for the territory of Guam from borrowers of the Land Claims Loan Revolving Fund (i.e. the Landowners Recovery Fund). Furthermore, citations of this nature were a reflection of the actions of previous administrations and beyond the control of the Authority's current administration. Furthermore, the loans issued against the Landowners Recovery Fund were written off previously to this administration. Recovery costs of loans written off previously have exceeded the statute of limitations and would be a futile exercise.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1	Unresolved.	Respond to the recommendation and provide a response indicating concurrence or nonconcurrence. If concurrence is indicated, provide the target date for submitting proposed legislation to the Guam Legislature to amend Title 12, Chapter 50, of the Guam Code Annotated.
B.1	Unresolved.	Respond to the revised recommendation and provide a response indicating concurrence or nonconcurrence. If concurrence is indicated, provide the target date and title of the official responsible for implementation.
B.2	Management concurs; additional information requested.	Provide the target date for the Board of Directors to adopt formal policies and procedures for the Lease Program and to provide Lease Program personnel with appropriate training.
C.1	Unresolved.	Respond to the revised recommendation and provide a response indicating concurrence or nonconcurrence. If concurrence is indicated, provide the target date and title of the official responsible for implementation.



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