

**Department of Education  
FY 2002 Financial Highlights  
Corrected Version resulting from changes in the Financial Statements**

**April 1, 2004**

After being declared a “high-risk grantee” in September 2003 for not providing timely and complete audited financial reports, the Guam Department of Education (DOE) is nearly caught up in submitting its single audit reports to the U.S. Department of Education (USDOE). DOE’s audited financial statements for FY 2002, prepared by Deloitte Touche Tohmatsu, has met the March 31, 2004 deadline set by USDOE. The single audit reports of federal expenditures for FY’s 1998, 1999, 2000, and 2001 and the FY 2001 financial audit were issued November 2003.

For FY 2001 the Auditors rendered a qualified opinion on DOE’s balance sheet and no opinion on the statement of revenues, expenditures, and changes in fund balances because DOE did not maintain an adequate system of internal control. The opinion qualification was due to the lack of fixed assets records and lack of control over Non-Appropriated Funds.

For FY 2002 the Auditors were able to issue an opinion, albeit qualified, on all elements of the financial statements. The opinion qualification was again due to incomplete presentation of fixed assets and significant non-compliance findings for Non-Appropriated Funds. This opinion is a vast improvement over FY 2001 wherein the Auditors were precluded from rendering an opinion on the statement of activities due to significant internal control deficiencies.

**Single Audit Reports**

The Single Audit Report disclosed 28 findings for FY 2002, which resulted in questioned costs of \$894,428. Cumulatively, the total unresolved questioned costs as of September 30, 2002, are \$8.4 million; of that sum, \$6 million is FEMA questioned costs from FYs 1998, 1999 and 2000. A year-by-year summary of the questioned costs is presented below:

<u>Fiscal Year</u>	<u>Total Questioned Costs</u>	<u>FEMA Questioned Costs</u>	<u>USDOE &amp; Others</u>
1998	\$1,692,928	\$1,276,537	416,391
1999	3,468,809	3,130,222	338,587
2000	2,007,474	1,649,112	358,362
2001	397,550	---Zero---	397,550
<u>2002</u>	<u>894,428*</u>	<u>---Zero---</u>	<u>894,428</u>
<b>Total</b>	<b>\$8,461,189</b>	<b>\$6,055,871</b>	<b>\$2,405,318</b>

\*DOE is currently obtaining confirmation of approval from the federal government for the purchase of five school buses worth \$339,470. Once approval is obtained, FY2002 questioned cost may decrease to \$554,958.

Of concern is the nearly doubling of questioned costs from prior years the majority of which are USDOE. Items questioned were allowable costs under Special Education, period of availability, and excess administrative costs charged to Head Start.

As of September 30, 2002, the major findings include:

1. **Basic accounting functions not performed; reconciliations not done.** Most of these are repeat findings from previous years that were not resolved due to lack of qualified personnel to oversee the accounting functions. Bank reconciliations were not performed during FY 2002, the general ledger was not maintained, subsidiary ledgers were not reconciled with the general ledger, prepaid expenses were not recorded, interfund reconciliations were not prepared on a monthly basis, and accruals were not recorded.
2. **Non-Appropriated Funds (NAF) not properly accounted.** Cash generated from school-sponsored activities were not properly accounted; determination of cash balances was performed at a much later date. The audit disclosed noncompliance with NAF rules and regulations; examples of findings include donations to non-profit organizations, absence of documentation explaining reason for payment, checks paid to "cash" to support off-island travel without documentation of receipts or plane tickets.
3. **Incomplete recordation of fixed assets.** DOE was not able to provide a complete listing of all fixed assets. Equipment records are not maintained, physical inventory of equipment is not performed at least once every two years, and a property management system is not in place.
4. **Inadequate documentation of procurement.** Approximately \$2.6 million worth of procurement items have "no significant procurement history," i.e., documentation of competition or vendor selection; this amount includes \$2.5 million purchase from local funds, \$125,822 purchased through federal funds. In another finding, DOE did not obtain approval from the Federal grantor agency to purchase five school buses at a cost of \$339,470.
5. **Withholding taxes subtracted from employees paychecks not remitted to Department of Revenue and Taxation (DRT).** Withholding taxes in the amount of \$10.1 million were not remitted to DRT; interest and penalties assessed to DOE for the FY 2002 tax period was approximately \$6 million. These amounts have subsequently been paid and withholding payments are now current.
6. **Federal Non-compliances.** DOE was also cited for other noncompliance with the following requirements: eligibility, level of effort, period of availability, reporting, sub-recipient monitoring, and special tests and provisions.

### **Financial Statements**

Total expenditures for FY 2002 were \$185.8 million compared to \$196.7 million, a decrease of \$10.9 million. General fund appropriations were \$138.5 million, compared to \$161 million in prior year, a decrease of \$22.5 million. Federal grants and program revenues were \$35.5 million compared to \$31 million. As a result DOE had a net over expenditure of \$10.5 million compared to \$3 million over expenditure in FY 2001.

DOE had total liabilities of \$86 million, up from \$55 million in 2001. This is mainly due to accrued expenses. Accrued expenses were \$18.4 million in income tax withholdings and \$22.9 million in retirement contributions. Other liabilities included a note payable to the Guam Power Authority of \$13 million, Accounts Payable of \$9.1 million and unfunded pension liability of \$13.6 million.

To its credit, DOE has made and is continuing to make improvements in its financial management. One major area that is still not addressed is the recommendation that DOE employ a qualified Chief Financial Officer and recruit more qualified accountants.

The next USDOE deadline is the submission of the FY 2003 audited financial statements by June 30, 2004.