

**Government of Guam**  
**Financial Highlights for the Year Ended September 30, 2005**

**June 30, 2006**

The FY 2005 Government of Guam (GovGuam) audit was issued before the June 30 deadline, the first time ever the GovGuam audit was issued on time. The Department of Administration (DOA) is to be commended on this significant accomplishment as they continue to make improvements to its financial management. This year, independent auditors, Deloitte and Touche, rendered a qualified audit opinion on only two factors, one fewer than the three in FY 2004 because the Guam Memorial Hospital Authority (GMHA) was the only autonomous agency that did not present audited financial statements, compared to two entities (GMHA and Guam Visitors Bureau) in FY 2004.<sup>1</sup> One continuing qualification has been the prohibition by the Department of Revenue and Taxation (DRT) to allow auditors to perform procedures related to tax balances, citing taxpayer confidentiality. This qualification will continue until legislation allows auditors, including OPA auditors, access to DRT records.

**General Fund Deficit Grows**

The General Fund deficit is now reported at \$344 million, \$30.4 million more than \$313.6 million in FY 2004. The growing deficit is the cumulative result of General Fund expenditures exceeding General Fund revenues over the years. In FY 2005, \$495.2 million in total expenditures and transfers out exceeded total revenues and transfers of \$464.8 million by \$30.4 million and was mainly the result of:

- \$16.1 million over-expenditure of the Guam Public School System (GPSS).
- \$10.5 million in revenues were not received as anticipated. Revenues were budgeted at \$447.4 million however, only \$436.9 million was received.
- \$4 million of non-appropriated expenditures consisting of \$2.2 million interest for tax refunds, \$1.2 million for GPSS and GMHA interest only payments to the Retirement Fund, and \$610,000 for bank fees for credit card payments accepted at the Treasurer of Guam.

Line entities did not spend their budget appropriations by \$11.1 million. Were it not for these holdbacks, the deficit would have increased by a similar amount.

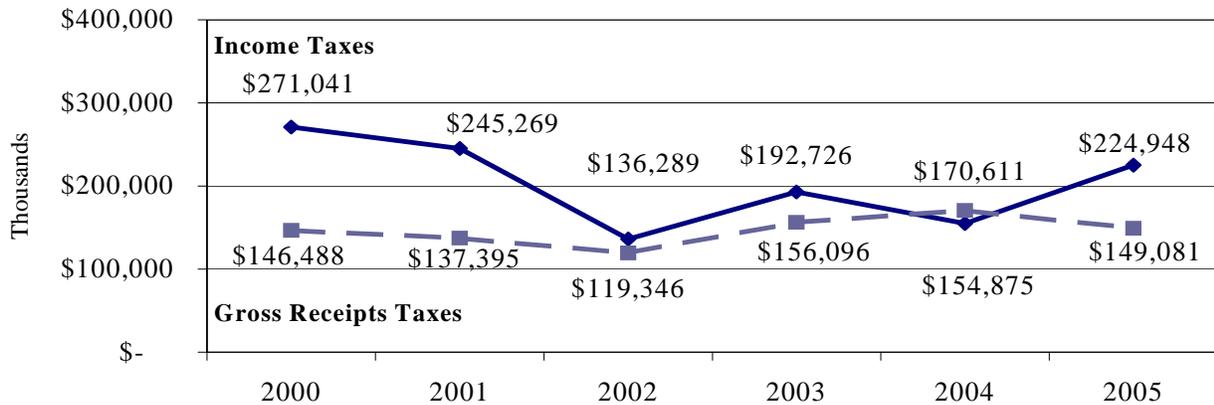
FY 2005 General Fund revenues increased \$34.3 million to \$443.3 million and were comprised mainly of \$376.4 million in taxes (\$224.9 million - income taxes, \$149.1 million - gross receipts taxes, and \$2.3 - other taxes) and \$54.6 million in Section 30 funds. FY 2005 income taxes were \$224.9 million, surpassing FY 2004 by \$70 million. Although it appears as though FY 2005 income taxes exceeded FY 2004 by \$70 million, the auditors made two major adjustments – one if FY 2004 for \$18 million and another in FY 2005 for \$34 million. The adjustments reflect revisions in the DRT estimate for the provision for tax refunds that auditors were unable to audit. After these adjustments, income tax increased approximately \$18 million. Gross receipts taxes continue to fluctuate and dropped \$21.5 million to \$149.1 million from FY 2004 levels.

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<sup>1</sup> The audited financial statements of GVB, GTA Privatization Proceeds Fund, and Guam Housing and Urban Renewal Authority have not been issued as of June 30, 2006. However, they are substantially complete and no further changes to the financials are anticipated.

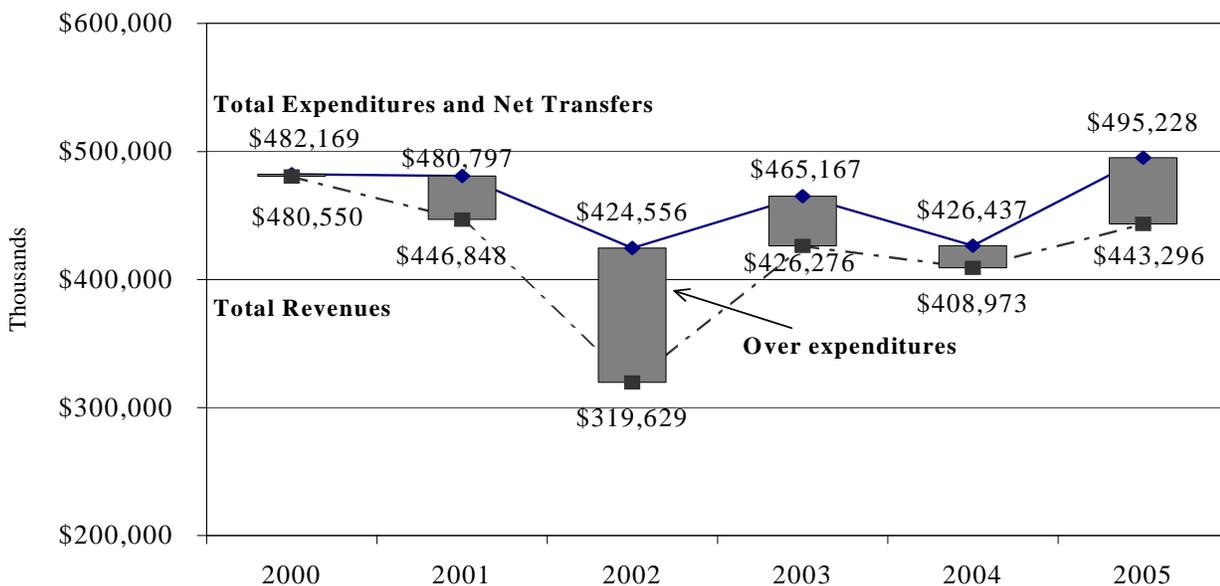
However, FY 2005 shows the full year's effect of the reduction of the gross receipts taxes from 6% to 4%, which was effective April 2004. See Chart.

**Government of Guam Tax Trend**



FY 2005 General Fund expenditures were \$368.6 or \$43.1 million more than FY 2004. Expenditures in the amount of \$217.5 million, or 59% went to education: public education - \$174.4 million, the University of Guam - \$30.3 million, and the Guam Community College - \$12.8 million.

**Government of Guam Over-Expenditures Trend**



General Fund liabilities decreased \$32.9 million to \$412.3 million. This includes a \$207.1 million provision for tax refunds while taxes receivables were \$28.1 million.

**Single Audit Reports**

The Government of Guam (GovGuam) incurred questioned costs of \$584,000, or \$70,000 more than FY 2004. According to the FY 2005 Single Audit Reports, there were 33 findings, three

more than FY 2004. DOA resolved \$15.2 million in prior year questioned costs reducing overall questioned costs to \$10.5 million. Last year, DOA resolved \$17 million in questioned costs bringing the total questioned costs resolved to \$32.2 million in the last two years. DOA is again to be applauded for these major resolutions. The questioned costs represent GovGuam's federal grant expenditures that do not meet the grantors' requirements.

	<u>Questioned Costs</u>	<u>Amount Resolved in FY 2005</u>	<u>Current Unresolved Questioned Costs</u>
FY 1999	\$6,563,327	\$6,563,327	\$ -
FY 2000	8,580,076	5,671,616	2,908,460
FY 2001	5,526,736	1,349,360	4,177,376
FY 2002	2,708,552	929,070	1,779,482
FY 2003	1,243,982	410,078	833,904
FY 2004	514,486	289,027	225,459
FY 2005	584,348	-	584,348
	<u>\$25,721,507</u>	<u>\$15,212,478</u>	<u>\$10,509,029</u>

Of the 33 findings, nine resulted in \$480,934, or 82%, of questioned costs for improper procurement. The highest questioned costs for procurement were incurred by the Department of Public Health and Social Services - \$147,093 and the Governor's Office - \$138,431. Examples of violations include insufficient rationale for the selection of a sole source vendor, solicitation of specific brand names, solicitation with less than three quotes, and no documentation of procurement.

There were 8 findings for not ensuring de-appropriation of federal grants beyond the period of availability. This resulted in \$57,415 expended beyond the period of availability and other potential amounts exposed to such risk. However, the Department of Administration (DOA) has already adjusted its accounting system to address this finding.

Other findings include:

- Six entities did not submit financial statements of their checking accounts.
- Lack of collection efforts for accounts receivables, comprised mainly of use taxes, returned checks, and travel advances older than 90 days. Returned checks were the subject of two OPA audits issued in June 2004 and June 2006.
- Child support collections of \$5 million payable to recipients were not supported in subsidiary ledgers and did not reconcile to bank balances. Again, this finding was identified in OPA Audit of the Child Support Enforcement Program issued November 2003.

A separate management letter was also issued to address other findings regarding GovGuam's internal control. Eight findings, 13 fewer than FY 2004, were reported and include:

- Untimely bank reconciliations.
- Inadequate controls over wire transfers via on-line banking.
- Ability to approve on-line purchase requisitions by non-administrative personnel.

For a more detailed discussion of GovGuam's financial condition, see the Management's Discussion and Analysis.