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Guam Highway Special Revenue and Capital Projects Fund – FY 2021 Financial Highlights

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The Office of Public Accountability (OPA) released the Guam Highway Special Revenue Fund (GHF) and Capital Projects Fund's (CPF) financial statements, report on compliance and internal control, and management letter for the fiscal year (FY) 2021. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on the combined GHF and CPF financial statements.

GHF and CPF ended FY 2021 with a combined decrease in net position (net loss) of \$1.2 million (M) compared to the operating deficit of \$5.2M in FY 2020. The two governmental funds, which both ended FY 2021 with a positive fund balance – GHF with \$37 thousand (K) and CPF with \$176K – for a combined total of \$213K.

Revenues and Expenditures

Total revenues increased by \$483K (or 2%) from \$20.1M in FY 2020 to \$20.6M in FY 2021. Though collections from liquid fuel taxes and use of money and property decreased \$1.6M and \$2K, respectively, there was a \$2.1M offset in collections from vehicle registration and surcharge fees, and driver's license fees.

Total expenditures decreased by \$3.7M (or 15%) from \$24.2M in FY 2020 to \$20.5M in FY 2021. This resulted from decreased appropriations of \$2.4M by the Guam Legislature for GHF and CPF. Of the \$20.5M in expenditures, \$12.2M (or 60%) was highway-related or transportation-related projects. These included allocations of \$8.3M to Department of Public Works' operations, \$2.1M to Guam Regional Transit Authority (GRTA), \$1.2M to Guam Police Department's highway patrol, and \$649K in utilities for Guam Highway Streetlights.

Government of Guam (GovGuam) primarily secures GHF for the maintenance and construction of highways and roadways, along with implementing all highway safety plans, programs, and projects. However, similar to prior years, \$9.3M (or 43%) of FY 2021 total expenditures were unrelated to highways or transportation plans, programs, and projects. These unrelated expenditures included \$8.2M to the Mayors' Council of Guam's (MCOG) salaries and wages, of which only \$5.6M was appropriated by the Guam Legislature. Other unrelated expenditures, aligned with legislation, Title 11 Guam Code Annotated (GCA) Chapter 161 §161101(b) were the \$1M deposited into the Better Public Service Fund which is used to improve and modernize the Department of Revenue and Taxation's staff training and systems in its services to the public.

Since FY 2016, the CPF has not incurred expenditures and its ending balance remains at \$176K. This fund, also secured by GovGuam, accounts for highway constructions projects funded by bond proceeds.

Coronavirus (COVID-19) Pandemic Impact and Outlook

While FY 2021 continued to reflect a decrease due the effects of the COVID-19 pandemic, Guam's economy has begun to rebound. Motorist activity is on the rise as a result of increased vaccination rates. There is the expectation that things will go back to normal as people begin to feel safer about day-to-day business activities, and transportation needs driving the usage of fuel. As GovGuam lifts more restrictions and the tourism industry continues to improve, the collection of liquid fuel tax revenues aims to recover.

Material Weaknesses Related to Expenditure Accounts

Independent auditors identified one material weakness in GHF's internal control over financial reporting. A repeated concern from last year, GHF's expenditures on MCOG's salaries and wages exceeded the amount appropriated as stated by Public Law 35-99. In FY 2021, \$5.6M was appropriated, but \$8.2M was expended. The auditor's recommended to set internal controls in place to ensure total expenditures are periodically compared to total appropriations. According to DOA, internal controls will be reviewed to present recurrences of these excess expenditures as exceeding appropriations relating to salaries and wages are difficult to resolve and reconcile with Personnel Rules and Regulations.

FY 2021 Books Not Closed on a Timely Basis

In a separately issued management letter, independent auditors noted GHF's FY 2021 books were not closed in a timely manner. Additional man-hours incurred could have been avoided if an updated financial management system was in place. This is a repeat occurrence from last year and has been an issue as far as FY 2019. DOA has been in the process of procuring a new financial management system to address this issue but are currently still in the evaluation phase of the procurement.

Diesel Fuel Surcharges Not in Correct Fund

Independent auditors also cited diesel fuel surcharges recognized as GHF revenue, however, charges were supposed to be placed in a separate fund known as the Public Transit Fund. Compliance with 11 GCA Section 26503 is recommended to directly record the surcharges to the Public Transit Fund instead of the GHF.

Conflicting Laws Requires Attention of the Guam Legislature

5 GCA § 54102 created GHF for the purpose of performing maintenance on Guam's highways and roadways, in addition to implementing highway safety plans, programs and projects. Section § 54102 (e) states that "no part or portion of the monies in the Territorial Highway Fund (now GHF) or from whatever source derived shall be used for the maintenance or operation of a public transit system." However, Budget Appropriation Law, as in previous years continues appropriating funds from the GHF-CPF to the GRTA. The two conflicting laws requires addressing by the Guam Legislature to determine which law should be followed.

For more details on the use of GHF, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.