



## OFFICE OF PUBLIC ACCOUNTABILITY

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### **Guam Department of Education – FY 2021 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) 2021. Independent auditors, Deloitte & Touche LLP, issued an unmodified (clean) opinion on both GDOE’s financial statements and compliance for major federal programs. FY 2021 marked the 9<sup>th</sup> straight year GDOE received a clean opinion on its compliance for major federal programs. However, the auditors identified four significant deficiencies in GDOE’s financial statements and internal control over compliance, which resulted in \$1.4 million (M) in federal questioned costs. GDOE has remained a high-risk grantee with the U.S. Department of Education (USDOE) for the past 19 years. GDOE closed FY 2021 with a \$7M decrease in net position compared to the \$24.3M decrease in net position in FY 2020.

#### **Revenues Increased by \$25.2M, Expenditures Increased by \$26M**

Total revenues increased by \$25.2M, from \$321.9M in FY 2020 to \$347.1M in FY 2021. The increase was largely due to a \$44.8M increase in federal grant funding, but was offset by a \$18M decrease in local appropriations. GDOE also experienced revenue decreases of \$1.6M in fees and other program receipts and \$3 thousand (K) in cafeteria sales.

GDOE’s expenditures increased by \$26M, from \$321M in FY 2020 to \$347M in FY 2021. Increases were largely due to a \$20M increase in supplies, \$7M increase in contracts, and \$5.3M increase in benefits. GDOE saw an \$8M decrease in capital lease payments and \$1.2M decrease in power.

#### **Reduction in GDOE Employees**

As of September 2021, GDOE employees decreased by 81, of which locally funded employees decreased by 72, federally funded employees increased by one, and employees funded by both local and federal funds decreased by ten. The decrease was due to the hiring freeze implemented in October 2020 for locally funded employees. The freeze was an austerity measure to address the projected shortfall in local appropriations.

#### **Third Party Fiduciary Agent (TPFA)**

FY 2021 marks the 9<sup>th</sup> year GDOE incurred local expenditures associated with addressing its high-risk grantee status by USDOE. USDOE’s specific conditions require the Third-Party Fiduciary Agent (TPFA) to supervise the financial management functions of USDOE grants. 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. GDOE’s financial management information system (FMIS) mirrors the financial transactions from the TPFA system.

In October 2020, GDOE renewed TPFA's contract for the second time at \$2.25M. The amount was a \$250K decrease from the first renewal and original contract, and the lowest cost since the TPFA was first contracted. The decrease in cost reflects the GDOE's continuous progress in reducing the TPFA's scope of services.

In May 2018, GDOE officially requested reconsideration of the special conditions, the nature of actions needed to remove the special conditions, and the timeline for reconsideration. USDOE conducted a virtual monitoring review of GDOE's progress in July 2020 and, as a result, removed several of its requirements. In June 2021, USDOE continued to impose four specific conditions: (1) requirements for a TPFA, (2) responsibilities of GDOE and the TPFA concerning administration of USDOE grant funds, (3) Reconsideration Evaluation Plan, and (4) single audits. USDOE's next monitoring review is scheduled for 2022.

### **Single Audit**

The independent auditors identified four significant deficiencies relative to internal controls over financial reporting and major federal programs:

1. Finding 2021-001, GDOE provided the Schedule of Expenditures of Federal Awards (SEFA) to external auditors on February 2, 2022. GDOE did not initially record \$2.2M of expenditures in its SEFA and provided a revised schedule on April 21, 2022. This was identified as a repeat finding.
2. Finding 2021-002, GDOE listed stale-dated checks dated four years and over, of which \$109K was payroll-related and funded by federal grants. There is a potential for funds to be returned to the federal grantor agencies or written off.
3. Finding 2021-003, two stipend payments for summer program student participants did not appear to prevent, prepare for, or respond to COVID-19. Additionally, documentation was not provided to demonstrate implementation of priority placement efforts. Questioned costs totaled \$1.3M. GDOE disagreed with this finding.
4. Finding 2021-004, no personnel activity report was provided to support the payment and prevention of overtime due to Guam laws and regulation in regards to two administrative staff. Questioned costs totaled \$17K.

### **Management Letter**

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

1. **Reconciliation:** Auditors had three comments relating to reconciliation, including:
  - General ledger balances should be timely reconciled to subsidiary ledgers or supporting details which should be reviewed for ongoing pertinence.
  - TPFA records expenditures on a cash basis but does not process payroll, travel prepayments and accruals. Frequent and tedious reconciliations are required to determine amounts due to GDOE to reimburse the General Fund for advances of cash to fund federal payroll and travel expenditures and to identify accruals that are subsequently processed.
  - As of FY 2021, approximately \$16.2M of receivables were due to GDOE for travel and payroll related expenditures from TPFA. \$954K remains uncollected six months after fiscal year end.

Auditors recommended GDOE perform quarterly reviews of dated items, as well as for GDOE to consider requesting the TPFA report on an accrual basis.

2. **Budget:** Available balances should be released based on collectability to minimize the opportunity for creating unfunded liabilities and encumbrances. In FY 2021, budgets were loaded in excess of amounts collected by the Department of Administration. Auditors recommended GDOE monitor budget availability on a monthly basis and release funds based on collectability.
3. **Accounts Payable and Accruals:** Liabilities include a judgmental understatement of \$453K due to a vendor based on vendor statement. Reconciliations are still ongoing as of April 2022. Auditors recommended reconciliation with significant vendors be performed on at least an annual basis.
4. **Student Activity Funds:** FY 2021 is the 8<sup>th</sup> year for the full reporting of NAF on GDOE's FMIS. The following exceptions were identified by the Internal Audit Office for school year 2020-2021:
  - Opening balances did not reconcile to prior year ending balances for 19 of 41 schools noting a total of \$6K of receipts and \$28K of disbursements were not reported in the correct period.
  - For two of seven schools tested, bank statements identified fewer deposits than recorded receipts by \$8K.
  - Of 56 receipts tested aggregating \$27K, certain transactions did not meet NAF documentation requirements, including untimely deposits and not having all required information on cash count sheets.
  - Of 124 disbursements tested aggregating \$61K, certain transactions did not meet NAF documentation requirements, including missing price quotes, missing signatures or meeting minutes, missing payment receipts, disbursements not in line with organization's objectives, etc.

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. GDOE continued to monitor the public health situation and coordinate its efforts to keep schools in operation in line with guidance from the Department of Public Health and Social Services. GDOE issued daily COVID-19 reports to monitor confirmed positive cases of students and employees. GDOE also published a weekly dashboard to provide information regarding transmission risk, new and active cases, employee and student vaccination rates, cases per school, key mitigation measures in place, and an updated assessment of weekly trends based on internal analysis. GDOE operations continued to be impacted by the COVID-19 pandemic and made several adjustments as restrictions were lifted.

## **Federal Grants and Programs**

In FY 2021, there was an overall increase of \$362M in federal grants awarded to GDOE as compared to FY 2020. The increase of \$356M in federal grant awards was attributed to the Education Stabilization Fund (ESF) and American Rescue Plan (ARP). USDOE awarded \$401M to GDOE through the ESF. In 2020, GDOE received \$41.5M from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which established ESF I to address the immediate safety needs of students and employees and support a shift to distance learning. In 2021, ESF II provided \$110.6M to GDOE to ensure the continued safety of students and employees and to aid in the transition back to in-person instruction. GDOE was also the recipient of \$286.9M in funds from ARP aimed at helping to return students safely to in-person instruction, maximize instructional time, and address learning loss.

GDOE was responsible for 31 direct programs with a combined \$117.1M total expenditures of federal awards. GDOE received its federal awards from the US Department of Agriculture (\$14.6M), US Department of Defense (\$301K), US Department of Interior (\$8.9M), USDOE (\$89.6M), US Department of Health and Human Services (\$3.5M), and US Department of Homeland Security (\$157K). The top three programs in terms of federal awards expended were funded from USDOE and included the COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas) (ESF-SEA) (\$40.3M), Consolidated Grant to the Outlying Areas (\$31.3M), and Special Education-Grants to States (IDEA, Part B) (\$14.7M).

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](http://www.opaguam.org).