



OFFICE OF THE PUBLIC AUDITOR

**Guam Public School System
FY 2008 Financial Highlights**

June 25, 2009

In fiscal year (FY) 2008, the Guam Public School System (GPSS) received a significant infusion of funds through increased local appropriations. Appropriations increased by 13% or \$23 million (M) to \$200.4M. The increase in appropriations combined with nearly \$55M in Federal Assistance funds resulted in excess revenues over expenditures of \$17.3M. This excess reduced GPSS's deficit from \$44.8M to \$27.5M. Independent auditors Deloitte & Touche, LLP issued an unqualified "clean" opinion on the financial statements. However, auditors rendered a qualified opinion for all but two major federal programs in the single audit compliance report, identifying 12 audit findings, of which five are considered material weaknesses related to procurement, allowable cost, and asset management. GPSS's FY 2008 questioned costs total \$3,856, a significant improvement from the \$509,950 reported in the prior year. GPSS management has taken proactive measures and decreased accumulating questioned costs by \$8.2M, another significant improvement. A balance of \$2.5M in questioned costs remains unresolved. GPSS remains on high-risk status by the U.S. Department of Education (USDOE) for the sixth consecutive year.

Infusion of Local Appropriations

Total revenues increased by 5% (or \$12.2M) from \$245.7M to \$257.9M, primarily due to the infusion of local appropriations. GPSS received over \$200M in appropriations for FY 2008, a 13% increase from the \$177.4M in FY 2007. Local appropriations make up the lion share of revenues and account for 78% of total revenues, while Federal grants and contributions make up 21%. Federal grants and contributions declined by 18%, going from \$66.8M to \$54.7M, and cafeteria sales decreased by 12%, or nearly \$100,000 (K) from \$834K to \$737K from the prior year. Fees and other program receipts increased by \$1.4M, going from \$650K to \$2.1M.

Increase in General Fund Expenditures

Without the \$55.2M expended in capital lease acquisitions, GPSS total expenditures showed a decline of \$1.6M from \$242.2M to \$240.6M. GPSS General Fund expenditures increased by \$9.7M, from \$176.5M to \$186.2M while Federal assistance expenditures decreased \$11.2M from \$65.7M to \$54.5M¹. Direct Student Support increased by \$7.4M (or 24%), from \$31.9M to \$38.3M; expenditures for Elementary Education increased by \$3M (or 3%), from \$94M to \$97M; and Secondary Education increased by \$2.9M (or 4%), from \$81.4M to \$84.2M. In 2008, \$6.1M in annual lease payments was made for the construction of new schools, which will be paid with Compact Impact funds.

Of the \$240.6M in total expenditures, salaries and benefits made up approximately 80%, or \$186M. While the cost for GPSS salaries remained fairly stable, the cost for benefits increased significantly by \$4.9M during the year. Contractual expenditures, representing 7% of total expenses, slightly decreased by \$156K. Power, representing 5%, also declined by \$1.3M. These declines were negated by the \$822K increase in supplies, and the \$963K increase for interest and penalties. Although overall expenditures increased, the significant infusion of local appropriations resulted in GPSS closing the

¹ The analysis of Federal Assistance expenditures excludes the \$55,160,750 cost for Capital Lease Acquisitions.

year with revenues of \$17.3M in excess of expenditures which decreased the deficit fund balance to \$27.6M.

Cost of New Schools

In May 2005, the Government of Guam, through GPSS, entered into a financing lease agreement for the design, construction, and maintenance for four new schools: Liguán Elementary, Astumbo Middle, Okkodo High, and Adacao Elementary. As of September 30, 2008, three of the four new schools have been completed. Adacao is expected to open in August 2009. The total cost for design and construction is \$76M to be paid off by FY 2024, Of the Annual lease payments of \$6.1M, \$1M is reserved for maintenance expense. The total cost of construction per completed school is as follows: Liguán Elementary, \$12,610,789; Astumbo Middle, \$17,495,233; and Okkodo High, \$38,762,281.

Ongoing High Risk Status

Since 2003 GPSS has remained on high risk status. GPSS's high risk status is due to weak internal controls, Board policy decisions affecting curriculum, and the instability of top management. The current GPSS Superintendent has been in her position for nearly a year, and has empowered a management team of three Deputy Superintendents for operational support. GPSS experienced turnover in two of the three Deputy Superintendent positions during the year. To address the high risk status, GPSS has developed a Comprehensive Action Plan and is seeking funding through the Department of the Interior for a new financial management improvement system.

Single Audit Reports and Questioned Costs

With the exception of two major federal programs, GPSS received a qualified opinion. Qualified opinions have been issued since 1998. In FY 2008, 12 findings were identified, of which five were considered material weaknesses², and seven were identified as significant deficiencies. The material weakness findings pertain to improper procurement, allowable cost, and asset management:

- *Teacher Quality Enhancement Grant:* Four (or 17%) procurement transactions tested found competitive procurement procedures were not followed which totaled \$39K. GPSS failed to obtain the required quotations to allow fair comparability.
- *Consolidated Grants:* For three (or 8%) of transactions tested, there was no evidence to provide sufficient detail for the selection of a Guam institute of higher learning for conducting educational programs. Total expenditures of these transactions amounted to \$355K.
- *Equipment Management:* Fixed asset registers were not comprehensive and did not contain sufficient detail pertaining to acquisitions, purchase orders, and depreciation. Further, fixed assets were not recorded in subsidiary ledgers in a timely manner. GPSS is reliant on personnel to conduct a wall-to wall inventory.

Another deficiency noted in the report pertained to the inability to appropriately account for non-appropriated funds (NAFs). NAFs continue to be vested in personnel who are not capable of handling the task to account for the money. There are currently over 600 NAF accounts at the Elementary, Middle, and High Schools.

A separate document to the Board was issued by Deloitte and Touche auditors outlining strategies, emphasis, required communication, and adjustments. For a more detailed commentary of GPSS's operations, refer to Management's Discussion and Analysis in the report or visit www.guamopa.org.

² A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.