



**EXECUTIVE SUMMARY**  
**Department of Administration Special Revenue Funds**  
**OPA Report No. 19-02, March 2019**

A Special Revenue Fund (SRF) is an account established by a government to collect money that must be used for a specific project. An SRF provides an extra level of accountability and transparency to the taxpayers in that their tax dollars will go toward an intended purpose. As of September 30, 2017, the Department of Administration (DOA) managed 194 SRFs, of which 108 were active and 86 were inactive.

**\$45.5M Permanent Transfers from SRFs to the GF Contrary to SRFs Legislative Purposes**

From fiscal year (FY) 2013 to FY 2017, DOA had borrowed cash totaling \$45.5 million (M) from 49 SRFs to pay for the General Fund (GF)'s expenses. The borrowings are treated as permanent transfers if repayment is not expected within a reasonable period to comply with the Governmental Accounting Standards Board No. 34. Use of SRF for general government expenses are contrary to the purposes for which these SRFs were created. SRF projects are at risk of failure if these borrowed funds will not be repaid.

The 21 SRFs covered by this audit made \$39.0M in permanent transfers, 12 of which made permanent transfers above \$1.0M as follows:

**SRFs with Permanent Transfers above \$1.0M**

	Fund No.	Fund Name	Amount
1	619	Recycling Revolving Fund	\$ 10,603,369
2	205	Territorial Educational Facility Fund	\$ 4,326,008
3	208	Guam Highway Fund	\$ 4,208,256
4	281	Enhanced 911 Emergency Report System	\$ 3,880,716
5	231	Fire, Life, and Medical Emergency Fund	\$ 2,549,183
6	655	Limited Gaming fund	\$ 1,834,260
7	600	Environmental Health Fund	\$ 1,788,958
8	202	Street Light Fund	\$ 1,723,219
9	235	DPW Building & Design Fund	\$ 1,230,290
10	241	Health Professional Licensing Fund	\$ 1,148,487
11	213	Guam Contractors Fund	\$ 1,121,428
12	602	Healthy Futures Fund	\$ 1,003,399
		<b>Total</b>	<b>\$ 35,417,573</b>

DOA borrowed funds from SRFs to pay for government payrolls, tax refunds, bonds, etc. due to the GF's deficit from FY 2014 to FY 2017 ranging from \$59.6M to \$119.1M. The Treasurer of Guam (TOG) made electronic fund transfers based on approval from the DOA Cash Management Committee. According to the DOA Director, DOA utilized idle and unused SRFs due to pressure from the recurring GF deficit.

**Permanent Transfers Were Without Prior Consent from Agency Directors**

The DOA Director did not seek prior consent and authorization from the Agency Directors or Fund Administrators before borrowing from the SRFs. DOA sent letters to the Agency Directors two to five months from the end of the fiscal years to inform them of the total funds borrowed and the non-availability of these borrowed funds for future SRF needs. The Agency Directors signed the acknowledgment letters

except for all FY 2013 permanent transfers when no acknowledgment letters were sent. The practice of sending permanent transfer acknowledgment letters started in FY 2014.

In November 2018, the Public Auditor sent letters to the Agency Directors encouraging them to refrain from acknowledging permanent transfers for FY 2018.

### **Noncompliance with Some Provisions of the Budget Act and/or Public Laws**

The permanent transfers from the SRFs to the GF did not comply with the General Appropriations Act for FY 2013 through FY 2017. Using appropriations from SRFs was allowed only in the General Appropriations Act for FY 2018. In addition, the permanent transfers from the SRFs to the GF did not comply with the following SRF provisions:

- Unexpended appropriations shall revert to the SRFs on the last day of the fiscal year.
- Expenses up to the level of revenues collected for the fiscal year and expended carryovers are only for authorized purposes.
- Not subject to transfer authority of the Governor.
- Approval requirements for disbursements and deposits such as:
  - Enhanced E911 Emergency Reporting System Fund - *“expressed approval of the Legislature”*, and
  - Fire, Life, and Medical Emergency Fund - *“upon request for expenditures by the Fire Chief.”*

### **Some SRFs were Supplemented by the GF**

During the five-year period, DOA also transferred \$29.4M from the GF to pay for the deficit of the 16 SRFs. For the seven SRFs covered by this audit, total permanent transfers from the GF amounted to \$28.8M.

### **Expenditures Exceeded Appropriations and/or Revenues**

Most of the SRFs’ deficits were due to a funding shortfall. Eight SRF expenditures exceeded their appropriations while seven exceeded their revenues. Of these over expenditures, four SRFs exceeded both their appropriations between \$24 thousand (K) to \$14.0M and their revenues between \$771K and \$15.2M during the five-year period. These over expenditures resulted in a zero, minimal, or deficit SRF balances. It should be noted, however, that fund balances showed signs of improvement as the balances have been increasing during the period examined.

### **Collections Untimely Deposited to the SRF Bank Accounts**

The TOG initially deposits all collections received from the agencies or satellite stations to the GF bank account. TOG should electronically transfer these deposits to the intended SRF bank accounts the following banking day. However, the transfers for some SRFs were done several days after the collection due to the GF’s insufficient funds caused by the temporary use of SRFs.

### **Inconsistent Governance Provision on Roles and Responsibilities of Fund Administrators**

Enabling legislations creating some SRFs did not clearly define the responsible agencies and officials who will administer and manage the funds. Hence, the concerned agencies did not appear to ensure compliance of the SRFs’ intended purposes, spending and fund transfer restrictions, and other required processes. This leaves DOA with managing, recording, monitoring, reconciling, and reporting these funds.

### **No Specific Policies and Procedures for SRFs**

DOA has no written policies and procedures to establish roles and responsibilities regarding the SRFs, such as to: (1) create a new fund account in the AS400 system, (2) authorize and process interfund transfers and borrowings, (3) perform interfund reconciliations, and (4) close inactive funds. Documented policies and procedures for the SRFs should be in place to ensure operational efficiency, consistency, and accountability.

### **Law Inconsistent in Requiring Separate Bank Accounts**

The enabling legislations were not consistent in requiring that SRF revenues have to be deposited in separate bank accounts. It merely states that funds must be kept separate and apart from all other funds of the government. Accordingly, SRF revenues were deposited and commingled in the GF's bank account. This practice gave DOA the sole discretion to use the funds based on the GF's needs. DOA stated that even if SRF funds were borrowed, it made sure that there are available funds to pay for SRF expenditures when needed.

### **A Large Number of SRFs & Lack of Implementation of Prior Audit Recommendation**

GovGuam manages 194 SRFs, of which 108 were active and 86 were inactive. Several of these inactive SRFs were still not repealed despite prior audit recommendations. Of the 86 inactive SRFs, eight have negative balances (deficit) ranging between \$0.25 to \$519K. Remaining balances of inactive SRFs should be cleared, closed, and transferred to the GF, if permitted, by the Legislature. Too many funds could cause non-flexibility and complexity in budgeting, accounting, monitoring and other phases of financial management.

### **Conclusion and Recommendations**

The Legislature, DOA, and the Agency Directors need to address the ineffective fund management and noncompliance with the SRFs' utilization, purpose, and transfers. Improper use of SRFs could potentially affect public health, public safety, and deprive social and economic benefits for which these SRFs were created. There could be possible legal implications if provisions of federal laws, which may also oversee the funds, are violated. SRFs should be properly managed by the Agency Directors or Fund Administrators in close coordination with DOA to ensure maximum utilization of these funds for public benefits as these are intended.

For this audit, we made seven recommendations to the DOA Director, three to the Legislature, and one to the Agency Directors or Fund Administrators.

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