



## **Guam Department of Education FY 2013 Compliance Highlights**

June 29, 2014

Fiscal year (FY) 2013 was the 11th consecutive year of the Guam Department of Education (GDOE)'s high-risk grantee status with the U.S. Department of Education (USDOE). In November 2009, USDOE determined that GDOE should be assisted by a Third Party Fiduciary Agent (TPFA) to assist in implementing GDOE's financial management of USDOE funds, GDOE's Comprehensive Corrective Action Plan (CCAP), and a new financial management information system (FMIS). GDOE paid \$2.6 million (M) in FY 2013 and \$9.8M year-to-date to the TPFA.

Although independent auditors Deloitte & Touche rendered an unmodified "clean" opinion on all of GDOE's major federal programs, they identified seven findings, of which two were considered material weaknesses in internal control. Of the seven findings, five were reiterative of prior year conditions. Findings related to Equipment and Real Property Management, Non-Appropriated Funds (NAF), and Procurement, Suspension, and Debarment were reported in GDOE's single audit reports for at least 10 years.

### **Federal Program Funding**

In FY 2013, GDOE expended \$69.6M in federal awards from five grantor agencies: (1) \$47.5M from USDOE, (2) \$10.8M from the U.S. Department of Agriculture, (3) \$8.4M from the USDOJ, (4) \$2.5M from the U.S. Department of Health and Human Services, and (5) \$369 thousand (K) from the U.S. Department of Defense. Of the \$69.6M, the three largest expenditures were for USDOE Consolidated Grants to the Outlying Areas at \$27M, Special Education at \$13.1M, and the National School Lunch Program and School Breakfast Program at \$10.1M.

In February 2009, the federal government enacted the American Recovery and Reinvestment Act (ARRA) and granted GDOE \$89.3M for capital improvement projects, technology, and equipment. In FY 2013, GDOE spent \$5.4M. Year to date expenditures were \$89.3M.

### **Transition Plan from Third Party Fiduciary Agent (TPFA) to GDOE**

For the third consecutive year and as part of the special conditions imposed by USDOE, GDOE's federal grants from USDOE was administered by the TPFA. In September 2010, GDOE developed a CCAP to address GDOE's high-risk status. Year-end reconciliation of federal award expenditures between GDOE and the TPFA remains problematic and determined a material weakness. The reconciliation took over six months to complete. This is partly attributed to the loss of GDOE's key accounting personnel. Furthermore, GDOE's accounting department struggles to retain qualified personnel to effectively prepare timely reconciliations and financial reporting. We urge GDOE to work with USDOE and the TPFA to develop a mutually acceptable transition plan to get GDOE off high-risk.

### **Material Weaknesses and Significant Deficiencies Identified**

Of the seven findings, two were material weaknesses in internal control (\*) and five were significant deficiencies (^). Five findings are repeat conditions identified in prior GDOE single audit reports.

Equipment and Real Property (2013-001\*) – The following issues were noted:

- Locally-funded capital improvement projects of \$1.8M were excluded from GDOE's financial statements;
- GDOE did not perform preventive maintenance for a generator purchased in 2009;
- There were no acquisition costs for three vehicles purchased with federal funds;
- GDOE did not monitor the Guam Education Financing Foundation's maintenance of new schools;
- GDOE did not reconcile acquisition costs for 10 vehicles; and
- GDOE included, instead of depreciating, three irreparable vehicles in its financial statements.

Procurement and Suspension and Debarment (2013-002^ and 2013-003^) – For two findings, GDOE did not use competitive procurement:

- GDOE used sole source procurement for learning materials (\$2K). GDOE did not provide documentation that no other vendor could provide the materials.
- GDOE used emergency procurement for security services (\$32K) and competitive procurement was not performed for the small purchase of instructional materials (\$650). The independent auditors found that GDOE had more than sufficient time to procure the security services and materials through an Invitation for Bid.

Financial Management (2013-004^ and 2013-005\*) – GDOE did not perform timely reconciliations between its Federal Grants Fund and Schedule of Expenditures of Federal Awards, and its general and subsidiary ledgers. While there was a slight improvement in the reconciliation of GDOE's ledgers, the full implementation of GDOE's FMIS affected its closing process and substantial effort was required to reconcile with the TPFA's records.

NAF (2013-006^) – While the independent auditors noted improvements in NAF, expenditures continue to lack supporting documentation and cash balances were not reconciled. Approximately \$70K in expenditures did not meet NAF documentation requirements. Bank reconciliations or statements of 10 schools were not available for review. Moreover, there were variances between bank reconciliations and cash balances of 20 schools.

Budgets (2013-007^) – Certain budget line items were loaded in excess of amounts allotted by the Bureau of Budget and Management Research. In addition, internal reports indicated approximately \$19M was available for appropriation accounts created between FY 2005 and FY 2012.

### **Management Letter Comments**

The independent auditors issued a management letter containing six findings relating to:

- (1) Stale-dated checks of \$127K;
- (2) Lack of supporting documentation for certain liabilities and paid accruals were not offset against the liability;
- (3) Different beginning of year balances for several general ledger accounts;
- (4) Unrecorded liabilities of \$954K;
- (5) Lack of control over network activities; and
- (6) Lack of comprehensive manual process and a compatible disaster recovery system in the event of a system disruption or failure in GDOE's business operation.

To view the reports in their entirety, visit our website at [www.guamopa.org](http://www.guamopa.org).