

**Government of Guam
Supplemental Appropriations Revenue
(SAR) Fund**

**Performance Audit
June 6, 2011 through September 30, 2011**

**OPA Report No. 12-02
May 2012**



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Executive Summary
Government of Guam Supplemental Appropriations Revenue Fund and
Other Supplemental Appropriations
OPA Report No. 12-02, May 2012

In June 2011, the Supplemental Appropriations Act of 2011 (P.L. 31-74) established the Supplemental Appropriations Revenue (SAR) Fund to ensure that various Government of Guam (GovGuam) agencies “deemed vital” would be funded, despite limited resources available. On top of the \$535.2 million (M) appropriated to GovGuam entities in fiscal year (FY) 2011, P.L. 31-74 provided for \$28M in supplemental appropriations: \$14.3M into the SAR Fund, \$12.7M to cover the health insurance premiums shortfall, and \$1M for Guam Memorial Hospital Authority’s (GMHA) delinquent retirement contributions. See table below.

	Budget	Actual	Variance
SAR Fund Revenues	\$ 14,265,878	\$ 6,908,287	\$ 7,357,591
SAR Fund Expenditures- Operating Expenditures	\$ 14,265,878	\$ 10,379,643	\$ 3,886,235
SAR Fund Balance (Deficit)	\$ -	\$ (3,471,356)	\$ 3,471,356
Other Supplemental Revenues	\$ 13,771,858	\$ 13,771,858	\$ -
Other Supplemental Expenditures			
Health Insurance Premiums Shortfall	\$ 12,745,698	\$ 9,810,381	\$ 2,935,317
GMHA Retirement Contributions for Prior Years	\$ 1,026,160	\$ 1,026,160	\$ -
Total Other Supplemental Expenditures	\$ 13,771,858	\$ 10,836,541	\$ 2,935,317
Other Supplemental Funds Balance (Deficit)	\$ -	\$ 2,935,317	\$ (2,935,317)
SAR and Other Supplemental Revenues	\$ 28,037,736	\$ 20,680,145	\$ 7,357,591
SAR and Other Supplemental Expenditures	\$ 28,037,736	\$ 21,216,184	\$ 6,821,552
Fund Balance(Deficit)	\$ -	\$ (536,039)	\$ 536,039

The SAR Fund realized revenues of \$6.9M compared to the budgeted \$14.3M due to the pending court settlements and disagreements as to the assessments by those entities. Of the \$6.9M received, expenditures against the fund totaled \$10.4M, which is an over-expenditure of \$3.5M. The Department of Administration (DOA) subsequently received \$1M in American Opportunity Tax Credit in February 2012, reducing the over-expenditure to \$2.5M.

Of the \$13.8M in other supplemental appropriations, \$9.8M was for the health insurance shortfall and \$1M was for the GMHA retirement contributions, leaving \$2.9M. The \$2.9M in other supplemental fund balance helped off-set the \$3.5M SAR Fund deficit, for a remaining over-expenditure of \$536 thousand (K).

SAR Fund Revenues

Of the \$14.3M appropriated for the SAR Fund, \$6.9M was realized as of September 30, 2011. The SAR Fund subsequently received \$1M in American Opportunity Credit in February 2012, leaving an uncollected balance of \$6.4M, which DOA is pursuing collection. The \$6.4M balance is being disputed by the entities as follows:

- \$4.3M from the Department of Public Works (DPW) Consent Decree for the Layon Landfill and Ordot Dump is awaiting court decision and approval by the Federal Receiver. However, the Federal Receiver is contesting the matter.
- \$2.1M from the Autonomous Agency Collections Fund has yet to be collected from the Port Authority of Guam, Guam Power Authority, and Guam International Airport Authority.
 - The Port Authority of Guam has recorded a liability of \$700K in its FY 2011 financial audit; however, payment is pending an agreement memorandum to be signed as final settlement;
 - The Guam Power Authority has submitted to the Public Utilities Commission a Payment in Lieu of Taxes (PILOT) surcharge, which if approved, will be added to customers' power bills; and
 - The Guam International Airport Authority claims that it is prohibited by its 2003 General Revenue Bond Indenture and federal law from transferring any funds from operating surplus to the General Fund.

SAR Fund and Other Supplemental Expenditures

The law authorized the SAR Fund and other supplemental expenditures totaling \$28M: \$14.3M was appropriated for 16 government entities deemed vital, \$12.7M to pay for the health insurance shortfall, and \$1M to pay the Retirement Fund on behalf of GMHA retirees. Of this amount, \$21.2M was expended; \$10.4M for government entities operations, payroll, contractual obligations, etc.; \$9.8M for health insurance; and \$1M for past due GMHA retirement contributions.

2011 Health Insurance Costs and GMHA Retirement Contributions

In April 2011, we issued the GovGuam Liabilities Assessment (OPA Report No. 11-03), in which we estimated that GovGuam would have a shortfall in health insurance premiums ranging from \$9.7M to \$20.1M. A total of \$12.7M was appropriated in the SAR Fund to pay for the shortfall: \$7.6M from the discontinuation of the 2011 Hay Study and \$5.1M from the cost savings identified from the temporary reduction of the GovGuam retirement contribution rate. With the \$12.7M supplemental appropriation, we estimated in December 2011 that the shortfall would be reduced to \$746K (GovGuam Health Benefit Costs Account Audit, OPA Report No. 11-11). However, our review of the SAR Fund showed that while \$12.7M was received; only \$9.8M was expended, leaving an unexpended balance of \$2.9M. Another \$1M was used to pay past due GMHA retirement contributions.

Although GovGuam entities recognized cost savings of \$7M from the temporary reduction in retirement contributions, the General Fund will be obligated to pay back the savings through a new bond issuance in 2012. Accordingly, the \$7M payment to the Retirement Fund will increase the 2011 General Fund deficit.

Accounting for Supplemental Revenues

According to DOA's management, GovGuam's ongoing cash challenges made it difficult to manage separate accounting of the SAR Fund. The General Fund paid the \$10.4M in expenditures on behalf of the 16 agencies. Our review of the SAR Fund bank statements showed that between June 2011 and January 2012, \$7.6M was deposited into the SAR bank account and a total of \$5M was withdrawn from this account to reimburse the General Fund and Payroll bank accounts.

Conclusion

With the exception of the over-expenditure, SAR revenues and expenditures were recognized in accordance with law. However, procedurally, DOA pre-paid SAR Fund expenditures from the General Fund.

While the SAR Fund was established with the intent to provide additional funding to GovGuam entities, proper accounting and funding levels are necessary to ensure compliance with the legal authority for expenditures. P.L. 31-74 mandated OPA to conduct an annual audit of the SAR Fund. However, we recommend amending the law to include review of the SAR Fund as part of the *annual* Government of Guam financial audit. The DOA Director provided a management response indicating concurrence with our conclusion and recommendations.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our audit of the Supplemental Appropriations Revenue Fund (SAR Fund) as mandated in the Supplemental Appropriations Act of 2011, Public Law (P.L.) 31-74. The objectives of the audit were to determine whether the Department of Administration (DOA) was in compliance with the reporting, administration and expenditures of the (1) SAR Fund and (2) other supplemental revenues and expenditures as prescribed in P.L. 31-74 as of September 30, 2011.

The audit scope, methodology, and prior audit coverage are detailed in Appendix 1.

Background

The SAR Fund was created with the passage of the Supplemental Appropriations Act via P.L. 31-74, which was to supplement the FY 2011 budgeted appropriations of \$535.2 million (M) per P.L. 30-196. The SAR Fund *shall* act as a clearinghouse account for *all* supplemental revenues and expenditures identified by GovGuam in any Supplemental Appropriations Act and other Acts that contain revenue sources that have *not* been identified in the General Appropriations Act of each fiscal year.

Separate Fund and Bank Account

The SAR Fund *shall not* be commingled with the General Fund or any other funds of GovGuam and *shall* be maintained in a separate bank account, administered by the Director of the Department of Administration in accordance with P.L. 31-74.

Administration

The revenue sources identified in any Supplemental Appropriations Act and other Acts that identify new revenue sources that have not been identified in the General Appropriations Act during each fiscal year *shall* be deposited or transferred into the SAR Fund and *shall* be expended exclusively for the purposes set forth by the Guam Legislature in any Supplemental Appropriations Act or other Acts that identify new revenue sources during each fiscal year. The SAR Fund's interest and investment earnings *shall* be subject to legislative appropriation and *shall* be expended exclusively for the purposes set forth by the Guam Legislature. The SAR Fund *shall not* be subject to Governor's transfer authority *or* any other law allowing use or transfer of special funds. Revenues to and expenditures from the SAR Fund is restricted to only those authorized by the Guam Legislature in this or subsequent Acts.

Results of Audit

In June 2011, P.L. 31-74 appropriated \$28M in supplemental appropriations: \$14.3M into the SAR Fund, \$12.7M to cover health insurance premium shortfall, and \$1M for the Guam Memorial Hospital Authority's delinquent retirement contributions. Of the \$28M, DOA realized \$20.7M in revenues as of September 30, 2011: \$6.9M as SAR Fund revenues and \$13.8M in other supplemental revenues. DOA is pursuing collection of the \$6.4M balance, although collection is doubtful.

The SAR Fund appropriations are to fund operations of 16 government entities which the legislature deemed as vital components of GovGuam operations, and the estimated shortfall in health insurance premiums. GovGuam expended a total \$21.2M: \$10.4M for line agencies, \$9.8M for health insurance premiums, and \$1M for GMHA delinquent retirement contributions. This resulted in a fund balance of \$536K. See Table 1 for details of SAR Fund and other supplemental revenues and expenditures.

Although GovGuam entities recognized cost savings of \$7M from the temporary reduction in retirement contributions, the General Fund will be obligated to pay back to the Retirement Fund the \$7M temporary reduction through a new bond issuance scheduled in June 2012.

SAR Fund and Other Supplemental Revenue Sources

Of the \$28M appropriated in SAR Fund and supplemental revenues, \$20.7M was realized. DOA received \$6.9M in SAR Fund revenues for the 16 line agencies from the State of Legal Residence, Census Fund, Bond Reserve, and the American Opportunity Tax Credit. An additional \$13.8M was received from the discontinuation of the 2011 Hay Study and the temporary reduction in retirement contributions.

\$6.4M in Unrealized Revenues

Of the \$14.3M appropriated for the SAR Fund, \$6.9M was realized as of September 30, 2011, leaving a balance of \$7.4M. The SAR Fund subsequently received \$1M in American Opportunity Credit in February 2012, leaving an uncollected balance of \$6.4M, which DOA is pursuing collection. The \$6.4M balance is being disputed by the entities as follows:

- \$4.3M from the DPW Consent Decree for the Layon Landfill and Ordot Dump is awaiting court decision and approval by the Federal Receiver. However, the Federal Receiver is contesting the matter;
- \$2.1M from the Autonomous Agency Collections Fund has yet to be collected:
 - The Port Authority of Guam has recorded a liability of \$700K in its FY 2011 financial audit; however, payment is pending an agreement memorandum to be signed as final settlement;
 - The Guam Power Authority has submitted to the Public Utilities Commission a Payment in Lieu of Taxes (PILOT) surcharge, which if approved, will be added to customers' power bills; and
 - The Guam International Airport Authority claims that it is prohibited by its 2003 General Revenue Bond Indenture and federal law from transferring any funds from operating surplus to the General Fund.

Table 1: 2011 SAR Fund and Other Supplemental Revenues and Expenditures

	Budget	Actual	Variance
SAR REVENUES			
State of Legal Residence (section 3)	\$ 2,300,000	\$ 2,300,000	\$ -
American Opportunity Credit (section 3)	\$ 2,300,000	\$ 1,296,213	\$ 1,003,787
Rebate Reimbursement (section 3)	\$ 600,000	\$ 646,196	\$ (46,196)
Census Fund (section 4)	\$ 1,000,000	\$ 1,000,000	\$ -
Bond Reserve Fund (section 5)	\$ 1,000,000	\$ 1,000,000	\$ -
Autonomous Agency Collections Fund (section 6)	\$ 2,100,000	\$ -	\$ 2,100,000
Reimbursement for Layon landfill and Ordod dump (section 7)	\$ 4,300,000	\$ -	\$ 4,300,000
Savings from P.L. 30-196 (section 8)	\$ 665,878	\$ 665,878	\$ -
Total SAR Fund Revenues	\$ 14,265,878	\$ 6,908,287	\$ 7,357,591
SAR EXPENDITURES			
Line Agency Expenditures			
Department of Mental Health (section 9)	\$ 1,739,294	\$ 1,473,905	\$ 265,389
Department of Education for Utility Cost (section 10)	\$ 440,477	\$ -	\$ 440,477
GFD Salaries, Overtime, Retirement, and Other (section 11)	\$ 3,471,715	\$ 2,645,848	\$ 825,867
DOA Salaries, Overtime, Retirement, and Other (sections 12, 26, and 30)	\$ 2,957,396	\$ 1,963,346	\$ 994,050
DPW Bus Operations (sections 13 and 28)	\$ 979,116	\$ 479,116	\$ 500,000
Department of Land Management Office Rental (section 14)	\$ 243,223	\$ 243,223	\$ -
DPHSS General Base Operations (section 15)	\$ 291,085	\$ -	\$ 291,085
DISID General Base Operations (section 16)	\$ 166,947	\$ 108,821	\$ 58,126
Office of the Governor and ALC, General Base Operations (sections 17 and 18)	\$ 670,515	\$ 661,155	\$ 9,360
BBMR, General Base Operations (section 19)	\$ 59,754	\$ 46,724	\$ 13,030
DYA, General Base Operations (section 20)	\$ 116,431	\$ 114,377	\$ 2,054
Chief Medical Examiner, General base Operations (section 21)	\$ 25,678	\$ 25,491	\$ 187
Retirees Annuity Benefits Fund (section 22)	\$ 321,303	\$ 321,303	\$ -
GGRF, Retirees Medical Premiums (sections 23, 24, and 25)	\$ 358,617	\$ 358,617	\$ -
DRT, Income tax return (section 27)	\$ 400,000	\$ -	\$ 400,000
Police services fund (section 29)	\$ 338,493	\$ 294,946	\$ 43,547
DOC Revolving Fund (section 29)	\$ 1,685,834	\$ 1,642,771	\$ 43,063
Total SAR Fund Expenditures	\$ 14,265,878	\$ 10,379,643	\$ 3,886,235
SAR Fund Balance (Deficit)	\$ -	\$ (3,471,356)	\$ 3,471,356
OTHER SUPPLEMENTAL REVENUE SOURCES			
Competitive Wage Act	\$ 7,600,000	\$ 7,600,000	\$ -
GMHA Retirement Savings	\$ 1,026,160	\$ 1,026,160	\$ -
Health Insurance Bail out Agreement (GGRF Savings)	\$ 5,145,698	\$ 5,145,698	\$ -
Total Other Supplemental Revenues	\$ 13,771,858	\$ 13,771,858	\$ -
OTHER SUPPLEMENTAL EXPENDITURES			
Health Insurance Premiums Shortfall	\$ 12,745,698	\$ 9,810,381	\$ 2,935,317
GMHA Retirement Contributions for Prior Years	\$ 1,026,160	\$ 1,026,160	\$ -
Total Other Supplemental Expenditures	\$ 13,771,858	\$ 10,836,541	\$ 2,935,317
Other Supplemental Funds Balance (Deficit)	\$ -	\$ 2,935,317	\$ (2,935,317)
SAR and Other Supplemental Revenues	\$ 28,037,736	\$ 20,680,145	\$ 7,357,591
SAR and Other Supplemental Expenditures	\$ 28,037,736	\$ 21,216,184	\$ 6,821,552
Fund Balance(Deficit)	\$ -	\$ (536,039)	\$ 536,039

SAR Fund and Other Supplemental Expenditures

The law authorized SAR Fund and other supplemental expenditures totaling \$28M: \$14.3M for 16 government entities deemed vital, \$12.7M to pay for the health insurance premiums shortfall, and \$1M to pay the Retirement Fund for past due GMHA retirement contributions. Of this amount, \$21.2M was expended: \$10.4M for line entities, \$9.8M for health insurance premiums, and \$1M for delinquent GMHA retirement contributions.

SAR Fund Over-Expenditures

While the law identified revenues of \$14.3M and authorized expenditures totaling the same, actual cash received was not enough to cover total SAR Fund expenditures. The 16 government entities expended a total of \$10.4M, or \$2.5M more than the \$7.9M realized as revenues¹, for salaries, overtime, specialty pay, contractual services, supply and materials, retiree's annuities, contractual obligations, etc. See Table 1 above for details. If the uncollected SAR Fund revenues are not realized, the over-expenditure of \$2.5M will become an obligation of the General Fund in 2012 and may affect the 2012 operational deficit.

2011 Health Insurance Costs

In April 2011, the Office of Public Accountability (OPA) issued the GovGuam Liabilities Assessment (OPA Report No. 11-03), in which we estimated that GovGuam would have a shortfall in health insurance premiums ranging from \$9.7M to \$20.1M. Of the \$12.7M appropriated to pay for the health insurance premiums, \$7.6M came from the cancellation of the 2011 Competitive Wage Act (i.e., Hay Study implementation) and \$5.1M from the Health Insurance Bailout Agreement (i.e., cost savings identified from the temporary reduction of the GovGuam retirement contribution rate). With the \$12.7M supplemental appropriation to cover the estimated health insurance shortfall, we estimated that the shortfall would be reduced to \$746K (GovGuam Wide Health Benefit Costs Account Audit, OPA Report No. 11-11). However, our review of the SAR Fund showed that \$12.7M was received, but only \$9.8M was expended, leaving an unexpended balance of \$2.9M.

Temporary Reduction to be Repaid

According to the GovGuam Retirement Fund Controller, the General Fund and several GovGuam entities temporarily saved a total of \$7M when the retirement contribution rates were reduced from 27.46% to 21.44% for the nine pay periods between June 2011 and September 2011. See Table 2 for savings summary. While \$7M was identified as a savings, the law only identified \$6.1M; \$5.1M from the Health Insurance Bailout agreement and \$1M for the GMHA's delinquent employer and employee retirement contributions, for a difference of \$900K.

Table 2: P.L. 31-74 Savings

Entity	Savings
Line Agencies	\$ 2,572,218
Department of Education	2,506,651
University of Guam	496,436
Guam Community College	201,028
Judiciary	293,073

¹ As of September 30, 2011, total unrealized SAR Fund revenues were \$7.4M. However, DOA received the \$1M in American Opportunity Credit in February 2012, leaving an uncollected balance \$6.4M.

Entity	Savings
Guam Legislature	41,835
Public Defender Service Corporation	52,108
Guam Memorial Hospital Authority	833,316
TOTAL	\$ 6,996,664

Although the agencies saved \$7M by temporarily contributing a lower rate, P.L. 31-74 required the Governor to include the re-financing of the outstanding principal and interest owed to the GovGuam Retirement Fund in the next GovGuam General Obligation Bond issue in June 2012. Accordingly, the \$7M payment to the Retirement Fund will increase the 2011 General Fund deficit.

Accounting for Supplemental Revenues and Expenditures

P.L. 31-74 requires that SAR Fund revenues be deposited into a separate bank account and not be commingled with the General Fund or any other funds of GovGuam. In accordance with the law, DOA opened a separate account in June 2011. According to DOA's management, GovGuam's ongoing cash challenges have made it difficult to manage separate accounting of the SAR Fund. The General Fund paid the \$10.4M in expenditures on behalf of the 16 agencies. Our review of the SAR Fund bank statements showed that between June 2011 and January 2012, \$7.6M was deposited into the SAR bank account and a total of \$5M was withdrawn from this account to reimburse the General Fund and Payroll bank accounts. As of September 30, 2011, the bank balance was \$2.8M, of which \$2.1M was claimed to be owed to the General Fund. As of February 2012, DOA transferred the \$2.1M to the General Fund. See Table 3 for summary of SAR Fund bank activity.

Table 3: Summary of SAR Fund Bank Statements

Month Ending	Deposits:	Withdrawals:	Interest Paid:	Ending Balance
6/21/2011	\$ 1,000,000			
6/27/2011	\$ 1,000,000			
6/30/2011			\$ 48	\$ 2,000,048
7/25/2011		\$ 339,581		
7/29/2011	\$ 492,517			
7/31/2011			\$ 209	\$ 2,153,194
8/9/2011		\$ 30,000		
8/9/2011		\$ 870,000		
8/9/2011		\$ 1,177,100		
8/31/2011			\$ 65	\$ 76,159
9/21/2011	\$ 77,100			
9/21/2011	\$ 2,000,000			
9/22/2011	\$ 646,196			
9/30/2011			\$ 99	\$ 2,799,553
10/6/2011		\$ 1,500,000		
10/31/2011			\$ 164	\$ 1,299,717
11/9/2011		\$ 800,000		
11/14/2011		\$ 300,000		
11/30/2011			\$ 56	\$ 199,773
12/28/2011	\$ 2,370,244			
12/30/2011			\$ 54	\$ 2,570,070
1/31/2012			\$ 273	\$ 2,570,343
TOTALS:	\$ 7,586,057	\$ 5,016,681	\$ 967	\$ 2,570,343

While DOA recognized SAR Fund revenues (\$6.9M) and expenditures (\$10.4M) in accordance with the law, procedurally, DOA pre-paid SAR Fund expenditures from the General Fund as illustrated in Table 4 below.

Table 4: Comparison of SAR Fund Account v. Bank Statements

	Per DOA		
	Accounting	Actual Per Bank	Variance
Revenues	\$ 6,908,287	\$ 7,586,057	\$ (677,770)
Expenditures	10,379,643	5,016,681	5,362,962
Variance	(3,471,356)	2,569,376	(6,040,732)

Proper accounting and funding levels are necessary to ensure compliance with the legal authority for expenditures. Although P.L. 31-74 mandated OPA to conduct an annual audit of the SAR Fund, we recommend amending the law to include review of the SAR Fund and other supplemental appropriations as part of the annual GovGuam financial audit.

Conclusion and Recommendation

The SAR Fund was established to ensure that various GovGuam agencies deemed vital would be funded. Per P.L 31-74, \$28M was appropriated as SAR Fund and other supplemental revenues. The SAR Fund realized revenues of \$6.9M compared to the budgeted \$14.3M due to the pending court settlements and disagreements as to the assessments by those entities. Of the \$6.9M received, expenditures against the fund totaled \$10.4M, which is an over-expenditure of \$3.5M, for 16 GovGuam line agencies' salaries, overtime, specialty pay, contractual services and obligations, supply and materials, retiree's annuities, etc. Of the \$13.8M in other supplemental appropriations, \$9.8M was for the health insurance premium shortfall and \$1M was for the delinquent GMHA retirement contributions, leaving a \$2.9M surplus. The \$2.9M in other supplemental fund balance helped off-set the \$3.5M SAR Fund deficit, for a remaining fund balance of \$536K. Based on our review, with the exception of the over-expenditure, these expenditures were in compliance with the purposes intended in the law.

According to DOA's management, GovGuam's ongoing cash challenges have made it difficult to manage separate accounting of the SAR Fund. The General Fund paid the \$10.4M in expenditures on behalf of the 16 agencies. Our review of the SAR Fund bank statements showed that between June 2011 and January 2012, \$7.6M was deposited into the SAR bank account and a total of \$5M was withdrawn from this account to reimburse the General Fund and Payroll bank accounts. While DOA recognized SAR Fund revenues (\$7.9M) and expenditures (\$10.4M) in accordance with law; procedurally, DOA pre-paid SAR Fund expenditures from the General Fund. As of September 2011, the SAR Fund bank account had a balance of \$2.8M, of which DOA claims that \$2.1M is owed to the General Fund for expenditure reimbursements. As of February 2012, DOA transferred the \$2.1M, leaving an actual cash balance of \$490K.

While the SAR Fund was established with the intent to provide additional funding to GovGuam entities, proper accounting and funding levels are necessary to ensure compliance with the legal authority for expenditures. P.L. 31-74 mandated OPA to conduct an annual audit of the SAR Fund. However, we recommend amending the law to include review of the SAR Fund as part of the *annual* GovGuam financial audit.

Management Response & OPA Reply

The DOA Director and the Chairman of the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement, and Land were provided a draft report in May 2012 for their review and comment. We met with the Senator and Office of Finance and Budget (OFB) staff who provided feedback and certain aspects were incorporated within the report as deemed appropriate.

In May 2012, we also met with the DOA Director who later provided a management response indicating that she generally concurred with our conclusion and recommendations.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendations, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. We will be contacting the DOA to provide the target date and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation and assistance given us by the Department Of Administration; the Chairman of the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement and Land; and the Office of Finance and Budget.

OFFICE OF PUBLIC ACCOUNTABILITY

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Scope, Methodology, and Prior Audit Coverage**

The objectives of the audit were to determine whether DOA was in compliance with the reporting, administration and expenditures of the (1) SAR Fund and (2) other supplemental revenues and expenditures as prescribed in P.L. 31-74 as of September 30, 2011.

The scope of the audit is from June 6, 2011 through September 30, 2011. The audit was conducted mainly at DOA in Hagatña, Guam.

Our methodology included reviewing the Supplemental Appropriations Fund Act of 2011 and other relevant laws, rules and regulations, policies, and transactions involving the SAR Fund. We interviewed pertinent officials from DOA and obtained financial reports and other relevant information as part of our engagement. We reviewed transactions recorded in DOA's AS400 accounting system and verified the accuracy or completeness of the data provided or recorded in the AS400 system. We also reviewed the bank statements for the SAR Fund account.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our audit and conclusions based on our objectives.

Prior Audit Coverage

We did not identify any prior audits or independent reviews related to our audit objectives, nor was DOA aware of any prior audits specific to the SAR Fund.

Appendix 2:

Legislation for SAR Fund Appropriations - Public Law 31-74 Page 1 of 6

Section 3: Notwithstanding any other provision of law, the following sums received as reimbursements from the United States Internal Revenue Service in Fiscal Year 2011 *shall* be deposited directly into the SAR Fund:

a. State of Legal Residence- Section 30	\$2,300,000
b. American Opportunity Credit	\$2,300,000
c. Rebate Reimbursement	\$ 600,000
<hr/>	
	Total \$5,200,000

Section 4. Notwithstanding any other provision of law, the unexpended balance in the amount of One Million Dollars (**\$1,000,000**) from the Year 2010 Census contract, between the United States Census Bureau and the government of Guam, is hereby transferred from the Census Fund into the SAR Fund.

Total: \$1,000,000

Section 5. Notwithstanding any other provision of law, One Million Dollars (**\$1,000,000**) from the Bond Reserve Fund for the Limited Obligation Infrastructure Improvement Bonds, 1997 Series A, is hereby transferred from the Bond Reserve Fund into the SAR Fund.

Total: \$1,000,000

Section 6. Notwithstanding any other provision of law, the sum of Two Million One Hundred Thousand Dollars (**\$2,100,000**) is hereby transferred from the Autonomous Agency Collections Fund to the SAR Fund.

Total: \$2,100,000

Section 7. Notwithstanding any other provision of law, the balance of Four Million Three Hundred Thousand Dollars (**\$4,300,000**) to be reimbursed to the government of Guam for the capital costs incurred by the government of Guam for the construction of the *Layon* landfill and the closure of the *Ordot* dump, subject to the approval of the U.S. District Court of Guam for the use of bond funds secured through the issuance of the Government of Guam Limited Obligation (Section 30) Series 2009A bonds, *shall* be deposited directly into the SAR Fund.

Total: \$4,300,000

Section 8. Notwithstanding any other provision of law, the remaining balance of Six Hundred Sixty Five Thousand Eight Hundred Seventy Eight Dollars (**\$665,878**) from the "savings" pursuant to Section 3(a) of Chapter XIII of Public Law 30-196, as further amended by Section 4 of Chapter I and in Appendix I of this Act, is hereby transferred from the General Fund into the SAR Fund.

Total: \$665,878

Section 9. Appropriation to Department of Mental Health and Substance Abuse for Contractual Obligations and Salaries. Notwithstanding any other provision of law, the sum of One Hundred Fifty Three Thousand Six Hundred Seventy Eight Dollars (**\$153,678**) is hereby appropriated from the SAR Fund to the Department of Mental Health and Substance Abuse into Object Class III.

Total: (\$153,678)

The sum of One Million Five Hundred Eighty Five Thousand Six Hundred Sixteen Dollars (**\$1,585,616**) is hereby appropriated from the SAR Fund to the Department of Mental Health and Substance Abuse for the following contractual obligations and other purposes:

Total: (\$1,585,616)

Payment for services provided by Latte Treatment Center, LLC under contract reference C080600403 between May 1, 2011 and September 30, 2011 *not* to exceed Two Hundred Ninety Nine Thousand Two Hundred Sixty One Dollars (**\$299,261**);

Total: (\$299,261)

Payment for services provided by Catholic Social Service under contract reference C080601412 between May 1, 2011 and September 30, 2011 not to exceed Nine Hundred Forty Five Thousand Six Hundred Thirty Nine Dollars (**\$945,639**);

Total: (\$945,639)

Payment for services provided by Latte Treatment Center, LLC under contract reference C050604733 between May 1, 2011 and September 30, 2011 not to exceed Three Hundred Forty Thousand Seven Hundred Sixteen Dollars (**\$340,716**);

Total: (\$340,716)

Section 10. Appropriation to the Department of Education for Utility Costs. The sum of Four Hundred Forty Thousand Four Hundred Seventy Seven Dollars (**\$440,477**) is hereby appropriated from the SAR Fund to the Department of Education into Object Class 361. This appropriation *shall* supplement the funding provided for power requirements.

Total: (\$440,477)

Section 11. Appropriation to the Guam Fire Department for Salaries, Overtime, Retirement Benefits, and Other Expenditures. The sum of Three Million Four Hundred Seventy One Thousand Seven Hundred Fifteen Dollars (**\$3,471,715**) is hereby appropriated from the SAR Fund to the Guam Fire Department. This appropriation *shall* supplement the funding provided as part of the:

Appendix 2:
Legislation for SAR Fund Appropriations

Page 3 of 6

GUAM FIRE DEPARTMENT
SUMMARY OF BASE OPERATIONAL APPROPRIATION

Description	Object Class	Amount
REG SALARIES		\$2,166,608
OT/SP		\$686,882
BENEFITS		\$464,521
CONT. SERV.		\$74,061
SUP. & MAT.		\$79,643
GR. TOTAL		(\$3,471,715)

Section 12. Appropriation Object Class Amount to the Department of Administration for Salaries, Overtime, Retirement Benefits, and Other Expenditures. The sum of Eight Hundred Eighty Three Thousand Five Hundred Forty Seven Dollars (**\$883,547**) is hereby appropriated from the SAR Fund to the Department of Administration.

Total: (\$883,547)

Section 13. Appropriation to the Department of Public Works. The sum of Three Hundred Forty Five Thousand Eight Hundred Ninety Two Dollars (**\$345,892**) is hereby appropriated from the SAR Fund to the Department of Public Works into Object Class 240. This appropriation *shall* supplement the funding provided for Bus Operations Fuel requirements. The sum of One Hundred Thirty Three Thousand Two Hundred Twenty Four Dollars (**\$133,224**) is hereby appropriated from the SAR Fund to the Department of Public Works into Object Class 111.

Total: (\$479,116)

Section 14. Appropriation to Department of Land Management for Payment of Office Rental. The sum of Two Hundred Forty Three Thousand Two Hundred Twenty Three Dollars (**\$243,223**) is appropriated from the SAR Fund to Object Class 233 for Office Rental.

Total: (\$243,223)

Section 15. Appropriation to the Department of Public Health and Social Services. The sum of Two Hundred Ninety One Thousand Eighty Five Dollars (**\$291,085**) is hereby appropriated from the SAR Fund to the Department of Public Health and Social Services to supplement its funding for FY 2011 General Base Operations.

Total: (\$291,085)

Section 16. Appropriation to the Department of Integrated Services for Individuals with Disabilities. The sum of One Hundred Sixty Six Thousand Nine Hundred Forty Seven Dollars (**\$166,947**) is hereby appropriated from the SAR Fund to the Department of Integrated Services for Individuals with Disabilities to supplement its FY 2011 funding for General Base Operations.

Total: (\$166,947)

Section 17. Appropriation to the Office of the Governor. The sum of Six Hundred Fifty Thousand Dollars (**\$650,000**) is hereby appropriated from the SAR Fund to the Office of the Governor to supplement its FY 2011 funding for General Base Operations.

Total: (\$650,000)

Section 18. Appropriation to the Ancestral Lands Commission. The sum of Twenty Thousand Five Hundred Fifteen Dollars (**\$20,515**) is hereby appropriated from the SAR Fund to the Ancestral Lands Commission to supplement its FY 2011 funding for General Base Operations.

Total: (\$20,515)

Section 19. Appropriation to the Bureau of Budget and Management Research. The sum of Fifty Nine Thousand Seven Hundred Fifty Four Dollars (**\$59,754**) is hereby appropriated from the SAR Fund to the Bureau of Budget and Management Research to supplement its FY 2011 funding for General Base Operations.

Total: (\$59,754)

Section 20. Appropriation to the Department of Youth Affairs. The sum of One Hundred Sixteen Thousand Four Hundred Thirty One Dollars (**\$116,431**) is hereby appropriated from the SAR Fund to the Department of Youth Affairs to supplement its FY 2011 funding for General Base Operations.

Total: (\$116,431)

Section 21. Appropriation to the Chief Medical Examiner. The sum of Twenty Five Thousand Six Hundred Seventy Eight Dollars (**\$25,678**) is hereby appropriated from the SAR Fund to the Chief Medical Examiner to supplement its FY 2011 funding for General Base Operations.

Total: (\$25,678)

Section 22. Appropriation to Retirees for Supplemental Annuity Benefits and for Other Costs. The sum of Three Hundred Twenty One Thousand Three Hundred Three Dollars (**\$321,303**) is hereby appropriated from the SAR Fund to the Supplemental Annuity Benefits Special Fund for direct payments to government of Guam retirees who retired *prior* to October 1, 1995, or their survivors, for the continuing payment of Four Thousand Two Hundred Thirty Eight Dollars (\$4,238) per year in supplemental annuity benefits, consisting of the sums of One Thousand Two Hundred Dollars (\$1,200), One Thousand Five Hundred Dollars (\$1,500), Seven Hundred Dollars (\$700), and Eight Hundred Thirty Eight Dollars (\$838) in annual benefits authorized by various General Appropriation Acts.

Total: (\$321,303)

Section 23. Retirees Medicare Premiums. For Fiscal Year 2011, the sum of Two Hundred Eighty Five Thousand Dollars (**\$285,000**) is hereby appropriated from the SAR Fund to the GGRF to pay the cost of Medicare premiums for government of Guam retirees and their survivors domiciled on Guam, and who are eligible to receive Social Security income benefits, and who are eligible to enroll in the Government of Guam Group Health Insurance Program. No Government of Guam retiree or their survivor *shall* be required to enroll in the Government of Guam Health Insurance Program in order to receive the reimbursement.

Total: (\$285,000)

Section 24. *I Mag a 'ldhi* and *I Segundu Na Maga 'ldhi I I Segundu Na Maga'hiiga* Pensions. For Fiscal Year 2011, the sum of Sixty Five Thousand Six Hundred Thirty Six Dollars (**\$65,636**) is hereby appropriated from the SAR Fund to the GGRF for *I Maga 'lahi* and *I Segundu Na Maga 'lahi/I Segundu Na Maga 'haga* Pensions.

Total: (\$65,636)

Section 25. Retirement Annuities for Judges & Justices. For Fiscal Year 2011, the sum of Seven Thousand Nine Hundred Eighty One Dollars (**\$7,981**) is hereby appropriated from the SAR Fund to the GGRF for retirement annuities for former judges and justices of the Superior Court and Supreme Court of Guam.

Total: (\$7,981)

Section 26. Utility Bank Cost Account. The sum of One Million Three Hundred Ten Thousand Dollars (**\$1,310,000**) is hereby appropriated from the SAR Fund to the Utility Bank Cost Account as administered by the Department of Administration. This appropriation *shall* supplement the funding provided for Water/Sewer requirements, made under the respective departments' /agencies' Central Cost Accounts provided in Public Law 30-196, as amended by Public Law 30-224.

Total: (\$1,310,000)

Section 27 (b). Guam Income Tax Return Processing Policy Initiative.

The sum of Four Hundred Thousand Dollars (**\$400,000**) is hereby appropriated from the SAR Fund to the Department of Revenue and Taxation to supplement or provide local matching funds to any federal grant funds from the Department of Interior towards the integration of e-filing and processing of all Guam Income Tax Returns in an IRS Service Center only.

Total: (\$400,000)

Section 28. Appropriation to the Department of Public Works for the *Umatac* and *Merizo* Cemeteries. (a) The sum of Two Hundred Fifty Thousand Dollars (**\$250,000**) from the SAR Fund is hereby appropriated to the Department of Public Works, who shall coordinate with the *Umatac* Mayor, for the re-enforcement and stabilization of the *Umatac* cemetery to prevent the graves from eroding into the ocean. Any amounts not expended *shall* revert to the SAR Fund (b)The sum of Two Hundred Fifty

Thousand Dollars (**\$250,000**) from the SAR Fund is hereby appropriated to the Department of Public Works for the construction of the additional crypts at the *Merizo* Cemetery. The Department of Public Works, the Department of Parks and Recreation and the *Merizo* Mayor *shall* work collaboratively to ensure the project complies with all existing Memorandum of Understandings relative to the operations of the *Merizo* cemetery. Any amounts not expended shall revert to the SAR Fund.

Total: (\$500,000)

Section 29. SUMMARY OF BASE OPERATIONAL APPROPRIATION FUNDING SOURCE
GENERAL FUND; FEDERAL MATCHING; GRANTS-IN-AID; SPECIAL FUNDS TOTAL
\$15,490,255 (\$14,330,593+ \$1,159,662)

Total: (\$15,490,255)

Section 30. Unless otherwise ordered or allowed by the District Court of Guam, the sum of Seven Hundred Sixty Three Thousand Eight Hundred Forty Nine Dollars (**\$763,849**) is hereby appropriated from the SAR Fund to the Department of Administration for payment compliance with the stipulated court order of April 18, 2011 by the United States Federal District Court in Case No. CV 01-00041 CBM: \$500,000 to be deposited no later than July 1, 2011; \$3,200,000 to be deposited no later than August 1, 2011.

Total: (\$763,849)

Appendix 3:
Management Response



Edward J.B. Calvo
Governor
Ray S. Tenorio
Lieutenant Governor

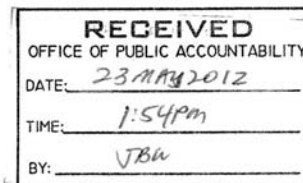
Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 Hagatña, Guam 96932
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



Benita A. Manglona
Director
Anthony C. Blaz
Deputy Director

May 23, 2011

Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of Public Accountability
Suite 401 DNA Building
238 Archbishop Flores Street
Hagatna, Guam 96910



Hafa Adai Chief Auditor Brooks:

The Department of Administration (DOA) takes the position that the purpose of the provision in Public Law 31-74 requiring the separate recording of funds was to account for only the additional appropriations relating to the fourth (4th) quarter of fiscal year 2011.

The provision mandates DOA account for the fourth quarter's revenues and expenditures in a completely separate fund despite the fact that the appropriations are for general fund expenditures. In addition, the provisions of the SAR Fund, as established by Public Law 31-74 Chapter III, Section 2(b), states "The SAR Fund *shall not* be commingled with the General Fund or any other funds of the government of Guam and *shall* be maintained in a separate bank account, administered by the Director of the Department of Administration in accordance with this Article." This fund, under the Government Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Government Fund Type Definitions*, is required to be consolidated back to the General Fund as it does not meet the accounting definition of a Special Revenue Fund. A Special Revenue Fund, as prescribed by GASB, must have a dedicated revenue source. As the Government of Guam is required to follow the pronouncements promulgated by the GASB, this fund will not show up as a separate fund in the annual financial report. This is an example of a misunderstanding of accounting standards.

DOA already has the internal controls implemented to adequately account for the supplemental appropriations without having to create another fund. This law is an example of another unfunded mandate for both DOA and the Office of Public Accountability (OPA).

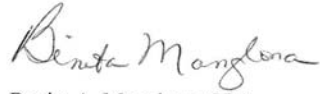
DOA concurs with the conclusion and recommendation provided by OPA and thanks them for the opportunity to submit comments on the Government of Guam Supplemental

Appendix 3:
Management Response

Letter to Chief Auditor Brooks
May 23, 2012
Page 2

Appropriation Fund Performance Audit report. I hope the information provided will clarify any concerns raised in the audit findings and or recommendations.

Senseramente,



Benita A. Manglona, CPA
Director



Government of Guam
Supplemental Appropriations Revenue (SAR) Fund
Report No. 12-02, May 2012

ACKNOWLEDGEMENTS

Key contributions to this report were made by:

Rodalyn G. Marquez, Audit Supervisor Franklin Cooper-Nurse, Auditor-in-Charge
Jocelyn B. Untalan, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

MISSION STATEMENT

**To improve the public trust,
we audit, assess, analyze, and make recommendations
for accountability, transparency,
effectiveness, efficiency, and economy of the government of Guam
independently, impartially, and with integrity.**

VISION

Guam is the model for good governance in the Pacific.

CORE VALUES

Integrity Independence Impartiality

Accountability Transparency

REPORTING FRAUD, WASTE, AND ABUSE

- Call our HOTLINE at 47AUDIT (472-8348)
- Visit our website at www.guamopa.org
- Call our office at 475-0390
- Fax our office at 472-7951
- Or visit us at Suite 401, DNA Building in Hagåtña

All information will be held in strict confidence.