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Guam Department of Education – FY 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability released the Guam Department of Education’s (GDOE) financial statements, single audit, management letter, and the auditor’s communication with those charged with governance for fiscal year (FY) 2020. Independent auditors Deloitte & Touche, LLP issued an unmodified (clean) opinion on both GDOE’s financial statements and compliance for major federal programs. FY 2020 marked the 8th straight year GDOE received a clean opinion on its compliance for major federal programs. However, the auditors identified two significant deficiencies in GDOE’s internal control over financial reporting, of which one was also a significant deficiency in their internal control over compliance for major federal programs. GDOE has remained a high-risk grantee with the U.S. Department of Education (USDOE) for the past 18 years. GDOE closed FY 2020 with an \$871 thousand (K) increase in fund balance (net gain) compared to the \$3.7 million (M) decrease in fund balance (net loss) in FY 2019.

Revenues and Expenditures Increased

Total revenues increased by \$5.5M, from \$315.0M in FY 2019 to \$320.5M in FY 2020. The increase was largely due to a \$9.4M increase in federal grants and contributions. However, GDOE also experienced revenue decreases of \$3.5M in appropriations and \$351K in contributions from component units.

GDOE’s governmental fund expenditures increased by \$901K, from \$318.7M in FY 2019 to \$319.6M in FY 2020. Increases were largely due to a \$10.1M increase in direct student support and \$4.1M increase in lease payments. GDOE saw a decrease of \$562K in secondary education expenditures, \$715K decrease in retiree healthcare benefits, \$3.2M decrease in general administration, and \$9M decrease from funding three charter schools.

Charter Schools

FY 2020 marked the first fiscal year where the charter school appropriations and expenditures were excluded from GDOE’s financial statements. Public Law (P.L.) 29-140 established the process for authorizing charter schools in Guam through the Guam Academy Charter Schools Council. Although the charter schools are considered public schools, they operate independently from GDOE. P.L. 35-29, however, mandated the budgetary and organizational processes of the charter schools separated from GDOE. The Science is Fun and Awesome (SiFA) Learning Academy Charter School and iLearn Academy Charter School (iLearn) issued separate financial audits for FY 2020 in January 2021. The Guahan Academy Charter School has only issued its FY 2017 in April 2019.

Reduction in GDOE Employees

As of September 2020, GDOE employees decreased by 71, as follows: locally funded employees decreased by 46, federally funded employees decreased by 19, and employees funded by both local

and federal funds decreased by six. Employees who were counted as locally/federally funded were locally funded elementary school teachers who also participated in federally funded projects, such as the Gifted and Talented Program and the Territories & Freely Associated States Educational Program.

Third Party Fiduciary Agent (TPFA)

FY 2020 marks the 8th year GDOE incurred local expenditures associated with addressing its high-risk grantee status by USDOE. USDOE's specific conditions require that the financial management functions of USDOE grants be supervised by the TPFA. GDOE staff perform budget, personnel, payroll, procurement, property management, and accounts payable activities with various levels of oversight from the TPFA over the transactions funded with USDOE grants. Financial transactions from the TPFA system are mirrored on GDOE's financial management information system (FMIS).

In May 2018, GDOE officially requested USDOE's reconsideration of the specific conditions, the nature of actions needed to remove the special conditions, and the timeline for reconsideration. In March 2019, USDOE amended the FY 2018 specific conditions to remove three (out of seven) conditions. In August 2019, USDOE acknowledged full compliance of the requirement for a timely single audit but left this condition outstanding.

In July 2020, USDOE conducted a virtual monitoring review of GDOE's progress. As a result, USDOE removed several of its requirements pertaining to employee time tracking and the TPFA's oversight of the physical inventory process for six months. GDOE is currently pending USDOE's final review and disposition on fully meeting the requirements set forth in the Reconsideration Evaluation Plan and specific conditions.

In October 2019, GDOE renewed the TPFA's contract for the second time at \$2.25M, which was a \$250K decrease from the first renewal and original contract, and the lowest cost since the TPFA was first contracted.

Single Audit

While GDOE received "clean" opinions, the independent auditors identified two significant deficiencies relative to the internal controls over financial reporting and major federal programs.

- Finding No. 2020-001, GDOE did not complete its annual physical inventory of property, in the beginning of 2020. While the coronavirus disease 2019 (COVID-19) pandemic brought about limitations, GDOE could not provide documents to demonstrate resuming inventory for the rest of 2020 or obtain extensions from oversight authorities. As a result, the independent auditors were unable to assess the monetary value of noncompliance.
- Finding No. 2020-002, the independent auditors identified unrecorded FY 2020 federal expenditures totaling \$1.6M for five federal programs, despite GDOE having provided its schedule of expenditures of federal awards in January 2021.

GDOE expended \$75.4M in federal awards in FY 2020. The federal grantors and corresponding expenditures include the U.S. Department of Agriculture (USDA) at \$16.3M, the U.S. Department of Defense at \$300K, the U.S. Department of the Interior at \$6.6M, the U.S. Department of the Treasury at \$1M, USDOE at \$47.5M, and the U.S. Department of Health and Human Services at \$3.6M.

Management Letter

In a separate management letter, the independent auditors identified six deficiencies in GDOE's internal control over financial reporting, as follows:

1. **Employer Share Life Insurance:** One out of 13 employees tested did not contribute to the employee's life insurance benefit after 18 months of employment.
2. **Personnel Pay Rates:** Two of the 15 payroll transactions tested indicated a time lag of 186 and 108 days, respectively, from the effective dates of the personnel increments (or pay rate changes) to their final approval dates.
3. **Reconciliations:** Other liabilities and accruals include various accounts that have not been reconciled in over four years and may include items that have been paid or are no longer valid, resulting in uncorrected misstatements of approximately \$1.5M. As of September 30, 2020, approximately \$637K in General Fund prepayments was overstated, of which \$491K pertained to expenditures already incurred or received and \$146K pertained to amounts not disbursed as of fiscal year end. Department-wide liabilities were not adjusted for FY 2020.
4. **Cash:** Approximately \$5.2M of checks were dated and/or released subsequent to fiscal year end but recorded as reductions to cash as of September 30, 2020.
5. **Travel:** Procurement documents for \$124K in travel tickets and \$2K in hotel accommodations were not available to determine whether travel expenditures were competitively procured. Approximately \$93K of travel advances were not cleared as of year-end. As of March 17, 2021, 49% of these advances remain uncleared. GDOE's policy requires travel advances to be cleared two weeks after the traveler returns.
6. **Non-Appropriated Funds (NAF):** FY 2020 is the 7th year for the full reporting of NAF on GDOE's financial management information system. The following exceptions were identified by the Internal Audit Office for school year 2019-2020:
 - Opening balances did not reconcile to prior year ending balances for 9 of 41 schools.
 - For 11 of 41 schools, bank reconciliations for the school year were not timely and accurately performed. Eight schools reported balances that were higher than the bank reconciliations totaling \$32K. Three schools reported balances that were lower than the bank reconciliations totaling \$4K.
 - For four of five schools tested, bank statements identified \$10K fewer deposits than the recorded NAF receipts.
 - Of 198 receipts tested aggregating \$111K, certain transactions did not meet NAF documentation requirements.
 - Of 176 disbursements tested aggregating \$129K, certain transactions did not meet NAF documentation requirements.

In another management letter, the auditors identified one deficiency involving GDOE's internal control over its information technology environment.

COVID-19's Impact on GDOE

In March 2020, the Governor of Guam declared a state of emergency in response to COVID-19. As a result, schools, non-essential government agencies, and businesses closed. GDOE closed its offices to the public and required all non-essential employees to work from home. In March 2020,

the U.S. President signed a major disaster declaration for Guam and ordered federal assistance to supplement local recovery efforts in connection with the COVID-19 pandemic. The Government of Guam (GovGuam) received \$118M, of which \$1M was made available in FY 2020 to GDOE to fund food distributions. GDOE was also awarded \$44.4M in direct aid from USDOE and USDA, of which \$4.4M was expended as of FY 2020.

Due to the uncertainty surrounding the pandemic and the duration of the state of emergency, GDOE is unable to reasonably estimate the pandemic's impact on its financial position. Subsequent to FY 2020, GDOE received \$110.6M in additional direct aid from USDOE. GovGuam also received direct aid from USDOE of \$12.5M, of which \$8.9M was made available to GDOE.

For a more detailed discussion on GDOE's operations, see the Management's Discussion and Analysis in the audit report, as well as the reports in their entirety, at www.opaguam.org.