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Guam Highway Fund – FY 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Guam Highway Fund’s (GHF) financial statements, report on compliance and internal control, management letter, and auditor’s communication with those charged with governance for fiscal year (FY) 2020. Independent auditors, Ernst & Young LLP, rendered an unmodified (clean) opinion on GHF’s financial statements. During FY 2020, GHF revenues decreased while GHF expenditures increased, which ended the fiscal year with a decrease in net position (net loss) of \$5.2 million (M). GHF’s net change in fund balance decreased by 211% (or \$10.0M), the opposite of the \$4.7M increase in net position (net gain) in FY 2019.

GHF records two governmental funds, which both ended FY 2020 with a positive fund balance – the Guam Highway Special Revenue Fund with \$1.2M and the Capital Projects Fund with \$176 thousand (K) – for a combined total of \$1.4M.

Coronavirus (COVID-19) Pandemic Impact and Outlook

To prevent the spread of COVID-19, Guam territorial restrictions were instituted that left many local businesses at a standstill. These restrictions, coupled with the reduced economic activity associated with the loss of tourism revenues, affected GHF’s revenue levels. The Department of Administration’s (DOA) management expects there may be continued reductions in revenues for the remainder of the public health emergency.

20% Decline in Revenues

Total revenues decreased by \$5.1M (or 20%) from \$25.2M in FY 2019 to \$20.1M in FY 2020. Collections from Liquid Fuel Taxes decreased by \$2.7M (or 19%), while collections from automotive surcharges, vehicle registration fees, and driver’s license fees decreased by \$2.4M (or 22%). Revenues decreased primarily due to motor traffic decreasing from reduced economic activity as a result of the COVID-19 pandemic.

35% of Expenditures Unrelated to Highways and Transportation

Total expenditures increased by \$4.5M (or 22%) from \$20.5M in FY 2019 to \$25.0M in FY 2020. Of the \$25.0M in expenditures, 65% (or \$16.3M) was related to highways or transportation. These included \$12M to Department of Public Works’ operations, \$2.3M to the Guam Regional Transit Authority, \$1.2M to Guam Police Department’s highway patrol, \$856K in utilities for Guam Highway Streetlights, and \$40K towards the Department of Education operation of public school buses.

GHF is primarily secured for the maintenance and construction of highways and roadways, as well as the implementation of all highway safety plans, programs, and projects. However, similar to prior years, 35% (or \$8.7M) of FY 2020’s total expenditures were unrelated to highways or transportation. Unrelated expenditures included \$7.9M to the Mayors’ Council of Guam’s

(MCOG) salaries and wages, of which only \$6.2M was appropriated by the Guam Legislature. Although also unrelated, the \$834K deposited into the Better Public Service Fund was aligned with its legislation, Title 11 Guam Code Annotated Chapter 161 §161101(b). The Better Public Service Fund is used to improve and modernize the Department of Revenue and Taxation's systems in its services to the public.

The Capital Projects Fund accounts for highway construction projects funded by bond proceeds. After FY 2016, the Capital Projects Fund has incurred no expenditures and its ending balance remains at \$176K.

FY 2020 Books Not Closed on a Timely Basis

In a separate issued management letter, independent auditors noted GHF's FY 2020 books were not closed on a timely basis. Additional man-hours incurred could have been avoided if an updated financial management system was in place. DOA noted that the delay's root cause was that the financial management system was not updated to include financial year closing as a standard feature, and their preferred remedy is to invest in a new financial management system that incorporates all required year-end closing procedures as standard features. Procurement for the new system has begun under Executive Order 2020-44, and 2021-07.

Two Material Weaknesses Related to Expenditure Accounts

Independent auditors identified two material weaknesses in GHF's internal control over financial reporting. One item concerned how GHF did not recognize a \$1M understated liability owed to a vendor for construction services rendered as of FY 2020 end. The second finding noted that GHF's expenditures to MCOG's salaries and wages exceeded the amount appropriated as stated by Public Law 35-36. According to DOA, internal controls will be reviewed to prevent recurrences of these excess expenditures.

For more details on the use of GHF, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.