



**Executive Summary**  
**Government of Guam Supplemental Appropriations Revenue Fund and**  
**Other Supplemental Appropriations**  
**OPA Report No. 12-02, May 2012**

In June 2011, the Supplemental Appropriations Act of 2011 (P.L. 31-74) established the Supplemental Appropriations Revenue (SAR) Fund to ensure that various Government of Guam (GovGuam) agencies “deemed vital” would be funded, despite limited resources available. On top of the \$535.2 million (M) appropriated to GovGuam entities in fiscal year (FY) 2011, P.L. 31-74 provided for \$28M in supplemental appropriations: \$14.3M into the SAR Fund, \$12.7M to cover the health insurance premiums shortfall, and \$1M for Guam Memorial Hospital Authority’s (GMHA) delinquent retirement contributions. See table below.

|   | <b>Budget</b> | <b>Actual</b>         | <b>Variance</b>       |
|---|---------------|-----------------------|-----------------------|
| SAR Fund Revenues                                 | \$ 14,265,878 | \$ 6,908,287          | \$ 7,357,591          |
| SAR Fund Expenditures- Operating Expenditures     | \$ 14,265,878 | \$ 10,379,643         | \$ 3,886,235          |
| <b>SAR Fund Balance (Deficit)</b>                 | <b>\$ -</b>   | <b>\$ (3,471,356)</b> | <b>\$ 3,471,356</b>   |
| Other Supplemental Revenues                       | \$ 13,771,858 | \$ 13,771,858         | \$ -                  |
| Other Supplemental Expenditures                   |               |                       |                       |
| Health Insurance Premiums Shortfall               | \$ 12,745,698 | \$ 9,810,381          | \$ 2,935,317          |
| GMHA Retirement Contributions for Prior Years     | \$ 1,026,160  | \$ 1,026,160          | \$ -                  |
| Total Other Supplemental Expenditures             | \$ 13,771,858 | \$ 10,836,541         | \$ 2,935,317          |
| <b>Other Supplemental Funds Balance (Deficit)</b> | <b>\$ -</b>   | <b>\$ 2,935,317</b>   | <b>\$ (2,935,317)</b> |
| SAR and Other Supplemental Revenues               | \$ 28,037,736 | \$ 20,680,145         | \$ 7,357,591          |
| SAR and Other Supplemental Expenditures           | \$ 28,037,736 | \$ 21,216,184         | \$ 6,821,552          |
| <b>Fund Balance(Deficit)</b>                      | <b>\$ -</b>   | <b>\$ (536,039)</b>   | <b>\$ 536,039</b>     |

The SAR Fund realized revenues of \$6.9M compared to the budgeted \$14.3M due to the pending court settlements and disagreements as to the assessments by those entities. Of the \$6.9M received, expenditures against the fund totaled \$10.4M, which is an over-expenditure of \$3.5M. The Department of Administration (DOA) subsequently received \$1M in American Opportunity Tax Credit in February 2012, reducing the over-expenditure to \$2.5M.

Of the \$13.8M in other supplemental appropriations, \$9.8M was for the health insurance shortfall and \$1M was for the GMHA retirement contributions, leaving \$2.9M. The \$2.9M in other supplemental fund balance helped off-set the \$3.5M SAR Fund deficit, for a remaining over-expenditure of \$536 thousand (K).

## **SAR Fund Revenues**

Of the \$14.3M appropriated for the SAR Fund, \$6.9M was realized as of September 30, 2011. The SAR Fund subsequently received \$1M in American Opportunity Credit in February 2012, leaving an uncollected balance of \$6.4M, which DOA is pursuing collection. The \$6.4M balance is being disputed by the entities as follows:

- \$4.3M from the Department of Public Works (DPW) Consent Decree for the Layon Landfill and Ordot Dump is awaiting court decision and approval by the Federal Receiver. However, the Federal Receiver is contesting the matter.
- \$2.1M from the Autonomous Agency Collections Fund has yet to be collected from the Port Authority of Guam, Guam Power Authority, and Guam International Airport Authority.
  - The Port Authority of Guam has recorded a liability of \$700K in its FY 2011 financial audit; however, payment is pending an agreement memorandum to be signed as final settlement;
  - The Guam Power Authority has submitted to the Public Utilities Commission a Payment in Lieu of Taxes (PILOT) surcharge, which if approved, will be added to customers' power bills; and
  - The Guam International Airport Authority claims that it is prohibited by its 2003 General Revenue Bond Indenture and federal law from transferring any funds from operating surplus to the General Fund.

## **SAR Fund and Other Supplemental Expenditures**

The law authorized the SAR Fund and other supplemental expenditures totaling \$28M: \$14.3M was appropriated for 16 government entities deemed vital, \$12.7M to pay for the health insurance shortfall, and \$1M to pay the Retirement Fund on behalf of GMHA retirees. Of this amount, \$21.2M was expended; \$10.4M for government entities operations, payroll, contractual obligations, etc.; \$9.8M for health insurance; and \$1M for past due GMHA retirement contributions.

### *2011 Health Insurance Costs and GMHA Retirement Contributions*

In April 2011, we issued the GovGuam Liabilities Assessment (OPA Report No. 11-03), in which we estimated that GovGuam would have a shortfall in health insurance premiums ranging from \$9.7M to \$20.1M. A total of \$12.7M was appropriated in the SAR Fund to pay for the shortfall: \$7.6M from the discontinuation of the 2011 Hay Study and \$5.1M from the cost savings identified from the temporary reduction of the GovGuam retirement contribution rate. With the \$12.7M supplemental appropriation, we estimated in December 2011 that the shortfall would be reduced to \$746K (GovGuam Health Benefit Costs Account Audit, OPA Report No. 11-11). However, our review of the SAR Fund showed that while \$12.7M was received; only \$9.8M was expended, leaving an unexpended balance of \$2.9M. Another \$1M was used to pay past due GMHA retirement contributions.

Although GovGuam entities recognized cost savings of \$7M from the temporary reduction in retirement contributions, the General Fund will be obligated to pay back the savings through a new bond issuance in 2012. Accordingly, the \$7M payment to the Retirement Fund will increase the 2011 General Fund deficit.

### **Accounting for Supplemental Revenues**

According to DOA's management, GovGuam's ongoing cash challenges made it difficult to manage separate accounting of the SAR Fund. The General Fund paid the \$10.4M in expenditures on behalf of the 16 agencies. Our review of the SAR Fund bank statements showed that between June 2011 and January 2012, \$7.6M was deposited into the SAR bank account and a total of \$5M was withdrawn from this account to reimburse the General Fund and Payroll bank accounts.

### **Conclusion**

With the exception of the over-expenditure, SAR revenues and expenditures were recognized in accordance with law. However, procedurally, DOA pre-paid SAR Fund expenditures from the General Fund.

While the SAR Fund was established with the intent to provide additional funding to GovGuam entities, proper accounting and funding levels are necessary to ensure compliance with the legal authority for expenditures. P.L. 31-74 mandated OPA to conduct an annual audit of the SAR Fund. However, we recommend amending the law to include review of the SAR Fund as part of the *annual* Government of Guam financial audit. The DOA Director provided a management response indicating concurrence with our conclusion and recommendations.

Doris Flores Brooks, CPA, CGFM  
Public Auditor