

**Department of Administration
Special Revenue Funds Part I**

**Performance Audit
October 1, 2001 through
September 30, 2003**

**OPA Report No. 04-04
March 2004**

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OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

OPA Report No. 04-04 March 2004

**Department of Administration
Special Revenue Funds Part I
October 1, 2001 through September 30, 2003**

The Office of the Public Auditor (OPA) initiated a performance audit into 65 special revenue funds maintained by Department of Administration (DOA). The findings in the Government of Guam's Audited Financial Statements for the past several fiscal years and the excessive number of funds prompted this audit. DOA maintains over 125 special revenue funds. Special revenue funds are established by law or by the Governor's executive order and are used to account for the proceeds of specific revenue sources; expenditures from special funds is usually restricted to specific purposes.

This report deals with only 30 of the 65 special revenue funds. The remaining 35 funds will be covered in a later report.

The objectives of the audit were to:

- Determine whether selected special revenue funds were being utilized and accounted for in accordance with their originally intended purposes;
- Identify which funds were inactive or no longer operating as intended;
- Determine which funds should be closed; and
- Develop guidelines for the establishment of a special revenue fund.

The majority of the 30 special revenue funds reviewed in this report had little to no financial activity. Generally, fund inactivity suggests that a fund is not being utilized and brings to question the continued need for the fund. Continued existence of unused or unnecessary funds hampers the efficiency of DOA's accounting operations by adding administrative responsibilities and maintenance procedures.

The following are the various reasons we identified for fund inactivity:

- Funds were reliant on the General Fund;
- Funds were designed only for a specific event, but the event has passed;
- Funds were already accounted for by other entities;
- Funds were created erroneously due to inconsistent legislation;
- Funds were created by conflicting legislation;
- Funds were not closed in DOA's financial management system, despite being repealed; and
- Funds were composed of immaterial transactions.

We recommend DOA establish procedures for the official closure of funds and close the following funds, transfer any remaining balances to the General Fund, and ensure that they are made inaccessible for future postings and appear only for viewing:

- Abandoned Vessels Fund
- Aquaculture Development and Training Fund
- Chamorro Language Commission Fund
- Coastal Zone Management Fund
- Customs and Agriculture Inspection Services Fund
- Guam Housing Corporation Revolving Fund
- Guam Museum Fund
- JROTC Fund
- Lost Book Fund
- School Operations Fund
- Summer School Fund
- Typhoon Paka Emergency Fund

We recommend the Legislature repeal the following special revenue funds and transfer the remaining fund balances approximately \$221,000 as of September 30, 2002 to the General Fund:

- Land Acquisition
- Individuals with Disabilities Disaster Recovery Fund
- CAHA, OET, and CEF Fund
- Off-island Travel Fund
- Overtime Fund
- Deficit Elimination Fund
- Rainy Day Fund
- Vocational Rehabilitation Revolving Fund
- Autonomous Agency Infrastructure Collections Fund
- Plant Nursery Revolving Fund
- Consumer Protection Fund
- Rabies Prevention Fund
- Livestock Fund
- Accessible Parking Fund
- Driver's Education Fund
- 1999 SPG Revolving Fund
- Komitea Para Tiyan Fund
- District Improvement Fund

The elimination of these funds does not necessarily mean foregoing the purposes for which a fund was created. The purposes of these funds can be alternatively achieved through a direct appropriation by the Legislature to agencies administering such funds, with the accounting still being done by DOA. The only difference is the accounting will be done in an account, rather than as a special revenue fund.

Overall, we concluded that the creation of numerous special revenue funds has a negative effect on the Guam Legislature's ability to control the budget of the Government of Guam. Legislative control was reduced because many special revenue funds were financed solely from transferred monies from the General Fund. Many of the special revenue funds do not go through legislative scrutiny because the Legislature focuses mainly on the General Fund and limits its oversight of programs financed within the General Fund appropriations process. The use of special revenue funds distorted the Government of Guam's overall financial picture by making revenues and expenditures appear to be less than they actually were.

The Director of DOA generally concurred with the findings and recommendations of the report. According to their response, steps have already been undertaken to address some of the recommendations of the report.



Doris Flores Brooks, CPA, CGFM
Public Auditor



OFFICE OF THE PUBLIC AUDITOR

**Department of Administration
Performance Audit of the Department of Administration's
Special Revenue Funds**

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Introduction

The Office of the Public Auditor (OPA) initiated a performance audit into the special revenue funds maintained by the Department of Administration based on the findings of the Government of Guam's audited financial statements for the past several fiscal years and the Public Auditor's concerns about the excessive amounts of funds within the Department. This is the first of a series of reports that OPA will be releasing on the Department of Administration's special revenue funds.

Jurisdiction to Audit

The Public Auditor is required to annually audit "all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam." The Public Auditor may also "conduct or cause to be conducted such audits or reviews as he or she deems necessary."¹

Background Information

Department of Administration

The Department of Administration (DOA) was established by 5 G.C.A. §3101 as part of the executive branch of government. In 5 G.C.A. §20105, the Director of DOA is authorized to establish such divisions or other organizational units as he may determine to be necessary for the efficient and effective administration and operation of the Department. One such division, the Division of Accounts handles the accounting of the General Fund and other funds, including special revenue funds. According to 5 G.C.A. §22203, the Director "shall account in the Special Revenue Funds all proceeds of specific revenue sources or to finance specific activities as required by law..."

Special Revenue Funds

Funds in governmental accounting are "fiscal and accounting entities with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations."² According to the Governmental Accounting Standards Board's (GASB) Statement No. 34, special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Special revenue funds are established by law or by the Governor's executive order.

¹ 1 G.C.A. § 1908

² National Council on Government Accounting Statement (NCGAS) 1

We identified over 100 special revenue funds in FY 2002. Due to GASB Statement No. 34, other funds were reclassified as special revenue funds (see **Appendix B**). Reclassified funds were not selected for this audit. The table below summarizes the number of special revenue funds by fiscal year and the increase over the years.

<i>Special Revenue Funds</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Financially active	57	66	69	90
Financially inactive	11	9	9	12
Totals	68	75	78	102

In FY 2003, we identified at least 130 special revenue funds. Only 65 of those funds were selected for audit and only 30 of those 65 are presented in this report.

Objectives

The objectives of the audit were to:

- Determine whether selected Government of Guam special revenue funds were being utilized and accounted for in accordance with their originally intended purposes;
- Identify which funds were inactive and no longer operating as intended;
- Determine which funds should be closed; and
- Develop guidelines for the establishment of a special revenue fund.

Scope and Methodology

The scope of the audit was limited to 65 special revenue funds selected based on financial inactivity and risk for noncompliance. For the purposes of this report, however, only 30 funds will be reported on. The remaining 35 funds will be covered later in another report in the series. Refer to **Appendix A** and **Appendix B** for a list of all funds selected and not selected, respectively.

Our methodology included gaining an understanding of each special revenue fund's enabling legislation and other applicable laws that govern the administration of the fund and reviewing the FY 2002 and 2003 revenue and expenditure transactions of the funds. We tested samples of transactions for each fund to determine whether each fund was administered in accordance with its respective law.

The period covered by our report was the 24-month period from October 1, 2001 through September 30, 2003. Our audit was conducted in accordance with the standards for performance audits as contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America.

Prior Audit Coverage

Special revenue funds maintained by DOA are subject to annual audit through the Government of Guam General Purpose Financial Statements (GPFS). Not all special revenue funds, however, are tested in detail. Only those funds over a material amount are selected in the annual GPFS audit. Those with immaterial amounts are audited on a rotational basis.

The audited GPFS for FY 1998 through FY 2002 were used in the analysis of our audit and are subsequently presented in this report.

Overall Conclusion

During the course of the audit we identified numerous special revenue funds that were inactive and should be closed. The majority of the 30 special revenue funds reviewed and presented in this report had little to no activity for the following reasons:

- Funds were reliant on the General Fund;
- Funds were designed only for a specific event, but the event had passed;
- Funds were already accounted for by other entities;
- Funds were created erroneously due to inconsistent legislation;
- Funds were created by conflicting legislation;
- Funds were not closed in DOA's financial management system, despite being repealed; and
- Funds were composed of immaterial transactions.

Majority of the fund transactions reviewed were in accordance to their originally intended purposes. Transactions that appeared to be noncompliant to the fund's purposes will be discussed in a subsequent report.

Overall, we deduced that the creation of numerous special revenue funds has a negative effect on the Guam Legislature's ability to control the budget of the Government of Guam. Legislative control was reduced because many special revenue funds were financed solely from transferred monies from the General Fund. Many of the special revenue funds do not go through legislative scrutiny because the Legislature focuses mainly on the General Fund and limits its oversight of programs financed outside the General Fund appropriations process. The use of special revenue funds distorted the Government of Guam's overall financial picture by making revenues and expenditures appear to be less than they actually were.

Specific Findings and Conclusions

Many of the special revenue funds at DOA have become inactive or unused; these funds did not earn operational revenues or incur expenditures. The following sections cover in greater detail the many reasons for a fund's financial dormancy or inactivity.

Finding 1: Special Revenue Funds that Rely on the General Fund

Special revenue funds by definition have revenues earmarked and set for specific purposes. Based on our review, the funds listed below, although having specific uses, do not have earmarked revenue sources. The laws either did not specify revenue sources for these funds or the funds were designed to operate only on appropriations by the Legislature.

- Land Acquisition Fund
- Individuals with Disabilities Disaster Recovery Fund
- Council of the Arts & Humanities, Off-Island Education Training, and Cultural Enhancement Fund (CAHA, OET and CEF)
- Off-island Travel Fund
- Overtime Fund
- Deficit Elimination Fund
- Rainy Day Fund

Special revenue funds that are reliant on General Fund appropriations are seldom used more than once. In many instances, the Legislature appropriated money to the fund during its establishment, however, after the fund exhausted its balance, the fund was forgotten and became dormant. This is the case for the seven funds listed above. Consequently, these seven funds had little to no transactions over the past couple of years.

Land Acquisition Fund

The Land Acquisition Fund³ was established in 1968 by Public Law 9-170 (P.L. 9-170) to account separately for all costs for acquiring private land for public purposes. Any expenditure made from this fund can only be done in connection with these acquisitions. The revenues for this fund came from appropriations by the Legislature. The Governor of Guam is the administrator of this fund.

The Land Acquisition Fund has had no activity from FY 1998 through FY 2003, which is attributed to the lack of appropriations by the Legislature. The fund's lack of activity suggests that the Land Acquisition Fund has outlived its intended purposes. We recommend the Legislature repeal this fund.

Individuals with Disabilities Disaster Recovery Fund

The Individuals with Disabilities Disaster Recovery Fund⁴ was established in 1998 by P.L. 24-172 to mitigate damages and losses of medical equipment, medical supplies and medications to individuals with disabilities and other patients under the care of a licensed physician. This fund is required to be kept in a separate bank account for which the Department of Integrated Services for Individuals with Disabilities (DISID) is authorized to expend from. Additionally, DISID is tasked to maintain and account for the Individuals with Disabilities Disaster Recovery Fund. Section 3 of P.L. 24-172

³ 21 G.C.A. §60612

⁴ 17 G.C.A. §41601-§41605

appropriated the sum of \$100,000 from the General Fund to the Individuals with Disabilities Disaster Recovery Fund. Other than this appropriation, the enabling legislation was silent as to the fund's other sources of revenues.

The Individuals with Disabilities Disaster Recovery Fund has had no revenues or expenditures since it was established in 1998. The \$100,000 appropriation identified in the enabling legislation was never transferred to the fund and remained as a receivable from the General Fund, nor was DISID aware of the fund's existence. The Individuals with Disabilities Disaster Recovery Fund did not meet its purpose as evidenced by the fund's lack of activity. We, therefore, recommend the Legislature repeal this fund and transfer any remaining balances to the General Fund.

CAHA, OET, and CEF

The Council of the Arts & Humanities, Off-Island Education Training, and Cultural Enhancement Fund (CAHA, OET, and CEF)⁵ was reenacted in 1997 by P.L. 24-34 for the purpose of financing eligible recipients up to fifty percent (50%) of the total cost for off-island travel up to a maximum of \$30,000.

When P.L. 24-34 reestablished the CAHA, OET, and CEF in FY 1997, it also appropriated \$130,000 to the fund. The reenactment, however, did not specify or earmark any other revenues for this fund. Since then, it has not recognized any revenues other than the \$130,000 initially appropriated to it. This appropriation was nearly exhausted the following year with an expenditure of \$127,460. From FY 1999 through FY 2003, we found no records of revenues or expenditures. As of FY 2002 this fund has a zero fund balance. Based on the lack of activity, we recommend the Legislature repeal this fund.

Off-Island Travel Fund

The Off-Island Travel Fund was established in 2000 by P.L. 25-98 to pay for off-island travel expenses incurred by executive branch agencies. The Governor of Guam is responsible for administering the fund. P.L. 25-98 does not specify the revenue sources of the fund, but initially appropriated \$289,914 to the fund.

Other than the initial appropriation established for the Off-Island Travel Fund, it has not received any revenues through FY 2003. We recommend the Legislature repeal this fund and transfer the remaining fund balance to the General Fund.

Overtime Fund

The Overtime Fund was created in 2000 by P.L. 25-98 to pay for overtime expenses incurred by executive branch agencies as authorized by the Governor. The Overtime Fund was initially appropriated \$2.2 million. Expenditures, however, totaled to around \$2.7 million. This created a deficit of nearly \$.5 million. A deficit is a result of expending more money than what was available in the fund. Fund shortfalls are usually alleviated by borrowing from the General Fund. The Overtime Fund, however, has no ability to pay off this obligation unless the Legislature appropriates more money into the fund.

⁵ 5 G.C.A. §85111

We found no subsequent appropriations to the Overtime Fund. Consequent to this deficit, the fund became inactive. We recommend the Legislature repeal the Overtime Fund.

Deficit Elimination Fund

The Deficit Elimination Fund was established in 1987 by P.L. 19-10 to reduce the outstanding, unfunded liability of the General Fund to the Government of Guam Retirement Fund. All General Fund personnel appropriation lapses revert on a bi-weekly basis to the fund. All other General Fund appropriation lapses revert to the Fund on the last day of the fiscal year. The Director of the Bureau of Budget and Management Research is required to submit a report to the Legislature on the amount of lapses, which have been reverted to the Deficit Elimination Fund.

The Deficit Elimination Fund is supposed to receive revenues from General Fund appropriation lapses, yet no lapses have been transferred to the fund. With the present condition of the Government of Guam, General Fund lapses are unlikely, further evidenced by the lack of fund activity. We recommend the Legislature repeal the Deficit Elimination Fund.

Rainy Day Fund

The Rainy Day Fund was created in 1993 by P.L. 22-24 to eliminate or reduce any General Fund deficit existing at the end of a fiscal year resulting from an unexpected, substantial decline in revenues received or caused by a territorial emergency. The fund is to be continuously appropriated the unencumbered balance of the General Fund at the close of business on the last day of each fiscal year. The fund may also receive special appropriations with a maximum allowed of \$10 million. DOA is required to administer the fund and invest the fund's balance.

The Rainy Day Fund received \$2,093,407 in FY 2001, which was expended the same year. With the exception of FY 2001, the fund has had no activity from FY 1998-2003. We recommend the Legislature repeal the Rainy Day Fund.

Conclusion

Special revenue funds that do not have specific revenue sources and rely on General Fund appropriations for their existence are rarely used after they have exhausted their initial appropriation. The funds listed above will need additional appropriations in order to meet their intended purposes. Unless additional appropriations are made, these funds will remain financially inactive. In our opinion, this is not beneficial to DOA as it hampers the efficiency of their operations by adding additional accounting responsibilities and can result in a misrepresentation of the fiscal condition of the General Fund.

Recommendation

We recommend the Legislature repeal the following funds and transfer any remaining balances to the General Fund:

- Land Acquisition Fund

- Individuals with Disabilities Disaster Recovery Fund
- CAHA, OET, and CEF
- Off-Island Travel Fund
- Overtime Fund
- Deficit Elimination Fund
- Rainy Day Fund

Finding 2: Special Revenue Funds Designed for Specific Events

Some special revenue funds have been created for a specific event or period. These funds are usually created only to account for the financial transactions of those events. After the completion of the events, the funds are not likely to be used again.

We identified several special revenue funds during the audit that we determined to have fulfilled and outlived their purposes. Such funds are no longer used and/or have no subsequent financial activities.

- Typhoon Paka Emergency Fund
- 1999 SPG Revolving Fund
- Komitea Para Tiyan Fund

Typhoon Paka Emergency Fund

The Typhoon Paka Emergency Fund was established in 1997 by the Super Typhoon Paka Emergency Recovery Act (P.L. 24-117) to account for the expenditures and reimbursements made for the recovery of Guam after the devastation of Supertyphoon Paka. P.L. 24-117 did not explicitly create a Typhoon Paka Emergency Fund, however, in order to perform the responsibilities outlined in that legislation, DOA created a special revenue fund.

The fund received no revenues other than a transfer of \$11 million in FY 1998. In FY 2002, the fund transferred all \$850,251 of its remaining fund balance to the General Fund. This transfer was recommended by the external auditors.

Based on our review, this fund has met its purpose and its continued existence is no longer necessary. We recommend DOA close the fund and prevent future postings into the fund. Because the law did not specifically create this fund, we believe DOA has the authority to close this fund without further legislative approval.

1999 SPG Revolving Fund

The 1999 South Pacific Games (SPG) Revolving Fund was created by P.L. 25-01 to account for the activities of the 1999 SPG. This fund’s revenues were received as a transfer from the Tourist Attraction Fund in 1999. Based on the financial statements, this fund has ceased to recognize both revenues and expenditure since FY 2002. The fund, however, continues to hold a cash balance of \$93,904⁶ and an interfund liability of \$175,591. The 1999 South Pacific Games have concluded and the continued existence

⁶ Statement of savings account as of January 7, 2004.

of this fund is no longer necessary, therefore, we recommend the Legislature repeal this fund and transfer the remaining cash back to the General Fund.

Komitea Para Tiyan Fund

The Komitea Para Tiyan Fund was established in 1999 by P.L. 25-03 for the purpose of collecting proceeds received from lease fees, service fees, and rentals of equipment and facilities within the former Naval Air Station (NAS). This fund was administered by the Komitea Para Tiyan (committee for Tiyan), which was created in 1995. Expenditures from this fund must be appropriated by the Legislature and used for the operations and maintenance of NAS grounds and facilities. Additionally, the fund balance at the end of the fiscal year, less any liabilities, was to be transferred into the Tiyan Trust Fund. As of June 2002, however, the Tiyan Trust was repealed by P.L. 26-100, yet the Komitea Para Tiyan and this special revenue fund continue to exist.

In 1997, the Legislature appropriated \$2.7 million to the Komitea Para Tiyan prior to the establishment of the fund. This appropriation was transferred into the Komitea Para Tiyan account, an account within the General Fund. In 1999, the Legislature appropriated another \$1.7 million to the Komitea Para Tiyan. Similarly, the appropriation was transferred into the Komitea Para Tiyan account. At this time (FY 1999), however, the Komitea Para Tiyan Fund had already been established, but it was not used. DOA explained that the money was not released into the fund because the law did not explicitly appropriate the money to the fund.

Since its inception, the Komitea Para Tiyan Fund has not received revenues or appropriations. Despite this, however, the fund incurred an expenditure in FY 2000, causing a \$145,875 deficit. This expenditure was made possible by borrowing money from another fund. In simple terms, the committee spent money they did not have. This amount has not been recovered as of the end of FY 2002.

According to the enabling legislation of the Komitea Para Tiyan, the committee administering the fund was given authority during the interim period until the title of the NAS property and parcels were issued to the Government of Guam. Because the title has already been passed to the Government of Guam, the committee and the correlating fund have fulfilled their purposes. Furthermore, with the repeal of the Tiyan Trust, the Guam Airport Authority is now administering the Tiyan properties. For these reasons, the Legislature should consider the repeal of the Komitea Para Tiyan Fund and write off any balances against the General Fund.

Conclusion

These special revenue funds, established for specific events, have outlived their usefulness as the events have already occurred. It is unlikely that they will be used again.

Recommendation

Based on the fulfillment of each fund's purpose, we recommend the Legislature repeal the 1999 SPG Revolving Fund and Komitea Para Tiyan Fund and transfer any

remaining cash to the General Fund and write off any balances in these accounts against the General Fund. We also recommend DOA close the Typhoon Paka Emergency Fund.

Finding 3: Funds Managed by Other Entities

We found that DOA accounts for eight special revenue funds that are already accounted for by other departments or agencies. The following is a list of different departments and autonomous agencies and the special revenue funds they account for:

Department of Chamorro Affairs⁷

- Chamorro Language Commission Fund
- Guam Museum Fund

Department of Education

- JROTC Fund
- School Operations Fund
- Summer School Fund
- Driver's Education Fund

Guam Housing Corporation

- Guam Housing Corporation Revolving Fund

University of Guam

- Aquaculture Development and Training Fund

Department of Chamorro Affairs

The Department of Chamorro Affairs (DCA) is a non-stock, non-profit public corporation designed to assist in the implementation of an integrated program for the preservation, development, and promotion of the Chamorro heritage of Guam, for the public benefit and to provide specific services to the Chamorro people. In 1999, P.L. 25-69 transferred the Guam Museum Fund and the Chamorro Language Commission Fund from DOA to DCA. The funds now administered and accounted for by DCA are discussed in greater detail in a separate OPA audit.

Chamorro Language Commission Fund

The Chamorro Language Commission Fund was established to finance the activities of the Chamorro Language Commission, which include the study of antecedents, describing good grammar and usages for the Chamorro language, and to prepare a Chamorro-English dictionary. Funding is provided principally from local appropriations. This fund was repealed by P.L. 25-69 and transferred from DOA to DCA on July 8, 1999. Because this fund is now accounted for at DCA, we recommend DOA close the fund and offset any liabilities with any receivables.

⁷ The Guam Museum Fund and the Chamorro Language Commission Fund are currently being reviewed in a separate audit where it will be covered in greater detail.

Guam Museum Fund

The Guam Museum Fund was initially established by P.L. 21-118 and administered by DOA. The Guam Museum Board of Trustees or Kosas, which fall under DCA, now administer the Guam Museum Fund. The fund was repealed and reestablished by P.L. 25-69, codified as 5 G.C.A. §87136, which stated, "All monies received by Kosas from sources other than government appropriations shall be deposited in the Guam Museum Fund for Kosas purposes." As of FY 2002, the fund has a fund balance of \$1,478, which is a receivable from the General Fund. Because this fund is already accounted for at DCA, we recommend DOA close this fund and transfer any remaining balances to the General Fund.

Department of Education

The Department of Education (DOE) was created to provide an educational system for the island of Guam among other things. DOE also administers and accounts for the JROTC Fund, the School Operations Fund, and the Summer School Fund. These same three funds are also being accounted for at DOA, but because transactions for this fund are occurring at DOE, the records at DOA show no fund activity. DOE also administers the Driver's Education Fund, but accounting for this fund is done at DOA.

JROTC Fund

The JROTC Fund was reestablished in 2001 by P.L. 26-26 for the operation of Junior Reserve Officers Training Corps (JROTC) programs. Revenues are received by the Government of Guam from the U.S. Department of Defense. This fund has been inactive in DOA's financial management system because it has been accounted for by DOE since 1997. We recommend DOA close this fund in its financial management system and transfer any remaining balances to the General Fund.

School Operations Fund

The School Operations Fund was established in 1997 by P.L. 24-17 to cover the operational expenses of the Guam DOE and all the schools in the Guam Public School System administered by DOE, as well as any use associated with the Guam Public School System as determined appropriate by the Guam Board of Education or the laws of the Government of Guam. The School Operations Fund was amended several times. Formerly, the fund's sources of revenues were derived from the Gross Receipts Tax, but based on P.L. 27-19, the most recent amendment; the fund's revenues are now derived from Legislative appropriations. DOA has been given authority to deposit these appropriations to the fund, however, because the fund is accounted for at DOE, the fund has had no activity at DOA. We recommend DOA close this fund in its financial management system and transfer any remaining balances to the General Fund.

Summer School Fund

The Summer School Fund was reestablished in 2002 by P.L. 26-104 to account for the deposit of fees collected from students enrolled in the DOE summer school program. The fund is to be expended for the operation of the summer school program after legislative appropriation. Upon review of the fund's records at DOA, we found the fund has had no activity. We learned later that similar to the School Operations Fund and

JROTC Fund, the accounting of this fund is maintained at DOE. We recommend DOA close this fund in its financial management system and transfer any remaining balances to the General Fund.

Driver's Education Fund

The Driver's Education Fund was created in 1982 by P.L. 16-111 to finance safe driving instruction in all public high schools. The fund's revenues are collected from personalized license plate fees, renewals, and transfer fees. Unlike the special revenue funds mentioned above, this fund has not been accounted for at DOE and has accumulated over \$137,461 in revenues over the past six fiscal years. No expenditures, however, have been made from this fund from FY 1998 – 2003. As of FY 2002, the fund has a balance of \$188,834 as a receivable from the General Fund.

Three high schools have confirmed that driver's education courses are no longer offered. Two schools stated that they have not had driver's education courses since 1997. One school stated that they received the last payment for driver's education in FY 1996. According to DOE, the Driver's Education Fund has not been active since FY 1996. Because of the fund's inactivity, we recommend the Legislature repeal this fund and write off the \$188,834 in receivables from the General Fund.

Guam Housing Corporation

The Guam Housing Corporation (GHC) is a component unit of the Government of Guam that was established by P.L. 8-80 to promote the general welfare of the inhabitants of the Territory of Guam by encouraging investment in and development of low cost housing. In 2002, GHC was given the authority to administer and account for the Guam Housing Corporation Revolving Loan Fund through P.L. 26-123, which amended the previous law by transferring the accounting for this fund from DOA to GHC.

Guam Housing Corporation Revolving Loan Fund

The Guam Housing Corporation Revolving Loan Fund was established in 1990 by P.L. 20-210 to provide a low interest loan amounting to a total of \$13.5 million in government loans to GHC in order for GHC to extend low interest mortgage loans to families and individuals with low and moderate income. GHC is required to deposit all payments of principal from mortgage borrowers and a stipulated 4% interest on the government loan into the revolving loan fund.

Beginning in 2001, the fund began to show no activity. Part of the reason was due to a temporary moratorium placed by the Governor on GHC's obligation to pay off the interest payments on the government loan. The moratorium allowed GHC to halt interest payment deposits into the fund. Inactivity of the fund, beginning in FY 2002, is attributed to the transfer of the fund administration and accounting from DOA to GHC.

P.L. 26-123 also transferred the \$13.5 million government loan permanently to the fund, but was not clear whether GHC's loan principal obligation was altogether forgiven. The loan proceeds have been redirected to GHC for the purpose of financing more home mortgages. The law also transferred the management responsibility of the fund to

GHC. Because legal authority to manage the fund was transferred to GHC and because the fund at DOA became inactive after this transfer, we recommend DOA close the Guam Housing Corporation Revolving Loan Fund, but continue to recognize the \$13.5 million government loan as a receivable of the General Fund. We recognize, however, that the collection of this receivable is highly unlikely due to GHC's financial condition. Therefore, management may want to consider providing an allowance for this amount.

University of Guam

The University of Guam (UOG) is a component unit of the Government of Guam that was established by P.L. 13-194 to promote higher education. In 2002, UOG was given the authority to administer and account for the Aquaculture Development and Training Fund through P.L. 26-76.

Aquaculture Development and Training Fund

The Guam Aquaculture Development and Training Revolving Fund was established by P.L. 23-56 for the exclusive use of administering, operating, maintaining, and improving the Guam Aquaculture Development and Training Center (GADTC). All revenues received from the gross sales by the GADTC are required to be deposited into this fund.

In 2002, P.L. 26-76 transferred the accounting of the GADTC Revolving Fund from DOA to UOG. Since this transfer, the GADTC Revolving Fund at DOA has not recognized revenues. Because UOG is already accounting for the GADTC Revolving Fund, we recommend DOA close the fund and seek legislative approval to transfer remaining balances to the General Fund.

Conclusion

DOA's continued management of funds that are already maintained by other departments or agencies within the Government of Guam creates duplicate work.

Recommendation

We recommend DOA transfer the following funds to their respective agencies pursuant to law and close it in their financial management system:

- Guam Housing Corporation Revolving Loan Fund
- Aquaculture Development and Training Fund

We also recommend DOA close the following funds, transfer any remaining balances to the General Fund, and/or offset any liabilities with any receivables.

- Chamorro Language Commission Fund
- Guam Museum Fund
- JROTC Fund
- School Operations Fund
- Summer School Fund

We recommend the Legislature repeal the Driver's Education Fund and transfer any remaining balances to the General Fund.

Finding 4: Inconsistent and Conflicting Legislation

The special revenue funds listed below were established by inconsistent legislation. Consequently, they were rarely or never used.

- Customs and Agriculture Inspection Services Fund
- District Improvement Fund

Customs and Agriculture Inspection Services Fund

Public Law 23-45, also known as the General Appropriations Act of 1996 created the Customs, Agriculture, and Quarantine Inspection Services Fund.⁸ This fund is currently accounted for at DOA and receives and incurs millions of dollars of revenues and expenditures. Because this fund was financially active, it was excluded from the scope of this audit (See **Appendix B**). A similar and separate fund created by DOA, known as the Customs and Agriculture Inspection Services Fund, however, was included in the audit scope. This second fund is financially dormant.

Based on our review of 5 G.C.A. §73152, the Customs and Agriculture Inspection Services Fund and the Customs, Agriculture, and Quarantine Inspection Services Fund were actually the same fund and should not have been distinguished as two separate funds. The legislation inconsistently referred to the fund with both fund names and as a result, caused confusion in its implementation. DOA had created two separate funds, which we believe should have actually been one. The only difference between the former and the latter is the omission of the word “Quarantine.” The creation of the former fund was a minor error on DOA’s part.

Because the Customs, Agriculture, and Quarantine Inspection Services Fund is established as a separate fund, the existence of the Customs and Agriculture Inspection Services Fund is unnecessary. We recommend DOA remove this fund from the financial management system and close it to ensure that the fund is not allowed to receive revenues or incur expenditures.

District Improvement Fund

A fund established by conflicting legislation was the District Improvement Fund. Public Law 20-183 established the District Improvement Fund and mandated the Director of the Department of Revenue and Taxation to deposit \$2,175,000 of real estate property tax proceeds into the fund annually for the purpose of making improvements within a district. Based on our review of the FY 1998 – 2003 audited financial statements and financial management system records, there were no deposits made into the fund. Our inquiries with the Department of Revenue and Taxation revealed that the department in general was not aware that the real estate property taxes should be deposited into the District Improvement Fund.

We noted that the real estate property tax law enacted in 1973 initially directed the real estate property tax proceeds to be deposited into the Treasury of Guam to the credit of

⁸ 5 G.C.A. §73152

the General Fund.⁹ The Legislature later created the District Improvement Fund in 1990 and earmarked a portion of the tax proceeds for that fund. As stated above, we did not find any deposits of the tax proceeds into the fund. In 1993, the Legislature passed P.L. 22-19 and redirected all real property tax proceeds to the Territorial Educational Facilities Fund for the repayment of the Government of Guam General Obligation Bonds, which were used to construct and refurbish territorial educational facilities. Because the District Improvement Fund was not addressed in P.L. 22-19, the fund's earmarked revenues appear to conflict with several legislations.

The District Improvement Fund has not recognized any revenues nor expenditures; revenue and expenditure trends from FY 1998 – 2003 show that the fund has been inactive. We recommend the Legislature repeal the District Improvement Fund.

Conclusion

The Customs and Agriculture Inspection Services Fund and District Improvement Fund were established by inconsistent legislation and were rarely or never used. Because the Customs, Agriculture, and Quarantine Inspection Services Fund is established as a separate fund, the existence of the Customs and Agriculture Inspection Services Fund is unnecessary.

Recommendation

We recommend DOA close this fund in the financial management system and ensure that the fund is not allowed to receive revenues or incur expenditures. We also recommend the Legislature repeal the District Improvement Fund due to its inactivity.

Finding 5: Repealed Funds

We found several funds in DOA's financial management system that were already repealed by laws. A repealed fund's continued existence in the financial management system, without indication, creates unnecessary accounting responsibilities for DOA. We found several special revenue funds that have already been repealed by public law. Two of the funds are presented in this report, while the others will be presented later in another report:

- Lost Book Fund
- Abandoned Vessels Fund

Lost Book Fund

The Lost Book Fund was repealed in 1996 by P.L. 23-128 stating, "any and all remaining balances are reverted to the General Fund. All revenue previously earmarked into this fund shall continue to be collected and credited to the General Fund." Because this fund was repealed by public law, we recommend DOA close this fund in the financial management system.

⁹ 11 G.C.A. §24103

Abandoned Vessels Fund

The Abandoned Vessels Fund was repealed in 1996 by P.L. 23-128 stating, “ any and all remaining balances are reverted to the General Fund. All revenue previously earmarked into this fund shall continue to be collected and credited to the General Fund.” Because this fund was repealed by public law, we recommend DOA close this fund in the financial management system.

Conclusion

These two repealed special revenue funds were still maintained and accounted for by DOA in the financial management system and their continued existence raised several issues. According to DOA, all special revenue funds within the financial management system remain in the system for historical purposes, regardless if they are active, inactive, or repealed. This practice is acceptable and encouraged, however, the financial management system’s failure to indicate that a fund has been repealed has consequential effects. To illustrate this, repealed funds are sometimes presented in the trial balance and given to external auditors.

Another potential consequence is the possibility of unintended postings of transactions to a closed or repealed fund. This may go undetected and when it is detected, it will require additional administrative work to reverse the entries and correct the errors.

Repealed or closed funds should be made inaccessible for future posting of transactions. Currently, there is no complete security control over any fund that is repealed or closed.

Recommendation

We recommend DOA officially close the Lost Book Fund and Abandoned Vessels Fund and establish a security measure in the financial management system to ensure that any closed or repealed funds are made inaccessible for future postings and appear only for viewing.

Finding 6: Special Revenue Funds with Immaterial Transactions

We identified eight special revenue funds, which have earmarked revenues set for specific purposes. These eight funds, however, receive minimal amounts of revenues and expenditures, ranging from \$0 - \$35,926 on average per year.

	Revenues			Expenditures		
	<i>FY 2001</i>	<i>FY 2002</i>	<i>FY 2003*</i>	<i>FY 2001</i>	<i>FY 2002</i>	<i>FY 2003*</i>
Vocational Rehabilitation Revolving Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Autonomous Agency Infrastructure Collections Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plant Nursery Revolving Fund	\$ 18,788	\$ 15,361	\$ 16,840	\$ -	\$ -	\$ 1,903
Consumer Protection Fund	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ -
Rabies Prevention Fund	\$ 1,000	\$ -	\$ 24,122	\$ 35,926	\$ 5,055	\$ 1,866
Livestock Fund	\$ 10	\$ 1,510	\$ 1,755	\$ -	\$ -	\$ -
Coastal Zone Management Fund	\$ -	\$ 10,725	\$ 1,360	\$ -	\$ -	\$ -
Accessible Parking Fund	\$ 125	\$ 1,060	\$ -	\$ -	\$ -	\$ -

* Unaudited (Per financial management system November 4, 2003)

Vocational Rehabilitation Revolving Fund

The Vocational Rehabilitation Revolving Fund was established by Executive Order 87-11 (E.O. 87-11) to pay the wages of Guam's severely disabled workers and other expenses necessary for their employment, such as workmen's compensation insurance. Revenues come from monies received from the sale of goods produced or services performed by severely disabled workers. The Department of Vocational Rehabilitation administers the fund, while DOA maintains the accounting for the fund.

The Vocational Rehabilitation Revolving Fund has been inactive. We later learned that the administrator of the fund was not aware of the fund's existence. Due to its inactivity, we recommend the Legislature repeal this fund.

Autonomous Agency Infrastructure Collections Fund

The Autonomous Agency Infrastructure Collections Fund was established by P.L. 24-14 to account for collections received from various autonomous agencies that were assessed by the Governor of Guam. The Governor of Guam was given authority to assess and collect from the autonomous agencies for past contributions of capital, assets, services, and proportionate costs of services maintained by the government, which were essential for autonomous agency operations. The law did not specify how the fund must be expended except that it must be used according to law.

The Autonomous Agency Infrastructure Collections Fund has been inactive from FY 1998-2003. Based on its inactivity, we recommend the Legislature repeal this fund and transfer any remaining balances to the General Fund.

Plant Nursery Revolving Fund

The Plant Nursery Revolving Fund was created in 1975 and amended in 2002 by P.L. 26-140. The fund is to be used exclusively for plant nursery expenditures, including, but not limited to the purchasing of nursery stocks, materials and supplies for grafting, air layering and seed propagation services provided to farmer and interested parties. Fees collected from plant nursery services and activities are to be deposited into the fund. The Department of Agriculture is the certifying officer for this fund.

The Plant Nursery Revolving Fund has had an average of \$17,000 in revenues and only \$1900 in expenditures for the past three fiscal years. These amounts, in our opinion, are too small to be accounted for in a separate fund. We recommend the Legislature repeal this fund and transfer any remaining balances to the General Fund.

Livestock Fund

The Livestock Fund was reestablished in 2001 by P.L. 25-186 for the purpose of administering the Branding Law of 2000. Revenues from this fund come from branding licensing fees for livestock as outlined in 5 G.C.A. §§61401 – 61417. Since its inception, the fund has consistently realized revenues ranging from \$10 - \$1,755; however, nothing has been expended. Given the immaterial amount of revenues and lack of expenditures, the Livestock Fund is unnecessarily being accounted for as a

special revenue fund at DOA. The cost of accounting for branding fees in a separate fund appears to outweigh the benefits. We recommend the Legislature repeal this fund and transfer any remaining balances to the General Fund.

Consumer Protection Fund

The Consumer Protection Fund was established in 1991 by P.L. 21-18 to account for civil penalties collected under the Deceptive Trade-Practices Consumer Protection Act. Similar to the Livestock Fund, this fund received minimal revenues. Based on our review of fund records, this fund only had revenues of \$9 in FY 2003. This amount is insignificant and should not be accounted for in a separate fund. We recommend the Legislature repeal this fund and transfer any remaining balances to the General Fund.

Coastal Zone Management Fund

Executive Order 93-04 established the Coastal Zone Management Conference Special Fund in March 1993 as a temporary special revenue fund designed to account for the financial activities of the Pacific Basin Coastal Zone Management Conferences. The order contained a sunset provision, which liquidated the fund in February 1994. E.O. 2002-08 then reestablished this fund in March 2002 and designed it to be liquidated on September 2002. Our review of transactions revealed that deposits were still being made into this fund in FY 2003, despite the sunset provision.

As of February 2004, the fund has an unaudited fund balance of \$12,398, which is due from the General Fund. Additionally, since the fund first collected revenues, no expenditures or transfers out have been recorded.

It appears that periodically Guam hosts the Coastal Zone Management Conference and each time, an executive order is issued to create a fund to account for the activities of the conference. We recommend DOA close the Coastal Zone Management Fund as required by the sunset provision in E.O. 2002-08 and transfer any remaining balances to the General Fund.

Accessible Parking Fund

The Accessible Parking Fund was initially established by P.L. 10 – 20. The fund has since been amended several times through the years. According to the most recent amendment, P.L. 24 –16, the fund is to be administered by the Department of Integrated Services for Individuals with Disabilities (DISID).

The fund is to be used for the maintenance of disabled parking areas and for promoting community awareness to ensure that disabled persons are given equal access to government offices and services. The fund has not incurred expenditures since 2001. DISID stated that they have not used the fund because the “the department did not rehire another employee to handle the fund.” In 1999, a former employee of DISID had sole responsibility in managing the fund – ensuring that citations were collected and deposits were made into the correct account. Upon the employee’s resignation, the fund, as well as the program became inactive.

Fund revenues were generated from fines collected from those parked illegally in handicapped parking spaces. Through the years, the fund was able to accumulate a fund balance of over \$100,000, but this was quickly exhausted in FY 1998 through FY 1999. The revenues now generated are minimal, ranging only from \$125 - \$1,060 per year. DISID stated the fund was used to pay salaries, however, the fund does not have the capability to continue to pay salaries with the minimal revenues it generates.

Although the nature and the purpose of the fund is laudable, being of social importance to the disabled and elderly members of our community, the financial activities are minimal and do not need to be accounted for in a special revenue fund. We recommend the Legislature repeal the Accessible Parking Fund and transfer any remaining balances to the General Fund.

Rabies Prevention Fund

The Rabies Prevention Fund was established in 1998 by P.L. 24-216 for the purpose of supporting the prevention of rabies on Guam. This fund was originally administered by the Department of Public Health and Social Services until P.L. 26-76 transferred this fund to the Department of Agriculture in 2002. The fund receives revenues from entry permit fees for dogs and cats imported to Guam.

Based on our review, the Rabies Prevention Fund is financially active; revenues and expenditures are regularly realized, with the exception of FY 2002, when no revenues were recognized. We noted, however, that the fund's revenues and expenditures range only from \$1,000 - \$35,926. These amounts, in our opinion, are too small to be accounted for in a separate fund. We recommend the Legislature repeal this fund transfer any remaining balances to the General Fund.

Conclusion

The elimination of these funds does not necessarily mean foregoing the purposes for which the fund was created. The purposes of these funds can be alternatively achieved through a direct appropriation by the Legislature to agencies administering such funds with the accounting still being done by DOA. The only difference is the accounting will be done in an account, rather than as a special revenue fund. As an example, the Livestock Fund, which was created to carry out the Branding Law of 2000, can be eliminated, but by directly appropriating money to the Department of Agriculture, its purpose can continue to be fulfilled.

Recommendation

We recommend the Legislature repeal the following funds and transfer their remaining fund balances to the General Fund.

- Vocational Rehabilitation Revolving Fund
- Autonomous Agency Infrastructure Collections Fund
- Plant Nursery Revolving Fund
- Consumer Protection Fund
- Rabies Prevention Fund
- Livestock Fund

- Accessible Parking Fund

We recommend DOA close the Coastal Zone Management Fund as required in its sunset provision in E.O. 2002-08 and transfer any remaining balances to the General Fund.

We also recommend the Legislature establish sunset provisions when creating funds that have a limited purpose to ensure its automatic closure.

OMB A-133

The amounts of revenues and expenditures these eight funds have been recognizing are immaterial when it comes to accounting for them as special revenue funds. To assist the Legislature during the course of research for the establishment of a special revenue fund, we recommend they consider federal guidelines outlined in the Office of Management and Budget (OMB) Circular No. A-133. OMB A-133 sets a measured amount of \$500,000 of expended federal money that is required for audit.¹⁰

We recommend the Legislature set a threshold amount of \$500,000 in financial activity, inclusive of revenues and expenditures, before establishing a fund. If the \$500,000 threshold amount is utilized, it will benefit the accounting of DOA tremendously as they will account for only six of the 65 special revenue funds included in this report and 29 of the 50 remaining funds not presented in this report. If this threshold amount is observed, **Appendix C** provides a breakdown of funds presented in this report that are above and below \$500,000 in financial activity, while **Appendix D** provides a breakdown of funds not presented in this report.

Special Revenue Fund Disadvantages

A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. All special revenue funds are essentially used as financing mechanisms that do not have to go through legislative scrutiny because they have revenues earmarked for specific purposes. The Guam Legislature's ability to control the budget of the Government of Guam is diminished because special revenue funds divert monies away from the General Fund. The Legislature has traditionally focused its oversight on the General Fund and has limited its oversight of programs financed outside the General Fund appropriations process.

Another disadvantage with special revenue funds is the distortion of the overall Government of Guam's financial picture as special revenue funds tend to make revenues and expenditures appear to be less than they actually are. With limited special revenue funds, the overall financial picture of the Government of Guam will be

¹⁰ OMB Circular No. A-133 was issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. Subpart B of A-133 sets a threshold amount of \$500,000 (effective December 31, 2003) for federal monies that are expended during a year to be audited.

easier to grasp for the Guam Legislature and Executive Branch as they deliberate the budget process.

Finding 7: Funds With Separate Bank Accounts

During our review of the enabling legislations of various special revenue funds, we noted that the Legislature not only created funds that are separate and apart from all other government funds but also may have required the funds to have separate bank accounts. From the 30 special revenue funds presented here, five were required by the Legislature to have separate bank accounts. Only one was established in a bank account. These funds are listed in the table below:

Funds Required to be in Separate Bank Accounts

1999 SPG Revolving Fund
School Operations Fund
Individuals with Disabilities Disaster Recovery Fund
Rainy Day Fund
District Improvement Fund

Funds That Are Actually in Separate Bank Accounts

1999 SPG Revolving Fund
Youth Tobacco Education Fund
Health & Human Services Fund
Komitea Para Tiyan
Exxon Fuel Overcharge Fund
Stripperwell Fund

Conclusion

Funds that are required by law to be separate and apart from the General Fund are already separated by accounts in DOA’s accounting system. The need to establish separate bank accounts may not be necessary. In fact, establishing separate bank accounts only creates additional accounting and maintenance responsibilities for DOA, such as the development of Request for Proposals to solicit bank services, bank reconciliation’s, and periodic review and monitoring. Cash management is diluted by multiple bank accounts with small cash balances.

Recommendation

We recommend the Legislature refrain from requiring separate bank accounts for special revenue funds as separation can be achieved through fund accounting.

Finding 8: Fund Management

5 G.C.A. Chapter 22 Article 1 established guidelines for fund management; however, there are no provisions for addressing the closure of a fund. The closing of a fund is an integral part of fund management as it allows the government to control the number of special revenue funds to account for.

According to our inquiries, DOA does not have procedures for closing a fund. A fund is not actually closed in DOA’s financial management system. The unofficial procedure for closing a fund is to simply cease usage of the fund and transfer the fund balances according to the repealing legislation. DOA does deactivate the fund, so that expenditures for that fund are locked; this means that expenditures cannot be incurred. Revenues for the fund, however, have no lock mechanism. This means that repealed or closed funds can still recognize revenues if entries are inadvertently recorded into the

fund's account. There is also no indicator in the system to advise users whether a fund has been repealed or closed.

Conclusion

The absence of provisions regarding the closure of funds in the Funds Management section of 5 G.C.A Chapter 22 Article 1 does not appear to promote effective fund management for both DOA and the autonomous agencies. DOA's failure to establish standard procedures for fund closure exemplifies this. The lack of attention for properly closing a fund has led to additional work at DOA as some funds continue to be maintained even after repeal.

Recommendations

We recommend the Legislature address fund closure by establishing a \$500,000 threshold for fund activity and closing funds inactive for two or more years. We also recommend the Legislature grant DOA the authority to close and officially repeal funds based on the financial activities of a fund and threshold activity of \$500,000.

We recommend DOA establish and incorporate procedures concerning the closure of funds and adopt measures to ensure that repealed and closed funds become inaccessible to future postings of transactions in the financial management system and that the system indicate whether or not a fund is closed or repealed.

Recommendations

Recommendations to the Department of Administration

1. We recommend DOA reprogram the financial management system to indicate if a fund is closed or repealed. We also recommend that DOA establish procedures concerning the closure of funds and implement a security measure in the financial management system to ensure that any closed or repealed special revenue funds are made inaccessible to future postings of transactions and appear only for viewing.
2. We recommend DOA officially close the following funds, transfer any remaining balances to the General Fund, and ensure that they are made inaccessible for future postings and appear only for viewing:
 - Lost Book Fund
 - Abandoned Vessels Fund
 - Typhoon Paka Emergency Fund
 - Guam Housing Corporation Revolving Fund
 - Aquaculture Development and Training Fund
 - Chamorro Language Commission Fund
 - Guam Museum Fund
 - JROTC Fund
 - School Operations Fund
 - Summer School Fund

- Customs and Agriculture Inspection Services Fund
- Coastal Zone Management Fund

Recommendations to the Guam Legislature

3. We recommend the Legislature repeal the following special revenue funds and transfer any remaining balances and revenues to the General Fund:
 - Land Acquisition Fund
 - Individuals with Disabilities Disaster Recovery Fund
 - CAHA, OET, and CEF Fund
 - Off-Island Travel Fund
 - Overtime Fund
 - Deficit Elimination Fund
 - Rainy Day Fund
 - Vocational Rehabilitation Revolving Fund
 - Autonomous Agency Infrastructure Collections Fund
 - Plant Nursery Revolving Fund
 - Consumer Protection Fund
 - Rabies Prevention Fund
 - Livestock Fund
 - Accessible Parking Fund
 - Driver's Education Fund
 - 1999 SPG Revolving Fund
 - Komitea Para Tiyan Fund
 - District Improvement Fund
4. We recommend the Legislature set a threshold amount of \$500,000 in financial activity before, inclusive of revenues and expenditures, establishing a new fund based on the threshold example set forth in OMB A-133. When creating funds that have a limited purpose, we recommend the Legislature establish sunset provisions to ensure their automatic closure. We also recommend the Legislature address fund closure by establishing a threshold for closing a special revenue fund with financial activity below \$500,000 or no activity for two or more years as the basis for closing a fund. Additionally, we recommend the Legislature grant DOA the authority to close and officially repeal funds based on the financial activities of a fund and threshold activity of less than \$500,000.
5. We recommend the Legislature refrain from the requirement of having separate bank accounts for special revenue funds as separation can be achieved through fund accounting.

Management Response

We provided a draft copy of our report to the DOA management for review and comment. The Director of DOA generally concurred with the findings and

recommendations of the report. According to their response, steps have already been undertaken to address some of the recommendations of this report. Their response is attached as **Appendix E** of this report.

Limitations of the Report

This report has been released to the Governor of Guam, the Speaker and members of the 27th Guam Legislature, the Director of the DOA, the Director of the Bureau of Budget and Management Research, and the U.S. Department of Interior Guam Office. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations. This report contains only evidentiary conclusions based on documentation available during our review.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendices

Appendix A: Special Revenue Funds Selected For Audit

Funds Included in this Report

1	1999 SPG Revolving Fund	16	Individuals with Disabilities Disaster Recovery Fund
2	Abandoned Vessels Fund	17	JROTC Fund
3	Accessible Parking Fund	18	Komitea Para Tiyan Fund
4	Aquaculture Development and Training Fund	19	Land Acquisition
5	Autonomous Agency Infrastructure Collections Fund	20	Livestock Fund
6	CAHA, OET, and CEF	21	Lost Book Fund
7	Chamorro Language Commission Fund	22	Off-Island Travel Fund
8	Coastal Zone Management Fund	23	Overtime Fund
9	Consumer Protection Fund	24	Plant Nursery Revolving Fund
10	Customs, Agriculture, and Inspection Services Fund	25	Rabies Prevention Fund
11	Deficit Elimination Fund	26	Rainy Day Fund
12	District Improvement Fund	27	School Operations Fund
13	Driver's Education Fund	28	Summer School Fund
14	Guam Housing Corporation Revolving Fund	29	Typhoon Paka Emergency Fund
15	Guam Museum Fund	30	Vocational Rehabilitation Revolving Fund

Funds Excluded from this Report

1	Air Pollution Control Fund	18	Land for the Landless Fund
2	Controlled Substance Diversion Fund	19	Litter Control Revolving Fund
3	Dededo Buffer Strip Revolving Fund	20	Municipal Litter Defacement Fund
4	DPW Building and Design Fund	21	Parks Fund
5	Environmental Health Fund	22	Printing Revolving Fund
6	Exxon Fuel Overcharge Fund	23	Public Service Recovery Fund
7	Farmers' and Fisherman's' Loan Revolving Fund	24	Public Transit Fund
8	Farmers' Small Loan Revolving Fund	25	Recreation Revolving Fund
9	Firefighter Equipment Replacement Fund	26	Safe Homes Safe Streets Fund
10	GFD Capital Outlay Revolving Fund	27	Safe Streets Fund
11	Government House Revolving Fund	28	Solid Waste Management Fund
12	GSA Liquidated Damages Fund	29	Stripperwell Fund
13	Guam Beautification Fund	30	Taguag Memorial Cemetery Fund
14	Health and Human Services Fund Health and Human Services Fund, Series A Health and Human Services Fund, Series B	31	UOG Capital Improvements Fund
15	Health Professional Licensure Fund	32	Veterans' Bonus Fund
16	Healthy Futures Fund	33	Water Protection Fund
17	Housing Revolving Fund	34	Water Research and Development Fund
		35	Youth Tobacco Education Fund, Series A Youth Tobacco Education Fund, Series B

Appendix B: Special Revenue Funds NOT Selected For Audit

Special Revenue Funds Identified During Audit

1	Abandoned Vehicle and Streetlight Fund	27	MHSA Fund*
2	Barbering and Cosmetology Fund	28	Notary Public Revolving Fund
3	Board of Accountancy Fund	29	Other Funds
4	Carrier Off-Duty Services Revolving Fund	30	Personnel Reserve Fund
5	CIP*	31	Plant Protection & Quarantine Fund
6	Constr Dededo Precinct/Crimelab Fund*	32	Police Services Fund
7	Contractors' License Board Fund	33	Post Fund
8	Customs, Agriculture, and Quarantine Inspection Services Fund	34	Professional Engineers', Architects' and Surveyors' Fund
9	CZM*	35	PUAG/Water Fund
10	D.O.D. Contract Fund	36	Public Defender Service Corporation (PDSC) Fund
11	DOC Inmates Revolving Fund	37	Public School Library Resource Fund
12	Drug Treatment & Enforcement Fund	38	Safe Drinking Water Fund
13	Education Facilities Fund	39	Southern Community Health Center Fund
14	Enhanced 911 Emergency Reporting System Fund	40	Special Assets Forfeiture Fund
15	Federal Grants Assistance Fund	41	Superior Court Operations Fund
16	Financial Mgmt Division Revolving Fund	42	Supreme Court of Guam Fund
17	GFD Lease Purchase & Prog Fund	43	SWMF- Medical Monitoring Fund
18	Guam Environmental Trust Fund	44	Tax Collection Enhancement Fund
19	Guam Legislature Operations Fund	45	Territorial Educational Facilities Fund
20	Guam Rehabilitation Fund	46	Territorial Highway Fund
21	Healthcare Sys Privatization Fund	47	Tourist Attraction Fund
22	Human Resources Services Revolving Fund	48	Typhoon Chataan/Halong Reimbursement Fund
23	Land Survey Revolving Fund	49	Utility Bank Fund
24	Manpower Development Fund	50	Village Streets Fund
25	Medicaid and MIP Assistance Fund	51	VSC/ERI Program Fund
26	Medically Indigent Program Pay Fund	52	Wildlife Conservation Fund

Funds Reclassified as Special Revenue Funds

1	Agana Fractional Lot Fund	7	GSA Inventory Revolving Fund
2	Chamorro Commercial Loan Fund	8	Guam Preservation Trust Fund
3	Community Development Fund	9	Inmates Work Release Fund
4	Criminal Injuries Fund	10	Off-Island Treatment Fund
5	Government Claims Fund	11	Program Development Fund
6	Group Life Insurance Fund	12	State Agency Surplus Fund
		13	Workers' Compensation Fund

* Fund name listed as it appears in the DOA financial management system.

Appendix C: Funds Selected with Financial Activity Below and Above \$500,000 as of September 30, 2002

***Funds Selected for Audit
Financial Activity Below \$500,000 as of September 30, 2002***

	Revenues	Expenditures	Fund Balance
1 1999 SPG Revolving Fund	\$ -	\$ -	\$ 1,411
2 Abandoned Vessels Fund	No Records		
3 Accessible Parking Fund	\$ 1,060	\$ -	\$ 5,566
4 Air Pollution Control Fund	\$ 208,560	\$ -	\$ 290,642
5 Aquaculture Development and Training Fund	\$ -	\$ 1,182	\$ (28,892)
6 Autonomous Agency Infrastructure Collections Fund	\$ -	\$ -	\$ 460
7 CAHA, OET, & CEF Fund	\$ -	\$ -	\$ -
8 Chamorro Language Commission Fund	\$ -	\$ -	\$ -
9 Coastal Zone Management Fund	\$ 10,725	\$ -	\$ 11,038
10 Consumer Protection Fund	\$ -	\$ -	\$ 5,480
11 Controlled Substance Diversion Fund	\$ -	\$ -	\$ -
12 Customs, Agriculture, and Inspection Services Fund	No Records		
13 Dededo Buffer Strip Revolving Fund	\$ -	\$ -	\$ 113,634
14 Deficit Elimination Fund	No Records		
15 District Improvement Fund	\$ -	\$ -	\$ -
16 DPW Building and Design Fund	\$ 237,547	\$ -	\$ 262,187
17 Drivers' Education Fund	\$ 40,866	\$ -	\$ 188,834
18 Environmental Health Fund	\$ 168,365	\$ -	\$ 407,959
19 Farmers' and Fishermen's Loan Revolving Fund	\$ 29	\$ -	\$ 125,432
20 Farmers Small Loan Revolving Fund	\$ 113	\$ -	\$ 16,526
21 Firefighter Equipment Replacement Fund	\$ -	\$ -	\$ 19,348
22 General Services Agency Liquidated Damages Fund	\$ 340	\$ -	\$ 17,889
23 GFD Capital Outlay Revolving Fund	\$ -	\$ -	\$ -
24 Government House Revolving Fund	\$ 1,150	\$ 329	\$ 16,317
25 Guam Beautification Fund	\$ -	\$ -	\$ -
26 Guam Museum Fund	\$ 1,478	\$ -	\$ 1,478
27 Health Professional Licensure Fund	\$ 96,025	\$ -	\$ 86,178
28 Healthy Futures Fund *	No Records		
29 Individuals with Disabilities Disaster Recovery Fund	\$ -	\$ -	\$ 100,000
30 JROTC Fund	\$ -	\$ -	\$ -
31 Komitea Para Tiyan Fund	\$ -	\$ -	\$ (145,875)
32 Land Acquisition Fund	\$ -	\$ -	\$ -
33 Land for the Landless Fund	\$ 49,472	\$ -	\$ -
34 Litter Control Revolving Fund	\$ 3,860	\$ -	\$ 18,698
35 Livestock Fund	\$ 1,510	\$ -	\$ 1,520
36 Lost Book Fund	\$ -	\$ -	\$ -
37 Municipal Litter Defacement Fund	\$ -	\$ -	\$ -
38 Off-Island Travel Fund	\$ -	\$ -	\$ 20,560
39 Parks Fund	\$ 60,681	\$ -	\$ 44,862
40 Plant Nursery Revolving Fund	\$ 15,361	\$ -	\$ 5,610
41 Printing Revolving Fund	\$ 953	\$ -	\$ -
42 Public Service Recovery Fund	\$ -	\$ -	\$ 147,335

43	Public Transit Fund	\$ -	\$ -	\$ -
44	Rabies Prevention Fund	\$ -	\$ 5,055	\$ 37,180
45	Rainy Day Fund	\$ -	\$ -	\$ -
46	Recreation Activities Revolving Fund	\$ 50,484	\$ 3,091	\$ 143,559
47	Safe Homes, Safe Streets Fund *	No Records		
48	Safe Streets Act Fund	\$ 16,000	\$ 15,188	\$ 326,363
49	School Operations Fund	No Records		
50	Solid Waste Management Fund	\$ 30,175	\$ -	\$ 79,595
51	Summer School Fund	\$ -	\$ -	\$ -
52	Taguag Memorial Cemetery Fund	\$ 12,959	\$ -	\$ (5,064)
53	University of Guam Capital Improvement Fund	\$ -	\$ -	\$ (100,000)
54	Veterans' Bonus Fund	\$ 288,138	\$ 226,351	\$ -
55	Vocational Rehabilitation Revolving Fund	\$ -	\$ -	\$ -
56	Water Protection Fund	\$ 35,809	\$ -	\$ 119,480
57	Water Research and Development Fund	\$ 38,800	\$ -	\$ 358,028

Financial Activity Above \$500,000 as of September 30, 2002

	Revenues	Expenditures	Fund Balance	
1	Exxon Fuel Overcharge Fund	\$ 23,881	\$ 54,732	\$ 1,154,323
2	Guam Housing Corporation Revolving Fund	\$ -	\$ -	\$ 13,725,084
3	Health & Human Services Fund	\$ 41,979	\$ -	\$ 2,552,623
4	Housing Revolving Fund	\$ 47,630	\$ 345,047	\$ 561,815
5	Overtime Fund	\$ -	\$ -	\$ -
6	Stripperwell Overcharge Fund	\$ -	\$ 13,310	\$ 605,906
7	Typhoon Paka Emergency Fund	\$ -	\$ -	\$ -
8	Youth Tobacco Education Fund	\$ 39,684	\$ -	\$ 2,201,724

* This fund did not exist prior to FY 2002 year-end.

**Appendix D: Funds Not Selected with Financial Activity Below and Above
\$500,000 as of September 30, 2002**

***Funds NOT Selected for Audit
Financial Activity Below \$500,000 as of September 30, 2002***

	Revenues	Expenditures	Fund Balance
1 Barbering and Cosmetology Fund	No Records		
2 CIP	No Records		
3 Community Development Fund *	\$ -	\$ -	\$ (69,673)
4 Constr Dededo Precinct/Crimelab Fund	No Records		
5 Criminal Injuries Fund *	\$ 16,052	\$ 36,550	\$ 12,854
6 CZM	No Records		
7 Drug Treatment & Enforcement Fund	No Records		
8 Education Facilities Fund	No Records		
9 Financial Management Revolving Fund	\$ 99,263	\$ 9,200	\$ 90,063
10 Government Claims Fund *	\$ -	\$ 244,395	\$ 124,663
11 Group Life Insurance Fund **	\$ 933	\$ -	\$ (259,907)
12 Guam Fire Dept. Lease Purchase Program Fund	\$ -	\$ -	\$ -
13 Guam Rehabilitation Fund	No Records		
14 Healthcare Systems Privatization Fund	\$ -	\$ -	\$ -
15 Human Resources Services Revolving Fund	\$ 97,440	\$ 22,004	\$ 75,436
16 Inmate Work Release Fund*	\$ -	\$ -	\$ -
17 Manpower Development Fund	\$ 42,568	\$ 309,016	\$ (430,645)
18 Medicaid & MIP Payment Assistance Fund	\$ -	\$ 5,493,662	\$ -
19 Mental Health and Substance Abuse Fund	\$ -	\$ 28,131	\$ (28,131)
20 Notary Public Revolving Fund	\$ 8,075	\$ -	\$ -
21 Off-Island Treatment Fund *	\$ -	\$ 1,939,541	\$ 1,350
22 Other Funds	No Records		
23 Personnel Reserve Fund	No Records		
24 Plant Protection & Quarantine Fund	No Records		
25 Post Fund	No Records		
26 Professional Engineers' Architects' and Surveyors'	\$ 142,785	\$ 142,141	\$ 5,711
27 Program Development Fund *	\$ 1,016	\$ -	\$ 8
28 PUAG/Water Fund	No Records		
29 Public School Library Resource Fund	No Records		
30 Safe Drinking Water Fund	No Records		
31 Special Assets Forfeiture Fund	No Records		
32 State Agency Surplus Fund **	\$ 6,914	\$ -	\$ 389,647
33 SWMF- Medical Monitoring Fund	No Records		
34 Tax Collection Enhancement Fund	No Records		
35 Utility Bank Fund	No Records		
36 VSC/ERI Program Fund	No Records		
37 Wildlife Conservation Fund	\$ 38,218	\$ 64,934	\$ 148,117

Financial Activity Above \$500,000 as of September 30, 2002

	Revenues	Expenditures	Fund Balance
1 Abandoned Vehicle and Streetlight Fund	\$ 943,299	\$ 698,811	\$ (1,253,792)
2 Agana Fractional Lot Fund **	\$ -	\$ -	\$ 556,820
3 Board of Accountancy Fund	\$ 1,081,205	\$ 683,553	\$ 947,682
4 Carrier Off-duty Services Fund	\$ 389,841	\$ 208,234	\$ 88,982
5 Chamorro Commercial Loan Fund ***	\$ 44,555	\$ 273,748	\$ (6,782)
6 Contractors' License Board Fund	\$ 257,237	\$ 382,262	\$ (61,156)
7 Customs, Agriculture and Quarantine Inspection Fund	\$ 4,880,532	\$ 7,661,776	\$ 1,304,606
8 D.O.D. Contract Fund	\$ 45,780	\$ 186,263	\$ (438,206)
9 DOC Inmate Revolving Fund	\$ 2,417,864	\$ 2,854,627	\$ (493,594)
10 Enhanced 911 Emergency Fund	\$ 310,321	\$ 705,346	\$ 597,595
11 Federal Grants Fund	\$ 101,666,573	\$ 125,882,921	\$ 12,272
12 GSA Inventory Revolving Fund **	\$ 1,766,530	\$ 549,012	\$ 3,976,480
13 Guam Environmental Trust Fund	\$ 175,622	\$ 450,000	\$ 276,593
14 Guam Legislature Fund	\$ 15,242	\$ 8,161,400	\$ 481,564
15 Guam Preservation Trust Fund *	\$ 405,954	\$ 173,181	\$ 2,009,935
16 Land Survey Revolving Fund	\$ 713,312	\$ 432,527	\$ (1,516)
17 Medically Indigent Program Fund	\$ -	\$ 24,171,252	\$ -
18 Police Services Fund	\$ 270,081	\$ 433,071	\$ (334,387)
19 Public Defender Fund	\$ 42,123	\$ 2,398,671	\$ 466,247
20 Southern Community Health Center Fund	\$ 726,313	\$ 1,236,330	\$ 197,272
21 Superior Court Operations Fund	\$ 1,684,911	\$ 17,422,723	\$ 1,227,920
22 Supreme Court Fund	\$ 55,559	\$ 2,359,186	\$ 499,824
23 Territorial Educational Facilities Fund	\$ 17,731,254	\$ -	\$ (1,421,816)
24 Territorial Highway Fund	\$ 13,747,061	\$ 4,361,154	\$ (13,697,620)
25 Tourist Attraction Fund	\$ 15,056,408	\$ 14,923,215	\$ (14,559,709)
26 Typhoon Chataan & Halong Fund	\$ -	\$ 1,810,359	\$ (603,001)
27 Village Streets Fund	\$ 39,791	\$ 1,330,654	\$ (6,109,262)
28 Workers' Compensation Fund *	\$ 566,107	\$ 1,515,885	\$ -

* This fund was previously an Expendable Trust Fund

** This fund was previously an Internal Service Fund

*** This fund was previously an Enterprise Fund

Appendix E: Department of Administration Management Response



Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 Hagatña Guam 96932
Tel: (671) 475-1101/11250 Fax: (671) 477-6788



Lourdes M. Perez
Director of Administration
Joseph C. Manibusan
Deputy Director of Administration

March 12, 2004

Mrs. Doris Flores Brooks
Public Auditor
Office of the Public Auditor
238 Archbishop Flores Street
Suite 401 Pacific News Building
Hagatna, Guam 96910

Dear Mrs. Brooks:

We have reviewed the draft copy of your OPA Report No.04-05, Performance Audit of the Department of Administration's Special Revenue Funds Part 1.

To be able to comment on your findings and recommendations, we researched enabling legislations on a limited and selective basis and also made a review of the activities of each fund and each fund's final presentation in the audited General Purpose Financial Statements for the fiscal year ended September 30, 2002.

We generally agree with your findings and recommendations. However, we would like to provide some specific input for your consideration (see attached).

We at the Department of Administration, in particular the Division of Accounts, appreciate the efforts exerted by your office in coming up with this report and we hope that the legislature will positively react to your report and enact legislation as a response to your recommendations.

In reference to your specific recommendation to DOA, the Deputy Controller has initiated the closure of the funds listed in item 2, and has transferred any remaining balances to the General Fund. In addition, the system now reflects the closure of these funds, making it inaccessible for future postings. An SOP will be established concerning the closure of funds.

Should you have any questions or need any clarification pertaining to our response, please give me a call at 475-1101.

Sincerely,


LOURDES M. PEREZ
Director of Administration

Attachment

FINDING 3: Funds Managed by Other Entities

Guam Housing Corporation

We believe that the first sentence of the paragraph should read as follows: The Guam Housing Corporation (GHC) is a component unit of the Government of Guam that was established by P.L. 8-80 to promote the **general welfare of the inhabitants of the territory of Guam** by encouraging investment in and development of low cost housing.

Guam Housing Corporation Revolving Loan Fund

In the first paragraph, we suggest that the amount - \$13.5 – will be omitted due to the fact that **P.L. No.20-210 only appropriated \$3.0Million as an initial loan to Guam Housing Corporation. Subsequently,** several Public Laws appropriated additional amounts that were loaned to Guam Housing Corporation and that Guam Housing Corporation in several instances borrowed back the principal and interest that it paid back to the General Fund and in each instance a promissory note was executed. The \$13.5Million was the total of all unpaid balances of several promissory notes executed by Guam Housing Corporation.

The second sentence of Section 8, of P.L. No.20-210, Guam Housing Corporation Revolving Loan fund, reads as follows: **“All payments of principal and interest made by and received from the Corporation as payment of the loan authorized by section 2 of this act shall be deposited in the fund.** Therefore, the second sentence of the first paragraph may have to state that only the principal and interest due at 4%, and received as payment from Guam Housing Corporation by the General Fund, are being deposited in the fund – Guam Housing Corporation Revolving Loan Fund - and not the principal and interest received by Guan Housing Corporation from its own mortgage borrowers. The several loans extended to Guam Housing Corporation were always partially paid whenever the Government of Guam received a payment.

In its balance sheet, Guam Housing Corporation has presented the \$13.5Million as an equity item. It may be appropriate to present the \$13.5Million as a form of investment.