



## **Guam Department of Education FY 2012 Financial Highlights**

**July 1, 2013**

The Guam Department of Education (DOE) closed Fiscal Year (FY) 2012 with an increase in net assets of \$19.4 million (M), going from \$173.8M to \$193.2M. Subsequent to the issuance of DOE's FY 2011 financial statements, DOE management determined that payables were understated by \$2.3M, which led to a restatement of the amounts previously reported. Independent auditors Deloitte & Touche, LLP issued an unqualified "clean" opinion on DOE's financial statements; but, in order to receive the clean opinion, 23 audit adjustments were made that cumulatively increased net assets by \$9.4M.

Auditors rendered qualified opinions on the Single Audit Reports for noncompliance relating to three major programs. The three major programs included the Economic, Social and Political Development of the Territories Special Education Cluster (IDEA), State Fiscal Stabilization Fund (SFSF) – Education States Grants, and Consolidated Grants to the Outlying Areas. Three of the four findings were material weaknesses relating to a lack of documentation for a sole source procurement, untimely reconciliation of the general and subsidiary ledgers, and unsupported expenditures with non-appropriated funds. While material weaknesses still plague DOE, they are to be commended for not incurring questioned costs since FY 2009. For the tenth consecutive year, DOE remains on high-risk status with the US Department of Education.

### **Revenues Decreased, Local Appropriations Increase**

In FY 2012, DOE's revenues decreased by \$25.6M, going from \$333.2M to \$307.6M. This is due primarily to the 50% decrease in federal grants and contributions, going from \$136M in FY 2011 to \$68M in FY 2012. Revenues comprised of local appropriations of \$237.6M or 77.2%, federal grants and contributions of \$68M or 22.1%, cafeteria sales of \$677K, and fees and other programs of \$1.4M. Local appropriations for DOE increased by a total of \$41.4M, of which \$8M was appropriated for retiree healthcare benefits and \$6M from bond proceeds to pay off the DOE retirement liability. However, the increase in local appropriations was offset substantially by the decline in federal grants and contributions of \$68M.

### **Overall Expenditures**

In FY 2012, DOE's total expenditures decreased by \$40.7M, going from \$340M to \$299M. This is due primarily to the decrease in capital lease acquisitions of \$65.7M for John F. Kennedy High School. Expenditures comprised of \$224.5M in local funds and \$74.9M in federal funds. Local expenditures of salaries and benefits increased by \$57.3M from \$66M to \$123.3M, utilities increased by 13% or \$1.9M from \$14.6M to \$16.5M. Water increased slightly by 2% or \$34K from \$1.9M to \$2M, while power increased by 16.7% or \$2M from \$12.4M to \$14.4M. Fuel costs increased by 19% or \$47K.

## **Capital Projects**

Beginning in 2006, \$6.1M in Compact Impact funds the Government of Guam received from the Department of Interior was set aside annually to pay for the construction and lease back of four schools (Ukodo High School, Astumbo Middle School, Adacao and Liguán Elementary Schools). In 2010, the amount was increased by \$1M to fund additional equipment requirements for a total of \$7.1M. The annual cost of the new schools built since 2006 as well as the annual lease for the Tiyan campus to house Untalan Middle School amounts to over \$21.6M annually.

In September 2010, the Government of Guam issued \$65.7M in Series 2010 Certificates of Participation to finance the new John F. Kennedy High School. Annual lease payments of \$6.7M started in December 2010. Another \$7.7M was paid through the Territorial Educational Facilities Fund for the Untalan Middle School lease. In March 2013, the Government of Guam obtained a \$21.8M loan from a local bank to finance the expansion of Ukodo High School.

## **Financial Management Information System (FMIS)**

In August 2011, DOE purchased a new FMIS to meet the requirements of special conditions placed by the US Department of Education (USDOE) in order to continue to access grant funds. DOE spent \$5M for the FMIS, with related consultants. Along with meeting USDOE's requirements, the new FMIS' goal is to increase efficiency and effectiveness of DOE's operations by providing real-time and accurate data, which comprehensive report-writing capabilities that address transparency and stakeholder requirements. DOE implemented its financial and procurement modules in April 2012 and its payroll, human resources, and maintenance modules in July 2012. Because of this transition, reconciliation between the legacy system (CIMS), the new FMIS, and the Third Party Fiduciary Agent's FMIS and the interdependence between the modules added to the complexity of DOE's operations and a delay in the release of the FY 2012 financial audit.

## **American Recovery and Reinvestment Act (ARRA) Funds**

In February 2009, the federal government enacted the ARRA of 2009, of which DOE was granted \$89M for capital improvement projects, technology, and equipment. As of FY 2012, DOE spent \$13.3M of the \$89M. Approximately \$60M was also reprogrammed to cover personnel costs to meet obligation deadlines. As part of the agreement to reprogram, a trust account was set up to continue to fund projects including a new FMIS, renovation of schools, and the costs for a third party fiduciary agent.

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## **Merit Bonuses**

In 1991, Public Law 21-59 established a bonus system for employees of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. As of September 30, 2012, DOE has not assessed the impact of the requirements of the law, therefore, no liability has been recorded.

## **Single Audit Reports**

DOE received a qualified opinion on the Single Audit Reports. In FY 2012, three of the four findings were deemed material weaknesses. All findings were reiterative of conditions identified in prior audits of DOE. The findings included:

- Equipment and Real Property – Auditors noted several issues related to the recording and maintenance of equipment. As an example, several vehicles and equipment exceeding \$50K were reported in the financial statements, but were not in the inventory records.
- Procurement and Suspension and Debarment – Auditors could not locate three positive written quotations from businesses in a procurement file and no sole source documentation was provided for the procurement of educational and training books.
- Financial Management – Reconciliation between the general ledger and subsidiary ledgers were not timely performed. As a result of the new FMIS implementation, daily operations were hindered and the closing process was affected. In addition to the impact of the new system implementation, substantial effort was required to reconcile with the TPFAs records as those are maintained on a cash basis.
- Non-Appropriated Funds – Auditors noted an improvement in NAF, however, there were expenditures that were not supported by invoices, receiving reports, other evidential matter, or competitive procurement considerations.

For a more detailed commentary of DOE's operations, refer to Management's Discussion and Analysis in the report or visit [www.guamopa.org](http://www.guamopa.org).