

Guam Public School System FY 2006 Financial Highlights

July 2, 2007

The Guam Public School System (GPSS) is now in its fourth year as a high-risk grantee of U.S. Department of Education (USDOE) federal grants. Improvements continue as independent auditors Deloitte & Touche expressed an unqualified or “clean” opinion on the GPSS FY 2006 financial statements for the second year in a row. The audits are part of ongoing efforts to eliminating the high-risk designation, which will remain until GPSS can demonstrate consistent progress in fiscal and programmatic systems over the next few years.

GPSS Deficit Grows to \$48.3 Million

As of September 2006, the GPSS general fund deficit grew to \$48.3 million (M) from \$42.1M after the year ended in over-expenditures of \$6.3M. Although GPSS expenditures of \$168.4M were contained within the budgeted appropriations of \$171.8M, only 94%, or \$162.2M, of the appropriations was received. Had the full appropriation been received, GPSS would not have realized a loss; instead, the loss would have been diverted to the government of Guam General Fund, which is the main source of GPSS’ local appropriations.

Accordingly, revenues earmarked specifically for GPSS operations were budgeted for \$160.6M; however, only \$147.2, or \$13.4M less, was received. GPSS legal counsel opined that GPSS was entitled to the full FY 2006 appropriation and GPSS management opted to recognize this receivable and defer the \$13.4M revenue until the cash is received. In response, the Department of Administration has stated that the FY 2006 GPSS appropriations did not include carryover provisions.

Revenues of \$162.2M included local appropriations of \$152.9M, \$1.8M in cafeteria sales and other receipts, and federal contributions of \$7.5M for federal reimbursements for the school breakfast and lunch programs. Total federal grants were \$53M in FY 2006; \$782,000 more than \$52.2M in FY 2005.

Government of Guam’s Liquidity Crisis

Due to the current financial crisis of the government of Guam, it is not known when GPSS will receive the outstanding cash from DOA. In March 2007, Standard & Poor’s placed Guam on a CreditWatch with negative implications for liquidity. “The liquidity crisis is directly attributed to Guam’s long-term structural financial imbalance, with recurring deficits, a large and growing negative general fund balance, and massive long-term liabilities. The CreditWatch placement also reflects the possibility that these challenges will further diminish the government’s ability to meet operational responsibilities, while addressing long-term requirements.” Although the CreditWatch was removed in June 2007, Standard & Poor’s maintained that “GovGuam has a long history of structural imbalance and large accumulated deficits that will take years to reduce.”

GPSS Payables Climb to \$19.3M

The pressing cash issues have resulted in a \$5.3M increase in GPSS payables from \$14M in FY 2005 to \$19.3M in FY 2006. As of 9/30/06, significant payables included the Government of Guam Retirement Fund (\$2M), Treasurer of Guam (\$591,000), and utilities (\$2.3M). In March 2007, the Attorney General filed a complaint against GPSS for failing “to pay full payroll” to GPSS employees. Payroll deductions from gross wages were not paid to vendors for several pay periods violating wage and hour laws. According to GPSS, payroll vendors have now all been paid.

Prior years’ obligations include the Retirement Fund and the Guam Power Authority (GPA). GPSS owes the Retirement Fund \$17.2 million (includes \$4.6 million interest and penalties) for outstanding FY 2003 contributions. GPSS entered into an installment payment agreement with GPA in July 2004. The balance on the GPA note was \$13.2M as of September 30, 2006. Currently, the monthly payment towards the GPA note is \$125,000.

Overall GPSS general fund expenditures of \$168.4M were \$893,000 less than FY 2005’s \$169.3M. Of FY 2006 expenditures, \$133.3M, or 79%, was spent for personnel, \$12.2M, or 7%, for utilities, and \$12.5M, or 7%, for contractual services. In FY 2006, GPSS was appropriated a lump sum for operations unlike previous years’ budgets where expense categories were separately appropriated and resulted in line-item deficits especially for utilities, which had been under-funded.

Weak Accounting Infrastructure

GPSS’s financial leadership was unsettled with the May 2007 resignation of the Chief Financial Officer who served in that capacity for only one year. Prior to the CFO, the GPSS Comptroller had resigned after one year as well. This disruption has weakened the accounting infrastructure further exacerbated by pending vacancies in the accounting division. Several FY 2006 audit findings noted deficiencies resulting in significant variances in funds because reconciliations were not timely performed. For example, variances in cash was \$90.9M, receivables was \$11.2M, liabilities was \$33.3M, and encumbrances was \$9M.

Questioned Costs Decrease by \$1.2M

In FY 2006, the number of findings decreased by two, from 21 in FY 2005 to 19. Questioned costs, which are the result of improper federal grant expenditures, decreased significantly \$1.5M in FY 2005 to \$246,000 in FY 2006. The questioned costs include \$113,000 for unsubstantiated eligibility for children receiving free meals, \$25,000 expended for disallowed employee costs, and \$107,000 for insufficient procurement documentation. GPSS’ unresolved questioned costs (since FY 1998) are now \$10.4 million.

GPSS reimbursed federal funds of \$44,000 when the second block of the Direct Instruction (DI) Program was temporarily ceased while DI instructors still received their full pay.

Repeat Findings for Procurement and Non-Appropriated Funds

Procurement findings continue to plague GPSS audits. In FY 2006, in addition to federal questioned costs, local funds of \$303,000 were questioned for improper procurement. Procurement findings include lack of documentation, insufficient bidding time, improper emergency procurements, and continued payments on a non-compliant purchase order cited in the FY 2005 audit.

In FY 2006, fundraising cash receipts for non-appropriated funds (NAF) were \$1.4M and disbursements were \$1.6M. The NAF remains problematic and the auditors continue to caution that funds might be used fraudulently. Since FY 2001, NAF-related findings have generally remained unchanged: no supporting documentation, payments for faculty and staff entertainment unrelated to the fund's purpose, inconsistent monitoring, and referrals to the Attorney General's Office for investigations. A recommendation was made to the Guam Education Policy Board (GEPB) to reconsider whether GPSS should continue to assume this costly responsibility.

See Management's Discussion and Analysis for further details.