



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Submission of FY 2007 2nd Quarter Financial Reports
Report No. 07-07, July 2007

This report represents our review on the submission of fiscal year (FY) 2007 quarterly financial, staffing pattern, and other special reports for second quarter, covering the period of January 1, 2007 through March 31, 2007, pursuant to P.L. 28-149, 28-150, and 29-02, referred to as the “Amended General Appropriations Act of 2007”.

While P.L. 29-02 requires agencies to submit reports (1) manually, (2) electronically, and (3) post on the entity’s website, there were significant modifications and additions. These changes included repealing the deappropriation penalty and modifying the staffing pattern reports from monthly to quarterly submittals. The biggest impact is the non-compliance of reporting requirements, effective for the third quarter financial reports, where each director¹, deputy, and chief financial officer shall have his or her gross salary reduced by 20% for failing to comply with these requirements. However, P.L. 29-02 did not specify when the penalty will occur. For the second quarter, no penalty was imposed. OPA was required to provide notice to each agency head of their reporting requirements. These notifications are effective for the third quarter of FY 2007 and can be found on our website at www.guamopa.org.

Quarterly Financial Reports

For the second quarter, we saw a dramatic improvement to almost full compliance among the 58 entities that submitted their reports either by the April 30 due date or by the May 15th grace period and meeting all three reporting conditions. The only exception was the Guam Preservation Trust (GPT), which submitted their report in June 2007. See Appendix 1 for details of quarterly financial reports.

By law the quarterly financial reports should be in the form of financial statements or revenue and expenditure reports. We continued to note that presentation of such financial information was inconsistent among the 58 entities:

- 39 entities or 67% used either the budget digest (24 entities) or financial statement format (15 entities); and
- 19 entities or 33% did not comply with the reporting format and presented their financial information using single lump sum totals for appropriations, expenditures, and encumbrances.

These 19 entities will be penalized the 20% salary reduction for the third quarter should they continue to report their financial information by lump sum totals.

¹ A director shall included but not limited to a department head, agency, autonomous and semi-autonomous agency, public corporation, Education Superintendent, Presidents of the University of Guam and the Guam Community College. The General Manager of the Guam Educational Telecommunication Corporation, the Director of the Guam Public Library System, the Executive Directors of the Mayors’ Council of Guam and the Guam Legislature, and the Administrator of the Courts of Guam.

Quarterly Staffing Patterns²

P.L. 29-02 modified the monthly staffing pattern reports to quarterly submittals, retroactively to the first quarter of FY 2007. The staffing pattern reports are to be submitted in the Executive Branch format of the FY 2007 Budget Call, to include the name of the employee, position title, salary, increment costs and benefit costs for each employee, funding source, and posted on the agency website. The due date for quarterly staffing pattern reports is the first day following the end of the quarter.

For the second quarter, a significant number of entities complied with all three reporting conditions. See Appendix 2 for details of quarterly staffing pattern reports.

- 37 entities³ or 64% complied with the quarterly staffing pattern submittals, meeting all three reporting conditions.
- 3 entities, the Guam International Airport Authority and the Guam Visitors Bureau did not disclose the names on their employees on their electronic copy or post them on their respective websites; and the Guam Waterworks Authority did not disclose their employee names in their reports.
- 15 entities or 26% did not comply with the quarterly staffing pattern submittals by meeting all three reporting conditions.
 - 10 entities met two of the three reporting conditions.
 - 3 entities met only one of the three reporting conditions.
 - 2 entities, the Guam Medical Referral Office and the Guam Power Authority did not submit any quarterly or monthly staffing pattern reports.
- 3 entities, the Guam Board of Accountancy, GPT, and the Public Utilities Commission did not submit their staffing pattern reports, as their employees are not considered government of Guam employees, although these entities receive appropriations.

These 18 entities will be penalized to the 20% salary reduction for the third quarter should they continue not to comply with the quarterly staffing pattern reporting requirements, including disclosure of names or meet all three reporting conditions.

Requiring entities to submit quarterly staffing pattern reports one day after the quarter ends is not a reasonable expectation because it imposes an undue burden for those agencies that have large numbers of employees in such a short timeframe. The requirement to have employee names on staffing pattern reports and posted on entity websites is a dilemma for government managers as it is an issue of public versus private records. A full commentary is provided in the report.

Prior Years' Obligations

Chapter VI, Section 8 of P.L. 28-150 required each department report at the end of each quarter and post on its website, all payments of the previous quarter's prior year obligations by payee, payment date, amount paid, purpose, and reason why no payment was made in the prior year. OPA inadvertently overlooked this requirement in the first quarter and is now reporting for the second quarter. Of the 58 entities:

² As reported in the first quarter, our tracking of quarterly staffing pattern reports was limited to reports transmitted to OPA.

³ Tracking of staffing pattern reports for the second quarter was limited to reports transmitted to OPA.

- 3 entities, the Department of Corrections, the Department of Public Works, and the Guam Police Department submitted a report on their prior years' obligations and met all three reporting conditions.
- 55⁴ entities did not comply with all their reporting conditions.

These 55 entities will be penalized the 20% reduction should they continue not to comply with the prior years' obligations reporting requirement. See the report for details.

Non-Appropriated Funds

Entities were also to report on their non-appropriated fund⁵ (NAF) accounts. In coordination with the Department of Administration (DOA), we identified 18 entities that have NAF accounts.

- 7 entities complied with the submission of their NAF reports and met all three reporting conditions.
- 11 entities did not comply with the NAF reporting requirement.
 - 5 entities met only two of three reporting conditions and
 - 6 did not submit any NAF reports.

These 11 entities will be penalized the 20% salary reduction should they continue not to comply with the NAF reporting requirements or not meet all three reporting conditions. See the NAF segment of the report for details.

The Mayors' Council of Guam (MCOG) and the 19 Mayors are also required to submit a report on their NAF accounts. 16 Mayors submitted manual reports but did not submit an electronic report or post the reports on the website. The MCOG and three Mayors did not submit any NAF reports. The electronic and posting on the web requirements continues to be problematic for the MCOG and the Mayors. For the third quarter, the Executive Director will be penalized the 20% salary reduction should the MCOG and the Mayors continue not to comply with this reporting requirement or not meet all three reporting conditions. See the Special Reports segment of the report for details.

Reporting of Non Profit or Non-Governmental Organizations

All non-profit organizations (NPO), that received separate appropriations, are required to submit a quarterly report to their respective overseeing government entities. We identified four overseeing entities: the Department of Agriculture (Agriculture); the Department of Mental Health & Substance Abuse (DMHSS); the Department of Youth Affairs (DYA), and the Judiciary of Guam (Judiciary). Three government entities: Agriculture, DYA and the Judiciary and one non-profit organization, Sanctuary, Inc., submitted quarterly reports. DMHSS did not comply with this reporting requirement and will be subject to the 20% salary reduction for the third quarter of FY 2007, if they do not comply.

Special Reports

For the second quarter, we identified 17 agencies required to submit 41 special reports.

⁴ OPA was one of the 57 entities that did not report prior years' obligations. As of June 2007, we notified the Speaker's Office that we did not have any carryovers into FY 2007 for the first and second quarters of FY 2007.

⁵ Non-appropriated funds are separate accounts, which have access to receipts and disbursements, to include any funds derived from but not limited to private contributions, donations, agency fees, and fund-raising events. These funds are controlled and managed exclusively by the entity to supplement projects or programs without legislative oversight.

- 3 entities complied by submitting all of their special reports and meeting all three reporting conditions. These entities were DOA, DPW, and GCC.
- 3 entities met some of their special reporting requirements but not all. These entities were DPHSS, GPSS, and UOG.
- 10⁶ entities did not comply with meeting all three reporting conditions or did not submit any special reports.
- 1 entity, the Judiciary, is not required to submit its special report until December 31, 2007.

For the third quarter, these 13 entities will be penalized the 20% salary reduction should they continue not to comply with submitting their required special reports or meeting all three reporting conditions. See Appendix 3 for a summary of special reports.

Conclusion

Overall, compliance with the FY 2007 Budget Acts increased significantly in the second quarter. We saw improvement with the submissions of general and special reporting requirements and with more entities meeting all three reporting conditions: (1) manually, (2) electronically, and (3) posting on the web, however, this continues to be a work-in-progress. We suggest the Legislature provide due dates to special reports where no due dates were specified and amend the due date for quarterly staffing pattern reports from one day after the quarter ends to 30 days after the quarter ends.

The success of the financial reporting should be a collaborative effort of the agency/department heads, the OFB, BBMR, and OPA, which all play an integral part of the quarterly financial reporting process. These entities should meet quarterly to address issues and concerns to improve the reporting process. Managers perform periodic reviews, reconciliations or comparisons of data as part of management's continuous monitoring to achieve organizational goals and objectives and to monitor internal controls. OFB analyzes agency-spending proposals and revenue estimates submitted by agencies, holds public hearings, and seeks further information from agency staff and BBMR. BBMR approves "establishment of accounts" once the agency budgets are approved and keeps a close watch throughout the year on the flow of revenue and the pattern of expenditures against projections. The information is reflected in quarterly reports provided to the Legislature. These reports serve as a basis of financial management during the fiscal year, and alert both the Governor and the Legislature to potential problems in maintaining budget balance as the fiscal year unfolds.⁷



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⁶ These entities are BBMR, DOC, DMHSA, GBOA, GFD, GMRO, GMHA, GPD, MCOG, and the Governor's Office.

⁷ Excerpt from New York State Citizen's Guide at www.budget.state.ny.us.