



OFFICE OF THE PUBLIC AUDITOR

Guam Public School System FY 2007 Financial Highlights

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Fiscal year (FY) 2007 marks the fifth consecutive year the Guam Public School System (GPSS) has been designated a high-risk grantee by the U.S. Department of Education (USDOE). In the last year, GPSS had four superintendents in three months. The turnover in top management exacerbates its weak accounting infrastructure as GPSS continues to struggle with its deficit, cash flow challenges, procurement, and growing accounts payable.

Nineteen audit findings were identified with \$509,950 in questioned costs compared to \$245,684 in FY 2006. In FY 2007, GPSS expenditures increased by \$8.1 million (M), from \$168.4M to \$176.5M with significant increases in salaries and benefits of \$16.5M. However, GPSS received \$24.5M more in government of Guam appropriations, \$177.4M compared to \$152.3M in FY 2006, which resulted in a \$2.3M increase in GPSS net assets. This increase in government appropriations reduced GPSS' deficit from \$48.3M in FY 2006 to \$46M.

Significant Increases in Salaries and Benefits

Salaries and benefits increased by \$16.5M or over 12%, to \$149.8M from \$133.3M in FY 2006. Other expenditure categories decreased in order to offset the large increase in salaries and benefits. Contractual expenditures decreased by \$4.3M, from \$12.5M in FY 2006 to \$8.2M in FY 2007. Supplies decreased dramatically by 75%, from \$3.8M to only \$943,000. Textbooks also declined substantially by 83%, from \$3.3M, to only \$583,000 in FY 2007. Capital Outlay declined by \$1.2M, or 79%, from \$1.5M in FY 2006 to \$308,000. Over the past four years salaries and benefits have increased from \$119.8M in FY 2004 to \$130.3M in FY 2005, and \$133.3M in FY 2006 to \$149.8M in FY 2007.

\$2.4 Million Excess of Revenues Over Expenditures

GPSS was able to decrease its deficit by \$2.4M as a result of a \$24.5M increase in Government of Guam appropriations. Although GPSS closed the year with an increase in net assets, vendor payables increased by \$3M from \$19.3M to \$22.3M in FY 2007. The largest vendor accounts payables include \$12M due to Guam Power Authority for a 2004 agreement to pay outstanding power bills, and \$11.3M due to the Government of Guam Retirement Fund for 2003 retirement contributions.

Revolving Door in Top Management

Among other concerns for GPSS high-risk status are fiscal accountability, and management's practices and controls with emphasis on management's stability and program and fiscal compliance. Of the four GPSS Superintendents, one was terminated by the Board, one held the position for less than two weeks before resigning, and the other two were designated as Interim Superintendents. As of June 2008, GPSS has yet to select a permanent Superintendent. USDOE urged GPSS to quickly stabilize the management structure of public education so that future grant awards are not jeopardized.

Improvement in Accounting Infrastructure Needed

GPSS has long suffered from a weak accounting infrastructure. Over one year has past since GPSS lost its Chief Financial Officer and the school system has yet to fill the vacancy. However, the GPSS Comptroller's presence has provided some stability to the fiscal division for nearly two years. GPSS' weaknesses are evident with the financial statement audit findings in FY 2007 that include untimely reconciliations, incomplete fixed asset registers, and untimely posting of audit adjustments. All five financial statement findings were material weaknesses and repeat audit findings. Auditors made 50 audit adjustments with the net effect of \$1.3M in net assets.

Single Audit Reports and Questioned Costs

Of the 19 findings, eight audit findings were considered material weaknesses¹ in federal programs, a notable increase compared to the four in FY 2006. The findings include, procurement, allowable cost, equipment management, grant matching, and program income. Additionally, GPSS had eight repeat findings from the prior year, including the inability to provide an accurate physical inventory of all property and equipment at the schools that reconcile with GPSS general ledgers.

Of the 19 findings identified in FY 2007, five findings had questioned cost totaling \$509,950, which more than doubled the reported questioned costs of \$246,000 in FY 2006. The questioned costs include: \$262,170 in the 50% matching grant expenditures requirement for Project Hatsa, \$149,625 for the improper procurement of bussing services, \$48,843 for the overpayment of employee retirement fund contributions, another \$34,142 for the procurement of equipment, and \$15,170 for failing to de-appropriate expired federal funds.

A repeat finding for more than six years is the continued disregard for non-appropriated funds (NAF) by school administrators and treasurers. Additionally, the accounting for NAF is frequently vested in personnel who are not capable or trained to handle the task. There are over 367 NAF accounts at the four high schools alone followed by another 223 from the secondary schools, and 320 from the elementary schools. NAF receipts expenditures total over \$1.5M annually.

GPSS unresolved questioned costs over the last decade have grown to \$10.7M. The largest questioned costs are derived from FEMA findings from 1998 to 2003 totaling \$6.3M. If GPSS is able to resolve these questioned costs, it will be a significant reduction leaving a balance of \$4.3M.

For a more detailed commentary of GPSS's operations refer to Management's Discussion and Analysis in the report or visit www.guamopa.org. Independent auditors Deloitte & Touche conducted the financial and compliance audits.

¹ A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.