



OFFICE OF THE PUBLIC AUDITOR

**EXECUTIVE SUMMARY**

Analysis of Salary Increments of the Government of Guam  
Report No. 05-07, December 2005

In September 2004, the 27<sup>th</sup> Guam Legislature passed P.L. 27-106, the Appropriation Act of the Government of Guam for FY 2005. Unlike the Budget Acts of previous years, this law contained specific provisions for the reinstatement of salary increments thereby lifting the three-year moratorium. In accordance with the law, eligible employees of the government were entitled to a single salary increment on October 2004 and multiple salary increments on May 2005.

Our analysis disclosed the Government of Guam paid approximately \$12.3 million to restore salary increments to eligible employees in fiscal year 2005. Specifically:

- \$4.7 million was paid to eligible employees of Executive Branch line agencies funded from the General Fund. Of the \$4.7 million, approximately \$3.7 million was paid to reinstate the one-step salary increment to 2,479 employees from 33 line entities. It cost an additional \$1 million to reinstate multiple salary increments to 1,642 employees for the nine-pay periods remaining in FY 2005.
- \$4.3 million was paid to restore salary increments to 2,122 eligible employees of autonomous agencies. Except Guam Memorial Hospital (GMH). GMH indicated that they did not have the available cash.
- \$2.5 million was spent to reinstate salary increments to eligible employees of the Guam Public School System.
- \$761,000 was spent to restore salary increments to eligible employees of the Judicial Branch. Of the \$761,000, approximately \$509,000 was paid to reinstate the one-step salary increment to 310 employees and \$252,000 was paid to reinstate multiple salary increments to 220 employees.
- Guam Housing and Urban Renewal Authority (GHURA) Board of Commissioners authorized the payment of salary increments throughout the moratorium on the basis that all of its funding is derived from federal grants.

In accordance with P.L. 27-106, the Executive Branch identified sufficient lapses from fiscal year 2004 to implement the restoration of salary increments to all eligible employees funded by the General Fund. However, the identification of lapsed appropriations does not translate into the Government of Guam having available cash.

The FY 2004 audited financial statements of the Government of Guam reported total liabilities of \$445 million, of which liabilities for tax refunds totaled \$226 million and other liabilities amounted to over \$219 million. As of September 30, 2004 the General Fund deficit was \$313.6 million.

The payment of salary increments in fiscal year 2005 and forward will increase the total amounts paid for salaries and benefits and may increase the General Fund deficit. The implication that the government has the available appropriated funds from prior years lapses provides a false sense of available cash resources. While most state and local governments may operate at a deficit, it is generally sound financial management for policymakers to secure necessary revenues and not erode the revenue base before incurring additional expenditures.

In May 2005, the Public Auditor wrote an article for the Pacific Daily News Sunday Forum, which stated, "It is doubtful that actual cash is readily available for salary increments. GovGuam can't have it both ways if it wants to increase spending it can't continue to reduce taxes". See appendix 1 for the full article.

Our analysis indicates that compliance with P.L. 27-106 was generally achieved throughout the Government of Guam. The Executive Branch line agencies, autonomous agencies, the Guam Public School System and the Judicial Branch had fully restored salary increments for eligible employees. GMH was the only exception; the agency did not restore salary increments to eligible employees in FY 2005 because of the lack of available cash.

Further, we found that beginning in FY 2002, GHURA did not adhere to the legislation placing a freeze on salary increments and continued to award salary increments to eligible employees. GHURA's Board of Commissioners authorized the payment of salary increments on the basis that all of its funding is derived from federal grants. However, GHURA's legal counsel cautioned the Board that this may be a violation of local law.

A draft report was provided to the Director of the Bureau of Budget and Management Research (BBMR), and the Director of the Department of Administration (DOA) for review and comment.

BBMR and DOA generally concurred with the results of the report, and noted in their response that General Fund Expenditures, to include the implementation of increments, did not exceed the FY 2005 \$447 million authorized budget level, that payroll costs have dropped significantly over the past three years, and there are approximately seven hundred fewer employees funded by General fund today.



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