

GUAM DEPARTMENT OF EDUCATION

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Juan P. Flores
Superintendent of Education
Guam Department of Education:

We have audited the financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2002, and have issued our report thereon dated March 5, 2004, which report was qualified due to the incomplete presentation of fixed assets and the agency fund. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

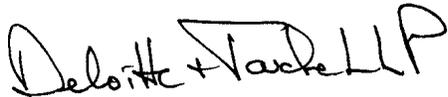
As part of obtaining reasonable assurance about whether GDOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 50) as findings 02-02 to 02-04, 02-26, and 02-27.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GDOE's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect GDOE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 02-02 to 02-04, 02-06 to 02-12, and 02-15 to 02-27.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 02-17 to 02-26 to be material weaknesses.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Department of Education, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

March 5, 2004



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Juan P. Flores
Superintendent of Education
Guam Department of Education:

Compliance

We have audited the compliance of Guam Department of Education (GDOE) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2002. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 50). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GDOE's management. Our responsibility is to express an opinion on GDOE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GDOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GDOE's compliance with those requirements.

As described in findings 02-01 to 02-04, 02-07, 02-10, 02-11, 02-13, 02-15, 02-25 and 02-28 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding allowable costs/cost principles; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of Federal funds; procurement and suspension and debarment; reporting; and special tests and provisions that are applicable to its major federal programs described in the accompanying summary of auditors' results section (page 7) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for GDOE to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GDOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 02-06, 02-08, 02-09, 02-12 and 02-14.

Internal Control Over Compliance

The management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GDOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

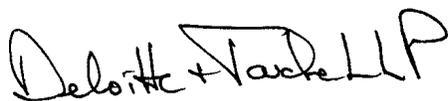
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GDOE's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 02-01 to 02-15, 02-25 and 02-28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 02-04, 02-10, 02-13 and 02-25 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2002, and have issued our report thereon dated March 5, 2004, which report was qualified due to the incomplete presentation of fixed assets and the agency fund. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GDOE. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Department of Education, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.



March 5, 2004

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Award:
Year Ended September 30, 2007

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2001	FY 2002 Cash Receipts	FY 2002 Expenditures	Accrued (Deferred) Balance at September 30, 2002
U.S. DEPARTMENT OF AGRICULTURE:					
Direct:					
School Breakfast Program	10.553	\$ 154,265	\$ 1,025,292	\$ 1,252,063 *	\$ 381,036
National School Lunch Program	10.555	486,643	3,346,581	3,931,422 *	1,071,484
Child and Adult Care Food Program	10.558	(71,138)	-	-	(71,138)
State Administrative Expenses for Child Nutrition Education & Training Program (NET Program)	10.560	202,675	303,233	159,147	58,589
Nutrition Education & Training Program (NET Program)	10.564	133,132	133,132	-	-
Commodity Supplemental Food Program	10.565	(88,345)	-	-	(88,345)
Total U.S. Department of Agriculture		\$ 817,232	\$ 4,808,238	\$ 5,342,632	\$ 1,351,626
U.S. DEPARTMENT OF DEFENSE:					
Pass-Through Guam Department of Administration					
Planning Assistance to State	12.110	\$ 511,736	\$ 511,736	\$ -	\$ -
Total U.S. Department of Defense		\$ 511,736	\$ 511,736	\$ -	\$ -
U.S. DEPARTMENT OF LABOR:					
Pass-Through Guam Department of Administration					
Employment Services and Job Training-Pilot and Demonstration Program	17.249	\$ 14,270	\$ 118,619	\$ 2,502	\$ (101,847)
Total U.S. Department of Labor		\$ 14,270	\$ 118,619	\$ 2,502	\$ (101,847)
FEDERAL EMERGENCY MANAGEMENT AGENCY:					
Pass-Through Guam Department of Administration					
Public Assistance Grant	83.544	\$ 2,034,290	\$ 2,388,750	\$ 1,038,953	\$ 684,493
Total Federal Emergency Management Agency		\$ 2,034,290	\$ 2,388,750	\$ 1,038,953	\$ 684,493
U.S. DEPARTMENT OF EDUCATION:					
Direct:					
Multi State	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to State	84.027	(2,959,148)	10,708,566	13,089,806 *	(577,908)
Special Education-Personnel Development and Personnel Training (Training Personnel for the Education of Individuals with Disabilities)	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	(138,500)	300,199	404,818	(33,881)
Vocational Education: Basic Grants to State	84.048	-	139,081	103,013	(36,068)
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grant	84.173A	(27,795)	-	-	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	767,412	1,169,321	1,253,519 *	851,610
Byrd Honors Scholarship	84.185	63,000	58,500	58,500	63,000
Christa McAuliffe Fellowships (CMFP)	84.190	10,057	10,057	-	-
Bilingual Education Support Service	84.194Q	28,182	112,796	93,781	9,167
Fund for the Improvement of Education (FIE)	84.215	-	-	3,270	3,270
Education Grant Program for the Freely Associated States	84.256	(50,993)	-	-	(50,993)
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276A	77,023	98,744	263,933	242,212
Twenty-First Century Community Learning Centers	84.287	6,886	411,916	522,802	117,772
Technology Literacy Challenge Fund Grant	84.318	108,026	456,245	472,958	124,739
Advanced Placement Program	84.330	-	11,519	16,712	5,193
Class Size Reduction	84.340	43,677	1,279,804	1,238,733 *	2,606
School Renovation Grant	84.352	-	371,530	434,765	63,235
Consolidated Grant:	84.922A	(986,881)	7,537,105	9,260,184 *	736,198
Total U.S. Department of Education		\$ (3,074,708)	\$ 22,665,383	\$ 27,216,794	\$ 1,476,703
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Pass-Through Guam Department of Administration					
Child Care and Development Block Grant	93.575	\$ (131,427)	\$ -	\$ -	\$ (131,427)
Promote the Survival and Continued Vitality of Native American Languages	93.587	82,257	82,257	-	-
Head Start	93.600	1,121,044	2,452,231	1,782,265 *	451,078
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	106,359	162,142	113,029	57,246
Total U.S. Department of Health and Human Services		\$ 1,178,233	\$ 2,696,630	\$ 1,895,294	\$ 376,897
Total Federal Award:		\$ 1,481,053	\$ 33,189,356	\$ 35,496,175	\$ 3,787,872

* Based on requirements imposed in the audit, this program is audited as a major program

See notes to Schedule of Expenditures of Federal Award

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2002

1. Scope of Audit:

The Guam Department of Education is a line agency of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the Federal expenditures of the Guam Department of Education (GDOE) are included within the scope of the audit. The U.S. Department of the Interior has been designated as the Government of Guam's cognizant agency for the compliance audit.

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

GDOE is named as the grant recipient on grant awards and is responsible for maintaining the accounting records for federal expenditures. The federal programs were not charged allocated costs or indirect costs. Therefore, all costs charged were direct.

All expenses and capital outlays that represent the federal share are reported as expenditures. Expenditures are recognized on the modified accrual basis of accounting, consistent with the manner in which GDOE maintains its accounting records.

b. Subgrants:

Certain program funds are passed through the Guam Department of Education to subrecipient organizations. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the Guam Department of Education's control utilized the funds. If the subrecipient expends more than \$300,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. Subsequent Event

Effective September 17, 2003, the U.S. Department of Education designated the Guam Department of Education a "high-risk grantee," making it subject to special conditions in all of the U.S. Department of Education Federal programs it administers.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which were considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, some of which were considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Organization's major programs were as follows:

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education – Grants to States	84.027
Special Education: Grants for Infants and Families with Disabilities	84.181
Class Size Reduction	84.340
Consolidated Grants	84.922
Head Start	93.600

8. A threshold of \$ 1,064,885 was used to distinguish between Type A and Type B programs.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>	<u>Guam GDOE Division</u>
02-02	Period of Availability	\$ 74,993	Education	Bus. Off., Spec. Ed.
02-03	Procurement	\$ 3,453	Education	Supply Management
02-04	Allowable Costs/Cost Principles	\$ 339,470	Education	Special Education
02-06	Period of Availability	\$ -	Education	Bus. Off., Spec. Ed.
02-07	Procurement	\$ 12,737	Education	Supply Management
02-08	Allowable Costs/Cost Principles	\$ 627	Education	Bus. Off., Spec. Ed.
02-09	Period of Availability	\$ -	Education	Bus. Off., Fed. Programs
02-10	Period of Availability	\$ 177,585	Education	Bus. Off., Fed. Programs
02-11	Procurement	\$ 104,226	Education	Supply Management
02-12	Period of Availability	\$ -	HHS	Bus. Off., Head Start
02-13	Earmarking	\$ 175,931	HHS	Head Start
02-15	Procurement	\$ 5,406	HHS	Supply Management
02-17	Cash	\$ -		Business Office
02-18	General Ledger	\$ -		Business Office
02-19	Prepaid Expenses	\$ -		Business Office
02-20	Interfund Transactions	\$ -		Business Office
02-21	Receivables	\$ -		Business Office
02-22	Payables	\$ -		Business Office
02-23	Accruals	\$ -		Business Office
02-24	Non-Appropriated Funds	\$ -		NAF
02-25	Fixed Assets	\$ -		All
02-26	Procurement	\$ -		Supply Management
02-27	Withholding Taxes	\$ -		Business Office

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>	<u>Guam GDOE Division</u>
02-01	10.553/10.555	Eligibility	\$ -	Agriculture	Food Services
02-02	84.027	Period of Availability	\$ 74,993	Education	Bus. Off., Spec. Ed.
02-03	84.027	Procurement	\$ 3,453	Education	Supply Management
02-04	84.027	Allowable Costs/Cost Principles	\$ 339,470	Education	Special Education
02-05	84.027	Segregation of Duties	\$ -	Education	Special Education
02-06	84.181	Period of Availability	\$ -	Education	Bus. Off., Spec. Ed.
02-07	84.181	Procurement	\$ 12,737	Education	Supply Management
02-08	84.181	Allowable Costs/Cost Principles	\$ 627	Education	Bus. Off., Spec. Ed.
02-09	84.340	Period of Availability	\$ -	Education	Bus. Off., Fed. Programs
02-10	84.922A	Period of Availability	\$ 177,585	Education	Bus. Off., Fed. Programs
02-11	84.922A	Procurement	\$ 104,226	Education	Supply Management
02-12	93.600	Period of Availability	\$ -	HHS	Bus. Off., Head Start
02-13	93.600	Earmarking	\$ 175,931	HHS	Head Start
02-14	93.600	Reporting	\$ -	HHS	Head Start
02-15	93.600	Procurement	\$ 5,406	HHS	Supply Management
02-25	All	Equipment Management	\$ -		All
02-28	10.553/10.555	Matching	\$ -	Agriculture	Food Services
Total Questioned Costs			\$ <u>894,428</u>		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-01
 CFDA No.: 10.553/10.555
 Program Name: Child Nutrition Cluster
 Area: Eligibility
 Questioned Costs: \$0

Criteria:

In accordance with eligibility requirements, only eligible children may receive meals at no charge or at a reduced price. Furthermore, documentation of eligibility determinations should be maintained on file.

Condition:

- For 3 (or 10%) out of 31 schools, no listing of children receiving free or reduced-price meals was provided for the following:

Mount Santa Rosa Elementary
 DODEA Guam High School
 DODEA Guam South Elementary/Middle School

- For 18 (or 24%) out of 75 case files, no application was provided for the following students:

<u>School</u>	<u>Student Initials</u>	<u>School</u>	<u>Student Initials</u>
1. Agana Heights Elem.	MM	10. Finegayan Elem.	FS, Jr.
2. Agana Heights Elem.	TP	11. J.Q. San Miguel Elem.	JSPA
3. Finegayan Elem.	CSN	12. J.Q. San Miguel Elem.	EHR
4. Finegayan Elem.	MB	13. J.Q. San Miguel Elem.	ALS
5. Finegayan Elem.	AJM	14. J.Q. San Miguel Elem.	AAB
6. Finegayan Elem.	MMB	15. J.Q. San Miguel Elem.	JCCI
7. Finegayan Elem.	KTL	16. M.U. Lujan Elem.	CNCP
8. Finegayan Elem.	RRN	17. M.U. Lujan Elem.	LAB
9. Finegayan Elem.	ATM	18. Marcia A. Sablan Elem.	DMD

- For 27 (or 36%) out of 75 case files, there is no indication on file that income verifications were performed for the following applications:

<u>School</u>	<u>Student Initials</u>	<u>School</u>	<u>Student Initials</u>
1. Astumbo Elem.	KMSNS	15. M.A. Ulloa Elem.	KCA
2. Astumbo Elem.	KKC	16. M.U. Lujan Elem.	JJHS
3. Agueda Johnson Mid.	KF	17. Machanao Elem.	RAAG
4. B.P. Cabullido Elem.	CJAM	18. Machanao Elem.	RJTI
5. B.P. Cabullido Elem.	ARK	19. Marcia A. Sablan Elem.	JNP
6. Chief Brodie Elem.	CPC	20. Oceanview Mid.	GA
7. D.L. Perez Elem.	RBS	21. Ordot/Chalan Pago Elem.	TJN
8. F.B. Leon Guerrero Mid.	JQ	22. Price Elem.	AR
9. F.B. Leon Guerrero Mid.	OCA	23. Price Elem.	SCK
10. H.S. Truman Elem.	JQ	24. Tamuning Elem.	JM
11. Inarajan Elem.	JM	25. UPI Elem.	GC
12. Inarajan Elem.	FC	26. UPI Elem.	DU
13. Inarajan Elem.	LMQT	27. Wettengel Elem.	ANC
14. L.B. Johnson Elem.	SN		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-01, Continued
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Eligibility
Questioned Costs: \$0

Cause:

There appears to be a lack of internal controls over ensuring compliance with eligibility requirements.

Effect:

GDOE is in noncompliance with eligibility requirements. The aggregate amount, if any, of potential questioned costs cannot be determined due to the lack of sufficient documentation.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should establish and implement internal record keeping controls to ensure that documents are maintained on file to substantiate eligibility determinations.

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

Management concurs with the recommendation. In addition, GDOE will review and update the current guidelines regarding record keeping and implement any changes prior to the start of School Year 2004-2005.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-02
 CFDA No.: 84.027
 Program Name: Special Education – Grants to States
 Requirement: Period of Availability
 Questioned Costs: \$74,993

Criteria:

In accordance with period of availability requirements, funds appropriated in July of a fiscal year remain available for obligation during the succeeding 27 months.

Condition:

At the end of fiscal year 2002, unliquidated/unobligated balances remain after the fund's period of availability. Furthermore, expenditures were charged to expired grants, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>	<u>2002 Expenditures</u>
1997	1999	\$ 5,595	\$ 0
1998	2000	105,447	1,950
1999	2001	12,348	73,043
2000	2002	<u>56,297</u>	<u>0</u>
		<u>\$ 179,687</u>	<u>\$ 74,993</u>

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability and that expenditures are not charged to expired funds.

Effect:

The available balances for grant years 1997 through 2000 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with period of availability requirements. A questioned cost of \$74,993 exists.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-02, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Period of Availability
Questioned Costs: \$74,993

Auditor Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-03
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Procurement
Questioned Costs: \$3,453

Criteria:

In accordance with procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 2 (or 18%) out of 11 transactions tested, aggregating \$667,474 of \$2,236,326 in total Program non-payroll expenditures, there are no procurement records for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0235059	7/16/2002	10485	0D2190220	\$ 2,944
				<u>509</u>
				<u>\$ 3,453</u>

Cause:

There appears to be weak internal controls over ensuring compliance with OMB Circular A-133 procurement requirements.

Effect:

GDOE is in noncompliance with procurement requirements. A questioned cost of \$3,453 exists. Although the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with procurement requirements. Prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is documented in the procurement file.

Auditee Response and Corrective Action Plan:

In a memo dated March 19, 2004, GDOE provided the following response:

These are small amounts, \$2,944 and \$509 respectively. According to Procurement, these amounts fall under Small Purchase requirements, which has less stringent requirements for vendor selection; they will document three (3) quotes and this will be the documentation for the selection of the vendor.

However, it should be noted that for several years, only [two particular travel agencies] will accept our Travel Authorization for travel purposes; no other travel agency on Guam will accept GDOE Travel Authorization.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-03, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Procurement
Questioned Costs: \$3,453

Auditee Response and Corrective Action Plan, Continued:

In a memo dated March 29, 2004, GDOE provided the following response:

Because of GDOE's poor payment history many of the travel agents on Guam to the present day will not accept the department's purchase orders. During the fiscal year ended September 30, 2002 only two vendors, Travel Bag, Inc. and Golden Dragon Travel (Guam) were willing to do business with GDOE. However, no documentation to this effect was included in the procurement files for this transaction. By April 30, 2004 GDOE will inquire from all the travel agencies on Guam about the acceptance of our purchase orders in order to be able to document the rationale for selecting a vendor for future travel purchase orders. This listing will be kept on file in the procurement office and updated annually.

In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

As in the prior years, management advises all school and divisions to first request for supplies from the General Services Agency (GSA). The rationale is that the procurement for the best available price is conducted by GSA on behalf of all the government agencies. If the goods are not available from GSA then other vendors are solicited. In the future, the procurement division will ensure that requisitions that do not qualify as small purchases will be treated in the same manner as requisitions submitted for all other vendors.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-04
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$339,470

Criteria:

In accordance with allowable costs/cost principles requirements and OMB Circular A-87, capital expenditures are allowable only when approved by the awarding agency.

Condition:

For 1 (or 9%) out of 11 transactions tested, aggregating \$667,474 of \$2,236,326 in total Program non-payroll expenditures, no prior grantor approval document is maintained on file for the following transaction to purchase five twenty-two-passenger buses:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0236202	9/13/2002	10903	2001920583J-96955	\$ 339,470

Cause:

There appears to be weak internal controls over ensuring that written prior grantor approval is obtained and maintained on file for capital expenditures.

Effect:

GDOE is in noncompliance with allowable costs/cost principles requirements and OMB Circular A-87. A questioned cost of \$339,470 exists.

Recommendation:

GDOE should strengthen internal controls to ensure that the responsible personnel obtain written grantor approval prior to the purchase of capital assets and maintain such written approval on file to substantiate capital expenditures in accordance with OMB Circular A-87.

Auditee Response and Corrective Action Plan:

In a memo dated March 19, 2004, GDOE provided the following response:

Special Education is going to respond to this finding as comprehensively as it can and provide documentation to support its responses.

The Catalog of Federal Domestic Assistance (CFDA), lists CFDA 84.027, Special Education-Grants to States, as a “Formula Grant”, under “TYPES OF ASSISTANCE”. The “OBJECTIVES” of this grant, according to the CFDA is, “To provide grants to States to assist them in providing free appropriate public education to all children with disabilities.” Under “USES AND USE RESTRICTIONS”, the CFDA states, “Funds are used by State and local education agencies, in accordance with the priorities in the Act, to help provide the special education and related services needed to make a free appropriate public education available to all eligible children.”

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-04, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$339,470

Auditee Response and Corrective Action Plan, Continued:

Clearly, therefore, the intent of the use of the funds is for states, including Guam, to use the funds to make a free appropriate public education available to all eligible children with disabilities.

The annual Grant Award Notification document specifies under Block 8, “Administrative Information”, that the regulations governing are to be found at 34 CFR, Part 300.

Under 34 CFR, Part 300, we will define several terms that will help the Auditor to understand the requirements governing the use of funds.

Under 34 CFR §300.26, **Special Education** is defined as follows:

“34 CFR §300.26(a) *General* (1) As used in this part, the term special education means specially designed instruction, **at no cost to the parents**, to meet the unique needs of a child with a disability...”

“34 CFR §300.26(b) *Individual terms defined* The terms in this definition are as follows:

(1) **At no cost to the parents** means that all specially designed instruction is provided without charge...”

Under 34 CFR §300.24, **Related Services** is defined as follows:

“34 CFR §300.24(a) *General* (1) As used in this part, the term **related services** means **transportation** and such developmental, corrective, and other supportive services as are required to assist a child with a disability to benefit from special education ...”

“34 CFR §300.24(b) *Individual terms defined*. The terms used in this definition are as follows:...”

“34 CFR §300.24(b) (15) **Transportation** includes-...

(iii) **Specialized equipment** (such as **special or adapted buses**, lifts, and ramps), if required to provide special transportation for a child with a disability.”

Under 34 CFR §300.370, **Use of SEA Allocations**:

“34 CFR §300.370(a) Each State shall use any funds it retains under Sec. 300.602 and does not use for administration under Sec. 300.620 for any of the following:

(1) Support and **direct services**...”

“34 CFR §300.370(b) For the purposes of paragraph (a) of this section-

(1) **Direct services** means services provided to a child with a disability **by the State directly**...”

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-04, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$339,470

Auditee Response and Corrective Action Plan, Continued:

Under 34 CFR §300.300, **Provision of FAPE**, it states,

“300.301 (a) (1)...**each State receiving assistance** under this part **shall ensure that FAPE** is available to all children with disabilities....”

“300.301 (a) (3) (i) **The services** provided to the child under this part address all of the child’s identified special education and **related services needs**...”

Under 34 CFR §300.301 **FAPE-methods and payments**, it states,

“300.301 (a) Each State **may use** whatever State, local, **Federal**, and private sources of support are available in the State **to meet the requirements of this part**....”

The Auditors cite OMB Circular A-133 and OMB Circular A-87 as their authority to require all capital expenditures to have prior approval from the grantor agency in order for the costs to be allowable.

However, the Auditors should understand that federal grant recipients are governed by four levels of authority. The established order of precedence is as follows:

1. Statutes
2. Program Regulations (as published in the CFR)
3. Administrative Regulations
4. Grant Agreement Terms and Conditions

Therefore, notwithstanding the citation of the OMB Circulars, which are Administrative Regulations, the Program Regulations, cited as 34 CFR 300, have higher authority than Administrative Regulations.

Clearly, the statute and implementing regulations intend for the funds received by States to be used for providing special education and related services. It is clear that buses fall under the regulatory requirement to provide transportation. It is also clear that given the regulatory authority to expend grant funds to address related services, to include transportation and specially adapted buses, there is no question that this falls under the authority to purchase such vehicles without having to seek prior approval before undertaking such purchases.

Auditors’ Response:

We do not question whether the purchased buses themselves meet program objectives. Furthermore, 34 CFR 80.22(b) states, “For each kind of organization, there is a set of Federal principles for determining allowable costs. For the costs of a State, local, or Indian tribal government, the Secretary applies the cost principles in OMB Circular A-87, as amended on June 9, 1987.” Therefore, the requirement to obtain prior grantor approval for purchases of capital assets applies. Therefore, absent documentation from the grantor agency either waiving the requirement or specifically approving the capital cost, the finding remains.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-05
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Segregation of Duties
Questioned Costs: \$0

Criteria:

As part of effective controls, a proper segregation of duties should be in place.

Condition:

Based on tests of expenditures and interviews with the Administrative Officer of the Special Education programs, we noted that the Officer performs a wide range of duties that do not promote a proper segregation of duties. The Officer can initiate a requisition, make changes to a requisition, record a requisition, and sign off or confirm the receipt of the requisitioned goods.

Cause:

The Administrative Officer has responsibilities that do not conform to segregation of duties principles.

Effect:

Conflicting duties present a breakdown of controls that could lead to misappropriation of resources or assets.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

We recommend that the Administrative Officer's various functions be thoroughly reviewed. Any conflicting duties should be assigned to another Special Education personnel.

Auditee Response and Corrective Action Plan:

In a memo dated March 19, 2004, GDOE provided the following response:

While Special Education does not necessarily concur with the Auditor's findings in its entirety, we take note that the segregation of duties needed to be addressed. This has been, and will continue to be accomplished via Corrective Actions documented in three (3) memoranda, as follows:

1. On January 15, 2004, [the] Associate Superintendent, Special Education wrote a memorandum to all Special Education Coordinators and Support Staff. This memorandum detailed how federally funded Special Education equipment was to be inventoried.
2. On February 3, 2004, [the] Associate Superintendent, Special Education wrote another memorandum to all Special Education Coordinators and Support Staff. This memorandum identified changes to the requisition process, to address the concerns relative to the Administrative Officer and proper segregation of duties.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-05, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Segregation of Duties
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

3. On February 3, 2004, [the] Associate Superintendent, Special Education also wrote a memorandum to the Superintendent of Education. This memorandum notified the Superintendent of Education of the changes to the changes as documented in the January 15 and February 3, 2004 memoranda from the Associate Superintendent, Special Education to the Special Education Coordinators.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-06
CFDA No.: 84.181
Program Name: Special Education: Infants and Families with Disabilities
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

In accordance with period of availability requirements, funds appropriated in July of a fiscal year remain available for obligation during the succeeding 27 months.

Condition:

At the end of fiscal year 2002, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1997	1999	\$ 4,278
1998	2000	1,987
1999	2001	<u>4,780</u>
		\$ <u>11,045</u>

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability.

Effect:

The available balances for grant years 1997 through 1999 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with period of availability requirements.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

The grantee should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-07
CFDA No.: 84.181
Program Name: Special Education: Infants and Families with Disabilities
Requirement: Procurement
Questioned Costs: \$12,737

Criteria:

In accordance with procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, all procurement transactions will be conducted in a manner providing full and open competition. One situation considered to be restrictive of competition is specifying only a "brand name" product instead of allowing "an equal" product to be offered and describing the performance of other relevant requirements of the procurement. Moreover, local procurement regulations require at least 15 days between the opening and closing dates of requests for bids.

Condition:

For 3 (or 27%) out of 11 transactions tested, aggregating \$356,068 of \$387,379 in total Program non-payroll expenditures, we noted the following:

(1) For 2 (or 17%), there is no written rationale for the vendor selected for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0232786	3/12/02	10494	PO02 200200100	\$ 250
0235768	8/22/02	11209	PM02 200290077	384

(2) For 1 (or 9%), only brand names were specified in the request for proposals, and potential bidders were given less than the required 15 days between the opening and closing dates of the bid request for the following transaction:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0235507	08/08/02	10542	20020088810158	\$ 12,103

Cause:

There appears to be weak internal controls over ensuring compliance with procurement requirements.

Effect:

GDOE is in noncompliance with procurement requirements. A questioned cost of \$12,737 exists.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with procurement requirements. All bid specifications that specify brand names should also include the phrase "or equivalent." Furthermore, prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is documented in the procurement file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-07, Continued
CFDA No.: 84.181
Program Name: Special Education: Infants and Families with Disabilities
Requirement: Procurement
Questioned Costs: \$12,737

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

- (1) For small purchases of \$500 or less, the Guam Procurement Regulations §3111. Small Purchases Application (e) states that “the Chief Procurement Officer, the Director of Public Works, or the head of a Purchasing Agency shall adopt operational procedures for making small purchases of less than \$500.” In the past, the Administrator of Supply Management adopted the policy that small purchases of \$500 or less did not require quotations from three vendors. It is uncertain if this policy was ever put writing. However, for the fiscal year ending September 30, 2004 the policy for the procurement of small purchases of \$500 or less was printed and approved by the Superintendent of Education. This policy will be updated annually and kept on file in the Procurement Office.
- (2) We concur that when procurement personnel solicited for the items purchased in Purchase Order #200200888 they did not include the phrase “or equivalent”. By March 31, 2004, all procurement personnel will be instructed to include, at a minimum, the term “or equivalent” on all solicitations or bid requests during the procurement process. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-08
CFDA No.: 84.181
Program Name: Special Education: Infants and Families with Disabilities
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$627

Criteria:

In accordance with allowable costs/cost principles, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on a Federal award and a non-Federal award.

Condition:

For one (or 3%) out of 32 employees tested, the payroll of an employee (GDOE Legal Counsel) was distributed among three Federal programs for the pay period ended August 10, 2002; however, no personnel activity report or equivalent documentation was provided to support the distribution, as follows:

<u>CFDA Number</u>	<u>Amount</u>
83.544 Public Assistance Grant	\$1,104
84.027 Special Education – Grants to States	3,554
84.181 Special Education: Infants and Families with Disabilities	627

Cause:

There appears to be a lack of internal controls over ensuring compliance with allowable costs/cost principles.

Effect:

GDOE is in noncompliance with OMB Circular A-133 allowable costs/cost principles. A questioned cost of \$627 exists. Although the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold.

Recommendation:

GDOE should establish and implement internal controls to ensure that personnel activity reports or equivalent documentation is maintained on file to substantiate distribution of salaries and wages among Federal awards and non-Federal awards in accordance with allowable costs/cost principles.

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

[Personnel Manager] to look for PAF that shows the account numbers that [the employee's] salary was allotted to.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-09
CFDA No.: 84.340
Program Name: Class Size Reduction
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

In accordance with period of availability requirements, funds appropriated in a fiscal year remain available for obligation during the succeeding fiscal year, with a ninety-day liquidation period.

Condition:

At the end of fiscal year 2002, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1999	2001	\$ 82,286

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability.

Effect:

The available balance for grant year 1999 is misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with period of availability requirements.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-10
 CFDA No.: 84.922A
 Program Name: Consolidated Grants
 Requirement: Period of Availability
 Questioned Costs: \$177,585

Criteria:

In accordance with period of availability requirements, funds appropriated in July of a fiscal year remain available for obligation during the succeeding 27 months.

Condition:

At the end of fiscal year 2002, unliquidated/unobligated balances remain after the fund's period of availability. Furthermore, expenditures were charged to expired grants, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>	<u>2002 Expenditures</u>
1997	1999	\$ 398,457	\$ 0
1998	2000	45,116	1,707
1999	2001	7,332	175,878
2000	2002	<u>25,493</u>	<u>0</u>
		\$ <u>476,398</u>	\$ <u>177,585</u>

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability and that expenditures are not charged to expired funds.

Effect:

The available balances for grant years 1997 through 2000 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with period of availability requirements. A questioned cost of \$177,585 exists.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-10, Continued
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Period of Availability
Questioned Costs: \$177,585

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-11
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$104,226

Criteria:

In accordance with procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 4 (or 31%) out of 13 transactions tested, aggregating \$1,042,587 of \$2,351,010 in total Program non-payroll expenditures, there is no written rationale for the vendor selected for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0232298	02/14/02	10923	20000024417	\$ 2,774
0242656	08/26/02	10923	D21902378	2,928
0233328	04/25/02	J.T.A.	D21901299	1,324
0233824	05/07/02	22076	200200812	<u>97,200</u>
				<u>\$104,226</u>

Cause:

There appears to be weak internal controls over ensuring compliance with OMB Circular A-133 procurement requirements.

Effect:

GDOE is in noncompliance with procurement requirements. A questioned cost of \$104,226 exists.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with OMB Circular A-133 procurement requirements. Prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is documented in the procurement file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-11, Continued
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$104,226

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

1. In response to the payments made to [vendor # 10923] we concur. Because of GDOE's poor payment history many of the travel agents on Guam to the present day will not accept the department's purchase orders. During the fiscal year ended September 30, 2002 only two vendors were willing to do business with GDOE. However, no documentation to this effect was included in the procurement files for this transaction. By April 30, 2004 GDOE will inquire from all the travel agencies on Guam about the acceptance of our purchase orders in order to be able to document the rationale for selecting a vendor for future travel purchase orders. This listing will be kept on file in the procurement office and updated annually.
2. [Vendor # J.T.A.] is an employee of the department – specifically, a teacher at Jose L.G. Rios Middle School. The payment of \$1,324 was for services provided as the coordinator of the Saturday Tutorials program, one of the programs included in the Effective Schools/School Level Improvement Plan, for the month of February 2002. All teachers interested in providing services for programs outside of the regular school day are selected at their school site or may be used in another school if the need arises. There is no formal application process. Compensation for these services is made in the form of a stipend.
3. The payment to [vendor # 22076] was for the purchase of an optical mark reader that would scan the forms used in the SAT9 (Stanford Achievement Test, 9th Edition) testing. A request for sole source procurement/determination was prepared and approved by the Administrator of Supply Management on the basis that [vendor # 22076] was the only distributor/agent available for that particular form reader. Before the requisition was prepared, the staff of the Research, Planning & Evaluation Division, the requesting division, called several island businesses that sell similar products and determined that there was no available vendor for the scanner they needed. The listing of the vendors called was not included in the procurement files. By March 31, 2004 the procurement division will be instructed to attach a log of local vendors contacted, if possible, to the sole source determination document in the purchase order jacket.

In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-12
CFDA No.: 93.600
Program Name: Head Start
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

In accordance with special tests and provision requirements, the grantee should comply with specific requirements that are unique to each Federal program and that are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Item seven of the program award's Terms and Conditions states that the grantee shall liquidate all obligations incurred under the award no later than ninety days after the end of the budget period.

Condition:

At the end of fiscal year 2002, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1999	2000	\$ 12,250
2000	2001	119,892
2001	2002	<u>640,593</u>
		\$ <u>772,735</u>

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability.

Effect:

The available balances for grant years 1999 through 2001 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with period of availability requirements.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-12, Continued
CFDA No.: 93.600
Program Name: Head Start
Requirement: Period of Availability
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a memo dated March 26, 2004, GDOE provided the following response:

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-13
 CFDA No.: 93.600
 Program Name: Head Start
 Requirement: Earmarking
 Questioned Costs: \$175,931

Criteria:

In accordance with earmarking requirements, the costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs, unless a waiver has been granted by ACF.

Condition:

Program development and administration costs exceeded the 15 percent ceiling, as follows:

<u>Grant Year</u>	<u>Dev. & Adm. Costs</u>	<u>Total Program Costs</u>	<u>%</u>	<u>Excess</u>
2001	\$223,446	\$1,405,202	15.9	\$ 12,666
2002	219,723	376,384	58.4	163,265
				<u>\$175,931</u>

Cause:

There appears to be weak internal controls over ensuring compliance with earmarking requirements.

Effect:

GDOE is in noncompliance with earmarking requirements. A questioned cost of \$175,931 exists.

Recommendation:

GDOE should strengthen internal controls to ensure that administrative costs in excess of the 15% limit are charged to local funds in accordance with earmarking requirements.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

The amounts provided for the Developing and Administrative Costs were taken from the Grant Application Budget Instrument (GABI) Report generated by the local Head Start staff. The totals not only include the administrative expenditures charged against the federal award but also the amounts of local in-kind contributions – namely the value of services provided by parent volunteers. By April 30, 2004 a breakdown of the elements of the Developing and Administrative Costs will be provided to the auditors. In future audits the Financial Affairs Division will provide the necessary schedule of expenditures in order to avoid any conflicts in data presentation.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-14
CFDA No.: 93.600
Program Name: Head Start Program
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with reporting requirements, amounts reported in the Financial Status Reports should be supported by underlying accounting records.

Condition:

Total liquidated outlays for fiscal years 2001 and 2002 as reported in the Financial Status Reports differ from total expenditures recorded in the financial management system, as follows:

<u>Reporting Period</u>	<u>Per FSR</u>	<u>Per FMS</u>	<u>Over Reported</u>
Grant Year 2001 (07/01/01 – 06/30/02)	\$ 1,749,353	\$ 1,356,180	\$ 393,173
Grant Year 2002 (07/01/02 – 06/30/03)	\$ 376,384	\$ 370,184	\$ 6,200

Cause:

There appears to weak internal controls over ensuring the accuracy of amounts reported in the Financial Status Reports.

Effect:

Expenditures are over reported. The grantee is in noncompliance with reporting requirements.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure that amounts reported in the Financial Status Reports are supported by underlying accounting records. Prior to report submission, the responsible personnel should perform a reconciliation to the financial management system.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

1. For Grant Year 2001, the only amount included in the “Per FMS” column was for the FY2002 expenditures. The first quarter of expenditures for the Grant Year 2001 award was recorded in our Fiscal Year 2001. On March 24, 2004 a schedule of the FY2001 expenditures was provided to the auditors.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-14, Continued
CFDA No.: 93.600
Program Name: Head Start Program
Requirement: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

2. For Grant Year 2002, the only amount included in the "Per FMS" column was for the FY2002 operational expenditures. The amounts for Training were overlooked in the FMS report. On March 24, 2004 a schedule of the FY 2002 expenditures for operations and training was provided to the auditors.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-15
CFDA No.: 93.600
Program Name: Head Start
Requirement: Procurement
Questioned Costs: \$5,406

Criteria:

In accordance with procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 2 (or 33%) out of 6 transactions tested, aggregating \$33,474 of \$219,444 in total Program non-payroll expenditures, there is no written rationale for the vendor selected for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
242453	03/05/02	10923	PT02 200240013	2,700
232798	03/12/02	10485	D21900984	<u>2,706</u>
				<u>\$5,406</u>

Cause:

There appears to be weak internal controls over ensuring compliance with procurement requirements.

Effect:

GDOE is in noncompliance with procurement requirements. A questioned cost of \$5,406 exists. Although the actual questioned cost is less than \$10,000, the finding is reportable because the projected questioned cost exceeds the threshold.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the Program.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with procurement requirements. Prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is documented in the procurement file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-15, Continued
CFDA No.: 93.600
Program Name: Head Start
Requirement: Procurement
Questioned Costs: \$5,406

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

Because of GDOE's poor payment history many of the travel agents on Guam to the present day will not accept the department's purchase orders. During the fiscal year ended September 30, 2002 only two vendors, Travel Bag, Inc. and Golden Dragon Travel (Guam) were willing to do business with GDOE. However, no documentation to this effect was included in the procurement files for this transaction. By April 30, 2004 GDOE will inquire from all the travel agencies on Guam about the acceptance of our purchase orders in order to be able to document the rationale for selecting a vendor for future travel purchase orders. This listing will be kept on file in the procurement office and updated annually.

In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

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GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No: 02-17
Area: Cash

Criteria:

All cash transactions should be recorded, and bank reconciliations should be prepared on a monthly basis for all bank accounts

Condition:

1. No electronic transfers between GDOE's bank accounts (i.e., operations and payroll) are recorded in the cash account.
2. No bank reconciliations were prepared during fiscal year 2002.
3. The Business Office does not have a comprehensive list of all bank accounts opened by GDOE schools.

Cause:

There appears to be a lack of internal controls over ensuring that electronic transfers between bank accounts are recorded in the cash account and that bank reconciliations are prepared on a monthly basis. Furthermore, certain banks with accounts opened by GDOE schools do not recognize the Superintendent as an authorized employee for purposes of requesting account balance confirmations.

Effect:

Cash could be misstated, and the loss or theft of cash will not be detected in a timely manner. However, during the audit process, GDOE reconciled bank accounts as of September 30, 2002.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over cash. GDOE management/Controller should designate a Business Office employee to be responsible for ensuring that electronic transfers between bank accounts are recorded in the cash account and for preparing bank reconciliations on a monthly basis. Upon receipt of the monthly bank statement, the responsible personnel should reconcile the cash bank balance with the cash book balance. Any discrepancies should be immediately investigated and resolved. Furthermore, GDOE should establish and implement internal controls over ensuring that the Superintendent or Business Office designee is either included as a signatory, or non-signing authorized representative, for all bank accounts opened by GDOE schools.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No: 02-18
Area: General Ledger

Criteria:

A functioning general ledger should be maintained, and general ledger balances should be periodically reconciled with subsidiary ledgers and with bank balances.

Condition:

The Guam Department of Education did not maintain accurate general ledger balances during the year ended September 30, 2002. The prior year audit adjustments were only partially keyed into the system. Reconciliations with subsidiary ledgers and with bank balances were therefore not performable during the year. While the Department did maintain subsidiary ledgers detailing expenditures by account or by federal program, no overall general ledger total was maintained and reconciled to subsidiary ledgers.

Cause:

GDOE lacks an adequate number of qualified accountants to post audit adjustments and perform necessary reconciliations.

Effect:

General ledger balances do not reflect prior year audited beginning balances. However, during the audit process, GDOE posted the prior year audit adjustments.

Recommendation:

The Guam Department of Education should commit necessary resources to maintain accurate general ledger balances.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-19
Area: Prepaid Expenses

Criteria:

Payments to vendors in advance of receipt of goods/services should be accounted for as prepaid expenses in subsidiary ledgers, which should be reconciled with general ledger balances.

Condition:

Prepaid expenses are not recorded in the general ledger.

Cause:

There appears to be a lack of internal controls over ensuring that prepaid expenses per the subsidiary and general ledgers are reconciled. Furthermore, the financial management system does not distinguish between open purchase orders for prepayments and for blanket purchases.

Effect:

Expenditures and prepaid expenses are misstated. However, during the audit process, GDOE proposed adjustments to correct the matter specified in the condition.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over the reconciliation of prepaid expenses per the subsidiary and general ledgers. Furthermore, the responsible personnel should develop a referencing system within the financial management system to distinguish between open purchase orders for prepayments and for blanket purchases.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-20
Area: Interfund Transactions

Criteria:

A reconciliation of interfund transactions should be prepared on a monthly basis.

Condition:

No interfund reconciliations were prepared during fiscal year 2002.

Cause:

There appears to be a lack of internal controls over ensuring that interfund reconciliations are prepared on a monthly basis.

Effect:

Interfund transactions could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile interfund transactions.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over interfund transactions. GDOE management/Controller should designate a Business Office employee to be responsible for preparing interfund reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-21
Area: Receivables

Criteria:

All amounts receivable at year end should be recorded in the current year.

Condition:

Amounts receivable from Guam Department of Administration and Federal agencies are not recorded at September 30, 2002.

Cause:

There appears to be a lack of internal controls over ensuring that proper accruals are recorded.

Effect:

Receivables are misstated. However, during the audit process, GDOE proposed adjustments to account for receivable balances.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over accruals. During the period of closing the books, the responsible personnel should determine and accrue the amount of receivables.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-22
Area: Payables

Criteria:

Accounts payable balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Accounts payable balances per the general ledger and subsidiary ledger are not reconciled.

Cause:

There appears to be a lack of internal controls over ensuring that accounts payable balances per the general ledger and subsidiary ledger are reconciled.

Effect:

Accounts payable could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile accounts payable general ledger and subsidiary ledger balances.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over accounts payable reconciliations. GDOE management/Controller should designate a Business Office employee to be responsible for preparing accounts payable reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-23
Area: Accruals

Criteria:

All payroll-related expenditures incurred and not yet paid as of September 30, 2002 should be accrued in the current year.

Condition:

Payroll-related expenditures incurred during the period from September 20, 2002, through September 30, 2002, for the pay period ended October 4, 2002, were not accrued at September 30, 2002.

Cause:

There appears to be a lack of internal controls over ensuring that proper accruals are recorded.

Effect:

Payroll-related accruals are misstated. However, during the audit process, GDOE proposed adjustments to account for payroll-related accruals.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over accruals. During the period of closing the books, the responsible personnel should determine and accrue the amount of payroll-related expenditures incurred and not yet paid.

Auditee Response and Corrective Action Plan:

In a memo dated March 27, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. In addition, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-24
Area: Non-Appropriated Funds

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. The Guam Department of Education classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

The majority of NAF funds held at the respective schools, including cash generated from such school-sponsored activities as plays and other productions off school grounds, were not properly accounted for during the year ended September 30, 2002. While a determination of cash balances held as of September 30, 2002 occurred, the determination is overdue.

Additionally, out of 205 specific disbursements of NAF funds tested aggregating \$319,195, significant noncompliance or absence of documentation arose in 87 instances totaling \$110,770. These instances included an absence of documentation explaining the reason for the payment, checks made out to cash to support off island travel without any receipts or plane tickets being filed, donations to non-profit organizations that are unallowable under NAF rules and regulations, and parties and barbeques that were not detailed as to the relationship with the applicable paying NAF fund.

Other instances of noncompliance were also noted where prescribed procedures and approval processes were circumvented.

With respect to cash receipts, we noted that the receipts for one high school were not available for the entire year to support deposits made, substantial delays in the deposit of receipted cash to bank accounts occurred, and additional instances occurred where deposits were made that were unsupported by cash receipts. Two elementary schools as well were unable to provide receipts for either the entire year or for much of the year.

Cause:

The cause of this condition is inadequate accounting and reporting for NAF funds during the year in question. Although a requirement existed to prepare monthly reports of these funds, per school, and to submit these reports to the Business Office, such did not occur and was not enforced.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2002 and that this condition could facilitate the fraudulent use of these funds for illegal purposes.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-24, Continued
Area: Non-Appropriated Funds

Recommendation:

We understand that subsequent efforts have been taken to ensure that NAF funds are subject to adequate monitoring and controls. However, it is evident that during fiscal year 2002, the controls in place over these funds were virtually nonexistent.

These NAF funds should be subject to ongoing audits by the Department's Internal Audit Division. Additionally, all required reports should be timely submitted, or sanctions should occur that prevent further use of the funds until corrective action occurs.

Auditee Response and Corrective Action:

In a memo dated March 25, 2004, the Department's Internal Audit Division provided the following response:

Concurred. The Department of Education's Internal Audit Section is in charge of monitoring and addressing all the issues of Non-Appropriated Funds. As per PL 26-26, all schools and other related NAF program must submit financial reports in order to comply and schools are currently complying with the statutes. As an office standard, GDOE-IAS is conducting audits each and every year to all schools.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-25
Area: Fixed Assets

Criteria:

In accordance with equipment and real property management requirements, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition:

The required property management system is not in place.

Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with equipment and property management requirements.

Effect:

No fixed assets are recorded in the financial management system.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should develop a property management system that complies with equipment and property management requirements.

Auditee Response and Corrective Action:

In a memo dated March 29, 2004, GDOE provided the following response:

We concur with the auditor's recommendation. In addition, GDOE has begun to address this issue. In January 2004, the Financial Student and Administrative Information Systems (FSAIS) office installed the Fixed Asset Management (FAM) software module into the Financial Management System program. On March 23, 2004, the Superintendent of Education established a Fixed Asset Inventory Action Team to lead the physical inventory of assets in GDOE's schools and divisions. The results of the physical count will be entered into the FAM as each location is completed. We anticipate the completion of the physical count and reconciliation to the Financial Management System by March 31, 2005.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-26
Area: Procurement

Criteria:

GDOE procurement regulations should be used to select all vendors, and documentation of such selection process should be maintained on file.

Condition:

For 14 (or 82%) out of 17 transactions tested, there is no procurement documentation on file for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
		21707	FMAT4	\$114,776
0240402	12/06/02	21707	OMATV-A	135,548
0240425	01/14/03	21707	OMATV-B	130,613
0242617		21707	OMAU-A	172,158
0242597	06/25/02	21707	XMAUJ-A	122,037
0242627	07/23/02	21707	XMAUJ-B	121,487
		21707	CMATR/B4AHK	180,944
0242549	05/23/02	10004	D21901671	171,098
0242545	05/22/02	10004	D21901670	130,487
		10004	D21901777	130,487
0242479	03/22/02	10004	D21901286	130,486
0233757	05/07/02	21025	45452661CM	299,746
0233584	05/07/02	21038	B974386E01ADJ	191,053
0231033	09/30/01	20006	F175278J01	481,805

Cause:

There appears to be weak internal controls over ensuring compliance with GDOE procurement regulations.

Effect:

GDOE is in noncompliance with GDOE procurement regulations.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with GDOE procurement regulations. The requested procurement documents should be provided to effect resolution of this finding.

Auditee Response and Corrective Action:

In a memo dated March 29, 2004, GDOE provided the following response.

GDOE concurs with the auditor's recommendation. On December 10, 2003 a job announcement for the recruitment of a Supply Management Administrator was posted and will close on April 6, 2004. In addition, on January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and will close on April 6, 2004. Finally, on March 22, 2004 job announcements were posted for the recruitment of at least two accountants for the department and will close on April 5, 2004. We anticipate that the positions will be filled at the latest six months after the closing dates. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-27
Area: Withholding Taxes

Criteria:

Withholding taxes should be remitted to the Guam Department of Revenue and Taxation (DRT) in a timely manner.

Condition:

At September 30, 2002, withholding taxes in the amount of \$13.9 million are in arrears.

Cause:

GDOE lacked funds to remit withholding taxes.

Effect:

GDOE is in noncompliance with the Guam Territorial Income Tax Law and is subject to interest and penalties. Subsequently, in July 2003, GDOE was assessed a total of approximately \$4.5 million in interest and penalties, net of abatements, for unpaid balances for the FY 2002 tax period.

Recommendation:

GDOE should remit withholding taxes to the Guam Department of Revenue and Taxation in accordance with the Guam Territorial Income Tax Law. If no funds are available, GDOE should contact DRT and make payment arrangements.

Auditee Response and Corrective Action:

In a memo dated March 27, 2004, GDOE provided the following response:

We concur with the auditor's recommendation. During the previous administration meetings were conducted with officials from GDOE, the Department of Administration (DOA) and the Department of Revenue and Taxation (Rev & Tax). The current GDOE administration and the Financial Affairs Division management are unaware of the contents of those discussions. However, on July 10, 2003 Rev & Tax issued a Notice of Levy against GDOE's balance of FY2003 appropriations in the amount of \$23,974,656.30 in payment of FY2002 and FY2003 withholding taxes, interest and penalties. On August 21, 2003, GDOE requested for an abatement of penalties totaling \$7,028,901.67. However, only \$3,401,906.82 was abated on August 27, 2003. As a result GDOE paid a total of \$3,318,330.84 in penalties for FY2002 delinquent withholding taxes. GDOE has and continues to submit weekly requests to the Government of Guam Department of Administration for the release of appropriated funds according to our budget schedule. More often than not, the release of these monies is not at the requested level and GDOE financial managers must prioritize the payment of vendors. We will make every effort to make future payments in a timely manner or consult with DRT about developing a payment arrangement.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No.: 02-28
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Matching
Questioned Costs: \$0

Criteria:

The FNS-13 “Annual Report of State Revenue Matching” is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue-matching requirement. This report is used to identify the Guam required matching amount.

Condition:

The school year 2002 FNS-13 report has not been filed. Therefore, the GDOE matching requirement and compliance with the matching requirement cannot be determined.

Cause:

GDOE has not filed the FNS-13 due to confusion regarding how to apply the required matching amount as either a State Agency or a School Food Authority.

Effect:

The effect of this condition cannot be determined.

Recommendation:

The FNS-13 should be prepared and filed immediately to determine if GDOE is in compliance with its matching requirement.

Auditee Response and Corrective Action Plan:

In a memo dated March 29, 2004, GDOE provided the following response:

We concur with the auditor’s recommendation. As of March 29, 2004, GDOE is awaiting approval from the United States Department of Agriculture (USDA) regarding a verbal request to waive the requirement to file Form FNS-13 for fiscal year ended September 30, 2002. In the meantime GDOE will determine the basis used to apply the required matching as either a State Agency expenses or a School Food Authority expense. The targeted date of completion is June 30, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Findings
Year Ended September 30, 2002

Unresolved Prior Year Comments

As the prior findings were issued subsequent to the year ended September 30, 2002, prior findings remain unresolved and are reiterated in current findings. A summary of unresolved questioned costs is as follows:

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal Agency</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>Total</u>
10.551/ 10.553	Child Nutrition Cluster	Agriculture	\$ -	194,468	66,125	132,034	-	\$ 392,627
12.110	State Planning Assistance	Defense	-	-	-	-	205,357	205,357
83.544	Public Assistance Grant	FEMA	-	-	1,649,112	3,130,222	1,276,537	6,055,871
84.340	Class Size Reduction	Education	-	-	-	-	-	-
84.027	Special Education – Grants to States	Education	417,916	77,426	59,481	-	-	554,823
84.181	Special Education – Infants and Families with Disabilities	Education	13,364	-	14,917	-	58,204	86,485
84.992	Consolidated Grants	Education	281,811	82,603	115,926	206,553	134,033	820,926
93.600	Head Start	HHS	<u>181,337</u>	<u>43,053</u>	<u>101,913</u>	-	<u>18,797</u>	<u>346,250</u>
	Totals		\$ <u>894,428</u>	<u>397,550</u>	<u>2,007,474</u>	<u>3,468,809</u>	<u>1,692,928</u>	\$ <u>8,462,339</u>