

Guam Public School System Payroll Analysis

Legislative Mandate

**OPA Report No. 06-13
October 2006**

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October 30, 2006

Honorable Mark Forbes
Speaker
28th Guam Legislature
324 W. Soledad Ave.
Hagatna, Guam 96910

Luis S.N. Reyes
Superintendent of Education
Guam Public School System
PO Box DE
Hagatna, Guam 96932

RE: Submission of an analysis of historical Guam Public School System payroll data and estimated FY 2007 payroll expenditures as outlined by Public Law 28-149.

Dear Speaker Forbes and Superintendent Reyes:

Pursuant to Public Law (P.L.) 28-149 Chapter II Part I Section 1, the Public Auditor is required to approve the Guam Public School System's (GPSS) projected schedules of monthly cash disbursements for each school, division and program, by expenditure category, for the fiscal year. However, we are precluded by the Government Auditing Standards issued by the Comptroller General of the United States from performing management functions or making management decisions, such as approving or authorizing an entity's transactions.¹ This requirement ensures that government auditors do not impair their independence when auditing an entity's finances or operations.

On October 13, 2006, we met with the staff of the Committee on Finance, Taxation and Commerce to clarify the intent of the requirement and the Public Auditor's role. Due to the prohibition, which precludes the Public Auditor from approving the cash disbursement schedule, it was agreed that the Public Auditor would instead conduct a historical analysis of GPSS' expenditures and provide this data to the Legislature and the Director of the Department of Administration (DOA) as a tool to determine the appropriate monthly cash disbursements to GPSS for FY 2007.

In order to satisfy the intent of the requirement in a timely manner, the Public Auditor will conduct the analysis and report in stages, beginning with payroll (salaries and benefits), which comprise the majority of the GPSS budget, followed by other object classes such as utilities and contractual.

¹ Section 3.03

On October 12, 2006, the Superintendent of Education submitted to the Legislature and the Public Auditor the GPSS cash disbursement schedule amounting to \$185,915,407. This exceeded the \$172,957,804 budgeted amount approved for GPSS operations by \$12,957,603. We further noted that the submitted cash disbursement schedule for the various object classes was evenly divided as follows: salaries and benefits by 26 pay periods; and the various object classes by the 12 months of the fiscal year.

Methodology

In conducting the analysis of salaries and benefits, we obtained FY 2006 payroll data and established a historical trend. The analysis shows that payroll expenditure levels, with the exception of lower payroll expenditures seen in five pay periods occurring during the summer months, were fairly consistent.² This decline may be caused by teachers opting for the 9-month pay option instead of the 12-month pay option. See Exhibit 3 for the expenditures trend.

We obtained actual labor cost data for pay periods ending September 16, 2006 and September 30, 2006 to establish actual GPSS payroll expenditures paid for with local funds. These pay periods already incorporate the fourteen percent (14%) teacher salary adjustment recommended by DOA and required by P.L. 28-68, as well as the seventeen percent (17%) pay differential authorized for school principals and assistant school principals and any adjustments for incumbent associate and assistant associate superintendents. The average payroll cost of the two pay periods was \$5,998,205.³ This average was used as the base amount for "average-periods." This base amount was discounted to adjust for the periods that historically have lower payroll expenditures. See Exhibit 1 for methodology and mathematical illustrations.

Based on historical data, the calculation indicates the estimate FY 2007 total costs for salaries and benefits to be \$152,379,574. This amount is inclusive of the 1.13% increase in the retirement fund contribution rate from 21.81% to 22.94% effective pay period ending October 14, 2006⁴ as mandated by P.L. 28-150, but does not consider any anomalies including changes to personnel (i.e.: retirement, resignation, hiring) that may occur in FY 2007. See Exhibit 2 for the analysis.

We will revisit the analysis after the completion of the first quarter of FY 2007. To date, GPSS is still in the process of making retroactive payments to personnel affected by the various pay adjustments. We anticipate that by the end of the first quarter, payroll costs will have reflected the effects of the pay adjustments and 1.13% increase in retirement fund contributions, which will then be a better basis for which to refine the estimation base used in the calculation.

We would like to take the opportunity to thank the Legislature for the confidence in our office to provide the Department of Administration and GPSS with a management tool that they can use

² The five pay periods with low payroll costs are referred to as "low-periods" in the analysis. All other months are referred to as "average-periods."

³ Actual labor costs for pay period ended September 16, 2006 was \$5,819,867.53. Actual labor costs for pay period ended September 30, 2006 was \$6,176,542.81.

⁴ The first full pay period of FY 2007.

to carry out their respective goals and objectives. We look forward to providing other reports as may be asked by the Legislature to effectively fulfill its role as Guam's law makers.

Senseramente,



Doris Flores Brooks, CPA, CGFM
Public Auditor

cc: Governor of Guam
Director, Department of Administration
Chairman, Guam Education Policy Board

METHODOLOGY:

(1) A payroll expenditures trend was established using actual payroll expenditures for FY 2006, which is inclusive of all local and federal funds. Although the last four pay periods in FY 2006 were affected by the increases in pay (the 14% increase in pay for teachers and other pay adjustments for school principal, assistant school principals, and associate superintendents took effect beginning the latter portion of PPE 9/16/06 and retro payments were made in subsequent pay periods), a similar expenditure pattern existed in FY 2005 with no unusual items.

(2) In general, the payroll expenditures were fairly consistent except for pay periods 19 through 23, referred to as "low-periods." Other pay periods are referred to as "average-periods." For the analysis, the "average periods" and the "low-periods" were treated as two separate subgroups.

(3) General fund labor cost data from PPEs 9/16/06 and 9/30/06, the most recent data available at the time of the analysis, was utilized. The pay adjustments described in (1) above took effect in the latter part of PPE 9/16/06 and total costs as of PPE 9/30/06 includes retroactive payments. Because amounts from both PPEs are not representative of close-to-actual costs, an average of the two was derived for use in the analysis. An adjustment calculated by dividing the "low-periods" average expenditure by the "average-periods" average expenditure. This percentage was applied to the average of the payroll costs of the two pay periods in establishing the "low-periods" base.

(4) Two bases were established. The base amount for the "average-periods" was derived by multiplying the average expenditure by 21 (# of "average-periods"). The base amount for "low-periods" was derived by multiplying the average expenditure by 5. This process was repeated for both salaries and benefits.

(5) A percent of total, with "average-periods" representing one subgroup and "low-periods" representing another subgroup was calculated for each pay period. In calculating estimated payroll cost for FY 2007, the base amounts are then multiplied by the % of total calculated for each pay period. See Exhibit 2 for mathematical illustrations.

	A	B	(A + B) / 2 = C
Average Salaries and Benefits			
(Based on labor cost - Gen Fund only)	PPE 9/16/06	PPE 9/30/06	Average
Salaries	\$ 4,933,232.31	\$ 4,640,219.52	\$ 4,786,725.92
Benefits	\$ 1,243,310.50	\$ 1,179,648.01	\$ 1,211,479.26
Total	\$ 6,176,542.81	\$ 5,819,867.53	\$ 5,998,205.17

	Total FY 2006 Expenditures	Per Pay Period Average
Average Per Pay Period Expenditure		
"Low-periods"		
(highlighted items in Exhibit 2)	\$ ^D 27,651,717.04	\$ 5,530,343.41
"Average-periods" (all others)	\$ ^E 139,014,726.11	\$ 6,619,748.86
Total	\$^F 166,666,443.15	

	G
Adjustment for "Low-periods"	
"Low-periods" average expenditures	83.54%
"Average-periods" average expenditures	

	C	C x 21 = J
Base Calculation: "Average-periods"	Per Pay Period	Total (21 Pay Periods)
Average salaries	\$ 4,786,725.92	\$ 100,521,244.22
Benefits	\$ 1,211,479.26	\$ 25,441,064.36
1.13% Increase in retirement fund contribution rate effective FY 2007	\$ 54,090.00	\$ 1,135,890.06
Total	\$ 6,052,295.17	\$ 127,098,198.63

	C x G = H	H x 5 = I
Base Calculation: "Low-periods"	Per Pay Period	5 Pay Period Total
Average salaries x 83.54%	\$ 3,998,979.22	\$ 19,994,896.08
(Benefits + increase in retirement fund contribution) x 83.54%	\$ 1,057,295.79	\$ 5,286,478.95
Total	\$ 5,056,275.01	\$ 25,281,375.03

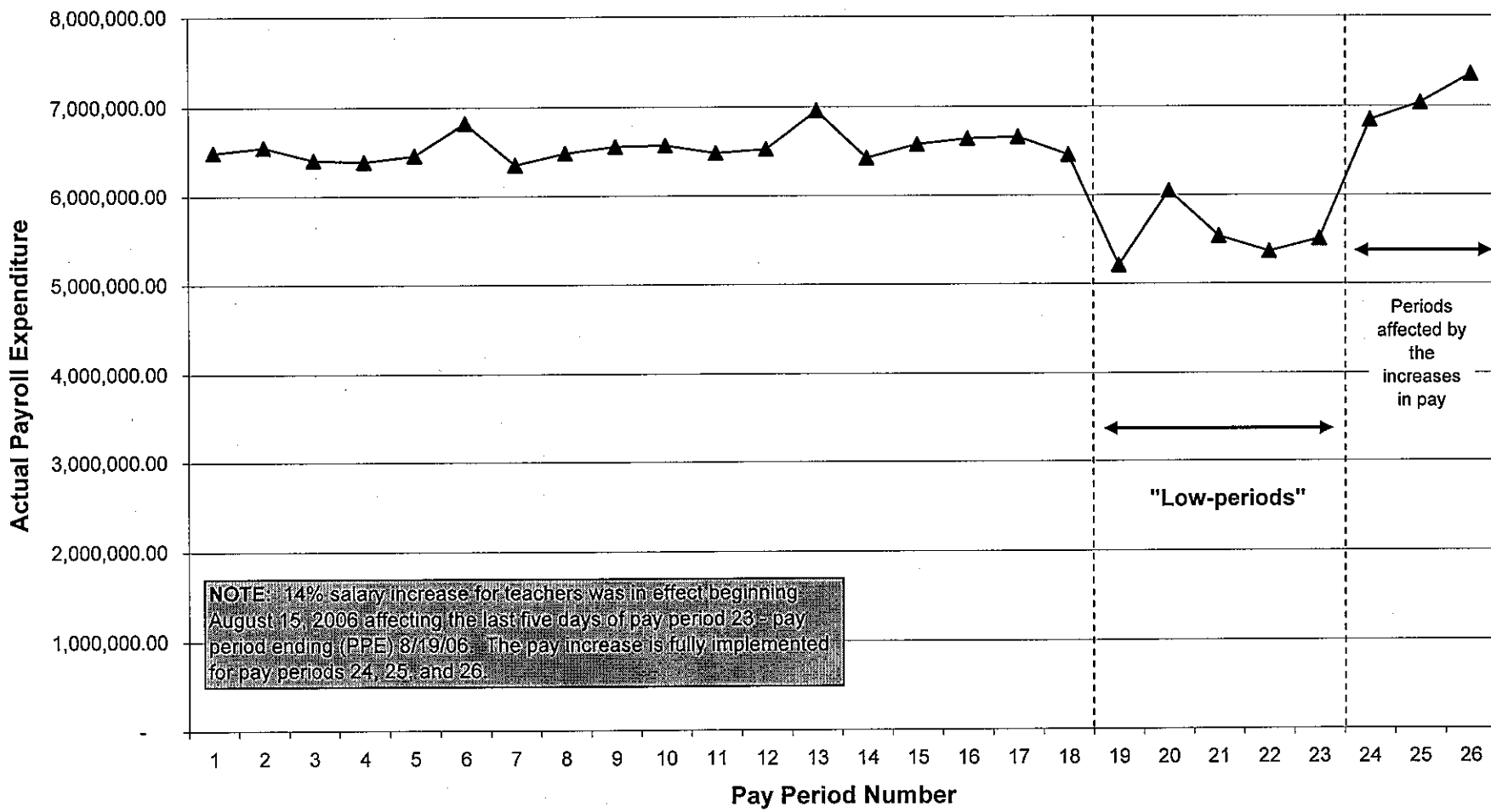
Calculated FY 2007 Expenditures \$ 152,379,573.65

CALCULATED GPSS FY 2007 GENERAL FUND PAYROLL EXPENDITURES

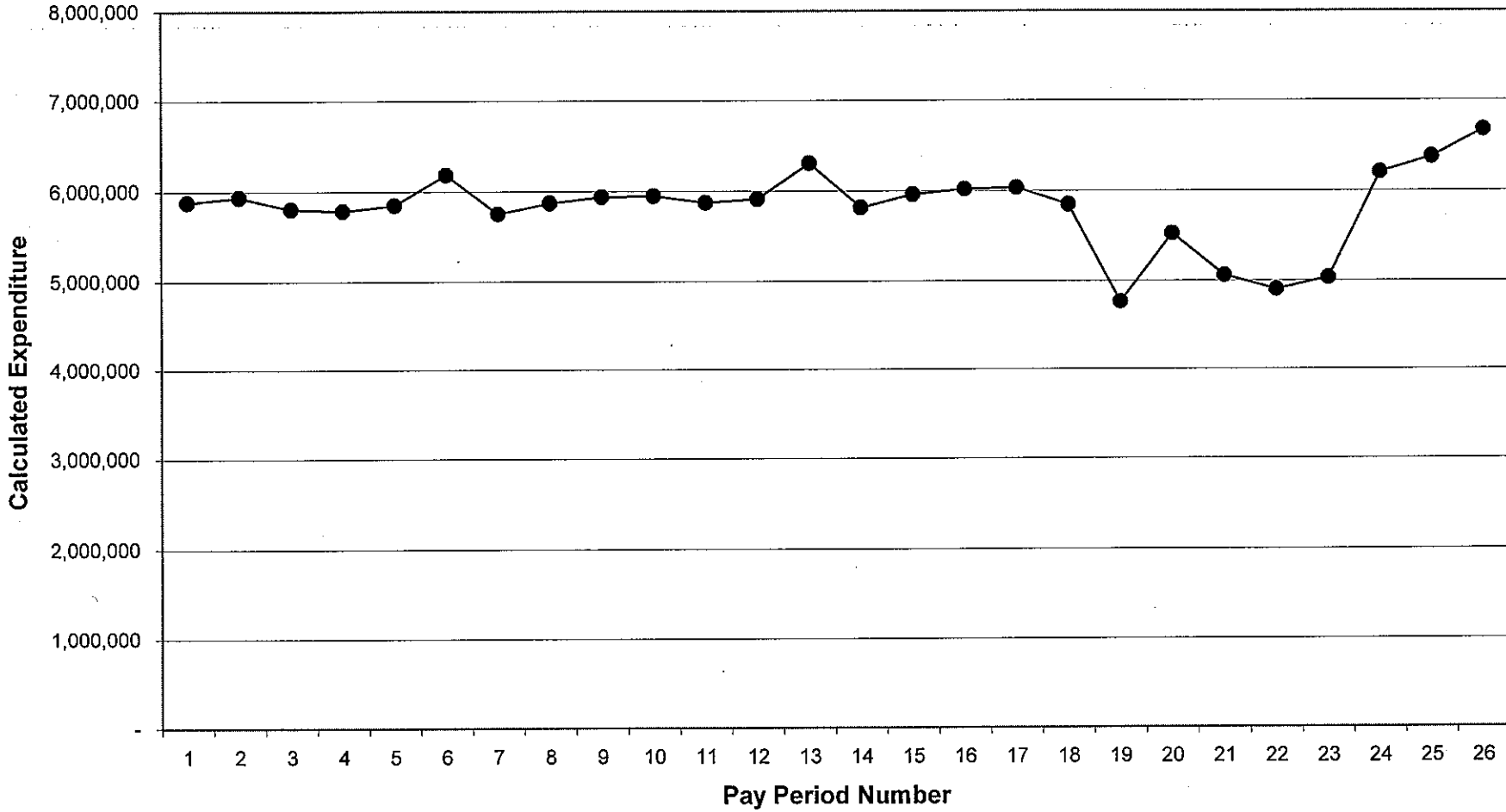
GPSS FY 2006 ACTUAL PAYROLL EXPENDITURES (FEDERAL AND LOCAL)						CALCULATED FY 2007 PAYROLL COST (LOCAL FUNDS ONLY)					
Month	PPE	Pay Period #	K Gross Payroll	L Gov't Contribution	(K + L) = M Gross + Gov't Contribution	N Percent of Total	(N x I or J) = O Salaries	(N x I or J) = P Benefits	(O + P) = Q Pay Period Total	Monthly Total	Month
OCT	10/15/05	1	5,174,475.53	1,312,830.74	6,487,306.27	4.67%	4,690,956.97	1,240,248.77	5,931,205.74	11,918,795.33	October
OCT	10/29/05	2	5,229,693.95	1,319,282.64	6,548,976.59	4.71%	4,735,550.64	1,252,038.95	5,987,589.59		
NOV	11/12/05	3	5,102,165.00	1,303,626.34	6,405,791.34	4.61%	4,632,013.70	1,224,664.68	5,856,678.37	11,696,022.45	November
NOV	11/26/05	4	5,083,386.86	1,303,444.94	6,386,831.80	4.59%	4,618,304.10	1,221,039.97	5,839,344.07		
DEC	12/10/05	5	5,135,821.58	1,319,577.56	6,455,399.14	4.64%	4,667,884.99	1,234,148.74	5,902,033.73	12,138,417.29	December
DEC	12/24/05	6	5,512,135.09	1,308,962.00	6,821,097.09	4.91%	4,932,320.38	1,304,063.18	6,236,383.56		
JAN	01/07/06	7	5,053,652.83	1,294,383.40	6,348,036.23	4.57%	4,590,251.11	1,213,623.00	5,803,874.11	11,728,542.52	January
JAN	01/21/06	8	5,162,318.95	1,317,837.07	6,480,156.02	4.66%	4,685,786.64	1,238,881.78	5,924,668.41		
FEB	02/04/06	9	5,233,938.33	1,319,389.69	6,553,328.02	4.71%	4,738,697.15	1,252,870.86	5,991,568.01	11,994,275.69	February
FEB	02/18/06	10	5,196,727.99	1,368,784.13	6,565,512.12	4.72%	4,747,507.45	1,255,200.23	6,002,707.68		
MAR	03/04/06	11	5,154,970.57	1,325,993.62	6,480,964.19	4.66%	4,686,371.02	1,239,036.29	5,925,407.31	18,252,909.97	March
MAR	03/18/06	12	5,190,635.89	1,334,649.51	6,525,285.40	4.69%	4,718,419.59	1,247,509.65	5,965,929.24		
APR	04/01/06	13	5,612,302.97	1,345,721.58	6,958,024.55	5.01%	5,031,332.32	1,330,241.09	6,361,573.42	11,884,890.97	April
APR	04/15/06	14	5,089,627.94	1,331,996.37	6,421,624.31	4.62%	4,643,462.48	1,227,691.64	5,871,154.12		
APR	04/29/06	15	5,236,909.24	1,340,666.13	6,577,575.37	4.73%	4,756,230.35	1,257,506.49	6,013,736.85		
MAY	05/13/06	16	5,281,930.79	1,358,963.32	6,640,894.11	4.78%	4,802,016.00	1,269,611.82	6,071,627.82	12,160,084.43	May
MAY	05/27/06	17	5,310,387.92	1,348,912.82	6,659,300.74	4.79%	4,815,325.79	1,273,130.82	6,088,456.61		
JUN	06/10/06	18	5,162,900.12	1,290,543.06	6,453,443.18	4.64%	4,666,470.64	1,233,774.80	5,900,245.44	10,662,156.40	June
JUN	06/24/06	19	4,083,184.68	1,125,195.58	5,208,380.26	18.84%	3,766,168.37	995,742.60	4,761,910.97		
JUL	07/08/06	20	4,880,049.73	1,164,323.81	6,044,373.54	21.86%	4,370,673.28	1,155,568.51	5,526,241.79	10,586,027.31	July
JUL	07/22/05	21	4,400,431.92	1,133,751.14	5,534,183.06	20.01%	4,001,755.66	1,058,029.86	5,059,785.52		
AUG	08/05/06	22	4,244,106.29	1,116,031.40	5,360,137.69	19.38%	3,875,903.83	1,024,755.71	4,900,659.55	9,933,436.75	August
AUG	08/19/06	23	4,318,579.48	1,186,063.01	5,504,642.49	19.91%	3,980,394.94	1,052,382.27	5,032,777.20		
SEP	09/02/06	24	5,449,018.04	1,398,338.56	6,847,356.60	4.93%	4,951,308.57	1,309,083.50	6,260,392.07	19,424,014.54	September
SEP	09/16/06	25	5,623,280.60	1,411,996.09	7,035,276.69	5.06%	5,087,193.18	1,345,010.22	6,432,203.40		
SEP	09/30/06	26	5,879,570.10	1,482,976.25	7,362,546.35	5.30%	5,323,841.15	1,407,577.92	6,731,419.07		
TOTAL			132,802,202.39	33,864,240.76	166,666,443.15	200% *	120,516,140.29	31,863,433.36	152,379,573.65	152,379,573.65	

* Highlighted items represent one subgroup equating to 100%, and the remainder represent another subgroup (100%). See Exhibit 1: Methodology and Conclusion.

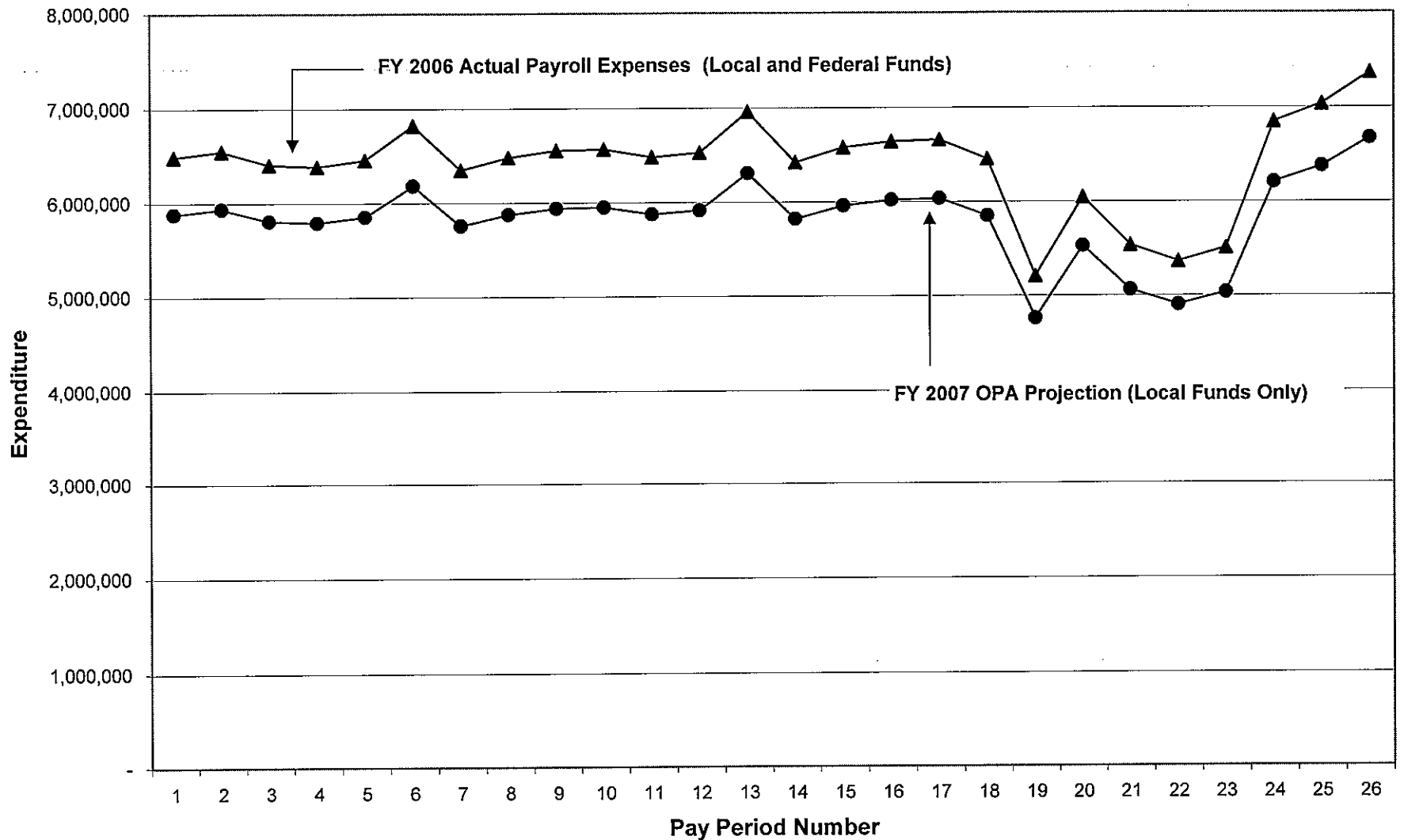
GPSS FY 2006 Actual Payroll (Salaries and Benefits) Expenditures (Inclusive of Federal and Local Funds)



Calculated FY 2007 Payroll (Salaries and Benefits) Cost (Local Funds Only)



GPSS FY 2006 Actual Payroll Expenditures and Calculated FY 2007 Payroll Cost



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