



Guam Department of Education FY 2009 Financial Highlights

April 9, 2010

The Guam Department of Education (DOE) closed Fiscal Year (FY) 2009 with excess revenues over expenditures of \$5.6 million (M). As a result, DOE's deficit decreased by \$7M (20%), from \$29M in FY 2008 to \$21.9M in FY 2009. The \$21.9M deficit results from the slow payment of liabilities, such as \$8.3M to the Guam Power Authority for a 2004 installment payment agreement, \$6.6M owed to the Retirement Fund for 2003 past-due contributions, and vendor payables totaling \$14.7M during the year.

Independent auditors Deloitte & Touche, LLP issued an unqualified "clean" opinion on DOE's financial statements, but rendered a qualified opinion on two of the five major programs reviewed in the Single Audit Compliance Reports. Auditors identified 10 audit findings, of which six are considered material weaknesses. DOE's FY 2009 federal questioned costs totaled \$4,862, a significant improvement from years past. However, local questioned costs related to procurement totaled \$1.6M. DOE remains on high-risk status with the U.S. Department of Education for the seventh consecutive year.

Local Appropriations and Federal Grants

DOE's local appropriations increased in FY 2009, while federal grants, contributions, fees, and other receipts declined. DOE's revenues are comprised of local appropriations (\$211.4M or 80.5%), federal grants (\$43.4M or 16.5%), cafeteria sales (\$767 thousand (K) or 0.3%), and fees and other program receipts (\$126K or 0%).

Local appropriations increased by \$4.8M (2.3%), from \$206.7M to \$211.4M, but this was offset by an 11.4% decline in federal grants, from \$48.6M to \$43.1M. Fees and other program revenues dropped dramatically by 92.4%, or \$1.5M, to just \$126K. Cafeteria sales increased nominally by 4%, or \$29K, from \$737K to \$767K. DOE remains highly dependent on General Fund appropriations; as such, any delay in the release of cash adversely affects the department's ability to pay obligations.

Local and Federal Operating Expenditures

Total operating expenditures, exclusive of capital lease funds, increased by 4%, or \$9.4M, from \$240.7M to \$250.1M. Of the total expenditures, \$207.1M (83%) was from local funds while \$43.1M (17%) was from federal funds. Local expenditures increased by \$14.7M (7.6%), from \$192.4M to \$207.1M. The increase in local appropriations was primarily utilized to fund increases in salaries and benefits (\$165.3M or 80%), contractual services (\$10.7M or 5%), and equipment (\$5.1M or 2%). The expenditures for salaries and benefits increased by \$4.4M (6%),

while contractual services increased by \$5M (90%), and equipment increased by \$4.3M (539%). Utilities comprised 7%, or \$12.9M, an increase of 0.2%, or \$312K.

While local expenditures rose, federal grant funding dropped by \$5.5M, correspondingly expenditures also dropped. Federal expenditures, exclusive of capital lease funds, declined by 11% or \$5.3M, from \$48.4M to \$43.1M. The categories that recorded notable federal decreases include salaries and benefits, which comprised 64% of expenditures, decreased by 35%, or \$3.7M; contractual services comprising 24%, decreased by 12% or \$1.5M; and textbooks, which comprised less than 1%, decreased by 85%, or \$845K during the year.

Single Audit Reports and Questioned Costs

DOE received a qualified opinion on two of the five major programs reviewed in the Single Audit Compliance Reports. Qualified opinions have been issued since 1998. In FY 2009, 10 findings were identified, of which six were considered material weaknesses¹, and four were identified as control deficiencies. Five of the six material weaknesses were repeat findings from the prior year. The material weakness findings pertained to:

- *Level of Effort Requirement (09-01)*: DOE does not meet the definition of a State. Rather, it is a public agency within the government of Guam (the state) with an accounting system that is segregated from that of the State. In FY 2008, the required level of financial support was \$4.7M, DOE's actual level was \$5.1M, an excess of \$494K.
- *Reconciliations (09-04)*: DOE did not perform timely reconciliations of general ledger accounts, such as accounts receivable, accounts payable, and deferred revenues. Reconciliations were performed only at year's end.
- *Expenditures (09-06)*: Amounts for goods and services were not recorded in the appropriate period or the correct account. Auditors made two significant adjustments totaling \$8.2M to properly record transactions.
- *Encumbrances (09-07)*: DOE's financial management did not effectively monitor the validity of encumbrances. As a result, auditors made two adjustments totaling \$1.8M to properly account for purchase orders and to correct overstatements.
- *Equipment Management (09-08)*: The necessary reconciliations were not performed, resulting in incomplete property records. DOE failed to demonstrate that it fully implemented adequate procedures for managing equipment purchased with program grant funds.
- *Non-Appropriated Funds (NAF) (09-10)*: School administrators and treasurers tasked with NAF documentation disregarded NAF requirements. NAFs continue to be vested in personnel who are incapable of accounting for the money. Of transactions totaling \$135K tested, invoices, receiving reports or other evidential matter were lacking for \$62K.

While federal questioned costs have been reduced, DOE local questioned costs remain high. Local questioned costs totaled \$1.6M for improper procurement of janitorial services, air-

¹ A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the entity's internal control.

conditioning, waste pick-up, and termite treatment. Auditors found several deficiencies, including the renewal of a contract without proper approval, no documentation of competitive bidding, no rationale for the method of procurement, and no basis for contract price.

Dedicated Revenues for New Schools

DOE entered into a school lease agreement for which the Governor pledged a portion of future Compact Impact funding to make annual lease payments. The lease obligation is payable from Compact Impact revenues through 2022 with the remaining payments subject to future appropriations by the legislature. The balance remaining on this lease agreement is approximately \$112.7M, which is payable through December 2025. The costs for the four schools are as follows:

Ukudo High School	\$ 42,581,348
Astumbo Middle School	18,383,500
Adacao Elementary School	14,482,938
<u>Liguan Elementary School</u>	<u>13,082,080</u>
Total:	\$ 88,529,866

For FY 2009, DOE received a total of \$7.1M in Compact Impact funds to make lease payments on the four new schools.

In June 2009, the government of Guam, on behalf of DOE, entered into a lease agreement to temporarily house John F. Kennedy High School. Annual rental payments in FY 2009 totaled \$4.4M.

Deloitte and Touche auditors issued a separate document to the DOE Superintendent outlining accounting policies, required communication, and adjustments. For a more detailed commentary of DOE's operations, refer to Management's Discussion and Analysis in the report or visit www.guamopa.org.