Guam Department of Education
FY 2011 Financial Highlights

June 29, 2012

The Guam Department of Education (DOE) closed Fiscal Year (FY) 2011 with an increase in net assets of $59 million (M), due primarily to the re-designation of some $60M in American Recovery and Reinvestment Act (ARRA) funds. Were it not for the re-designation, DOE would have experienced a decrease of $1.2M in net assets and its cumulative deficit would have been $23.8M as of September 30, 2011.

Independent auditors Deloitte & Touche, LLP issued an unqualified "clean" opinion on DOE's financial statements; but, in order to receive the clean opinion, 16 audit adjustments were made that cumulatively increased net assets by $3.9M. Auditors rendered qualified opinions on the Single Audit Reports for noncompliance relating to three major programs. Six of the seven findings were considered material weaknesses[1]. However, there were no questioned costs or findings related to procurement. For the ninth consecutive year, DOE remains on high-risk status with the US Department of Education.

Significant Increase in Revenues, Decline in Local Appropriations

In FY 2011, DOE's total revenues increased by $80.3M, going from $253M to $333.2M. Revenues comprised of local appropriations of $196.1M or 58.9%, federal grants and contributions of $136.1M or 40.9%, cafeteria sales of $793K, and fees and other programs of $155K. Local appropriations for DOE decreased by a total of $9.4M, of which $7.5M was for operations and $1.9M for textbooks. However, the decrease in revenues was offset substantially by an increase in federal grants and contributions of $90M, which is directly attributed to $60M re-designation of ARRA.

Overall Expenditures

In FY 2011, DOE's total expenditures increased by $86.5M, going from $253.6M to $340.1M. Expenditures comprised of $197.3M in local funds and $142.8M in federal funds. Local expenditures of salaries and benefits decreased by $69.0M from $165.2M to $96.2M, whereas utilities increased by 1.7% or $251K from $14.3M to $14.6M. Water decreased by 14.1% or $314K from $2.2M to $1.9M, while power increased by 6.5% or $753K from $11.6M to $12.4M. Fuel costs decreased by 50% or $252K.

Capital Projects

Beginning in 2006, $6.1M in Compact Impact funds the Government of Guam receives from the Department of Interior was set aside annually to pay for the construction and lease back of four schools (Ukudo High School, Astumbo Middle School, Adacao and Liguan Elementary

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Schools). In 2010, the amount was increased by $1M to fund additional equipment requirements for a total of $7.1M.

In September 2010, the Government of Guam issued $65.7M in Series 2010 Certificates of Participation to finance the new John F. Kennedy High School. Annual lease payments of $6.7M started in December 2010.

Another $4.5M is paid annually in the form of tax credits for the Tiyan facility used to house John F. Kennedy students. The Tiyan facility is currently being used by Untalan Middle School. In total, $18.3M is being spent annually for six schools.

ARRA Funds
As of September 30, 2011, DOE was awarded $89.3M in American Recovery and Reinvestment Act (ARRA) funding. Of this amount, approximately $60M was reprogrammed to cover personnel costs for projects initially identified in the State Fiscal Stabilization Fund. As of the issuance of this report, approximately $25M has been obligated for various projects with the remaining balance going through the procurement process. Another $20M was encumbered to cover the costs of various contracts, including the Third Party Fiduciary Agent (TPFA) costing $8.4M and the new financial management system and related consultants costing $5M.

Third Party Fiduciary Agent
In September 2010, the TPFA contract was signed. Only after the TPFA installed its new financial management system in December 2010, was DOE allowed access to federal reimbursements. Auditors had concerns with the lack of periodic reconciliation between the TPFA and DOE. The TPFA was spending on a cash basis and DOE was on an accrual basis. This resulted in $4.2M in unrecorded liabilities and the identification of another major federal program not previously known and required audit adjustment by the auditors. This discovery added significantly to the delay and issuance of the audit report. Further, this lack of reconciliation was deemed to be a material weakness by the auditors.

Non-Appropriated Funds (NAF)
Auditors continue to raise concern over the accounting of NAF. Supporting documents for NAF expenditures and bank reconciliations were lacking, indicating noncompliance with policies and adequate documentation requirements. Two schools, F.B. Leon Guerrero Middle School and Southern High School, did not have any records or receipts and disbursements for review. The lack of supporting documents for NAF reflects a reckless disregard for accountability by school officials. This lack of accountability provides opportunity for theft and misappropriation of NAF.

Single Audit Reports
DOE received a qualified opinion on the Single Audit Reports. In FY 2011, six of the seven findings were deemed material weaknesses. In addition to the NAF and the lack of reconciliation with the TPFA, the other material weaknesses include:

- **Journal Voucher Processing** – Auditors could not find evidence of the validity of journal vouchers resulting in material financial statement misstatements. Audit adjustments were proposed to correct the misstatements.
- **Local Expenditures and Allowable Costs/Cost Principles –** $4.2M in goods and services were received or incurred, but were not recorded in the appropriate period. An audit adjustment was proposed to record these expenditures.
- **General Ledger Reconciliations (Subsidiary Ledger) –** General ledger balances were not timely reconciled to the subsidiary ledgers or supporting details. DOE management was administering funds in FY 2011 without full knowledge of their financial position during the year.
- **Budget –** DOE management did not evaluate budgetary accounts carried forward from prior years, which may cause unfunded obligations.

The seventh finding was deemed a significant deficiency, which is considered a less egregious finding, related to equipment and real property management. Auditors found DOE noncompliant with equipment management requirements, which could lead to the loss or theft of equipment and could go undetected.

For a more detailed commentary of DOE's operations, refer to Management's Discussion and Analysis in the report or visit www.guamopa.org.