



OFFICE OF THE PUBLIC AUDITOR

DOE Financial Highlights

November 28, 2003

In September 2003 the U. S. Department of Education designated the Guam Department of Education a high risk grantee. As a result, all of the federally funded programs that DOE administers are subject to special conditions. The high risk grantee designation was imposed because for five years DOE has been unable to provide timely and complete audited financial reports.

The federal Single Audit Act has four major purposes: (1) to improve the financial management of local governments with respect to federal financial assistance programs; (2) to establish uniform requirements for audits of federal financial assistance provided to local governments; (3) to promote efficient and effective use of audit resources; and (4) to ensure that federal departments and agencies can rely upon and use the audits done pursuant to the Single Audit Act in evaluating local government needs and use of federal funds.

When the high risk grantee status was imposed, DOE had not completed its single audit requirements for fiscal years 1998 through 2002. Under the Act, single audits are required to be completed by June 30 of the year following the end of the previous fiscal year. Among the special conditions imposed upon DOE by the U. S. DOE was that single audit reports of federal expenditures for FYs 1998, 1999, 2000 and 2001 and a financial audit as of FY 2001 be submitted no later than November 30, 2003.

The OPA and DOE are able to state today that the deadline has been met. The information contained in the reports, however, reveals serious shortcomings in past financial practices at DOE. To its credit, DOE has made and is continuing to make improvements in its financial management. One significant change that still needs to be made is the appointment of a Chief Financial Officer, preferably a Certified Public Accountant.

In FY 2001, the Legislature appropriated \$161.3 million to DOE and the agency received another \$31.4 million in federal grants. DOE's expenditures in FY 2001 totaled \$197.7 million, or \$3.1 million more than its revenues. DOE's own Annual School Progress Report, issued November 13, shows that for FYs 1999-2002, the department overspent its local appropriations by \$15,256,433.

As of September 30, 2001, DOE had a bank overdraft of \$10.7 million, which consisted of checks that had been written but not issued; amounts owed to vendors, accrued expenses and other liabilities totaled \$57.6 million, of which the largest debts were \$11.3 million to the Guam Power Authority and \$13.5 million for DOE's

share of the retirement unfunded liability. In all DOE's liabilities totaled \$68.3 million versus assets of \$58.9 million, resulting in a fund deficit of \$9.3 million. [Independent Auditors' Report: Combined Balance Sheet, page 1.]

The audits, performed by CPAs Deloitte & Touche LLP under the direction of the OPA, disclosed questioned costs for the four years of \$7.6 million, of which \$6 million pertained to FEMA expenditures. In each year, there were approximately 20 findings pertaining to such items as timely reporting, eligibility of the use of federal funds for a particular purpose, level of effort and procurement. Local findings pertained to the lack of accountability of non-appropriated funds, lack of segregation of duties, travel advances not resolved and general ledger balances. Major findings included the failure of the Department to maintain an adequate system of internal control or to compile a fixed asset list. Because the agency fund presentation is incomplete, the auditors could not express an opinion on cash and fund balances as of September 30, 2001.

Deloitte & Touche in Finding 2001-01 stated that DOE did not maintain accurate general ledger balances during the four years ended September 30, 2001. Reconciliations with subsidiary ledgers and bank reconciliations were not performed. While DOE did maintain subsidiary ledgers detailing expenditures by account or by federal program, no overall general ledger total was maintained and reconciled to the subsidiary ledgers. Therefore it was not possible during these years to ensure that all expenditures were duly recorded in the subsidiary ledgers. [Report on Internal Control and Compliance]

Under the conditions imposed by U. S. DOE, Guam DOE must complete its FY 2002 single audit by March 31, 2004, and its FY 2003 single audit by June 30, 2004. DOE is also required to post on its website the [high risk grantee](#) statement issued by U. S. DOE. Because DOE has not yet done so, the OPA includes with this release a copy of the statement. The information is critically important to the public and the Legislature so both know what sanctions may befall DOE if it does not make financial accountability a major priority in its management of the Department.

A year-by-year summary of the questioned costs for the four years is contained in the following table:

Fiscal Year Total Questioned Costs FEMA Questioned Costs

Fiscal Year	Total Questioned Costs	FEMA Questioned Costs
1998	\$1,692,928	\$1,260,382
1999	3,468,809	3,130,222
2000	2,007,474	1,567,905
2001	397,500	----Zero----
Total	\$7,566,711	\$5,958,090

U. S. Department of Education Statement Classifying Guam 's Department of Education a [high risk grantee](#).