



OFFICE OF THE PUBLIC AUDITOR

Performer and A.F.T.E.R. Analysis

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Repeated news headlines of cash flow crises are grim reminders that the financial health of the government of Guam (Government) is in distress and continues to decline. Fueling our growing deficit, now at \$524.1 million (M), is continuous overspending. Without adopting a deficit-elimination plan, our Government's day-to-day cash shortages will continue.

Performer Score

Guam's Performer rating, a broad assessment of the Government's financial health performance is 1.32 on a scale of 1 to 10, with 10 being the most favorable. This is the lowest score in the five years that the analysis has been performed. In 2005, Guam's score was 1.70. The highest rating received, 2.86, was in 2004.

To put into context the severity of the Government's financial problems, we owe \$1.17 for every \$1 in assets we own, and we have only 3 cents for every \$1 in obligations to vendors (\$69M), tax refunds (\$267M), and other debts. The Performer concluded that our Government did not live within its means and brought in 89 cents for every \$1 it spent.

Continuous Overspending

Our Government's continuous overspending is the root cause of our deficit. General Fund revenues in 2006 were \$432.5M, while expenditures for government operations were \$364M and transfers to autonomous entities and other items were \$90.6M for a total of \$454.6. This resulted in an overexpenditure of \$22M for government-wide operations. The deficit was further exacerbated by two court order judgments: \$30M for Earned Income Tax Judgment and \$123.6M for Retiree Cost of Living Allowance Judgment. This brought our total overexpenditure to \$175.7M for 2006. Our cumulative deficit now stands at \$524.1M or over half a billion dollars.

Prospect for Growth

The 2009 Executive Budget estimated General Fund revenues at \$521M, a 6% increase from \$489.9 in 2008. The impending military buildup is a catalyst for growth. However, if all increase in revenues goes entirely to fund current operations, leaving little, if any, new cash to pay past debt, our cash shortfall will continue. To address our financial woes, our Government should increase its revenues, reduce its spending, or a combination of both, to set aside cash to pay down the deficit.

Improved Audit Findings and Questioned Costs Resolution

The analysis presented favorable results notably for audit findings resolution. This is the second year that the government-wide audit was issued timely. Opinion qualifications remain at two. Specifically for the inability to audit tax related balances and the Guam Memorial Hospital Authority opinion qualification for accounts receivables and fixed assets. Audit findings

significantly decreased from 65 in 2002 to 2 in 2006, and none of the findings were repeated. The Department of Administration made significant efforts to resolve cumulative questioned costs, now at \$5.7M, down from \$51.3 in 2002.

Acknowledgement

The Performer and A.F.T.E.R. Analysis developed by Crawford and Associates is one of several methods utilized by the Graduate School, USDA's Pacific Islands Training Initiative to assist insular governments track their financial health and performance. It is an overall rating of the government as a whole and is intended to complement the annual government of Guam financial reports. The analysis can be viewed at our website at www.guamopa.org and DOA's website at doa.guam.gov. For other useful tools for governments, visit www.crawfordcpas.com.