



Guam Department of Education FY 2016 Financial Highlights

May 4, 2017

The Guam Department of Education (GDOE) closed Fiscal Year (FY) 2016 with a \$1.2 million (M) increase in fund balance compared to the \$332 thousand (K) increase in FY 2015. This was primarily due to a reimbursement from the Federal Emergency Management Agency recoveries of \$1.4M.

Independent auditors Deloitte & Touche, LLP issued an unmodified (clean) opinion on GDOE's financial statements, but in order to receive the clean opinion, six audit adjustments were made that cumulatively increased net assets by \$7.3M. Auditors also rendered an unmodified opinion on all of GDOE's major federal programs for FY 2016. This is the second year GDOE had no material weaknesses for both the financial statements and federal programs. However, there were two significant deficiencies identified. GDOE remains a high-risk grantee with the U.S. Department of Education (USDOE) for the past 14 consecutive years.

100% Locally Funded Employees Increase

While the overall number of GDOE employees only increased by 11 from 3,897 as of pay period ending October 3, 2015 to 3,908 as of pay period ending October 1, 2016, the funding composition of employees changed significantly. Locally/federally funded employees declined by 109 going from 115 to just 6. 100% federally funded employees declined by 2 to 875. On the other hand, locally funded employees increased significantly by 122 to 3027. In other words employees who were partially federally funded are now 100% locally funded. As a result of this shift, total payroll expense increased by \$2.1M.

GDOE Facilities Leases

GDOE has several capital lease agreements for schools and properties that total \$237.2M. The top three lease agreements are John F. Kennedy High School at \$65.7M, followed by Okkodo High School and Expansion at \$65.4M, and Tiyan High School and GDOE's Tiyan properties at \$60.2M. The remaining lease agreements include Astumbo Middle School (\$18.4M), Adacao Elementary School (\$14.5M), and Liguán Elementary School (\$13.1M). Total annual lease payments are \$23.8M plus \$3.2M for collateral equipment for FY 2016. Annual lease is expected to be \$25M in FY 2017.

The new 82,300 square feet GDOE Administration building is expected to be fully occupied in Summer 2017. Lease payments (including insurance and maintenance) for this building total \$71M, and the first payment is set for FY 2017.

Superintendent Lawsuit

GDOE's Superintendent was placed on administrative leave in July 2016, stemming from an investigation initiated by the GDOE Board into allegations made against the Superintendent. In October 2016, the GDOE Board voted to terminate the Superintendent after reviewing an internal investigation report on Title IX compliance during the Superintendent's tenure. In November 2016, the terminated Superintendent filed a lawsuit against the GDOE Board as well as current and former members, seeking \$7M in damages, claiming his 14th Amendment rights were deprived. Although he was terminated by the GDOE Board, the Superintendent remained on administrative leave and continued to receive his salary. In February 2017, the GDOE Board voted to reinstate the Superintendent and rescind both the termination and the internal investigation. He returned back to work in March 2017.

Third Party Transition Out

FY 2016 marked the fourth year GDOE incurred local expenditures associated with addressing its high risk status by USDOE. Special Conditions required the financial management functions of USDOE grants to be supervised by a Third Party Fiduciary Agent (TPFA). Payments to the TPFA totaled \$3.1M in FY 2016, with the cumulative amount total being \$12.4M for the four years. Prior to that, TPFA was paid out of federal funds totaling \$7.8M. Transition plans that began in FY 2015 continued through FY 2016. Annually, USDOE updates its special conditions letter in June. The June 2015 and 2016 letters acknowledged the plan to support the gradual transition that would result in the removal of USDOE's third party requirement, while requiring GDOE's commitment to secure necessary human resources and complete and test all new standard operating procedures.

Governmental Accounting Statement - Pension Liability

The implementation of GASB 68 and 71 related to accounting and financial reporting for pensions resulted in recognizing GDOE's pro rata share of the Government of Guam's (GovGuam) net pension liability in FY 2016. Per the GovGuam Retirement Fund, GovGuam's pension liability of \$1.2 billion (B) in FY 2015 increased to \$1.4B in FY 2016. GDOE's pro rata share increased by \$46M, going from \$362.3M in FY 2015 to \$408.2M in FY 2016. The pension liability net effect for FY 2016 is \$4M.

Compliance Report

Independent auditors identified two findings. Both were significant deficiencies related to (1) the lack of coordination between GovGuam and GDOE for purposes of compliance with the applicable level of effort requirement related to budgeted funds for early intervention services for eligible children and their families; and (2) the repeat finding related to procurement of professional training services from an institution of higher education and sole source procurement of the instructional materials. There were no questioned costs identified.

Non Appropriated Funds (NAF)

FY 2016 was the third year for the full reporting of NAF on GDOE's financial management information system (FMIS or Munis). While it allows GDOE's Internal Audit Office better access and monitoring capabilities on a daily basis resulting in the discovery of issues more timely, bank reconciliations of NAF continue to be untimely and inaccurately performed. Bank statements identified under reporting of deposits to cash receipts, with six schools under reporting a total of \$44K. This means that cash collections weren't accurately reported or may not have been remitted to the bank. The bulk of under reporting comes from Simon Sanchez High School who had the highest at \$30K, followed by F.B.L.G. Middle School at \$8K, and Chief Brodie Elementary School at \$2.6K. While GDOE has improved in better reporting of NAF, further action is needed to ensure that cash collections for NAF are properly reported and accounted for.

Management Letters

Independent auditors issued a management letter containing eight findings relating to: (1) general ledger reconciliation; (2) non-appropriated funds (NAF); (3) employer share health rates; (4) employer share life insurance; (5) budget; (6) unrecorded liabilities; (7) capital lease collateral equipment; and (8) deferred revenues. A separate management letter on GDOE's information technology environment identified three deficiencies.

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.