

**Government of Guam
Cost Reduction and Revenue
Enhancement Recommendations
Pursuant to Executive Order No. 2011-01**

Austerity Plan

**OPA Report No. 11-01
February 2011**



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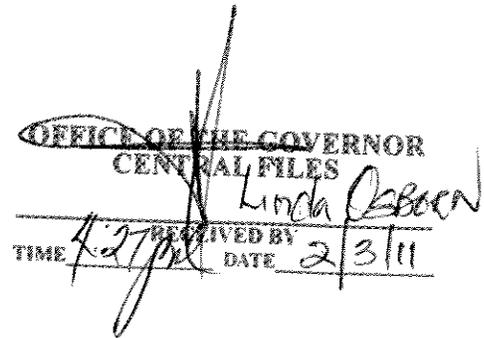
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OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

February 3, 2011

Honorable Edward J.B. Calvo
Governor
Office of the Governor
P.O. Box 2950
Hagatna, Guam 96932



Reference: Executive Order No. 2011-01

Dear Governor Calvo:

The Office of Public Accountability (OPA) submits the following Austerity Plan and Government of Guam Cost Reduction and Revenue Enhancement recommendations in accordance with Executive Order 2011-01.

The OPA will take the following immediate actions to reduce cost of operations resulting in cost savings to the government of Guam totaling nearly \$85,000 for the current fiscal year. The savings represent 7% of our \$1.2 million (M) appropriation in FY 2011. *See Attachment 1.*

In addition to our internal cost cutting actions, the OPA has identified areas of potential cost savings to improve the financial condition of the General Fund and enhance revenues. Based on OPA audits completed over the last few years, we have identified potential cost savings totaling \$4.3M pending timely implementations of recommendations. *See Attachment 2.*

OPA's Internal Cost Saving Measures

- **Freeze Hiring:** The OPA currently has vacancies for the Deputy Public Auditor, Auditor III, and Auditor I positions. OPA will suspend the hiring of these positions in FY 2011, which will result in cost savings of \$71,170.
- **Electronic Distribution of OPA reports:** OPA will shift to electronic distribution of reports and transmittals during the second quarter of the year. We estimate an annual saving of \$3,000 from this effort. OPA will still make reports available in hard copy upon request.
- **Lease Agreement Savings:** OPA has been in a lease agreement with the DNA Inc. since 2002. As a result of our contract extension, we have realized cost savings of approximately \$10,830. OPA currently pays only \$1.81 per square foot, which

includes utilities, maintenance and janitorial services, parking, security, gym, back-up generators, etc.

- **Availability of OPA Conference Room:** As a cost savings and as an increased service to the government, the OPA will open its doors on the 9th floor of the DNA building in Hagatna to government entities for official government meetings and trainings. The space available is 794 square feet and can be utilized Monday to Friday, from 8am to 5pm, pending any OPA procurement appeal hearings.
- **Green Initiatives:** OPA will initiate green initiatives to include reducing, reusing and recycling methods with current supplies.

The OPA has incorporated these cost savings measures and have classified each by object category as requested by the Bureau of Budget & Management Research in BBMR Circular 11-03. *See Attachment 1.*

External Cost Savings Measures Identified in Prior OPA Audits

Eliminate GFD's Non-Productive Pay

In September 2010, OPA Report No. 10-05: Government of Guam Leave Sharing Audit found that Guam Fire Department (GFD) employees received compensation benefits that are inequitable compared to all other classified government employees. The audit on leave sharing revealed that GFD employees received compensation totaling approximately \$600,000 for free “non-productive” hours while on leave. The OPA is currently conducting a follow-up audit to determine annual cost for Guam firefighters’ “non-productive” pay. We recommend legislative action to amend GFD compensation of leave to an hour per hour basis. Implementation of this recommendation could result in General Fund cost savings of approximately \$1.6M. We are currently awaiting an opinion from the Office of the Attorney General (OAG) on this matter, however, we strongly urge your legal counsel to review this matter and discuss the issue with the AG.

Link to full report: <http://www.guamopa.org/docs/OPA1005.pdf>

Action: Legal Review & Legislation

Potential Cost Savings: \$1,600,000

Reduce Overtime by 10%

In December 2008, OPA Report No. 08-10: Government Wide Overtime Audit found that the government of Guam General Fund expended approximately \$40M in overtime over a 72-month period. This equates to \$6.6M annually. As an immediate cost saving measure, we recommend that overtime funded out of the General Fund be reduced by 10% from FY 2010 expenditure levels. Based on historic overtime levels found in our 2008 audit, this may lead to annual cost savings of approximately \$660,000.

Link to full report: <http://www.guamopa.org/docs/OPA0810.pdf>

Action: Executive Order

Potential Cost Savings: \$660,000

Reassess the Costs for the Wellness Benefits

In December 2009, OPA Report No. 09-07: Government of Guam Wellness Benefits Program Audit found that the government, through the Guam Health Insurance Plan (GHIP) administered by DOA, paid \$699,788 to the wellness and physical fitness centers. However, only 618 out of the 10,250 or 6% of government employees enrolled in the GHIP utilized the fitness centers. We recommend that the DOA health insurance plan negotiating team reassess the cost for the wellness benefits and expend funds on a per user basis. Based on the 6% utilization rate, we estimate a cost savings of approximately \$658,000.

Link to full report: <http://www.guamopa.org/docs/OPA0907.pdf>

Action: Contract Negotiation

Potential Cost Savings: \$658,000

Eliminate General Fund's Payroll Paper Checks

In April 2010, OPA Report No. 10-01: Government of Guam's Employee Pay and Voluntary Deductions found that as of September 30, 2009, only 4,839 out of the 12,116 or approximately 40% of government employees receive their pay through direct deposits. The remaining 7,277 or 60% of government employees receive their pay through paper checks.

We recommend that all government of Guam employees utilize the direct deposit option for employee pay. Converting to electronic transactions would save the government time and money. Data needed to project costs savings were not readily available or cost effective to obtain during the course of our audit. However, this process would be an efficient and effective way to strengthen and improve government payroll services by improving employee productivity and allowing employees additional time to do other tasks. Switching to direct deposits also reduces the risk of lost or stolen checks.

Link to full report: <http://www.guamopa.org/docs/OPA1001.pdf>

Action: Administrative Action

Potential Cost Savings: Not Available

Reassess the Need for Tendan Gobetnu

In August 2003, OPA Report No. 03-07: Performance Audit of Tendan Gobetnu found that continued operation of Tendan Gobetnu was not cost effective. The OPA recommended closure due to pilferage, inventory loss, and shortage of personnel to manage operations. The audit disclosed that Tenda operations had a loss of over \$183,000 in FY 2002, which included administrative expenses. The business landscape on Guam has changed since the creation of the Tenda back in 1981, and the operations of Tendan Gobetnu may no longer be necessary to support government operations. We estimate a conservative cost savings of \$183,000 with the closure of Tenda Gobetnu.

Link to full report: http://www.guamopa.org/docs/tendu_full.pdf

Action: Administrative Action

Potential Cost Savings: \$183,000

Limit COLA Eligibility

Unlike supplemental annuities which are limited to retirees whose annuities are below \$40,000, Cost of Living Allowance (COLA) of \$1,100 is paid to all retirees regardless of annuities or \$7.5M annually. As of September 30, 2010 there were 6,777 retirees, of which 972 retirees have annuities greater than \$40,000. Providing COLA to retirees with annuities less than \$40,000 would result in a savings of \$1,069,200 annually.

Action: Legislation

Potential Cost Savings: \$1,069,200 annually

Eliminate Life Time Annuity for Governor and Lt. Governor

Unlike other positions of the government of Guam, if a Governor or Lt. Governor serves just one term he/she will receive a life-time annuity equal to one half of his/her salary. Current salaries are \$90,000 and \$85,000 or \$45,000 and \$42,500 in annuities for the Governor and Lt. Governor. With the Hay Study the annual salary of the Governor and Lt. Governor will go up to \$110,000 and \$100,000. No other state has such a generous benefit for serving just four years as Governor or Lt. Governor. Given current life expectancies, these annuities will be paid for the next 25 years or longer. This life time annuity benefit should be eliminated in time for the next gubernatorial election.

Action: Legislation

Potential Cost Savings \$87,500 annually

Reassess Government of Guam's Cost of Rental Space

In October 2005, OPA Report No. 05-05: Government of Guam Lease Analysis found that as of September 30, 2004, our government spent \$6.8M annually to lease 494,000 square feet of commercial space. Due to the lack of uniform regulations for government of Guam entities to follow, we found much disparity in the lease rates paid by the various entities, the amount of office space being leased, and the services provided by lessors.

We suggest DOA review and apply practicable guidelines for office space leases, establish minimum specifications for basic rent and common area maintenance fees for government office space, and assign the General Services Agency to monitor and annually report all government of Guam leases. We also urge the Legislature to evaluate whether it is feasible to initiate long-term planning to acquire or build facilities to house government entities for the future.

Link to full report: <http://www.guamopa.org/docs/OPA0505.pdf>

Action: Administrative Action, Legislation

Potential Cost Savings: Unknown

In addition to savings measures identified through our audits, our office has developed additional austerity measures we feel can help improve the overall financial performance of our government. *See Attachment 2 for details.*

Revenue Enhancement Recommendations

In addressing Executive Order 2011-01, item number 2, the OPA has identified several revenue enhancement initiatives, which could lead to enhanced General Fund revenue collections of at least \$513,000, if implemented. *See Attachment 3.*

Collection of Bounced Checks

In June 2004, OPA Report No. 04-07: Department of Administrative Bounced Checks Audit found that the government of Guam had receivables totaling \$5.1M as of June 2003. Collection efforts of bounced checks are minimal at DOA. Bounced checks are not re-deposited or referred to the AG's office for collection. The AG's office indicated that collection efforts for bounced checks are not being pursued due to the lack of staff. If the government improved collection efforts and collected a nominal 10%, this could result in revenues of approximately \$513,000.

Link to full report: <http://www.guamopa.org/docs/OPA0407.pdf>

Action: Administrative Action

Potential Revenue: \$513,000

Repayment of Debt Forgiveness by Guam Housing Corporation

In August 2002, Public Law 26-123, forgave GHC's debt to the General Fund comprised of \$13.7M, and accrued interest of \$517,000. Consequently, Guam Housing Corporation (GHC) recorded revenue of \$14M resulting from the debt forgiveness. Since then, GHC has maintained a strong cash position. Over the last eight years, unrestricted cash and the self insurance fund have steadily grown to \$12.5M as of the end of FY 2009, due in part to the General Fund debt forgiveness and the lack of growth in its loan portfolio. As of September 30, 2010, GHC had cash and investments of \$12M. We recommend legislation be enacted to repay this debt forgiveness.

Link to highlights: <http://www.guamopa.org/docs/GHChighlights09.pdf>

Action: Legislation

Potential Revenue: Unknown

Moratorium on Tax Credits

In November 2007, OPA Report No. 07-15: Government of Guam Tax Credit Programs Audit found nine public laws that authorized a minimum of \$23.6M in tax credits to taxpayers who contribute property, material, labor, services, or cash to the Government of Guam for various programs. Four of the tax credit programs do not limit the amount of tax credits. Given the government's deficit, we recommend further review by Guam Economic Development Authority (GEDA) and Department of Revenue and Taxation to determine whether tax credits meet the public needs and are worth forgone revenues. Additionally, we recommend that a moratorium be placed on current tax credit programs.

Link to full report: <http://www.guamopa.org/docs/OPA0715.pdf>

Action: Executive Order

Potential Revenue: Unknown

Reassess the Property Tax Rate

Guam is known for having low property taxes compared to the mainland United States. Currently, real property taxes are levied upon land and/or buildings. The rates are 0.125% on the assessed value of land and 0.5% on the assessed value of buildings. The assessed value is 90% of the appraised value of the property.

The fundamentals of Guam's real estate market, including military expansion and a return of foreign investment, will lead to long-term economic growth and real estate market recovery. Opportunistic investors, armed with this property information, could consider Guam as an attractive investment option. Adjusting the property tax in the near future would ensure the government's collection of funds in an expanding market.

Action: Assessment by DRT

Potential Revenue: Unknown

Reassess various Licensing Fees

Along with property taxes, various licensing fees remain low. DRT should be tasked to assess various licensing fees, for example driver's license fees are only \$25.

Action: Assessment by DRT

Potential Revenue: Unknown

Conduct GSA Surplus Sale

Direct a comprehensive review of all GSA assets to determine those no longer essential to meet the governments vital needs. The government of Guam could enhance revenues by selling the GSA's assets through auctions, internet-based auctions, and other competitive procedures. Surplus items could include non-essential vehicles and various government equipment and supplies.

Action: Administrative Action

Potential Revenue: Unknown

The government of Guam's growing deficit of \$354M (un-audited) as of September 30, 2010 continues to be a paramount concern to OPA. This Executive Order accomplishes a step in the right direction to minimize and restrain government spending. Our office continues to diligently work to provide assessments that promote accountability, efficiency and effective management of the government of Guam. In this upcoming year we will continue on our audit plan to look for ways to minimize revenue leakage and increase our revenue base.

Senseramente,



Doris Flores Brooks, CPA, CGFM
Public Auditor

Attachment 1: OPA's Internal Cost Saving Measures
RECOMMENDATIONS ON COST CONTAINMENT MEASURES

(Executive Order No. 2011-01)

Department/Division: Office of Public Accountability

Fund Source: General Fund 5100A119959CT001

Object Category	Recommendations on Cost Containment Measures	Potential Savings
111 Salary	Freeze Hiring	\$51,986.00
112 OT		\$0.00
113 Benefits	Freeze Hiring	\$19,184.00
TOTAL PerSvs		\$71,170.00
220 Travel		\$0.00
230 Contract	Lease Agreement Savings, Availability of OPA Conference Room	\$10,830.00
233 Rent		\$0.00
240 Supplies	Electronic Distribution of OPA reports	\$3,000.00
250 Equip.		\$0.00
270 Worker's Comp		\$0.00
271 Drug Testing		\$0.00
280 Sub.Rec.		\$0.00
290 Misc.		\$0.00
361 Power		\$0.00
362 Water		\$0.00
363 Tele.		\$0.00
450 Cap. Out.		\$0.00
TOTAL Opers		\$13,830.00
TOTALS		\$85,000.00

Short-Term Reductions:

Freeze Hiring, Electronic Distribution of OPA Reports, Green Initiatives

Long-Term Reductions:

Lease Agreement Savings, Availability of OPA Conference Room

External (outside the Dept./Agency) Cost Reduction Recommendations:

See Appendix 2

Attachment 2: OPA's External Cost Savings Measures
RECOMMENDATIONS ON EXTERNAL COST CONTAINMENT MEASURES
(Executive Order No. 2011-01)

Department/Division: Office of Public Accountability

Fund Source: General Fund 5100A119959CT001

Recommendations on Cost Containment Measures		Action	Potential Savings
1	Eliminate GFD's Non-Productive Pay	Legal Review	\$1,600,000
2	Reduce Overtime by 10%	Executive Order	\$660,000
3	Reassess the Costs for the Wellness Benefits	Contract Negotiation	\$658,000
4	Eliminate General Fund's Payroll Paper Checks	Administrative Action	Unknown
5	Freeze Hiring for local funded positions	Executive Order	Unknown
6	Re-evaluate the need for the Deputy Director position for line agencies	Legislation	Unknown
7	Renegotiate Medical and Dental Insurance Rates	Contract Negotiation	Unknown
8	Eliminate the Lifetime Annuity for the Governor and Lt. Governor effective next Gubernatorial Election*	Legislation	\$87,500
9	Suspend non-essential General Fund travel expense	Executive Order	Unknown
10	Reassess the need for 24-hour government vehicles	Administrative Action	Unknown
11	Reassess the Feasibility moving from 8 hour and 12 hour shifts for all employees on a 24-hour schedule	Legislation	Unknown
12	Limit COLA eligibility to retirees earning less than \$40,000 annually	Legislation	\$1,069,200
13	Guam Energy Office to conduct energy audits of all government buildings	Administrative Action	Unknown
14	Assess Government of Guam's cost of rental space	Administrative Action	Unknown
15	Consider moving from a 26-pay period year to a 24-pay period year	Administrative Action	Unknown
16	Consider increasing Retirement Fund contributions (9.5%) over the next 3 years	Administrative Action	Unknown
17	Reassess the need for Tendan Gobetnu	Administrative Action	\$183,000
			\$4,257,700

Short-Term Reductions:

Recommendations: 1, 2, 3, 4, 5, 9, 10

Long-Term Reductions:

Recommendations: 6, 7, 8, 11, 12, 13, 14, 15, 16

Attachment 3: OPA's Revenue Enhancement Recommendations

REVENUE ENHANCEMENT RECOMMENDATIONS

(Executive Order No. 2011-01)

Department: Office of Public Accountability

General Fund/Special Fund Revenue Source Name	Recommendations	Potential Revenue
1. General Fund	Collection of Bounced Checks	\$513,000
2. General Fund	Repayment of Debt Forgiveness by GHC	Unknown
3. General Fund	Moratorium on Tax Credits	Unknown
4. General Fund	Reassess the rate of Property Tax	Unknown
5. General Fund	Reassess various Licensing Fees	Unknown
6. General Fund	Conduct a GSA Surplus Sale	Unknown