



OFFICE OF THE PUBLIC AUDITOR

Government of Guam

Financial Highlights for the Year Ended September 30, 2007

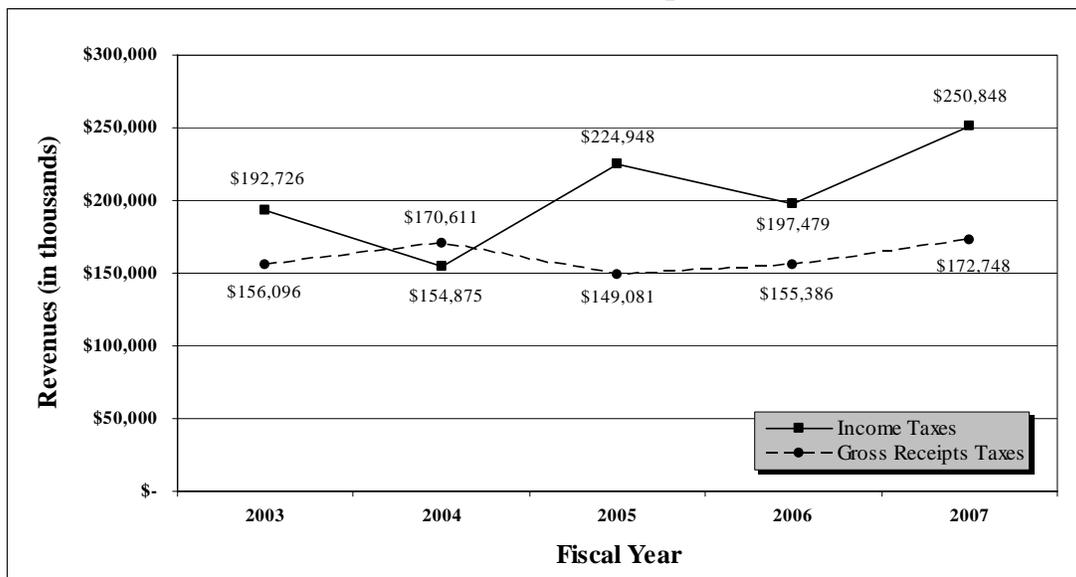
July 3, 2008

For the first time ever, the government of Guam financial audit was issued an unqualified “clean” opinion, a historic feat. The audit was submitted timely to the Federal State Clearinghouse by the June 30 deadline. All autonomous agencies issued their audits timely and their respective financial auditors also rendered unqualified or “clean” opinions. The prior years’ qualifications resulting from the independent auditors’ inability to determine the sufficiency of the provision for tax refunds and the inadequate accounting records for Guam Memorial Hospital Authority (GMHA) accounts receivables and capital assets were cleared in 2007. This accomplishment was a result of the collaborative efforts between the Department of Administration, Department of Revenue and Taxation, GMHA and independent auditors Deloitte & Touche LLP. While the government of Guam deficit decreased by \$14 million (M) from \$524.1M in 2006, it still stands at \$510.1M or over half a billion (B) in 2007.

Revenues Exceeded Budget Amounts

Another first occurred in 2007 as actual revenues exceeded the budgeted revenues by \$19.2M, whereas in 2006, actual amounts were \$11.1M less than the budgeted amount of \$443.6M. Total revenues in 2007 were \$514.4M, up by \$81.9M or 19% from \$432.5M in 2006. Revenue sources include \$426.3M in taxes, up by \$70.6M or 20% from \$355.7M in 2006. Tax revenues in 2007 is derived from income tax (\$250.8M), gross receipts (\$172.7M), and other taxes (\$2.7M).

Chart 1: Income and Gross Receipts Taxes Trend



Total Expenditures and Net Transfers Continue to Increase

Overall, General Fund expenditures continue to grow. Total expenditures in 2007 were \$394.8M, up by \$30.8M from \$364M in 2006. Additionally, net transfers to autonomous agencies and other government instrumentalities increased by \$32.2M from \$90.6M in 2006 to \$122.8M in 2007. Expenditures and net transfers totaled \$517.6M, which is \$63M more than last year's \$454.6M. Total revenues of \$514M and total expenditures and net transfers of \$517.6 resulted in an operational deficit of \$3.2M. However, a \$17.2M audit adjustment reduced the Earned Income Tax Credit (EITC) judgment resulting in a \$14M positive general fund balance for the year.

Non-appropriated expenditures nearly doubled from \$7.5M in 2006 to \$12.8M in 2007. Non-appropriated expenditures include: \$4.8M for interest on tax refunds, up \$2.8M from 2006; \$4.6M for special retirement payments (no change from previous year); and \$3.1M for credit card and other bank fees, up \$2.2M from 2006. These increases in interests and other charges, notably income taxes, are reflective of the government of Guam's inability to pay its income taxes timely.

Expenditures over the past five years are as follows: \$465.2M in 2003, \$426.4M in 2004, \$495.2M in 2005, \$454.6M in 2006, and \$517.6M in 2007. Without the \$17.2M in audit adjustment, the government of Guam would have continued to remain in the red as it had in the past years.

Deficit Elimination Plan and Military Build-up: A potential for growth

In June 2007, the Governor of Guam submitted to the Legislature a Deficit Elimination and Fiscal Recovery Plan. It includes the following initiatives: \$250M cash infusion through deficit bond financing, revenue enhancements of \$30.5M through the repeal of tax exemptions, and stricter allotment controls and expenditure reductions.

The impending military buildup is a catalyst for growth. However, if all increases in revenues go entirely to fund current operations, leaving little, if any, new cash to pay past debt, cash shortfall problems will continue. To address this, our government should continue to increase its revenues, contain its spending, or a combination of both, in order to set aside cash to pay down the deficit, especially tax refunds of \$252.7M, which includes EITC of \$62.5M and court-ordered COLA of \$118.4M.

New Requirement: Reporting of Postemployment Benefits

Government Accounting Standards Board Statement (GASB) No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), will become effective in fiscal year 2008. A March 30, 2008 "Government of Guam Retiree Medical Actuarial Valuation" estimated the government of Guam's potential accrued liability, to include autonomous entities, at \$1.6B. The government of Guam is still assessing its OPEB responsibilities pursuant to GASB No. 45.

Internal Controls Over Compliance and Questioned Costs

Although the number of findings in 2007 decreased from 35 to 26, the amount of questioned cost remained relatively the same at \$2.8M for both years. There were 26 internal control findings, of

which 24 were identified as significant deficiencies¹ and eight of these were also determined to be material weaknesses. The material weaknesses related to procurement and suspension and debarment; reporting and special tests and provisions applicable to major federal programs; period of Federal funds availability; eligibility; and equipment and real property management affecting all major programs. The government of Guam has not performed the required comprehensive inventory of its property in FY 2007 or in the prior two years. As a result, the auditors were unable to assess the overall cumulative monetary value of this deficiency.

Questioned costs in 2007 were \$2.8M. Of these questioned costs, \$2.5M or 90% are primarily procurement-related. Rounding the top procurement findings are: Office of Homeland Security with \$1.5M; Guam Fire Department, Department of Public Works, Department of Vocational Rehabilitation, Department of Mental Health & Substance Abuse, and the General Services Administration for a combined total of \$782K; and Department of Public Works with \$113K.

Total unresolved questioned cost as of September 30, 2007 is \$7.1M.

Management Letter

The independent auditors noted four management findings related to performing monthly cash reconciliations; maintaining sub-ledger accounts and performing timely reconciliations; monitoring unclaimed child-support checks; and collecting on rental receivables.

To view the documents in their entirety, visit www.guamopa.org.

¹ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements is more than inconsequential will not be prevented or detected by the entity's internal control.