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The Department of the Interior has not prepared the Government of Guam adequately for increased self-reliance--a necessary step in achieving the basic U.S. policy of Guam's self-determination. Findings/Conclusions: Guam's current fiscal crisis underscores the need for Interior's assistance in developing a strong financial management capability. Guam's inadequate budgeting process, inaccurate and untimely accounting system, inability to collect accounts receivable, over-expansion of Government operations, shortages of qualified middle managers, and ineffective Federal oversight have hindered Guam's progress toward self-reliance. Recommendations: The Secretary of the Interior should increase and broaden technical assistance to the Government of Guam. Specifically, the Secretary should use the capabilities of the Office of Territorial Affairs or other necessary resources to help the Government of Guam: establish a financial management system that includes improved budgeting and accounting methodology and controls; develop a master plan for capital improvement and economic development projects; expand vocational educational programs to produce a local labor force for construction projects; slow the trend toward increased reliance on the Government of Guam to provide employment; and provide training for Government of Guam employees in managerial positions. The Secretary should also assess the status of, and degree to which, recommendations in previous reports of the Government Comptroller have been put into operation and submit to the Congress his analysis and comments to assist in congressional consideration of proposed financial assistance. (Author/SC)

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REPORT TO THE CONGRESS

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Technical Assistance: A Way To Promote Better Management Of Guam's Resources And To Increase Its Self-Reliance

Department of the Interior

The Department of the Interior has not prepared the Government of Guam adequately for increased self-reliance—a necessary step in achieving the basic U.S. policy of Guam's self-determination.

Guam's current fiscal crisis underscores the need for Interior's assistance in developing a strong financial management capability. Guam's inadequate budgeting process, inaccurate and untimely accounting system, inability to collect accounts receivable, over-expansion of Government operations, shortages of qualified middle managers, and ineffective Federal oversight have hindered Guam's progress toward self-reliance.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

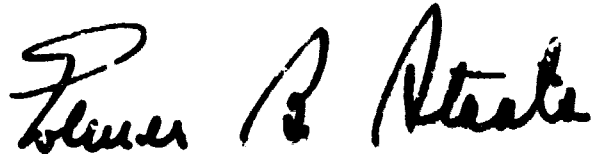
B-145742

To the President of the Senate and the
Speaker of the House of Representatives

This report describes financial problems on the island of Guam. It discusses the need for improved budgeting, accounting, and reporting by the Government of Guam and recommends that the Secretary of the Interior provide necessary technical assistance to help Guam establish an adequate financial management system.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); and the Organic Act of Guam (48 U.S.C. 1422d).

We are sending copies of this report to the Secretary of the Interior and the Director, Office of Management and Budget.


Comptroller General
of the United States

**COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS**

**TECHNICAL ASSISTANCE: A WAY
TO PROMOTE BETTER MANAGEMENT
OF GUAM'S RESOURCES AND TO
INCREASE ITS SELF-RELIANCE**
Department of the Interior

D I G E S T

Inadequate financial management within the Government of Guam has slowed the territory's progress toward self-determination--the basic U.S. policy for Guam. Continued deterioration of Guam's financial position has adversely affected its services to the public, has led to increased need for Federal assistance, and has limited the effectiveness of Federal expenditures.

Inadequate funding and financial management deficiencies have had a detrimental impact on the quality of public services, such as education, health, telephone, and Federal grant programs. For example, lack of funds for education fostered serious consideration to establishing a separate school system for U.S. military dependents. Additional Federal assistance became necessary to ease the military's concerns.

Lack of local funds and improper use of Federal grant moneys have also disrupted grant services. Several grant administrators could not fully implement Federal grant programs and experienced unnecessary delays in making grant expenditures due to Guam's cash flow problems. (See ch. 4.)

During fiscal years 1970-76, Guam's General Fund operations accumulated a deficit of \$44.5 million. The entire bank account reached precariously low levels and was overdrawn twice in July 1976. Cumulative operating losses in a number of Government-owned public enterprise agencies totaled \$47.1 million at the end of fiscal year 1975. (See ch. 2.)

The recent economic recession and Guam's weak economic base contributed to its

Government's financial woes. Additional major factors in Guam's financial situation include

- an inadequate budgeting process,
- an inaccurate and untimely accounting system,
- an inability to collect moneys due,
- an overexpansion of Government operations, and
- shortages of qualified middle managers.

The U.S. Government Comptroller for Guam has called attention to these deficiencies, but they remain uncorrected. These deficiencies and other problems demonstrate the need for more effective Federal oversight and technical assistance. (See ch. 3.)

Guam's financial difficulties have led to requests for additional Federal funds. The Guam Power and Telephone Authorities received authorizations for \$63 million in Federal loans and guarantees in fiscal year 1976. The Department of the Interior is considering Guam's requests for special appropriations up to \$171 million to supplement Guam's tax revenues and to fund capital improvement projects.

Capital improvement projects could provide needed facilities and promote economic development of Guam's limited economic base. However, uncorrected management deficiencies relating to previously federally funded construction projects and inadequate study and technical assistance in developing the current proposal could limit the effectiveness of future Federal funding. (See ch. 5.)

RECOMMENDATIONS

To carry out the U.S. policy of self-determination for Guam, the Secretary of the Interior should increase and broaden technical assistance to the Government of Guam. Specifically, the Secretary should

use the capabilities of the Office of Territorial Affairs or other necessary resources to help the Government of Guam

- establish a financial management system that includes improved budgeting and accounting methodology and controls,
- develop a master plan for capital improvement and economic development projects,
- expand vocational education programs to produce a local labor force for construction projects,
- slow the trend toward increased reliance on the Government of Guam to provide employment, and
- provide training for Government of Guam employees in managerial positions.

The Secretary should also:

- Assess the status of, and degree to which, recommendations in previous reports of the Government Comptroller have been put into operation.
- Submit to the Congress his analysis and comments to assist in congressional consideration of proposed financial assistance and in oversight of the progress Guam is making toward self-determination. (See ch. 6.)

The Department of the Interior agreed with many of GAO's findings and recommendations. Interior said the report presented an accurate overview of the problems facing Guam and reflected its inability to cope effectively with or resolve successfully major financial and management issues reported by the Government Comptroller year after year. Interior stressed that it has no authority to implement Government Comptroller recommendations.

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I Letter dated May 18, 1977, from the Office
of the Secretary of the Interior

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ABBREVIATIONS

DOI Department of the Interior
GAO General Accounting Office
GOVGUAM Government of Guam
GPA Guam Power Authority
HEW Department of Health, Education, and Welfare
REA Rural Electrification Administration

CHAPTER 1

INTRODUCTION

Self-determination is the basic U.S. policy toward the territory of Guam. We believe this policy encompasses the concepts of both local self-government and increased self-reliance. Guam's success in achieving the latter depends on the Government of Guam's (GOVGUAM's) ability to effectively manage its financial resources, thereby lessening, or at least stabilizing, the level of U.S. financial support. However, due to a recent fiscal crisis, GOVGUAM has requested various forms of additional Federal financial assistance.

Our review was made to evaluate the extent and causes of GOVGUAM's fiscal problems and to identify their impact on local public services and the Federal Government. This report discusses the need for major improvements in financial management, the effectiveness of Federal oversight, and the level of technical assistance provided to GOVGUAM.

GUAM--ITS PEOPLE AND GOVERNMENT

Guam is a U.S. territory in the Pacific Ocean about 3,500 miles southwest of Hawaii. Federal employees, military personnel, and their dependents account for over one-fourth of the island's population of about 105,000.

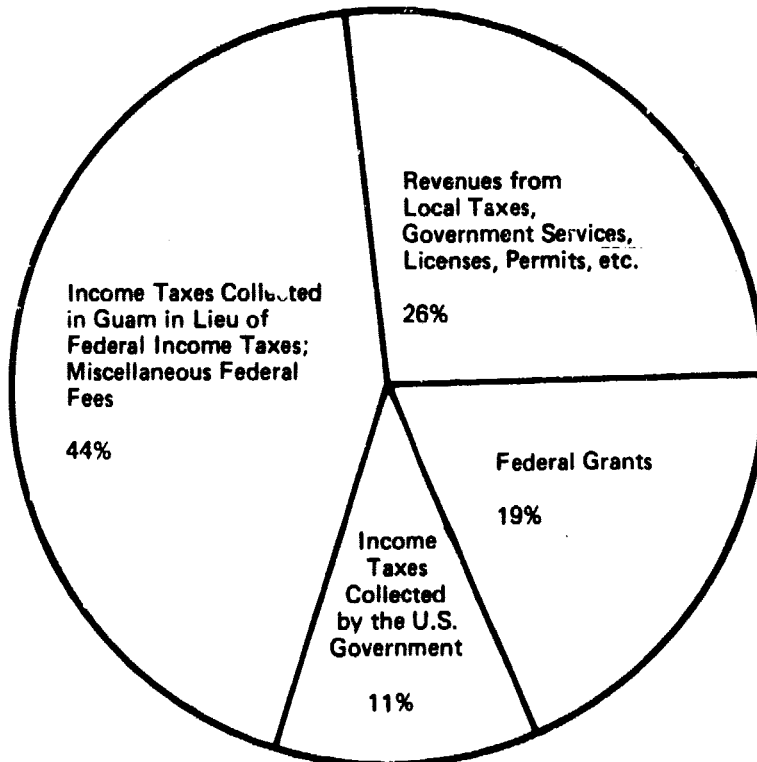
Guam was ceded to the United States by Spain pursuant to the 1898 Treaty of Peace following the Spanish American War. Except for the period of Japanese occupation during World War II, Guam remained under the administration of the Department of the Navy until passage of the Organic Act of Guam (48 U.S.C. 1421) in 1950. This act was the first step toward local self-government and self-determination for Guam by granting U.S. citizenship to Guamanian citizens and providing for a popularly elected legislature.

Until 1968 the Governor of Guam was appointed by the President. The Guam Elective Governor Act (48 U.S.C. 1422) provided for a popularly elected Governor and established the Office of the Government Comptroller for Guam within the Department of the Interior (DOI). The Government Comptroller, under the Office of Territorial Affairs, is charged with overseeing the substantial Federal funds going to GOVGUAM and promoting economy and efficiency of governmental operations.

HOW GOVGUAM PROGRAMS ARE FUNDED

The Organic Act of Guam made all Federal income tax laws applicable in the territory and provided that revenues from such taxes be deposited in the Treasury of Guam. Local residents and business concerns pay their income taxes directly to GOVGUAM, whereas Federal income taxes paid by U.S. Government employees, including the military, are collected by the Federal Government and returned to the Treasury of Guam. Guam also receives immigration, passport, and other Federal fees collected on the island, as well as various Federal grants.

The following chart shows that about 75 percent of GOVGUAM's fiscal year 1976 General Fund revenues of \$114 million were attributed directly, or indirectly, to the Federal Government.



**GOVGUAM REVENUE SOURCES
(Preliminary Fiscal Year 1976 Data)**

Since 1963 GOVGUAM has also received Federal authorizations for \$75 million in rehabilitation grants and loans, a \$5 million Economic Development Fund, a \$20 million emergency appropriation following a May 1976 typhoon, and \$63 million in Federal loans and guarantees for the Government-owned Power and Telephone Authorities. At the time of our review, DOI was reviewing a GOVGUAM request for special appropriations of \$171 million, primarily to supplement tax revenues and to fund capital improvement projects.

CHAPTER 2

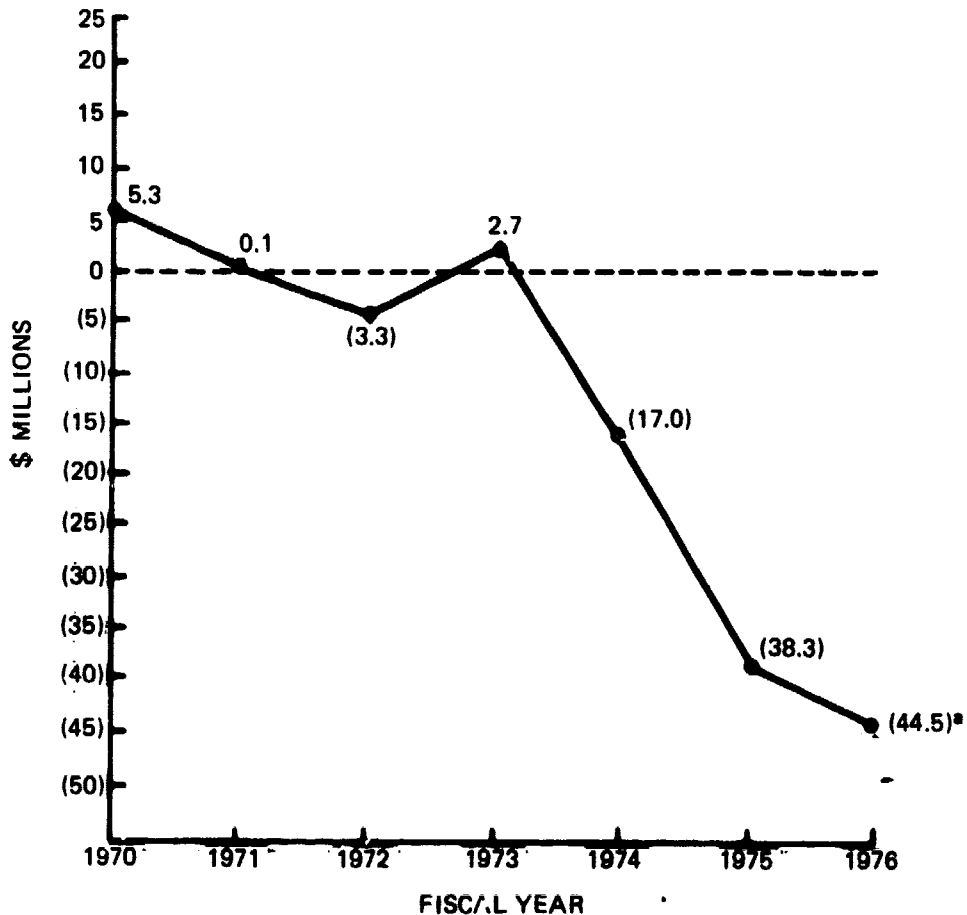
SERIOUS FINANCIAL PROBLEMS FACING GUAM

During the 1970s GOVGUAM's financial position has rapidly deteriorated. General governmental operations, reflected in the General Fund accounts, have sustained substantial deficits. Losses by GOVGUAM's public enterprise agencies, such as public utilities, have been a further drain on financial resources. The ensuing negative cash flow condition virtually depleted all cash reserves by the end of fiscal year 1976. Without increases in revenues, cash shortfalls are projected to increase substantially.

GENERAL FUND DEFICITS

During fiscal years 1970-76, the General Fund balance declined from a \$5.3 million surplus to an accumulated deficit of \$44.5 million, as shown below.

CUMULATIVE GENERAL FUND SURPLUS (DEFICIT)



^aPreliminary data

Some GOVGUAM officials consider the above to be "paper deficits" on the basis that certain continuing authorizations can be deappropriated by the local legislature. To a certain extent, this is true. However, although about \$12 million in continuing authorizations were eliminated in fiscal year 1976 to reduce the deficit, it still increased by \$6.2 million.

The General Fund's cash position is perhaps a better indicator of the fiscal crisis facing GOVGUAM. The General Fund's cash account was overdrawn by over \$10.6 million (preliminary data) at June 30, 1976. Most cash from the General Fund, Federal grants, and various special funds, such as highway construction funds, are commingled in a single bank account. The following table shows the General Fund overdrafts and the residual commingled bank balance at June 30 for fiscal years 1971-76.

<u>Fy</u>	<u>General Fund overdraft</u>	<u>Other fund balances</u>	<u>Commingled account balance</u>
(millions)			
1971	\$ 0.6	\$ 1.9	\$1.3
1972	4.1	7.3	3.2
1973	2.7	7.5	4.8
1974	4.6	9.0	4.4
1975	8.6	12.5	3.9
1976 (note a)	10.6	10.9	.3

a/Preliminary.

As shown above, the General Fund used moneys from other special GOVGUAM funds to meet its cash requirements. This resulted in a precariously low cash balance of only \$314,000 in the commingled bank account on June 30, 1976. During July 1976 the entire commingled account was overdrawn twice by about \$200,000 and \$100,000. The General Fund biweekly payroll of \$2.6 million emphasizes the critical nature of this declining cash position.

GOVGUAM has estimated its cash flow position will deteriorate further without increased Federal funds. GOVGUAM records show a cumulative General Fund cash shortage projection of \$47.6 million by the end of fiscal year 1981.

<u>Fiscal</u> <u>year</u>	June 30 cumulative General Fund <u>cash shortfall</u> (millions)
1975	\$ 8.6
1976	<u>a/</u> 15.3
1977	19.1
1978	25.4
1979	30.4
1980	38.3
1981	47.6

a/Actual cash shortfall was \$10.6 million, according to preliminary financial statements.

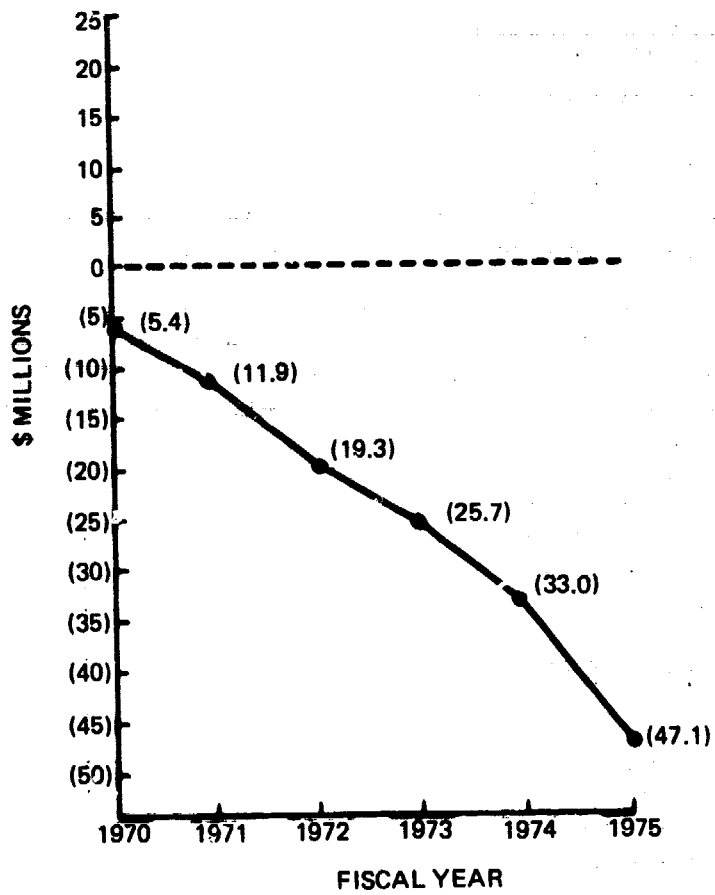
However, since most cash in the commingled account had been depleted by the end of fiscal year 1976, this projection could not be covered by other funds. This situation led to substantial curtailments of Government services.

The above projections were prepared before a major typhoon hit Guam in May 1976; it resulted in a Federal emergency appropriation to GOVGUAM of \$20 million. Further, revenues from Federal Disaster Assistance Administration assistance of over \$30 million (as of November 1976) and expenditures of about \$153 million for damaged military facilities will undoubtedly ease the cash flow situation in the short run. However, all other factors equal, we believe the long-term downward trend shown above will probably resume.

PUBLIC ENTERPRISE AGENCIES LOSING MONEY

Net losses incurred by the Government-owned public enterprise agencies and the Guam Memorial Hospital have substantially drained GOVGUAM's financial resources. As shown on the following page, cumulative losses have increased from \$5.4 million to \$47.1 million during fiscal years 1970-75 (1976 data was not available at the time of our review).

**CUMULATIVE LOSSES BY GOVGUAM'S
PUBLIC ENTERPRISE AGENCIES
AND THE GUAM MEMORIAL HOSPITAL**



Since most public enterprise agencies and the Guam Memorial Hospital have not been self-sustaining, GOVGUAM subsidies have been necessary. As shown below, \$71.1 million in cumulative subsidies had been made by the end of fiscal year 1975.

<u>Agency or fund</u>	<u>Cumulative gain or loss (-)</u>	<u>Cumulative GOVGUAM subsidy</u>
	(thousands)	
Commercial Port	-\$12,664	\$ 7,085
Guam Economic Development Authority	-395	1,094
Guam Housing Corporation	1,631	5,296
Guam Housing and Urban Renewal Authority	-998	4,697
Guam International Air Terminal	3,589	1,038
Guam Rental Corporation	-80	None
Guam Telephone Authority	-814	4,773
Public Utility Agency of Guam	-15,719	15,803
University Auxiliary Services Fund	-16	24
University Dormitory Revenue Fund	-174	720
Guam Power Authority	2,264	2,045
Guam Memorial Hospital	<u>-23,714</u>	<u>28,563</u>
 Total	 <u>a/-</u> <u>\$47,090</u>	 <u>a/</u> <u>\$71,137</u>

a/Does not add due to rounding.

CHAPTER 3

FACTORS CONTRIBUTING TO GUAM'S FISCAL CRISIS

External factors, such as the recent recession, have adversely affected GOVGUAM's financial position and have acted as a catalyst in surfacing the many underlying internal problems of GOVGUAM operations. Inadequate budgeting and accounting systems, failure to collect funds due, over-expansion of GOVGUAM, failure to implement Government Comptroller recommendations, and insufficient technical assistance have prevented GOVGUAM from minimizing the effects of declining revenues.

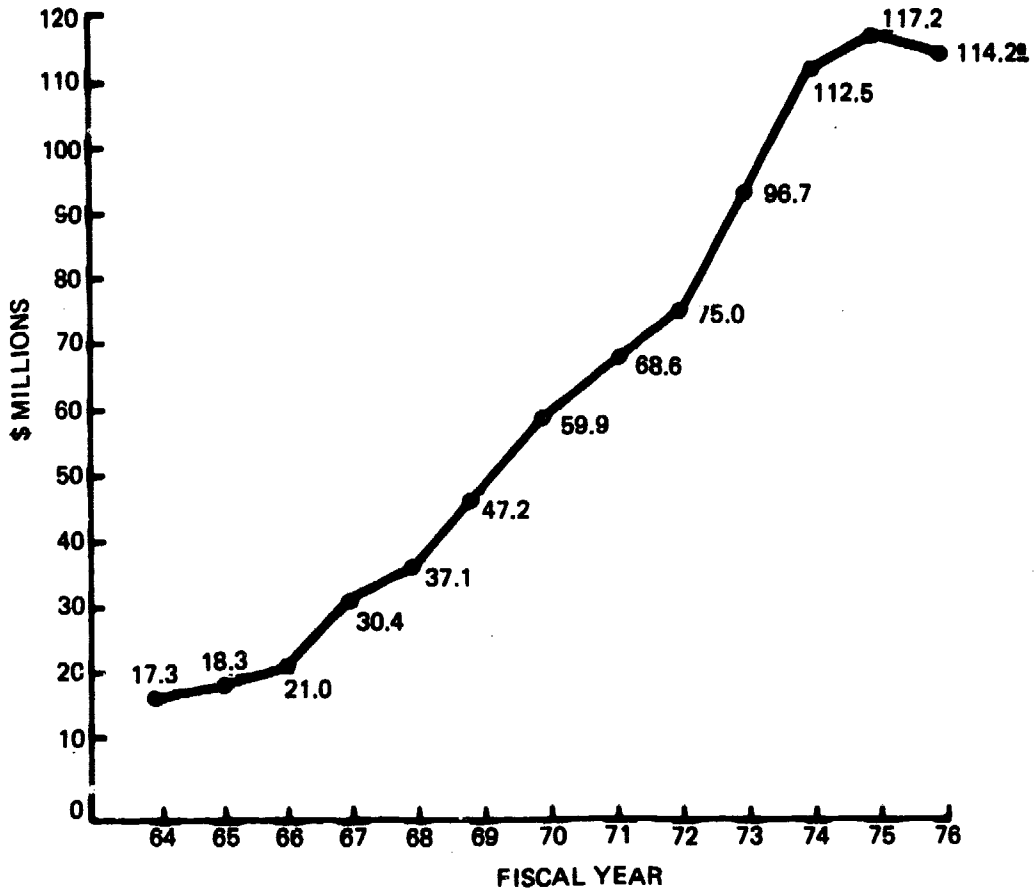
EXTERNAL FACTORS

Guam has an extremely limited economic base. During 1974 exports of \$20 million represented less than 10 percent of its \$259 million in imports. GOVGUAM's revenues are derived primarily from Federal expenditures and grants, the construction industry, tourism, minor light industries, and the trade and service industries.

Following a major typhoon in 1962, the Federal Government appropriated \$75 million in grants and loans for rehabilitating Guam. Most of the resulting capital improvement projects were constructed during the late 1960s and early 1970s. During this same period, the tourist industry expanded rapidly with the establishment of air routes between Guam and Tokyo. The construction industry further expanded to meet the needs of hotels, stores, and amusement facilities.

The concentrated infusion of capital into the territory resulted in a dramatic increase in GOVGUAM's annual revenues. But the combined effect of dwindling rehabilitation construction funds, the worldwide economic recession, and decreases in tourism and military activities led to a decline in local tax revenues. Changes in Federal income tax laws, such as tax rebates, have also reduced GOVGUAM's operating funds. The following graph shows General Fund revenues increasing from \$17 million to \$117 million in fiscal years 1964-75 with a subsequent decline to \$114 million in fiscal year 1976.

GENERAL FUND REVENUES



Preliminary data

During the period of increasing revenues, GOVGUAM's financial management was seriously deficient. However, the aura of plenty obscured these weaknesses. The recent decrease in revenues highlights the critical need for corrective action.

BUDGETING CONTROLS INOPERATIVE

GOVGUAM's financial deficit has resulted from its failure to operate within available financial resources. Overappropriations by the legislature and failure of the financial management system to recognize forthcoming revenue shortfalls and to adjust budgeted expenditures created the problem.

The following table presents the estimated revenue, appropriations, and changes in the General Fund balance for fiscal year 1975 (fiscal year 1976 data was not available at the time of our review).

	<u>Amount</u>
Estimated revenue	\$129,090,000
Appropriations	\$183,139,000
Actual receipts	\$117,222,000
Expenditures and encumbrances	<u>134,642,000</u>
Deficiency (-) of revenues over expenditures and encumbrances	-17,420,000
Net transfer entries and increase in continuing authorizations	-3,830,000
Previous year fund balance	<u>-17,044,000</u>
June 30, 1975, fund balance	<u><u>\$-38,294,000</u></u>

GOVGUAM has not followed sound budgeting practices. As shown above, the legislature appropriated over \$183 million (including prior year authorizations), although revenue estimates were about \$129 million. Further, expenditures and encumbrances exceeded estimated revenues by about \$6 million and actual receipts by over \$17 million.

Budget officials informed us the budget allotments to the various departments are not adjusted throughout the year to reflect unrealized estimated revenues. They attribute this to the lack of timely financial information from the accounting system and the aversion to laying off Government employees.

Beginning in fiscal year 1975, the Governor of Guam implemented austerity measures in an attempt to minimize operating deficits. These measures included freezes on filling most vacancies and on all salary increases. Although operating expenditures decreased, the austerity programs did not prevent substantial fund deficits for fiscal years 1975 and 1976. Further, the salary freeze was lifted at the beginning of fiscal year 1977, and a bill was introduced by the Governor (still pending at the time of our review) to grant retroactive salary increases to April 1975.

ACCOUNTING RECORDS UNRELIABLE

Deficiencies in the budgeting procedures are compounded by GOVGUAM's accounting system, which provides inaccurate and untimely information. Certified public accounting firms have issued adverse opinions on the combined balance sheet and the General Fund balance sheets of GOVGUAM for fiscal years 1971-75, and indications are that adverse opinions will also be issued for 1976.

Except for autonomous agencies, such as the Guam Power Authority (GPA), the Department of Administration maintains the official records of GOVGUAM within its central accounting system. All departments within GOVGUAM have their own accounting sections, which in turn report to the Department of Administration. There is a serious lack of coordination and standardized accounting procedures between department accounting sections and the central accounting system.

As a result, certified public accounting firms have concluded that most departmental accounting records did not agree with the central accounting system. The firm used in fiscal year 1975 found it impossible to reconcile departmental Federal grant expenditure reports to the central accounting system. At the close of fiscal year 1976, various departmental accountants were called in to work in the Department of Administration to reconcile their grant expenditure reports with central accounting records.

The present accounting system does not provide timely information. Monthly financial statements are supposed to be issued by the Department of Administration the 25th day of the following month. However, financial statements for July and August 1976 were not expected until the end of October 1976. GOVGUAM officials advised us it would be at least December 25 before fiscal year 1977 monthly financial statements would be issued on schedule.

Accurate and timely accounting information is a requirement for sound financial management. Unless the present accounting problems are corrected, GOVGUAM will continue producing untimely and inaccurate financial data.

MONEYS OWED NOT COLLECTED

GOVGUAM's failure to collect moneys owed further undermines its financial position. Several GOVGUAM agencies and funds have unacceptably high allowances for doubtful accounts as reflected in the following table for fiscal year 1975 (fiscal year 1976 figures were not available at the time of our review).

<u>Fund or agency</u>	<u>Accounts receivable 6/30/75</u>	<u>Allowance for doubtful accounts 6/30/75</u>	<u>Allowance for doubtful accounts as percent of accounts receivable 6/30/75 (note a)</u>
------(millions)-----			
General Fund:			
Taxes	\$23.3	\$ 6.4	27
Hospital	12.3	11.2	91
Loans to other funds and agencies	31.1	b/28.7	92
Other receivables	<u>.5</u>	<u>.2</u>	40
Total	67.2	46.5	69
Commercial Port	1.5	.9	60
Economic Development Authority	.7	.2	36
Guam Telephone Authority	2.2	.9	40
Public Utility Agency of Guam	1.3	.4	35
Trust and agency funds	<u>4.3</u>	<u>2.2</u>	52
Total	10.0	4.6	
Total	<u>77.2</u>	<u>51.1</u>	66

a/Percentages based on unrounded figures.

b/During FY 1976, \$20.3 million was written off as a loss by the General Fund.

The fiscal year 1975 allowance for doubtful accounts for the General Fund exceeds its account deficits for both fiscal years 1975 and 1976. In some cases, especially the hospital, GOVGUAM agencies have exerted little effort to collect moneys owed. The fiscal year 1975 certified public accounting firm in several cases attributed the excessive doubtful accounts to the following factors:

- Insufficient collection efforts.
- Inadequate records and billing procedures.
- Inability of GOVGUAM agencies to repay loans from the General Fund.

The firm found that no attempt had been made for the period July 1, 1971, to June 30, 1974, to determine the total of the hospital's individual accounts receivable from patients or the age of such accounts. It also concluded that complete records of the Public Utility Agency of Guam's service connections and charges had not been maintained; numerous billings for water and sewerage were based on estimates because meters had not been read or could not be located.

Unless GOVGUAM develops adequate procedures and records regarding collections, we believe it will continue to have excessive uncollectibles; this situation will continue to adversely affect its financial operations.

OVEREXPANSION OF GOVGUAM OPERATIONS

The decline in revenue during 1976 raises the question of GOVGUAM's ability to financially support its large labor force. Despite an effort to reduce employment with an early retirement program and a freeze on most hiring, GOVGUAM's deficit increased in fiscal year 1976.

The following table shows that during the period of increasing revenues, GOVGUAM employment increased from 5,500 in 1971 to 9,200 in 1975:

<u>Year</u> <u>(September)</u>	<u>GOVGUAM</u> <u>employment</u>
1970	5,500
1971	6,600
1972	7,300
1973	8,000
1974	8,700
1975	9,200
1976	<u>a/8,500</u>

a/Government Comptroller estimate based on payroll and budget data.

GOVGUAM accounted for about one-third of non-Federal employment on Guam in fiscal year 1976. GOVGUAM's estimated employment level in October 1974 (the latest data available for comparative purposes) was almost twice the national average for State and local government employees--about 827 compared to 466 full-time equivalent employees per 10,000 population.

Government Comptroller officials said various functions, such as procurement, accounting, data processing, and maintenance, could be consolidated. Further, much of GOVGUAM's employment is related to services normally provided by the private sector. Hospital, telephone, power, and other utility services are all owned by GOVGUAM. Since many of these agencies are a financial drain on GOVGUAM, DOI has questioned the desirability of continued GOVGUAM ownership. Recent Government Comptroller reports have concluded that some of these agencies, such as the Telephone Authority and the Commercial Port, have excessive personnel contributing to operating losses.

GOVGUAM is averse to layoffs since there are few job opportunities in the private sector to absorb new employees and Guam has no unemployment insurance. However, alien labor has been used primarily in the construction industry to fill the void of skilled local employees. Alien labor accounted for 88 percent of total 1974 construction employment.

GOVGUAM has provided little incentive to motivate its employees to work in the private sector. GOVGUAM is viewed as the most attractive employer on the island. Further, extensive vocational education programs are lacking.

With the influx of expected Federal funds for capital improvement and economic development projects, increases in employment in the private sector are likely. This offers the potential for substantial Government cost savings through reductions in staffing levels. Reductions are possible through vocational education programs and, perhaps, by turning certain GOVGUAM-owned services over to the private sector.

INEFFECTIVE FEDERAL OVERSIGHT

Most of the deficiencies outlined above have been previously identified in Government Comptroller reports. The problems have gone unresolved due to inadequate implementation of recommendations by GOVGUAM and DOI's failure to give the Congress comments and recommendations regarding the Government Comptroller's findings.

The Organic Act of Guam, as amended, established the U.S. Government Comptroller for Guam under DOI. The act prescribed that the Government Comptroller's audits be directed to evaluating GOVGUAM programs, to recommending improvements which will result in greater economy and efficiency, and to insuring that Federal revenues deposited into the Treasury of Guam are accounted for properly.

We analyzed 22 Government Comptroller reports, dating back to fiscal year 1970, to evaluate the extent previous recommendations had been implemented. According to follow-up reports, only 184, or 37 percent, of the 491 recommendations had been fully implemented. Preliminary Government Comptroller statistics showed that unrealized recurring annual savings and revenue associated with unimplemented recommendations were over \$42 million for fiscal years 1970-76; potential one-time savings were about \$22 million.

DOI informed us that during fiscal years 1970 and 1971, a much higher percentage (almost 90 percent) of Government Comptroller recommendations had been fully or partially

implemented. At the inception of the Comptroller's Office in fiscal year 1970, it was believed that adverse reports would cause difficulty in congressional appropriations. DOI also stated that as time went on GOVGUAM management realized that there was no relationship between funding and the Comptroller's reports. Consequently, the interest of top management declined and the lack of interest generally permeated the entire Government; this situation resulted in a loss of incentives and of motivation to insure fiscal responsibility.

Government Comptroller and DOI officials informed us they have no authority to insure implementation of the above recommendations. Since GOVGUAM does not receive direct appropriations of the routine Federal moneys it receives, DOI believes its influence over GOVGUAM's fiscal operations is minimal. DOI and Government Comptroller officials believe that compliance with their recommendations can occur only if they are specifically evaluated in special congressional appropriation considerations.

Also DOI has not adequately transmitted the information in the Government Comptroller reports to the Congress. Section 1422(d)(g) of title 48, U.S.C. of the Organic Act (as amended) requires the Secretary of the Interior to submit to the Congress his comments and recommendations regarding the Government Comptroller's annual report of Guam's fiscal condition. However, DOI officials informed us that for the past several years, the voluminous reports have been transmitted without comments or recommendations. Needed improvements in Federal oversight and GOVGUAM's noncompliance with Government Comptroller recommendations could have been highlighted through annual assessments by the Secretary.

INSUFFICIENT FEDERAL TECHNICAL ASSISTANCE

DOI's principal mission as it relates to Guam is to assist in political, economic, and social development ultimately leading to self-determination and self-reliance. We believe DOI has not exerted sufficient efforts to help GOVGUAM achieve greater self-reliance. Many of the deficiencies outlined in this report could have been avoided or corrected had DOI provided sufficient technical assistance to GOVGUAM.

Insufficient management expertise is a major stumbling block to efficient GOVGUAM operations. In 1975 the certified public accounting firm reported that a shortage of competent middle managers had adversely affected GOVGUAM operations and had contributed to inadequate financial management controls, poor planning, and low morale. Better training

and use of managers and increased use of long-term technical assistance are needed.

GOV GUAM officials have acknowledged the management weaknesses and have received sporadic technical assistance from the Federal Government. However, they said that prior Federal technical assistance had not been effective due to its short duration. They believe that greater long-term technical assistance is needed to properly train GOV GUAM managers to effectively and efficiently operate GOV GUAM agencies and programs.

The fiscal problems facing Guam necessitate timely corrective action. DOI is planning to help GOV GUAM implement a mechanized financial management system. A basic understanding of the concepts of financial management is needed before a computerized system can be effectively used. A similar system was initiated in 1969 for the Trust Territory of the Pacific Islands but still has not been implemented. Unless DOI devotes sufficient resources to train GOV GUAM employees to implement a basic financial management system, Guam's fiscal problems will not be solved soon.

We believe DOI could use U.S. Government Comptroller audit reports to identify other areas where technical assistance is needed, such as GPA and the Guam Memorial Hospital. DOI should coordinate with other Federal agencies' efforts to provide meaningful long-term technical assistance to Guam. Without proper training and management expertise, Guam's financial situation will deteriorate further. This situation will adversely affect GOV GUAM's ability to be self-sustaining, and additional Federal funds will be needed.

CHAPTER 4

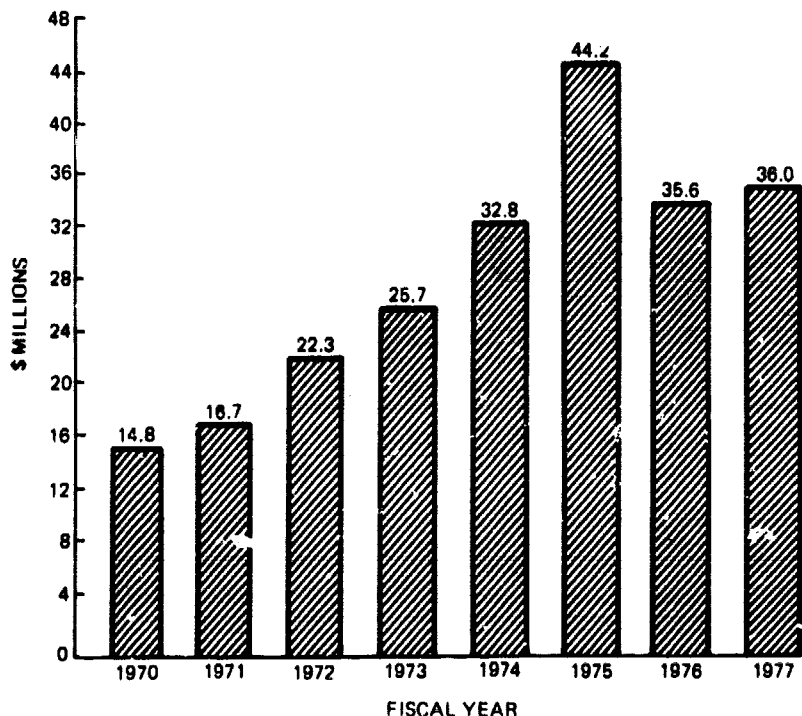
FINANCIAL PROBLEMS HINDER DELIVERY OF PUBLIC SERVICES

Inadequate funding and numerous financial management deficiencies have contributed to GOVGUAM's inability to provide adequate education, health, telephone, and Federal grant services. The deterioration of these services was apparent during fiscal year 1976 when GOVGUAM experienced severe cash flow problems and operating deficits. Until sound financial management practices are implemented, public service delivery will be jeopardized. This situation will adversely affect the quality of life and Guam's relationship with the Federal Government.

PUBLIC EDUCATION

The public education system epitomized the adverse impact of GOVGUAM's financial position on public service delivery. Reductions in the fiscal year 1976 appropriation for education impaired school system operations. GOVGUAM cash flow problems compounded the Department of Education's inability to maintain operations, recruit qualified teachers, and improve educational standards. The following chart shows the trend in resources devoted to education.

DEPARTMENT OF EDUCATION BUDGET APPROPRIATION



As shown above, the fiscal year 1976 appropriation was reduced over \$8 million, or about 20 percent, from the previous year's appropriation. This was about \$13 million less than originally requested.

The following conditions prevailed during fiscal year 1976.

- Shortages of qualified teachers: Over 100 positions were unfilled by professional teachers for the entire school year. These positions were filled by unqualified personnel. In some cases, janitors, telephone linemen, and water meter readers monitored classrooms.
- Shortages of equipment and supplies: Many schools had insufficient textbooks, library books, and other basic teaching supplies. In addition, some schools experienced shortages of toilet paper, paper towels, soap, and other necessary sanitary supplies.
- Inadequate maintenance and sanitation: Virtually all schools were without adequate maintenance. Sanitation problems, such as broken toilets and sewage problems, caused the Director of Public Health to threaten closing some school restrooms.

The education situation on Guam was of such great concern to the U.S. military community that the Department of Defense seriously considered establishing a separate school system for military dependents.

In an August 7, 1976, letter to the Secretary of Health, Education, and Welfare, the Secretary of Defense stated the school situation on Guam was having a negative effect on mission accomplishment. Air Force and Navy commands notified prospective new arrivals of the school situation and attempted to accommodate their desires to opt for reassignment elsewhere. In addition, some on-island servicemen sent their dependents home before their assignments on Guam expired. From July 1, 1975, through September 17, 1976, 425 dependents left Guam primarily due to the education problems.

Dissatisfaction by the military led to factfinding visits by Department of Health, Education, and Welfare (HEW) officials to assess the situation and to seek remedies, including possible establishment of a separate school system. In return for a stronger commitment to education by GOVGUAM, HEW agreed to grant additional financial and technical assistance. For example, \$600,000 in Teacher Corps grant moneys were made available to train noncertified teachers currently employed by the Department of Education.

Greater Federal involvement has allayed some of the military concerns about the educational services on Guam. The commands are cautiously optimistic that sufficient resources will be devoted to public education.

Although at the time of our review requested funds had not been appropriated for the entire 1976-77 school year, Guam education officials were confident that adequate funds would be provided. However, the quality of education on Guam could deteriorate further if GOVGUAM does not better manage its financial resources in the future.

HEALTH SERVICE

The Government-owned Guam Memorial Hospital has continually incurred substantial operating losses. Due to a lack of funds to correct facility deficiencies, the hospital does not meet the 1973 Life Safety Codes prescribed by HEW or various standards of the Joint Commission on Accreditation of Hospitals. As early as 1968, the commission warned that the loss of accreditation would adversely affect the quality of patient care. Many physical facility deficiencies were not corrected. This situation eventually resulted in a loss of accreditation in December 1974.

Conditional accreditation was granted for 2 years beginning March 1976, based on hospital plans to renovate its facilities to meet minimum standards. Due to a lack of funding, renovation has not occurred. Therefore the hospital continues to operate without meeting minimum commission standards.

Current proposals include a plan to build a new federally funded public hospital and a plan to renovate the existing structure with typhoon relief funds. However, continued operating losses may contribute to future facility deterioration and a decline in the quality of health services.

FEDERAL GRANT SERVICES

Cash flow problems have also adversely affected services funded by Federal grant programs in Guam. Cash shortages have led to the inability of GOVGUAM to provide local funds for matching and reimbursable expenditures and to improper use of Federal funds.

In fiscal year 1976, Guam received over \$29 million in Federal grants-in-aid. Grant funds are received in cash (either in advance or as a reimbursement) or by drawdowns against a single letter of credit at a local bank.

Limited benefits realized

GOVQUAM's financial problems have resulted in a failure to fully implement Federal grant programs. In many instances, adequate or timely grant services have not been provided to the people of Guam.

Due to a lack of local funds for reimbursable and matching grants (for example, 50 percent Federal and 50 percent local funds), GOVQUAM has not used substantial portions of awarded grants. At the end of fiscal years 1975 and 1976, unused Federal grants in the General Fund accounts were \$4.9 million and \$5.2 million, respectively. A GOVQUAM official said several desired grants are not even applied for due to the cash flow situation. These large year-end grant balances indicate that services to be provided with grant funds are not being realized.

An HEW fiscal year 1976 study noted that GOVQUAM was deferring or redirecting expenditures for some grants, even though funds had been received. While some GOVQUAM officials believe that improvements have been made in the timely release of grant funds, other grant administrators encountered delays in hiring personnel, making purchases, or receiving approval for authorized travel. Our review identified several instances of delayed and partial implementation of grant programs. For example:

- A mental health grant program, funded with 90 percent Federal moneys and 10 percent local moneys, was established to work with emotionally disturbed children. We were informed that none of the program objectives had been met due to a lack of local funding. Since the grant's inception in December 1974, a maximum of 4 of the 12 authorized positions have been filled at one time; during our review, there was a staff of only 2.
- As a result of cash shortages, an education grant program for educationally deprived children has not been fully implemented due to a lack of teachers. Six of 31 teaching positions were vacant in October 1976.
- GOVQUAM delays in releasing funds caused untimely receipt of supplies and equipment and delayed repairs of broken equipment. Thus a special education grant program to provide public education for all handicapped children was adversely affected.

Improper use of Federal funds

While delays and diversion of Federal grant funds have precluded their use for intended services, a more serious concern is GOV GUAM's improper use of Federal grant moneys.

During fiscal year 1976, HEW found that GOV GUAM was misusing its Federal grant funds. Guam was criticized for its flat monthly drawdowns of \$1.5 million against the single letter of credit without supporting expenditure reports. HEW estimated monthly cash needs were only \$1.1 million or \$1.2 million.

Our review indicated that Guam's procedures under the single letter of credit have been corrected. However, Guam's commingling of advanced grant funds with general operating funds has led to further improper use of Federal moneys.

Advanced grant funds are deposited in the General Fund bank account and are thus subject to use for general Government operations. Due to the decentralized grant accounting system, it is extremely difficult to determine the extent advanced grant funds were improperly used throughout the year. However, our review showed that GOV GUAM had over \$250,000 in advanced Federal grant funds on July 30, 1976. On that day, the entire commingled bank account was overdrawn; thus GOV GUAM had used Federal funds improperly. A separate bank account for advanced Federal grant moneys is desirable.

TELEPHONE SERVICE

The Guam Telephone Authority's lack of financial viability (see p. 27) has resulted in inadequate telephone service on Guam. This situation adversely affects the public and business activities.

In an April 1976 audit report, the Government Comptroller for Guam concluded the Telephone Authority had not fulfilled its primary mission to provide reliable telephone service at reasonable cost while operating the telephone system on a self-sustaining basis. From June 1974 through March 1975, a monthly average of 2,593 telephone trouble reports were received, representing about 20 percent of all subscribers. The report found that unmet demand was excessively high and that some applicants had been waiting several years for telephone service.

The Government Comptroller also concluded the Telephone Authority had not been able to provide the type of service

desired. Of 13,300 residential subscribers, less than one-fourth had private lines, due to insufficient line capacity.

Telephone rates about doubled in April 1974, but significant annual losses were incurred through fiscal year 1976. Consequently, funds were not generated for capital projects to improve and expand line facilities.

Authority officials believe that with receipt of Federal loan assistance for capitalization projects (discussed in ch. 5), the authority will be able to provide reliable service for the entire island by 1980. However, at the time of our review, there was uncertainty whether such loan assistance would be provided.

CHAPTER 5

FEDERAL FINANCIAL ASSISTANCE IS INCREASING

In addition to adversely affecting public services, Guam's financial difficulties have led to requests for additional Federal assistance. In calendar year 1976, the Guam Power and Telephone Authorities received approvals for \$63 million in Federal loans and guarantees. DOI is also considering GOVGUAM special appropriation requests of up to \$171 million primarily to supplement Guam's tax revenues and to fund capital improvement and economic development projects which the local government cannot provide.

GUAM POWER AUTHORITY

The recent decline of GPA's financial position is shown by its inability to repay any of \$36 million in short-term notes and other contractual obligations due on or before June 1, 1976. The Federal Government was subsequently requested to guarantee a short-term loan for that amount. Timely removal of local ceilings on interest rates and correction of financial management deficiencies may have prevented the necessity for Federal assistance. Further, various existing and near-term problems facing GPA could seriously affect its ability to repay the federally guaranteed loan.

Inability to secure long-term financing

To meet increasing demands, GPA embarked upon a plant expansion program in 1974. Part of the expansion was financed with short-term obligations in anticipation of securing long-term financing. By June 1, 1976, GPA defaulted on these and other obligations amounting to \$36 million and couldn't sell its long-term bond issue.

For fiscal years 1971-74, GPA realized a net income from its operations. However, a net loss was incurred in fiscal year 1975. Due to this loss and the fact that current liabilities exceeded current assets by \$30.5 million at June 30, 1975, the certified public accounting firm would not express an opinion on GPA's financial viability. These factors resulted in a reduction of its bond rating from AA to BB--a speculative rating.

Since GPA's bonds were unmarketable, in June 1976 DOI requested a congressional authorization for a federally guaranteed short-term \$36 million loan from the Federal Financing

Bank. The \$36 million loan guarantee was enacted into law in September 1976. The terms of the guarantee provide that in the event of default (after Dec. 31, 1980) GOVGUAM would become liable for the debt and would receive an equivalent reduction in tax revenues from the Federal Government--a substantial financial drain which GOVGUAM may be unable to absorb without adversely affecting its operations.

Federal assistance could have been avoided

Interest ceilings imposed by Guam law precluded GPA's ability to sell revenue bonds. In 1974 and early 1975 GPA was authorized to sell bonds at an interest rate no higher than 7 percent. However, the bond market required a higher rate. After a lengthy delay, the legislature raised the interest ceiling twice to 9 and 11 percent. By that time the bond market would not accept GPA's bonds due to its deteriorated financial position. GPA officials informed us the bonds could have been sold in 1974 if no interest ceiling had been imposed by Guam law.

Uncorrected financial management deficiencies also contributed to the need for Federal assistance. In August 1973 the Government Comptroller issued a report on GPA outlining numerous deficiencies. An April 1976 followup report showed that only 18 of 49 previous recommendations had been fully implemented. Unimplemented recommendations involved inadequate collection efforts, excessive overtime costs, and numerous internal management and operational deficiencies. The report also concluded that GPA was not properly assessing, billing, and collecting needed revenues. For example, GPA records showed that fiscal year 1975 billings exceeded collections by over \$2.9 million.

Prospects for the future

As a condition to the \$36 million loan guarantee, DOI placed certain stipulations on GPA, including hiring a qualified financial officer, reconstituting the Board of Directors, and meeting certain basic financial reporting requirements. Compared to the requirements placed on the Federal loan to the Guam Telephone Authority (see p. 27), the stipulations placed on GPA are not stringent considering the loan amount, the term of the loan, and GPA's financial instability. Although GOVGUAM signed the loan agreement after initially objecting on the basis that DOI was exceeding its management prerogatives, a disagreement later arose on the interpretation of the stipulation that GOVGUAM reconstitute the Board of Directors. As of the end of December 1976, GOVGUAM had replaced all but two of the directors and DOI was insisting that these two directors also be replaced.

After our review, we discussed GPA's financial problems with DOI officials. Based on these discussions, the loan guarantee stipulations were revised along the lines of the Federal loan to the Guam Telephone Authority. Further, DOI officials were sent to Guam to reevaluate GPA's financial viability. We were informed that the loan agreement had been signed in April 1977.

Despite the \$36 million loan guarantee, GPA must resolve a number of critical problems before financial viability can be attained. The key determinant will be its ability to secure long-term financing to repay the short-term Federal obligation and to meet upcoming additional capital needs.

To satisfy bond market requirements, GPA must improve its bond rating by operating as a profitable concern. Preliminary fiscal year 1976 financial statements indicate an operating surplus of \$1.2 million; however, \$955,000 of that amount was a GOVGUAM subsidy. Except for fuel surcharges, GPA has not completed a rate study to determine the revenue necessary to meet operational and debt service requirements. GPA officials believe that a rate increase of at least 7 percent will be necessary. However, they are concerned that the newly created Public Utility Commission on Guam will obstruct GPA's ability to charge necessary rates. Guamanians already are paying a percentage of their income for electricity more than three times the national average.

The latest Government Comptroller report concluded that collection problems were a major factor in GPA's inability to meet its financial obligations. GPA records showed that collections were about 11 percent less than billings for fiscal year 1975. In a December 1975 response to the report, GPA officials stated that collection efforts had been improved. However, we found that GPA's shortfalls in collections had increased to about 12 percent during fiscal year 1976 and to about 21 percent for the first 8 months of calendar year 1976. Although the May 1976 typhoon decreased revenues, we found it had no apparent impact on the fiscal year 1976 or calendar year 1976 percentages of collections.

Two other major factors affecting GPA's ability to obtain long-term financing are future plant capacity needs and a court consent order on Environmental Protection Agency pollution standards. GPA and Navy officials project an annual increase of power demand between 5 and 7 percent. At these growth rates, Guam will not have enough generating capacity beyond 1981. GPA will have to decide by 1978 whether to build and finance a new powerplant (currently estimated to cost \$30 million).

In June 1976 GPA and the Environmental Protection Agency signed a consent order giving GPA until no later than mid-1981 to meet Federal pollution standards. GPA must either buy expensive low sulphur fuel at an annual estimated cost increase of \$8.5 million or install pollution equipment estimated to cost between \$8 million and \$15 million. GPA is opting for the latter alternative and will have to begin installation no later than 1979 to meet the consent order. Again, GPA will have to obtain additional financing to meet these requirements.

GPA must maintain profitable operations to (1) repay the \$36 million Federal obligation and (2) obtain substantial financing to pay for new plant construction needs and to attain Environmental Protection Agency pollution standards. Unless GPA initiates actions in the near future to improve its financial condition, additional Federal assistance may have to be requested to maintain the power system on Guam.

GUAM TELEPHONE AUTHORITY

As a result of continuing operating losses, mounting debt, and inability to secure financing through private channels, the Guam Telephone Authority secured a \$27 million loan approval from the Rural Electrification Administration (REA). Due to the restrictions placed on the loan (see p. 28), telephone officials are confident that the authority will become self-sustaining in the near future.

Despite GOVGUAM subsidies amounting to \$6 million from fiscal years 1974-76, the Telephone Authority has not operated as a financially viable agency. Although telephone rates about doubled in 1974, cumulative operating losses of about \$740,000 existed at the end of fiscal year 1976. Losses were caused by poor management practices and inefficient operations. An April 1976 Government Comptroller's report cited these examples.

- An inefficient and cumbersome labor force.
- Excessive maintenance costs.
- Excessive uncollectible receivable rates.
- Inadequate billing and service procedures.
- Inadequate accounting procedures.

In addition, independent certified public accounting firms could not render opinions on the Telephone Authority's fiscal years 1974 and 1975 financial statements.

Federal assistance

The Telephone Authority was authorized to sell \$15 million in revenue bonds. Because of GPA's poor credit rating, which would have required unacceptably high interest rates, the authority did not attempt to sell the bonds.

In an effort to (1) become self-sustaining and free from GOVGUAM subsidies, (2) pay off accumulated debts amounting to \$5.3 million, and (3) provide service on demand, the Telephone Authority recently secured from the REA authorization for a low interest (5 percent), long-term (35 years), \$27 million loan. The loan proceeds will be used primarily for capital projects which will expand service capabilities.

REA has placed stringent requirements on the loan.

- Management must be approved by REA, and if default of a loan payment occurs, REA can replace management.
- Adequate telephone rates must be established to meet operational and debt expenses.
- Delinquent accounts must be collected promptly.
- The telephone system must be kept in good repair and provide continuous service.
- Adequate insurance must be obtained.
- Management cannot enter into any contract for operating or maintaining the system without prior approval.
- Adequate financial management must be maintained, including proper accounting procedures prescribed by the Federal Communications Commission.

After our review, REA officials said loan funds had not been disbursed due to a recent change in the Telephone Authority's management. Based on this development, REA is reevaluating the prospects for the authority's future financial viability.

REA officials believe the REA loan and its restrictions will allow the Telephone Authority to rectify past deficiencies and to implement sound financial management practices. They project it will become self-sustaining by December 31, 1977.

SPECIAL APPROPRIATIONS

DOI has been developing a special authorization package designed primarily to increase tax revenues and provide capital and economic development projects. The ultimate objectives of the proposal are to increase local revenues and thereby reduce the level of required Federal financial support.

We believe the attainment of such goals is highly desirable for both GOVGUAM and the Federal Government. However, uncorrected deficiencies relating to previous rehabilitation projects and the lack of adequate study and Federal technical assistance in developing the current proposal cast doubt on the effectiveness of future Federal funding.

Rehabilitation program deficiencies

Following a major typhoon in the early 1960s, a series of Federal rehabilitation appropriations were made, which totaled \$75 million in grants and loans. A fiscal year 1972 Government Comptroller report cited numerous deficiencies in GOVGUAM's administration of the rehabilitation program. A fiscal year 1976 followup report showed that 14 of the 18 major recommendations of the prior report had not been adequately implemented. Examples of uncorrected deficiencies at various GOVGUAM agencies were:

- Inadequate implementation of a long-range economic development plan.
- Need for improved procurement procedures and practices.
- Inadequate project cost controls.
- Ineffective administration of funds.
- Deficient contract administration.
- Inadequate accounting procedures.

Our review also identified several examples of inefficient uses of both rehabilitation and local project funds caused by inadequate planning and coordination. In 1973 a federally funded sewer line and pumping station were completed in an area which depended on the construction of a connecting link to the main sewer system. Since this link had not been completed, a small sewage treatment plant was constructed for about \$200,000 to open a new school and an urban renewal project. In addition to being an unnecessary

expenditure, the treatment plant has caused considerable pollution in a nearby river. The link was still under construction at the time of our review in late 1976.

Other sewerage coordination problems have resulted in cessation of ongoing urban renewal projects, ripping up recently paved streets, and sewage disposal problems for various schools. Two schools required the construction of temporary holding tanks and truck transport of raw sewage to the main treatment plant.

Also, since 1975, about \$500,000 in Federal funds has been spent on designs and access roads for a high school. In August 1976 it was proposed that the project be canceled and remaining funds be reprogrammed to expand existing schools due to changes in population and school enrollment projections.

Current authorization proposal

Another severe typhoon that hit Guam in May 1976 prompted a \$20 million emergency appropriation to help GOVGUAM provide governmental services and repair damaged public facilities. At the time of our review, DOI was reviewing a GOVGUAM request of \$171 million for:

- \$13 million to offset 1975 and 1976 income tax losses resulting from the Tax Reduction Act of 1975 (and its extension).
- \$1 million for implementing a financial management system and a study of the local tax burden.
- \$41 million to upgrade typhoon-damaged educational, medical, and public utility structures.
- A \$116 million (based on Navy estimates) GOVGUAM request for such capital improvement projects as water, sewerage, and economic development.

At the time of our review, DOI had forwarded the first three items above to the Office of Management and Budget. Guam's \$116 million capital improvement project request had not been fully evaluated; neither the amount nor the project listing to be placed in the authorization bill had been decided upon.

Need for planning and study

Although the capital improvement project requests have been discussed and modified since 1974, we believe there has

been inadequate technical assistance, planning, and study. GOVGUAM's request, including economic development projects, was prepared without DOI technical assistance and without a current master plan. Such a plan is being developed, but a draft version is not expected until 1978.

Inadequate study is evidenced by the inclusion of the replacement hospital project in the draft authorization bill, which we were told had been sent to the Office of Management and Budget. Reports by the Government Comptroller and two consulting firms had concluded that acute care services by the Government-owned hospital are not needed due to a newly constructed private hospital. A DOI official informed us that in view of this information, the hospital may be deleted from the authorization bill. However, it is highly undesirable to submit a bill to the Office of Management and Budget, and potentially to the Congress, with projects that may prove to be unnecessary.

Failure to provide for the training of a local skilled labor force to work on the construction projects exemplifies insufficient program planning. A benefit of capital improvement projects is new jobs for the local labor force. However, alien labor was used primarily on the previous rehabilitation grant and loan projects. GOVGUAM officials informed us that, since training programs had not been established to provide a substantial number of skilled employees, alien labor again would be used primarily on upcoming construction projects.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Achievement of the Federal Government's objective of self-determination for Guam has been hindered by an inadequate economic base and ineffective fiscal management. Although insufficient economic development and the recent worldwide recession have intensified Guam's financial problems, inadequate financial management has contributed substantially to GOVGUAM's fiscal crisis, adversely affected the quality of public services, and increased GOVGUAM's dependence on Federal support.

GOVGUAM's recent austerity measures have not curbed its deteriorating financial position. Dramatic increases in general fund deficits and operating losses by public enterprise agencies have resulted in severe cash flow problems.

Many of GOVGUAM's problems resulted from its failure to implement Government Comptroller recommendations and the lack of technical assistance from DOI. Inadequate budgeting and accounting systems, failure to collect moneys owed GOVGUAM, lack of trained managers, and overexpansion of GOVGUAM employment have contributed significantly to its fiscal deterioration. Insufficient funding and ineffective financial management and control have led to a decline in the quality of public services.

The degree of implementation of Government Comptroller recommendations and GOVGUAM's acceptance of technical assistance should be closely evaluated before future Federal appropriations. Guam has limited resources and is experiencing increasing demands for improved services.

Technical assistance from DOI to improve GOVGUAM's managerial capabilities and budgeting and accounting systems could help GOVGUAM use its resources more efficiently, achieve more effective results in delivering services, and decrease its needs for special Federal funds. Such technical assistance is necessary for GOVGUAM to achieve the self-reliance and self-determination that are the objectives of both the Federal Government and GOVGUAM.

RECOMMENDATIONS

We recommend that, to carry out the U.S. policy of self-determination for Guam, the Secretary of the Interior increase and broaden technical assistance to GOVGUAM. A

specific plan to correct the deficiencies outlined in this report should be developed immediately, in conjunction with GOVGUAM. This plan should include substantive technical assistance which emphasizes training of GOVGUAM managers to assume full responsibility for implementing improved financial management techniques. Specifically, we recommend that the Secretary use the capabilities of the Office of Territorial Affairs or other necessary resources to help GOVGUAM (1) establish a financial management system that includes improved budgeting and accounting methodology and controls over collections of accounts receivable, (2) develop a master plan for capital improvement projects, (3) expand vocational education programs to produce a local labor force for construction projects, and (4) slow the trend toward increased reliance on GOVGUAM to provide employment.

We also recommend that the Secretary:

- Assess the status and degree of GOVGUAM's implementation of the recommendations in previous reports of the Government Comptroller.
- Submit to the Congress his analysis and comments to assist in congressional consideration of proposed financial assistance and in oversight of the progress GOVGUAM is making toward self-determination.

AGENCY COMMENTS AND OUR EVALUATION

DOI generally agreed with our findings. In a letter dated May 18, 1977 (see app. I), DOI supported many of our recommendations. We have incorporated DOI's specific comments in the report where appropriate. General issues and clarifications of our positions follow.

DOI stated it did not have the authority to insure GOVGUAM's implementation of Government Comptroller recommendations or acceptance of Federal technical assistance. DOI noted the report presents an accurate overview of the problems facing Guam and reflects DOI's inability to effectively cope with, or successfully resolve, the major financial and management issues which continue to be reported year after year.

We recognize that the ultimate solutions to GOVGUAM's financial management deficiencies lie with GOVGUAM. However, DOI should more aggressively volunteer its services and encourage change by helping GOVGUAM correct deficiencies reported by the Government Comptroller and establish sound financial management procedures and practices.

DOI stated the report does not provide the means to reach the desired ends and that past DOI attempts to provide technical assistance to Guam have been seen locally as attempts to meddle in Guam's local affairs. As stated in the report, we believe GOVGUAM's implementation of Government Comptroller's recommendations and acceptance of Federal technical assistance could be promoted if DOI highlighted the continuing problems in periodic analyses and reports to the Congress. This information could be used in considering the advisability of appropriating additional funds to GOVGUAM and the stipulations that should be placed on their use.

According to DOI, a much higher percentage of Government Comptroller recommendations was implemented shortly after the Comptroller's office was established, because it was believed that adverse reports would cause difficulty in congressional appropriations. DOI stated that as time went on, GOVGUAM management realized there was no relationship between funding and the Comptroller's reports and the interest in correcting reported deficiencies declined.

DOI believed GOVGUAM lost incentives and motivation to insure fiscal responsibility. If so, the Federal Government can shoulder some of the responsibility for GOVGUAM's lack of interest. As DOI noted, GOVGUAM's interest in the Comptroller's reports began to wane when it perceived a lack of Federal Government interest. GOVGUAM's special appropriation requests to DOI of \$171 million (of which DOI supported \$26.2 million as of May 1977) provide an excellent opportunity for DOI to volunteer to help GOVGUAM correct deficiencies and establish fiscal responsibility and control.

DOI agreed with our recommendation that technical assistance for Guam is needed but emphasized that such assistance must be provided in a receptive GOVGUAM environment. Specifically, DOI believed a financial management system should be established and implemented. Although it supported the need for developing a master plan, DOI did not believe Guam leaders are committed to the master plan concept. DOI acknowledged that without the motivation to practice fiscal responsibility, there has not been the necessity of establishing long- and short-term goals, priorities, and effective uses of resources required by master planning.

Concerning our recommendations on expanding vocational education programs and slowing the trend toward increased reliance on GOVGUAM to provide employment, DOI agreed that these are important pieces of the solution to Guam's economic problems. We agree with DOI that technical assistance

alone will not solve these problems and that they are an appropriate orientation for an economic master plan.

DOI agreed with our recommendation that the Secretary of the Interior assess GOVGUAM's implementation of Government Comptroller's recommendations and submit to the Congress his analysis and comments to assist in congressional consideration of proposed financial assistance. However, DOI did not believe this assessment would provide oversight of the progress GOVGUAM is making toward self-determination, since Guam already enjoys full self-determination. As noted in the report, we believe this concept encompasses both local self-government and increased self-reliance and the continued deterioration of GOVGUAM's financial position has led to increased reliance on Federal financial assistance.

It was prepared, DOI said, subject to resource availability, to help develop improved management on Guam through a financial management system, effective budget implementation and program execution control, and an economic development plan with stated objectives and milestones. However, DOI cautioned that its past attempts to provide technical assistance to Guam have often been seen locally as attempts by the Federal Government to meddle in Guam's local affairs. Thus, future attempts by the Federal Government to correct GOVGUAM's financial problems will succeed only if there is a firm local initiative to seek and effect solutions in cooperation with the Federal Government.

CHAPTER 7

SCOPE

Our review included analyses of GOVGUAM records, Government Comptroller reports, and certified public accountants' reports. We analyzed certain fiscal years 1970-76 trends. Since certified public accountant reports for fiscal year 1976 were not available at the time of our review, we relied on preliminary GOVGUAM financial records for data on that year.

We talked with officials from DOI, HEW, and the U.S. Government Comptroller for Guam. We also contacted the Governor of Guam, representatives of the Guam Legislature's Committee on Finance and Taxation, and various GOVGUAM department and agency administrators. The U.S. Navy and Air Force commands on Guam were contacted regarding the education issue.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAY 13 1977

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Comments of the Department of the Interior on your draft report to the Congress entitled "Technical Assistance: A Way to Promote Better Management of Guam's Resources and to Increase Self-Reliance" are enclosed. We appreciate the opportunity to review the report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard P. White".

Deputy Assistant Secretary -
Policy, Budget and Administration

Enclosure



**DEPARTMENT OF THE INTERIOR COMMENTS
ON GAO DRAFT REPORT TO THE CONGRESS
TECHNICAL ASSISTANCE: A WAY TO PROMOTE BETTER
MANAGEMENT OF GUAM'S RESOURCES AND TO INCREASE SELF-RELIANCE"**

The Interior Department is in general agreement with the facts brought out in this report and with many of the recommendations which it presents. In fact, most of the deficiencies have been identified in previous Government Comptroller reports which have been transmitted to the Congress. We believe, however, that the report reveals a basic failure to comprehend the relationship between Guam and the Federal Government and the role of the Interior Department in that relationship. This is crucial because the solution to identified problems and the implementation of recommendations are much more important than their identification. The report unfortunately does not provide the means to reach the desired ends.

On page 2 it is stated that the Comptroller under OTA "is charged with providing oversight of the substantial Federal Funds going to GOVGUAM and promoting economy and efficiency of governmental operations." This slightly overstates the Comptroller's authority and the distinction is important. The Guam Organic Act charges the Comptroller specifically with auditing GOVGUAM accounts and bringing irregularities to the attention of the Secretary of the Interior and the Governor of Guam. These activities are to be "directed so as to" improve efficiency and discharge the responsibility of Congress. But the Comptroller is nowhere given authority to implement recommendations or to take any direct action to accomplish the above ends.

On page 21 it is stated that one reason for lack of problem solving is "Department of Interior's failure to provide the Congress with comments and recommendations regarding the Government Comptroller's findings." On page 23, it is stated that non-compliance with recommendations "have not come to the attention of the Congress due to poor presentation of available information."

The Department of the Interior has transmitted to the President of the Senate and to the Speaker of the House copies of all of the Comptroller's annual reports as required by law. In addition, all other reports by the Comptroller are transmitted to the committees. Every report has a summary of findings and recommendations which can be read rapidly and which clearly identifies the problems. It is true that Interior has not usually made additional comments or recommendations, although we have supported the reports and continue to support the findings of the Comptroller; findings which have now been confirmed by the GAO report itself.

The report correctly notes that GOVGUAM's financial problems have accelerated during 1970-1976 for a variety of reasons. It also notes that only 37 percent of the Comptroller's recommendations during the same period have been implemented. It is interesting to note that during FY 1970 and FY 1971, a much higher percentage of recommendations was implemented as shown in the following table.

RECOMMENDATIONS

<u>FY</u>	<u>Percent Implemented</u>	<u>Percent Partially Implemented</u>	<u>Total Implemented or Partially Implemented</u>
70	70%	19%	89%
71	83%	5%	88%
72	55%	20%	75%

At the inception of the Comptrollers Office in FY 70 it was believed that adverse reports would cause difficulty in Congressional appropriations. As time went on GovGuam management realized that there was no relationship between funding and the Comptroller's reports. Consequently the interest of top management declined and the lack of interest generally permeated the entire government resulting in a loss of incentives and of motivation to ensure fiscal responsibility.

A reader of this report would take from it the clear impression that Guam's access to and expenditure of Federal funds are both under the firm control of the Interior Department with the Government Comptroller as the Department's watchdog. For example, page 44 states, "The Department of the Interior is currently developing an authorization bill of up to \$171 million...." and on page 49, and other pages, there is a reference to "the progress GOVGUAM is making toward achieving the Federal Government's goal of local self-determination." In fact, local self-determination has been an accomplished fact since 1970. GOVGUAM requests for authorizations do not necessarily originate in the Department of the Interior. The referenced \$171 million was a GOVGUAM request of which Interior supported an amount of \$26.2 million.

CONCLUSIONS AND RECOMMENDATIONS

We do not doubt the need for additional technical assistance for the Territory of Guam. However, we emphasize that technical assistance provided without a receptive environment is of no benefit whatever. This is proven by the record of the office of the Government Comptroller itself. Technical assistance will be of benefit only when its need is fully understood and accepted by the recipient and a commitment for implementation is implicit in the request. With that caveat, we support the following specific recommendations:

(1) establishing a financial management system: There must be an ability and willingness to make use of the information which the system generates. Management and operators must be prepared to exercise discipline and controls in preparing and executing the system. The system must be tied in with effective budget formulation and program execution control.

(2) developing a master plan: Here we also give qualified support. The Department is presently working on the formulation of a needs assessment study for Guam. This will include capital improvements development projects

and other planning needs. However, this needs assessment will not be a master plan. Such a plan must be desired by Guam leaders, prepared by Guam leaders, periodically reviewed by Guam leaders, and implemented by Guam leaders. To date Guam leaders have not been committed to the master plan concept. Without the motivation to practice fiscal responsibility, there has not been the necessity of establishing long and short term goals, priorities, and effective uses of resources which are required by master planning. It is unlikely that Guam will effectively prepare or use a plan until the need for fiscal responsibility convinces the leaders of the necessity of a plan. A master plan imposed on Guam by DOI has no more assurance of success than the multitude of other plans and studies previously prepared.

(3) Expanding vocational education programs to produce a local labor force for construction projects and

(4) Slowing the trend toward increased reliance on GOVGUAM to provide employment: These two recommendations are closely related. The report has correctly noted that 88% of construction work is performed by alien laborers while Guamanians look to the government to provide employment. The above two recommendations are certainly important pieces of the solution to Guam's economic problems. To look at them in isolation, however, or to suppose that they can be accomplished simply through technical assistance from the Office of Territorial Affairs or other sources would be a dangerous oversimplification. A shift in employment away from government white collar jobs toward private sector blue collar jobs can only be accomplished gradually through a complex of economic incentives. This is an appropriate orientation for an economic master plan. Vocational education can have no effect unless there are students willing to enroll and jobs for them when they get out. Reduced reliance on government jobs implies increased availability of private sector jobs.

A final unnumbered recommendation is that the Secretary assess GOVGUAM's implementation of recommendations in previous Comptroller's reports and "submit to the Congress his analysis and comments to assist in congressional consideration of proposed financial assistance and in oversight of the progress GOVGUAM is making toward achieving the Federal Government's goal of local self-determination." Aside from our clarification to the effect that Guam already enjoys full local self-determination, we wholeheartedly endorse this recommendation. The Congress has already received a wealth of previous submissions by the Department with analysis and comment on GOVGUAM's implementation of prior recommendations of the Comptroller. In the future, such submissions will refer specifically to the GAO report and recommendations.

In summary, we believe this report presents an accurate overview of the problems facing Guam. It also reflects our inability to effectively cope with or successfully resolve the major financial and management issues which continue to be reported year after year. The Department of the Interior is prepared, subject to resource availability, to assist in the development of improved management on Guam through a financial management system, effective budget implementation and program execution control, and an economic development plan with stated objectives and milestones.

In order to assure that these efforts meet with more success than have similar programs in the past, it is necessary to begin with the realization that Guam presently has local political control over expenditures of its own government to the same extent as any state of the United States and in fact to a greater extent in that Federal income taxes paid by residents of Guam are turned over directly to the Government of Guam. It must also be recognized that past attempts by the Department of the Interior to provide technical assistance to Guam have often been seen locally as attempts by the Federal Government to meddle in Guam's local affairs. Thus, future attempts by the Federal Government to correct financial problems of the Government of Guam will succeed only if there is a firm local initiative to seek and effect solutions in cooperation with the Federal Government.