



## OFFICE OF PUBLIC ACCOUNTABILITY

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### Guam Department of Education – FY 2018 Financial Highlights

May 18, 2019

Hagåtña, Guam – The Office of Public Accountability has released the Guam Department of Education’s (GDOE) financial statements, report on compliance and internal control, and management letter for fiscal year (FY) 2018. Independent auditors Deloitte & Touche, LLP issued clean opinions on GDOE’s financial statements and report on compliance for major federal programs. However, the auditors identified one significant deficiency in internal control over compliance. GDOE remains a high-risk grantee by the U.S. Department of Education (USDOE) for the past 16 years.

Certain accounts from the prior year were restated in order to report the other post-employment benefits (OPEB) liability as required by the Governmental Accounting Standards Board (GASB) Statement No. 75. GDOE’s proportionate share of the total OPEB liability as of FY 2018 was \$726.5 million (M) and as of FY 2017 was \$756.1M. As a result, net position for governmental activities decreased by \$673M as of FY 2017. GDOE closed FY 2018 with a \$10.8M decrease in net position.

#### **Total Revenues, Expenditures Decrease**

In FY 2018, total revenue was \$319.2M, a \$13.4M decrease compared to FY 2017. Local appropriations decreased by \$13.4M and federal grants and contributions decreased by \$3.3M in FY 2018. Cafeteria sales of \$31 thousand (K) declined from \$147K. In FY 2018, all 41 GDOE schools participated in the Community Eligibility Provision program in which students eat at no cost. These decreases in revenues were slightly offset by increase in fees and other program receipts by \$1.3M.

Total GDOE expenditures decreased by \$33.6M, going from \$363.6M in FY 2017 to \$330.0M in FY 2018. Decreases were largely due to local budgetary reductions under the FY 2018 Fiscal Realignment Plan, which resulted in a reduction of operational costs. In addition, there were decreases in lease expenses and net pension liability. Charter school expenditures decreased by \$579K. Although total expenditures decreased, certain specific accounts have increased such as (a) capital lease acquisitions by \$5.1M due to debt service lease payments, and (b) contractual, power, food management contract and supplies by \$4.9M.

#### **100% Locally Funded and Federally Funded Employees Decrease**

The number of employees decreased by 197, from 3,841 as of FY 2017 to 3,644 as of FY 2018. Due to the impact of the federal Tax Cuts and Jobs Act of 2017 on Government of Guam revenues and the subsequent Fiscal Realignment Plan implementation, GDOE implemented a freeze on hiring central office staff as well as school administrators. The plan also called for a delay in onboarding of substitute teachers at the start of the school year in August until the beginning of FY 2019. This resulted in a reduction of locally funded employees.



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### **Third Party Fiduciary Agent**

FY 2018 marks the sixth year GDOE has incurred local expenditures associated with addressing its high-risk grantee status by USDOE. USDOE issued Special Conditions, which required the financial management functions of USDOE grants to be supervised by a Third Party Fiduciary Agent (TPFA). Transition plans, first developed between the TPFA and GDOE in FY 2015, continued to be monitored and updated throughout FY 2018. The plans identify tasks necessary to complete the Comprehensive Correction Plan as well as identify resources and activities necessary should the requirement for the TPFA be reduced in scope or removed. Any transition of tasks from the TPFA to GDOE must be officially sanctioned by the USDOE.

### **Management Letter**

Independent auditors issued a management letter containing seven findings relating to: (1) untimely general ledger reconciliations; (2) use of outdated overtime exemption listing; (3) difference in the basis of accounting between TPFA and GDOE resulting to tedious reconciliation; (4) incorrect retroactive payments; (5) Non-Appropriated Funds where certain opening balances did not reconcile to prior year ending balances, bank reconciliations not timely and accurately performed, and receipts and disbursements not meeting the documentation requirements; (6) FY 2018 available budgets were loaded in excess of collection from the Department of Administration; and (7) unavailable procurement records for a subscription from a web-based provider. In addition, a separate Management Letter on GDOE's internal control on information technology identified two deficiencies.

### **Compliance Report**

Independent auditors identified one significant deficiency on internal control over major federal programs related to equipment and real property management. Specifically, auditors noted (1) 71 items totaling \$75K in acquisition costs could not be located at the time of GDOE's physical inventory, and (2) 612 stolen items totaling \$485K in acquisition costs. Auditors recommended GDOE to revisit internal control procedures over the safeguarding of property, including enforcing policies relating to fixed asset management. GDOE disagreed with the finding stating that it has controls in place to safeguard assets against loss, damage or theft as well as investigate any items lost or stolen. The items that could not be located and stolen were only 0.2% and 2%, respectively, of the fixed asset inventory.

For a more detailed discussion on GDOE's operations, see the Management's Discussion and Analysis in the audit report, as well as the reports in their entirety, at [www.opaguam.org](http://www.opaguam.org) or [www.gdoe.net](http://www.gdoe.net).