



OFFICE OF THE PUBLIC AUDITOR

Guam Public School System Follow Up of FY 2007 Payroll Analysis

Legislative Mandate

**OPA Report No. 07-03
March 2007**

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OFFICE OF THE PUBLIC AUDITOR

March 21, 2007

Luis S.N. Reyes
Superintendent of Education
Guam Public School System
P.O. Box DE
Hagåtña, Guam 96932

Lourdes M. Perez
Director
Department of Administration
P.O. Box 884
Hagåtña, Guam 96932

Dear Mr. Reyes and Ms. Perez:

In October 2006, the Office of the Public Auditor (OPA) issued OPA Report No. 06-13 Guam Public School System (GPSS) Payroll Analysis. We indicated that the OPA would revisit the payroll analysis after the first quarter of fiscal year (FY) 2007 in order to fully include all GPSS payroll adjustments that were made after September 30, 2006. The report included pay adjustments prior to September 30, 2006. The pay adjustments were the result of Public Law (P.L.) 28-36 which required the Department of Administration (DOA) to review and implement compensation plans for GPSS certificated personnel and healthcare professionals that are competitive with the U.S. national average.

In our prior report, we used historical data to track payroll trends and applied actual labor cost data for pay periods ending September 16 and 30, 2006. This data provided calculations that estimated \$152.4 million would be required for FY 2007 GPSS salaries and benefits for locally funded employees.

As of pay period ending February 17, 2007, GPSS costs for salaries and benefits of locally funded employees in FY 2007 were \$58.8 million. This amount is \$186,051 less than the OPA calculated projection of \$58.9 million. The actual payroll costs are also \$1 million less than the total salaries and benefits of \$59.8 million indicated in the cash disbursement schedule submitted by GPSS on October 12, 2006. See Attachment 1.

DOA Disbursements to GPSS

According to DOA, \$67.4 million has been disbursed to GPSS as of February 28, 2007, or 39% of the \$173 million of the FY 2007 appropriation for operations. After deducting the

\$58.8 million already spent for salaries and benefits and \$6 million for estimated utilities,¹ approximately \$2.6 million remained for other obligations in this time period.

As of February 28, 2007, DOA has disbursed \$876,297 more than the cash disbursement schedule presented in OPA Report 07-01, which indicated \$66.5 million would be needed until February 2007.

However, in comparing the amounts disbursed to GPSS, we noted discrepancies in the amounts reported to us by GPSS and DOA. As of February 28, 2007, GPSS claims to have received only \$57.9 million while DOA claims to have disbursed \$9.5 million more, or \$67.4 million. See Attachment 2. This is because GPSS claims that cash received in October and November 2006 were for FY 2006 appropriations and DOA claims the amounts were for FY 2007 appropriations. If the amounts were for FY 2006, then GPSS has received \$6.9 million less than what was indicated in the OPA cash disbursement schedule.

To resolve the issue, the Attorney General has requested GPSS to clarify, in writing, the applicable periods of the amounts with DOA. All cash disbursements to GPSS should be supported in writing by the DOA Director. After a written determination is obtained, GPSS will need to reconcile with DOA to ensure consistency in the amounts received and reported.

Increases in Labor Cost and Personnel

Comparisons of actual labor costs from September 20, 2003 and February 17, 2007 indicate that GPSS has increased its labor costs by \$1.2 million, or 26%. Part of this increase may be attributable to:

- The increase in government retirement contribution rates from 18% in FY 2003 to 22.94% in FY 2007.
- The reinstatement of salary increments by P.L. 27-106 in FY 2005.
- The pay adjustments granted to teachers, principals, and administrators in FY 2007.
- The increase in the number of locally funded employees by 204, or 7%, from 2,915 as of pay period ending September 20, 2003, to 3,119 employees as of pay period ending February 17, 2007. See Attachment 3.

Employee count trends in FY 2007 show steady increases per pay period since September 2006, the end of FY 2006. As of February 2007, 120 additional employees were added to the GPSS payroll since September 2006, from 2,999 to 3,119.

Labor costs for pay period ending February 17, 2007 increased \$120,991, or 2%, compared to labor costs for pay period ending October 14, 2006, the first payroll in FY 2007. See Attachment 4.

GPSS Deficit

The actual payroll data provided as of February 2007 shows GPSS salaries and benefits are generally consistent with the cash drawdown schedule the OPA provided to the Superintendent of Education and the DOA Director on February 19, 2007. However, GPSS is

¹ OPA Report No. 06-17, Guam Public School System Utilities Analysis issued in December 2006 estimated that from October to February utility costs would be \$5,991,552.

faced with a \$42.1 million deficit and \$53.4 million in liabilities as of FY 2005.² Given the growing GPSS deficit, had GPSS not incurred additional personnel costs, these amounts could have been used to pay down the deficit as well as meet current operational needs. The following illustrates the mounting GPSS deficit by fiscal year.

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
\$19,805,704	\$25,120,748	\$25,927,482	\$42,073,044

The deficit is the cumulative effect of expenditures exceeding revenues. From FY 2002 through FY 2005, GPSS had overspent budgeted expenditures by \$23.2 million, but also received \$19.6 million less than budgeted revenues. Expenditures for personnel and utilities consistently exceeded budgeted amounts by \$6.6 million and \$16 million respectively. See Attachment 5.

Conclusion

The Legislature appropriated \$173 million for GPSS operations in FY 2007. The cash disbursement schedule indicates that \$152.4 million is required for salaries and benefits and \$14.4 million is needed for utilities. This leaves only \$6.2 million, or a mere 3.6% of total operational appropriations to pay vendors for other operational expenses for GPSS' 37 schools and 16 divisions. In order for GPSS to pay vendors and stay within the appropriation, cost saving measures will need to be explored for salaries, benefits, and utilities. Cost savings can be explored through a hiring freeze and power and water conservation plans to reasonably decrease costs so vendors can be paid. Otherwise, GPSS may need to utilize the \$6.2 million identified in the cash disbursement schedule as "Other" if personnel costs continue to increase and vendor payments will continue to be delayed.

The government of Guam's cash crisis means that DOA will continue to struggle with cash disbursements to GPSS and at the same time ensure that other government services are funded. Therefore, prioritizing GPSS cash disbursements may lead to the detriment of the remaining government agencies.

If you should have any questions, please contact me or Yuka Cabrera.

Senseramente,



Doris Flores Brooks, CPA, CGFM
Public Auditor

cc: Governor of Guam
Speaker, 29th Guam Legislature
Senators, 29th Guam Legislature
Attorney General
Chairman, Guam Education Policy Board
Director, Bureau of Budget and Management Research

² GPSS FY 2005 audited financial statements, www.guamopa.org

ATTACHMENT 1: GPSS Actual Comparisons Payroll as of February 2007

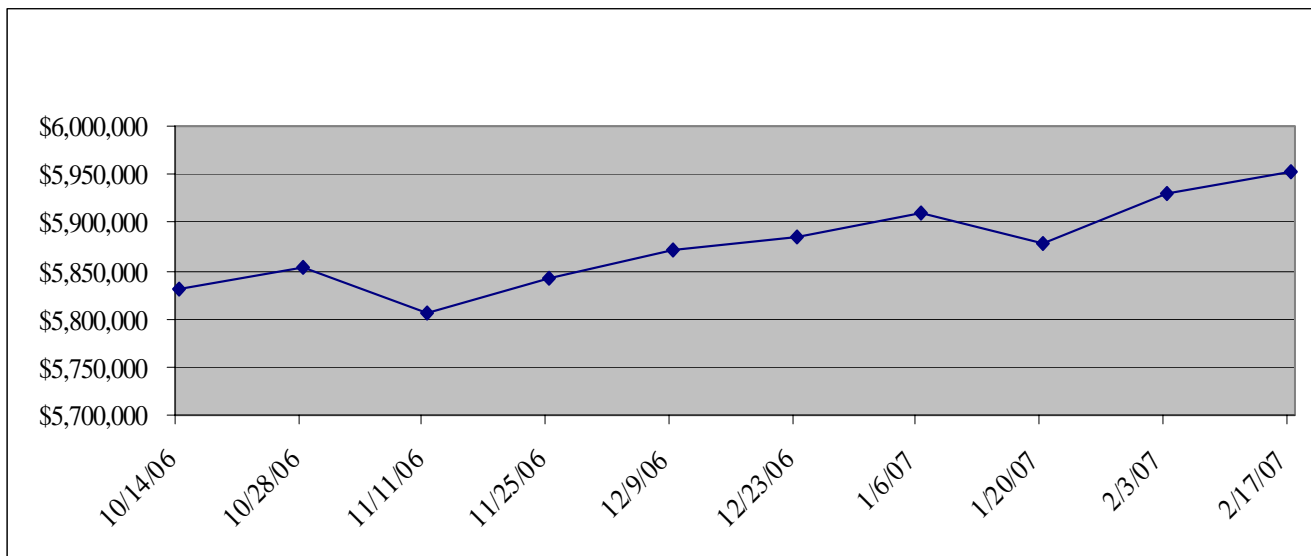
Table 1A: OPA Payroll Analysis vs. Actual GPSS Payroll³

PPE	(A) OPA Payroll Analysis			(B) Actual GPSS Payroll			(A-B) Difference		
	Salaries	Benefits	Total	Salaries	Benefits	Total	Salaries	Benefits	Total
10/14/06	\$ 4,690,957	\$ 1,187,241	\$ 5,878,198	\$ 4,577,067	\$ 1,253,806	\$ 5,830,873	\$ 113,890	\$ (66,565)	\$ 47,325
10/28/06	4,735,551	1,198,527	\$ 5,934,078	4,594,162	1,258,512	5,852,674	141,388	(59,985)	81,404
11/11/06	4,632,014	1,172,323	\$ 5,804,337	4,555,217	1,251,785	5,807,002	76,797	(79,462)	(2,665)
11/25/06	4,618,304	1,168,853	\$ 5,787,157	4,583,444	1,259,302	5,842,746	34,860	(90,449)	(55,589)
12/9/06	4,667,885	1,181,402	\$ 5,849,287	4,606,756	1,265,309	5,872,065	61,129	(83,907)	(22,778)
12/23/06	4,932,320	1,248,328	\$ 6,180,648	4,607,791	1,276,408	5,884,199	324,530	(28,080)	296,449
1/6/07	4,590,251	1,161,753	\$ 5,752,004	4,573,597	1,335,134	5,908,731	16,655	(173,381)	(156,726)
1/20/07	4,685,787	1,185,932	\$ 5,871,719	4,598,959	1,279,952	5,878,911	86,827	(94,019)	(7,192)
2/3/07	4,738,697	1,199,324	\$ 5,938,021	4,639,043	1,290,351	5,929,394	99,654	(91,027)	8,627
2/17/07	4,747,507	1,201,553	\$ 5,949,061	4,659,183	1,292,681	5,951,864	88,325	(91,128)	(2,803)
	\$47,039,273	\$11,905,236	\$58,944,509	\$45,995,219	\$12,763,239	\$58,758,458	\$1,044,054	\$(858,003)	\$186,051

Table 1B: GPSS Cash Disbursement Schedule vs. Actual GPSS Payroll

Month	(A) GPSS Cash Disbursement Submitted 10/12/06			(B) Actual GPSS Payroll			(A-B) Difference		
	Salaries	Benefits	Total	Salaries	Benefits	Total	Salaries	Benefits	Total
October	\$ 4,757,507	\$ 1,223,592	\$ 5,981,099	\$ 9,171,229	\$ 2,512,318	\$11,683,547	\$(4,413,722)	\$(1,288,726)	\$(5,702,448)
November	9,515,015	2,446,358	11,961,373	9,138,661	2,511,087	11,649,748	376,354	(64,729)	311,625
December	14,272,522	3,669,537	17,942,059	9,214,547	2,541,717	11,756,263	5,057,975	1,127,820	6,185,796
January	9,515,015	2,446,358	11,961,373	9,172,556	2,615,086	11,787,642	342,459	(168,728)	173,731
February	9,515,015	2,446,358	11,961,373	9,298,226	2,583,032	11,881,258	216,789	\$(136,674)	80,115
	\$47,575,074	\$12,232,203	\$59,807,277	\$45,995,219	\$12,763,239	\$58,758,458	\$1,579,855	\$(531,036)	\$1,048,819

Chart 1: FY 2007 Labor Cost Trend of Locally Funded Employees



³ Totals may not add due to rounding.

ATTACHMENT 2: GPSS Cash Receipts in FY 2007

Table 2A: GPSS Operations Cash Receipts vs. DOA Cash Disbursements

Month	Per DOA	Per GPSS	Difference
Oct	\$ 13,667,161	\$ 6,200,000	\$ 7,467,161
Nov	12,606,476	12,158,474	448,002
Dec	15,258,000	15,258,000	-
Jan	14,053,921	13,000,000	1,053,921
Feb	11,790,844 ⁴	11,254,000	536,844
Total:	<u>\$ 67,376,402</u>	<u>\$ 57,870,474</u>	<u>\$ 9,505,928</u>

Table 2B: Other GPSS Programs Cash Receipts vs. DOA Cash Disbursements

Other GPSS Programs	Per GPSS	Per DOA	Difference
Interscholastic Sports Fund	\$ 339,496	\$ 339,496	\$ -
Health and Physical Education	44,495	44,495	-
Y' Kuantan Salappe' Prinsipat (Principal's Fund)	-	-	-
School Nutritional Meals	-	-	-
Summer School	-	-	-
Textbooks and Collateral Materials	-	-	-
Total:	<u>\$ 383,991</u>	<u>\$ 383,991</u>	<u>\$ -</u>

Table 2C: GPSS Cash Receipts as of February 28, 2007

Disbursement Date	Applied to FY 2007	Applied to FY 2006	Total
10/6/2006	\$ -	\$ 8,100,000	\$ 8,100,000
10/20/2006	4,000,000		4,000,000
10/27/2006	2,200,000	750,000	2,950,000
11/1/2006	6,200,000		6,200,000
11/15/2006	391,798	448,002	839,800
11/17/2006	5,360,200		5,360,200
11/17/2006	206,476		206,476
12/1/2006	3,000,000		3,000,000
12/15/2006	4,000,000		4,000,000
12/19/2006	1,200,000		1,200,000
12/22/2006	2,000,000		2,000,000
12/28/2006	5,058,000		5,058,000
1/4/2007	700,000		700,000
1/5/2007	500,000		500,000
1/12/2007	3,700,000		3,700,000
1/17/2007	1,400,000		1,400,000
1/19/2007	1,600,000		1,600,000
1/24/2007	1,200,000		1,200,000
1/26/2007	3,700,000		3,700,000
1/31/2007	200,000		200,000
2/1/2007	300,000		300,000
2/9/2007	6,000,000		6,000,000
2/20/2007	954,000		954,000
2/23/2007	4,000,000		4,000,000
	<u>\$ 57,870,474</u>	<u>\$ 9,298,002</u>	<u>\$ 67,168,476</u>

⁴ Includes pay period ending 2/3/07 withholding tax offset.

ATTACHMENT 3: Increases in GPSS Actual Payroll from September 2003 through February 2007 – Local Funds

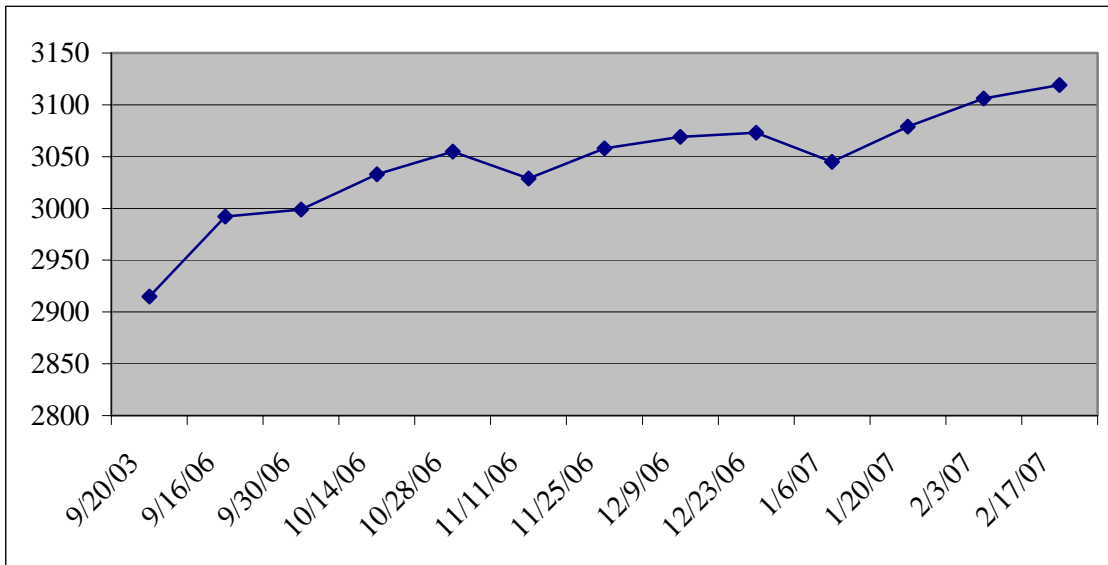
Table 3A: 2003 vs. 2007 Salaries and Benefits

PPE	Salaries	Benefits	Total
9/20/2003	\$ 3,801,539	\$ 904,186	\$ 4,705,725
2/17/2007	4,659,183	1,292,681	5,951,864
\$ Increase	\$ 857,644	\$ 388,495	\$ 1,246,139
% Increase	23%	43%	26%

Table 3B: 2003 vs. 2007 Number of Employees

PPE	Employee Count
9/20/2003	2915
2/17/2007	3119
# Increase	204
% Increase	7%

Chart 2: Increases in Personnel Since FY 2003



**ATTACHMENT 4: Increases in GPSS Actual Payroll from September and October
2006 to February 2007 – Local Funds**

Table 4A: PPE 10/14/07 vs. PPE 2/17/07 Salaries and Benefits

PPE	Salaries	Benefits	Total
10/14/2006	\$ 4,577,067	\$ 1,253,806	\$ 5,830,873
2/17/2007	4,659,183	1,292,681	5,951,864
\$ Increase	\$ 82,116	\$ 38,875	\$ 120,991
% Increase	2%	3%	2%

Table 4B: 2006 vs. 2007 Number of Employees

PPE	Employee Count
9/30/2006	2999
2/17/2007	3119
# Increase	120
% Increase	4%

Table 4C: FY 2007 Payroll

PPE	Salaries	Benefits	Total	Employee Count
10/14/2006	\$ 4,577,067	\$ 1,253,806	\$ 5,830,873	3033
10/28/2006	4,594,162	1,258,512	5,852,674	3055
11/11/2006	4,555,217	1,251,785	5,807,002	3029
11/25/2006	4,583,444	1,259,302	5,842,746	3058
12/9/2006	4,606,756	1,265,309	5,872,065	3069
12/23/2006	4,607,791	1,276,408	5,884,199	3073
1/6/2007	4,573,597	1,335,134	5,908,731	3045
1/20/2007	4,598,959	1,279,952	5,878,911	3079
2/3/2007	4,639,043	1,290,351	5,929,394	3106
2/17/2007	4,659,183	1,292,681	5,951,864	3119
	\$ 45,995,219	\$ 12,763,239	\$ 58,758,458	# Increase - 86

ATTACHMENT 5: GPSS Budget vs. Actual FY 2002 through FY 2005⁵

Revenues			
FY	Final Budget	Actual	Difference
2002	155,574,150	144,402,784	(11,171,366)
2003	150,202,714	144,714,249	(5,488,465)
2004	141,104,658	146,253,266	5,148,608
2005	161,296,908	153,165,053	(8,131,855)
Total	<u>608,178,430</u>	<u>588,535,352</u>	<u>(19,643,078)</u>

Expenditures			
FY	Final Budget	Actual	Difference
2002	155,574,150	156,025,799	(451,649)
2003	139,249,222	147,781,421	(8,532,199)
2004	141,104,658	146,094,649	(4,989,991)
2005	165,284,864	174,542,655	(9,257,791)
Total	<u>601,212,894</u>	<u>624,444,524</u>	<u>(23,231,630)</u>

Expenditures (Detail)

	FY	Final Budget	Actual	Difference
Personnel	2002	133,320,640	135,169,262	(1,848,622)
	2003	122,969,320	126,101,499	(3,132,179)
	2004	119,750,000	119,880,013	(130,013)
	2005	128,846,177	130,327,399	(1,481,222)
	Total	<u>504,886,137</u>	<u>511,478,173</u>	<u>(6,592,036)</u>

	FY	Final Budget	Actual	Difference
Utilities	2002	5,565,659	10,904,026	(5,338,367)
	2003	4,514,396	6,860,812	(2,346,416)
	2004	6,000,000	11,188,753	(5,188,753)
	2005	8,006,534	11,136,777	(3,130,243)
	Total	<u>24,086,589</u>	<u>40,090,368</u>	<u>(16,003,779)</u>

	FY	Final Budget	Actual	Difference
Textbooks	2002	6,400,000	665,301	5,734,699
	2003	5,821,298	6,273,946	(452,648)
	2004	3,500,000	3,342,028	157,972
	2005	6,584,375	7,875,389	(1,291,014)
	Total	<u>22,305,673</u>	<u>18,156,664</u>	<u>4,149,009</u>

	FY	Final Budget	Actual	Difference
Other	2002	10,287,851	9,287,210	1,000,641
	2003	5,944,208	8,545,164	(2,600,956)
	2004	11,854,658	11,683,855	170,803
	2005	21,847,778	25,203,090	(3,355,312)
	Total	<u>49,934,495</u>	<u>54,719,319</u>	<u>(4,784,824)</u>

⁵ Source: GPSS audited financial statements, www.guamopa.org.

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- **Call our office at 475-0390;**
- **Fax our office at 472-7951;**
- **Or visit us at the PNB Building, Suite 401
In Hagåtña**

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