

GUAM DEPARTMENT OF EDUCATION

**(A LINE AGENCY OF THE
GOVERNMENT OF GUAM)**

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2013

GUAM DEPARTMENT OF EDUCATION
SINGLE AUDIT REPORTS
Year Ended September 30, 2013

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

Mr. Jon Fernandez
Superintendent of Education
Guam Department of Education:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Department of Education (GDOE) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements, and have issued our report thereon dated June 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GDOE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GDOE's internal control. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2013-004, 2013-006 and 2013-007 to be significant deficiencies.

Compliance and Other Matters

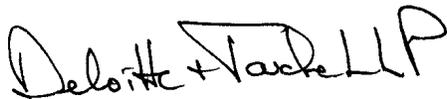
As part of obtaining reasonable assurance about whether GDOE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

GDOE's Response to Findings

GDOE's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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June 26, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

Mr. Jon Fernandez
Superintendent of Education
Guam Department of Education:

Report on Compliance for Each Major Federal Program

We have audited Guam Department of Education's (GDOE's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GDOE's major federal programs for the year ended September 30, 2013. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of GDOE's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of GDOE's compliance.

Opinion on Each Major Federal Program

In our opinion, GDOE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items 2013-001 through 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

GDOE's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GDOE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

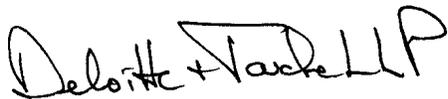
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-004 that we consider to be significant deficiencies.

GDOE's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Department of Education as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collective comprise GDOE's basic financial statements. We issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

June 26, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:		
Direct:		
National School Lunch Program	10.555	* \$ 10,130,165
State Administrative Expenses for Child Nutrition	10.560	493,683
ARRA Emergency Food Assistance Program (Administrative Costs)	10.568	11,023
Team Nutrition Grants	10.574	<u>122,760</u>
Total U.S. Department of Agriculture		<u>\$ 10,757,631</u>
U.S. DEPARTMENT OF DEFENSE:		
Direct:		
Army JROTC	12.000	\$ 246,635
Air Force JROTC	12.000	14,669
Marine JROTC	12.000	<u>107,245</u>
Total U.S. Department of Defense		<u>\$ 368,549</u>
U.S. DEPARTMENT OF THE INTERIOR:		
Pass-Through Government of Guam - Department of Administration:		
Economic, Social, and Political Development of the Territories	15.875	* \$ <u>8,407,155</u>
Total U.S. Department of the Interior		<u>\$ 8,407,155</u>
U.S. DEPARTMENT OF EDUCATION:		
Direct:		
Special Education-Grants to States	84.027	* \$ 13,140,680
Impact Aid	84.041	118,453
Special Education: Grants for Infants and Families	84.181	1,544,808
Territories and Freely Associated States Education Grant Program	84.256	332,248
Striving Readers	84.371	78,839
ARRA Consolidated Grants to the Outlying Areas, Recovery Act	84.402A	* 4,880,968
Consolidated Grants to the Outlying Areas	84.403A	* <u>26,928,029</u>
Subtotal Direct Programs		<u>47,024,025</u>
Pass-Through Government of Guam - Office of the Governor:		
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394A	<u>466,811</u>
Subtotal Pass-Through Government of Guam - Office of the Governor		<u>466,811</u>
Total U.S. Department of Education		<u>\$ 47,490,836</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Direct:		
Personal Responsibility Education Program (PREP) Competitive Grants under the Affordable Care Act (ACA)	93.092	163,762
Head Start	93.600	* \$ <u>2,318,953</u>
Subtotal Direct Programs		2,482,715
Pass-Through Government of Guam - Department of Administration:		
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>53,638</u>
Total U.S. Department of Health and Human Services		<u>\$ 2,536,353</u>
Total Federal Awards Expended		<u>\$ 69,560,524</u>

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

See notes to Schedule of Expenditures of Federal Awards.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2013

1. Scope of Audit:

The Guam Department of Education (GDOE) 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 operations of the Guam Department of Education are included within the scope of the audit. The U.S. Department of Education has been designated as GDOE's cognizant agency for the Single 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 expenditures 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 \$500,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. High-Risk Grantee Status:

GDOE is designated a high-risk grantee by the U.S. Department of Education.

4. CFDA Number 10.555:

Expenditures for CFDA number 10.555 include expenditures for both the National School Lunch Program and the School Breakfast Program, which is listed in the CFDA index as CFDA number 10.553. Only CFDA number 10.555 is presented in the Schedule of Expenditures of Federal Awards as the U.S. Department of Agriculture awarded Child Nutrition Program funds under the one CFDA number in its Grant Award Document.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

5. American Recovery and Reinvestment Act of 2009:

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2013, GDOE's ARRA expenditures and grant award notifications are as follows:

<u>CFDA Number</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
10.568	\$ 29,493	\$ 11,023
84.394	75,742,784	466,811
84.402	<u>12,206,153</u>	<u>4,880,968</u>
	\$ <u>87,978,430</u>	\$ <u>5,358,802</u>

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2013

	<u>Expenditures</u>
Federal contributions, as reported in the 2013 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 69,191,975
<u>CFDA Program</u>	
12.000 Army JROTC	246,635
12.000 Air Force JROTC	14,669
12.000 Marine JROTC	<u>107,245</u>
Total Federal Expenditures Subject to Audit	\$ <u>69,560,524</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I – Summary of Auditors’ Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors’ report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | |
|--|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors’ report issued on compliance for major programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA</u> <u>Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster:
10.555	National School Lunch Program
15.875	Economic, Social and Political Development of the Territories
84.027	Special Education – Grants to States
84.402	Consolidated Grants to the Outlying Areas, Recovery Act
84.403	Consolidated Grants to the Outlying Areas
93.600	Head Start

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,086,815 |
| 11. Auditee qualified as low-risk auditee? | No |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2013-001	Equipment and Real Property Management
2013-004	Schedule of Expenditures of Federal Awards (SEFA)
2013-005	General Ledger and SEFA Reconciliations
2013-006	Non-Appropriated Funds (Agency Funds)
2013-007	Budgets

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>
2013-001	10.555	Equipment and Real Property Management	\$ -	U.S. DA
2013-001	12.000	Equipment and Real Property Management	-	U.S. DOD
2013-001	15.875	Equipment and Real Property Management	-	U.S. DOI
2013-002	15.875	Procurement and Suspension and Debarment	650	U.S. DOI
2013-001	84.027	Equipment and Real Property Management	-	U.S. ED
2013-004	84.394A	Schedule of Expenditures of Federal Awards (SEFA)	-	U.S. ED
2013-004	84.402A	Schedule of Expenditures of Federal Awards (SEFA)	-	U.S. ED
2013-001	93.600	Equipment and Real Property Management	-	U.S. HHS
2013-003	93.600	Procurement and Suspension and Debarment	1,635	U.S. HHS
2013-001	97.036	Equipment and Real Property Management	-	U.S. HS
Total Questioned Costs			\$ 2,285	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable 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 be reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Asset maintenance schedules should be prepared, updated, and monitored by management, and activity per the asset maintenance schedule should be reconciled to the asset maintenance history register regularly.

Property records of assets purchased with Federal funds should contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.

Condition:

1. Locally funded capital improvements of approximately \$1,769,221 were not included as current year fixed asset additions for financial statement reporting purposes.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>
21200334	Fiber optic upgrade	\$ 247,849
21200335	Fiber optic upgrade	457,337
20111272	FMIS upgrades	137,045
21101540	Gymnasium repairs	<u>926,990</u>
		<u>\$1,769,221</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued:

2. Preventative maintenance has not been performed since acquisition for property number 04659 and 11829. Generators were purchased in February 2009 for \$160,508 and \$227,883, respectively, with funds from CFDA # 97.036.
3. Property records for several prior year assets purchased with federal funds did not include applicable acquisition costs.

<u>CFDA#</u>	<u>New Tag#</u>	<u>Description</u>	<u>Division</u>	<u>Location</u>
12.000	11775	Wagon	Army-JROTC	Army-JROTC
12.000	11776	Wagon	Army-JROTC	Army-JROTC
Undeterminable	11894	Van	Facilities and Maintenance	Refrigeration

4. Maintenance of the new schools rests with the Guam Education Financing Foundation; however, no documentation was provided to demonstrate GDOE's monitoring of GEFF maintenance activities, for which annual funding of approximately \$1,000,000 is provided by CFDA # 15.875.

Although GDOE has subsequently improved documentation of monitored GEFF maintenance activities, such was not available for efforts in fiscal year 2013.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued:

5. For CFDA # 84.027, acquisition costs of vehicles and busses reported by the SPED Program Office do not reconcile to the general ledger. Items listed below were purchased with federal funds.

<u>Description</u>	<u>Per GL</u>	<u>Per SPED</u>	<u>Variance</u>
2002 Ford (3536)	67,894	79,374	11,480
2013 Collins (6088)	97,473	113,662	16,189
2006 Collins (4460)	79,374	72,735	(6,639)
2005 Collins (4225)	71,419	72,735	1,316
2003 Collins (3645)	66,116	72,735	6,619
2001 Collins (3390)	72,735	71,419	(1,316)
2003 Collins (3644)	66,116	67,894	1,778
2011 Mini Bus (5414)	113,662	67,894	(45,768)
2006 Collins (4462)	79,374	66,116	(13,258)
2002 Ford (3533)	67,894	66,116	(1,778)

An updated program equipment and vehicle listing was provided subsequent to fieldwork. No audit procedures were performed on the listing; however, acquisition costs appeared to be reconciled to the general ledger.

6. Several vehicles were reported in the financial statements, but were noted to be unrepairable. Items were fully depreciated as of September 30, 2013:

<u>CFDA#</u>	<u>Property Number</u>	<u>Survey Number</u>	<u>Acquisition Cost</u>	<u>Fiscal Year Acquired</u>
12.000	C-4045-97-00	ED13-013	\$21,900	1998
12.000	C-4045-97-00	ED11-004	\$23,534	1998
93.600	C-3100-93-00	ED12-011	\$23,534	1998

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued:

7. Incurred professional fees totaling \$1,659,966 for construction management services, design and other administrative duties related to various capital projects, were not considered in the non-depreciable capital assets listing. An audit adjustment was proposed to reflect these General Fund costs.

Cause:

There appears to be a lack of resources allocated to establishing compliance with applicable equipment management requirements in FY 2013.

Effect:

GDOE is in noncompliance with applicable equipment management requirements for FY 2013. Furthermore, the loss or theft of equipment could go undetected, and fixed assets may be misstated. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Prior Year Status:

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

Recommendation:

GDOE should comply with applicable equipment management requirements, including enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports. In addition, maintenance budgets

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Recommendation, Continued:

generated by the Guam Education Financing Foundation could be monitored through a quarterly reporting process.

Auditee Response and Corrective Action Plan:

Condition 1: The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned —GDOE will improve its communications and coordination between accounting and the appropriate program, division heads, and federal program staff to compile the financial data information for construction and other capital projects to be accurately recorded and timely reported in GDOE's financial reports. This will be accomplished by meeting periodically to review and discuss the listing of active projects which includes: date funded; amount budgeted; amount spent since the start date; remaining budget; fiscal impact of known changes to financial assumptions underlying the project; estimated expenditures by fiscal year of the project; estimated completion date; and supporting documentation on the execution of substantial completion on contracts, occupancy, or when the asset is placed into service occurs.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The assigned accountant will be responsible for collaborating with the appropriate individuals in monitoring actual amounts spent on projects (since their start dates) and comparing them to budgeted amounts, to include review and tracking of transactions in cost categories 230 (contracts for services), 250 (Equipment), 450 (Capital Outlay). As a result of such monitoring, Financial Affairs will have the ability to ascertain which projects are near completion so as to ensure they are added to the

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

GDOE's fixed assets system in a timely manner. Final review and approval will be made by the Comptroller on the information provided.

Officials Responsible — Comptroller Lourdes Perez will work with Designated Program Managers, Division Heads, Third Party Fiduciary Agent, and the designated Accountant

Planned Completion Date — September 30, 2014

Condition 2:

GDOE concurs with the finding and recommendations. In 2010, there was a rash of copper wire thefts and the wires connecting generators to the schools were stolen. GDOE did not have funding to replace the copper wires and therefore discontinued the maintenance contracts in place for the generators.

Actions Planned – Funding to replace the copper wires and initiate the maintenance contracts has been identified. The CIP Section has developed a scope of work and entered a requisition to begin the procurement process.

Plan to Monitor – The CIP Section will work with the Procurement Division to ensure the contract is in place and installation of wires is performed. The CIP Section will also monitor the maintenance contract.

Official Responsible – CIP Section, Program Coordinator IV Randy Romero

Planned Completion Date – September 30, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Condition 3:

GDOE concurs with this finding. Records indicate that the 2003 JROTC Suzuki XL7 Wagons were purchased with PO 200202078 for \$18,995 each. The fixed asset listing will be updated with this information.

The 1997 Dodge Ram Van is not running and will be surveyed. Entries will be made to take the vehicle off the fixed asset listing.

Actions Planned – For fixed assets that are greater than ten years old and records are not readily available to determine initial acquisition cost, alternate methods will be used to determine a cost. For example, the Kelly Blue Book will be used to assign a value to vehicles. The assigned fixed asset accountant will be responsible to ensure costs are assigned to the fixed assets and that surveyed items are taken off the fixed asset listing.

Additionally, as part of the fixed asset inventory, the condition of the fixed asset will be determined. If the asset is irreparable and cannot be economically repaired, it will be surveyed and taken off the fixed asset list.

Standard Operating Procedures will be developed to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant and the Internal Audit Office.

Planned Completion Date – September 30, 2014 and training scheduled at least annually.

Condition 4:

GDOE disagrees with the audit finding. Annually GEFf submits an insurance and maintenance agreement and related budget. Scope and costs are negotiated with GDOE. Principals of these schools are given an opportunity for input. Additionally, an annual sum is paid into a capital fund from which maintenance costs that are not routine may be funded.

As part of the maintenance agreement, GEFf has contracted for custodial and maintenance service. A work order system is set up for repairs and maintenance outside of the regularly scheduled work. School staff work directly with the contractor. If work is outside the contracted services, after discussions with GDOE, charges may be made to the capital fund to cover the costs of the services or GDOE maintenance may perform or contract out the work.

Additionally, preventive maintenance is scheduled during the year for major equipment such as air conditioners and generators through GEFf contractors.

During quarterly meetings between GEFf and the Superintendent, other maintenance needs might be discussed and scheduled. For instance, recoating of the roofs as well as painting of the schools were projects that occurred in the recent past.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Condition 5:

GDOE does not concur with this finding. The Financial Affairs Office has provided documentation to substantiate the acquisition price of these vehicles, which ties to the general ledger. The Special Education Division's list was a working list and has since been updated with the correct information which ties to the general ledger.

The updated list was subsequently provided to the auditors.

Note that the Financial Affairs Office maintains the official fixed asset list. Additionally, of the ten vehicles identified, two have been surveyed and six are fully depreciated and have no impact on the financial statements.

However, GDOE agrees that information regarding fixed assets should be consistent across the Department.

Actions Planned – The new financial management information system, MUNIS, has a fixed asset module. Before the end of FY14, it is intended that the module will be populated with fixed asset records. These records will be shared between the Financial Affairs Office and the Property Management Section, as well as with the Third Party Fiduciary and all relevant Divisions, including Special Education. By providing the records on MUNIS, it should eliminate the need to keep manual fixed asset records.

The Property Management Section and the Fixed Asset Accountant will reconcile the fixed asset ledger on a monthly basis as well as after the physical inventory.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Once the Fixed Asset Module is functional, the Financial Affairs Office and the Property Management Section will develop Standard Operating Procedures to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant, Program Managers and the Internal Audit Office.

Planned Completion Date – September 30, 2014 with ongoing updates and training scheduled at least annually.

Condition 6:

GDOE concurs with this finding. Surveyed items should be taken off the fixed asset listing.

Actions Planned – As part of the fixed asset inventory, the condition of the fixed asset will be determined. If the asset is irreparable and cannot be economically repaired, it will be surveyed and taken off the fixed asset list.

The Property Management Section and the designated Fixed Asset accountant will work together to ensure that any surveyed items are taken off the fixed asset listing.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

The new financial management information system, MUNIS, has a fixed asset module. Before the end of FY14, it is intended that the module will be populated with fixed asset records. These records will be shared between the Financial Affairs Office and the Property Management Section as well as with the Third Party Fiduciary and all relevant Divisions. By providing the records on MUNIS, it should eliminate the need to keep manual fixed asset records.

The Property Management Section and the Fixed Asset Accountant will reconcile the fixed asset ledger on a monthly basis as well as after the physical inventory.

Once the Fixed Asset Module is functional, the Financial Affairs Office and the Property Management Section will develop Standard Operating Procedures to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually, and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant, relevant Division Heads and the Internal Audit Office

Planned Completion Date – September 30, 2014 and training scheduled at least annually.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-001, Continued
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Condition 7:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned — GDOE will perform periodic review of active Construction-Work-in-Projects to determine if they are properly accounted for and journal entries to recognize assets are prepared, reviewed, and approved on a monthly basis.

In addition, GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to include the accounting of fixed assets.

Plan to Monitor — The assigned accountant will be responsible for ensuring that all CWIP with the collaboration of program managers and division heads and/or CIP Coordinator are properly recognized to post journal entry of capitalized assets. The Comptroller will review and approve all proposed postings.

Officials Responsible — Comptroller Lourdes Perez will work with Assigned Accountant, Applicable Division Heads, CIP Coordinator, and the Third Party Fiduciary Agent

Planned Completion Date — September 30, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: D12AF00056
Area: Procurement and Suspension and Debarment
Questioned Costs: \$650

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of 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.

Local procurement specifies that the Superintendent of Education or a designee may make or authorize others to make emergency procurements when there exists a threat to public, welfare, or safety under emergency conditions.

Local procurement requires that the Superintendent shall adopt operational procedures for making small purchases of less than five hundred dollars. Such operational procedures shall provide for obtaining adequate and reasonable competition and for making records to properly account for funds and facilitate auditing of the Procurement Section.

Condition:

- 1) For two (or 3%) of 68 transactions tested, security services in the amount of \$7,474 and \$13,547 through PO Number 20130143 and \$10,509 through PO Number 20130145 were procured using emergency procurement, instead of competitive sealed bidding. However, the records in the procurement file are not sufficient to demonstrate that emergency procurement was the appropriate procurement method. The situation occurred in December 2012 prior to Christmas break, which would have allowed sufficient time to apply competitive sealed bidding procedures for the services that exceeded \$15,000.

No questioned cost is presented as GDOE attempted competition by obtaining four quotations.

- 2) For five (or 7%) of 68 transactions tested, the procurement of small purchases of \$500 or less was used per GDOE's operational procedures. However, competitive procurement was not performed for the purchase of the following instructional materials:

<u>PO Number</u>	<u>Amount</u>
20131319	\$ 140
20131534	72
20132349	229
20132500	40
20134116	<u>169</u>
	<u>\$ 650</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: D12AF00056
Area: Procurement and Suspension and Debarment
Questioned Costs: \$650

Condition, Continued:

We determined that the items procured were similar to the items specified under IFB 003-2013, issued October 19, 2012, and the requisitions were obtained from the same vendors who submitted a proposal to the invitation for bid, therefore, competition should have been performed. A questioned cost of \$650 exists.

Cause:

GDOE Supply Management did not enforce internal control over compliance with procurement requirements applicable to federal funds.

Effect:

GDOE may be in noncompliance with applicable procurement regulations. No questioned cost is presented for Condition 1 for reasons set forth in the condition above. Questioned costs of \$650 exist for Condition 2. Although the known questioned costs are below \$10,000, the projected questioned costs exceed the threshold; therefore, the finding is considered reportable.

Prior Year Status:

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

Recommendation:

GDOE should maintain records sufficient to detail the significant history of a procurement to substantiate compliance with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Condition 1:

GDOE does not concur with this finding. Per 1 GCA § 715(12) (f) a Certificate of Emergency was obtained from the Governor to authorize the emergency procurement. Break-ins increase over the school breaks and GDOE addressed the needs of our students and protected our school assets by procuring the security to prevent further loss of our copper wiring.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: D12AF00056
Area: Procurement and Suspension and Debarment
Questioned Costs: \$650

Auditee Response and Corrective Action Plan, Continued:

Condition 2:

GDOE concurs with this finding and recommendation. Procurement of items has been assigned to buyers by commodity code so that the buyers can monitor the procurement activity of various divisions, consolidate purchasing of similar items, and use the appropriate procurement method. Indefinite quantity bids for commonly purchased items will continue to be used so that competition is encouraged while providing for efficiencies in purchasing.

Actions Planned - The Office of Supply Management is in the process of finalizing Standard Operating Procedures (SOPs). Once the SOPs have been finalized, training of the procurement staff will be scheduled and staff will be asked to verify that they understand the SOPs and have been through the training. Staff will be held responsible for failing to comply with the procedures and related regulations. Training will be held at least annually.

Plan to Monitor – The Buyer Supervisors, under the supervision of the Supply Management Administrator, will monitor procurements to ensure the Buyers are consolidating purchases of similar items when practical and using the appropriate procurement method. Identification of commonly procured items will be made so that, when practical, these items will be included in Indefinite Quantity Bids.

The Internal Audit Office will audit small purchases to ensure, where practical, purchases are consolidated and the appropriate procurement methods are used.

Officials Responsible – Buyer Supervisors, Albert Garcia and Carmen Taitano, will work with the Buyers, Supply Management Administrator, and Internal Audit Office

Planned Completion Date – SOP finalization, training, and monitoring will occur by September 30, 2014. Training will occur at least annually. Monitoring will occur on an ongoing basis.

Auditor Response:

Condition 1:

As it is a normal risk that break-ins increase over the school breaks, GDOE could have planned the timing of procuring security services and exercised competitive sealed bidding. Additionally, emergency procurement for federally funded expenditures are presidentially declared, approved by the grantor agency or if the grant award specifically authorizes such to occur.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: D12AF00056
Area: Procurement and Suspension and Debarment
Questioned Costs: \$650

Auditor Response, Continued:

Condition 2:

We have read the documents provided. The Operational Procedures also states, "The Procurement Section will further assure the requisitions submitted are not artificially limited by the dollar amount of \$500 or less in order to avoid competition. In cases where multiple requisitions within the dollar figures stated are submitted by a single division within a certain date, consolidation and solicitation will occur." The items procured appeared to be equivalent to those that were procured through an invitation for bid advertised in October 2012. As the need for supplies and materials from schools are expected, the dollar figure for all items combined would have been greater than \$500; therefore, competitive procurement should have been performed.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start Cluster
Grant Number: 09CH8453/47/48
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,635

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of 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, in accordance with local procurement regulations, sole source procurement is not permissible unless a requirement is available from only a single supplier. A requirement for a particular proprietary item does not justify a sole source procurement if there is more than one potential bidder or offeror for that item.

Condition:

For one (or 11%) of 9 transactions tested, sole source procurement was used, based on the rationale that the vendor was the only distributor/agent. No documentation was available to indicate how the grantee determined that no other vendor could provide the required materials.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Amount</u>
Learning materials	20132796	20353	\$1,635

Cause:

GDOE Supply Management did not enforce internal control over compliance with procurement requirements applicable to federal funds.

Effect:

GDOE may be in noncompliance with applicable procurement regulations. A questioned cost of 1,635 exists. Although the known questioned cost is below \$10,000; the projected questioned cost exceeds the threshold; therefore, the finding is considered reportable.

Prior Year Status:

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

Recommendation:

GDOE should maintain records sufficient to detail the significant history of a procurement to substantiate compliance with applicable procurement requirements.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start Cluster
Grant Number: 09CH8453/47/48
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,635

Auditee Response and Corrective Action Plan:

PO 20132796 in the amount of \$1,635.00 is an accurate finding. The buyer who processed this purchase failed to perform due diligence and source additional vendors who could have supplied the division with the supplies needed for this purchase.

Actions Planned – The Office of Supply Management is in the process of finalizing Standard Operating Procedures (SOPs) on Sole Source Procurements and Small Purchases. Once the SOPs have been finalized, training of the procurement staff will be scheduled and staff will be asked to verify that they understand the SOP and have been through the training. Staff will be held responsible for failing to comply with the procedures and related regulations. Training will be held at least annually.

Plan to Monitor – All sole source procurements regardless of price will require approval by the Supply Management Administrator.

The Internal Audit Office will audit sole source procurements to determine that the appropriate documents have been attached and that due diligence was performed.

Officials Responsible – Buyer Supervisors Albert Garcia and Carmen Taitano will work with the Buyers, Supply Management Administrator, and Internal Audit Office

Planned Completion Date – SOP finalization, training, and monitoring will occur by September 30, 2014. Training will occur at least annually. Monitoring will occur on an ongoing basis.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004
Federal Agency: U.S. Department of Education

CFDA Program: 84.394A ARRA State Fiscal Stabilization Fund (SFSF)
Grant Number: S394A090055

CFDA Program: 84.402A Consolidated Grants to the Outlying Areas, Recovery Act
Grant Number: S402A090002A

Area: Schedule of Expenditures of Federal Awards (SEFA)
Questioned Costs: \$0

Criteria:

Expenditures reported on the SEFA should reflect expenditures incurred for that period and should not exceed award amount.

Conditions:

The following federal programs reported expenditures that exceeded the amount awarded.

1) CFDA# 84.394A-ARRA SFSF

Total award	\$ 75,742,784
Total expenditures reported as of 09/30/13	<u>76,188,702</u>
Expenditures exceeding award	\$ <u>445,918</u>

2) CFDA# 84.402A Consolidated Grants to the Outlying Areas, Recovery Act

Total award	\$ 12,206,153
Total expenditures reported as of 09/30/13	<u>12,304,162</u>
Expenditures exceeding award	\$ <u>98,009</u>

An audit adjustment was proposed to correct the overstated program expenditures.

Cause:

Reconciliation to award balances was not performed.

Effect:

An overstatement of expenditures in the Federal Grants Fund resulted. No questioned costs result as drawdowns did not exceed the award.

Recommendation:

Budgets should be monitored to ascertain that programs do not exceed award balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004, Continued
Federal Agency: U.S. Department of Education

CFDA Program: 84.394A ARRA State Fiscal Stabilization Fund (SFSF)
Grant Number: S394A090055

CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act
Grant Number: S402A090002A

Area: Schedule of Expenditures of Federal Awards (SEFA)
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned —GDOE will take measures to improve the reconciliation of the federal awards by assigning and cross-training accounting staff; improve communications and coordination between accounting and program staff to perform, review, and approve the reconciliation of the SEFA on a monthly basis to ensure that reported federal expenditures do not exceed award amounts. The reconciliation and any differences should be investigated and adjustments be made as warranted.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The Comptroller will monitor the progress made in this area as reported by the designated accountant by reviewing the SEFA and the reconciliation to the general ledger. The review will include a verification of correct CFDA numbers and program titles, as well as proper formatting and clustering of programs prior to providing the SEFA to the external auditor.

Officials Responsible — Comptroller Lourdes Perez will coordinate with Designated Program Managers, Division heads, Third Party Fiduciary Agent, and designated Accountant

Planned Completion Date — August 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005
Area: General Ledger and SEFA Reconciliations

Criteria:

General ledger balances should be timely reconciled to the subsidiary ledger or supporting details and reviewed for ongoing pertinence.

Conditions:

- 1) Reconciliation between the general ledger and the subsidiary ledgers should be timely performed.

Reconciliation of subsidiary ledgers was still in progress as of March 31, 2014. Audit adjustments have been proposed to reconcile fund balance, capital assets, accounts payable, receivables to federal agencies, payable to federal agencies, long-term debt, accrued payroll, other liabilities and accruals, appropriations, and expenditures.

- 2) Periodic reconciliations should occur with records maintained by the third party fiduciary agent (third party) to allow for timely recordation of payables and receivables in the appropriate period and to substantiate the completeness of the Schedule of Expenditures of Federal Awards.

Cause:

Due to the new system implementation, the department continues to learn the system capabilities and limitations and resolve and determine resolutions as issues are encountered. These include the different types of system generated reports and reconciliation of these reports to the general ledger. Under these circumstances, reconciliations of the general ledger to subsidiary ledgers and recording of necessary year-end adjustment were adversely affected.

In addition, substantial effort was required to reconcile to third party records as those records are maintained on a cash basis. The provided third party SEFA included reimbursements for expenditures previously reported excluded unreimbursed payroll and travel expenditures prepaid by GDOE and excluded various accruals. Reconciliation between the TPFA SEFA and the GDOE SEFA was not complete until six months after year end.

Furthermore, the accounting department struggles to retain and qualified personnel to effectively prepare timely reconciliations and financial reporting.

Effect:

The year-end closing process was delayed by six months.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audits of GDOE. However, we noted that reconciliations for FY 2013 were performed slightly sooner than those for FY 2012.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005, Continued
Area: General Ledger and SEFA Reconciliations

Recommendation:

While we are aware of the impact of the major system implementation that continued to during the period, the lack of certain reconciliations has previously been reported and we continue to recommend that management strengthen controls and hire personnel necessary to timely update and reconcile general ledger accounts and the Schedule of Expenditures of Federal Awards, with corresponding subsidiary ledgers.

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned — With GDOE recently hiring two accounting personnel, GDOE will take measures to improve the reconciliation of the federal awards by assigning and cross-training accounting liaison; improve communications and coordination between accounting and program staff to perform the reconciliation of grant expenditures to the general ledger.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The designated accountant will ensure that responsible individuals provide timely updates and perform monthly reconciliation between the general ledger accounts and the SEFA, with subsidiary ledgers occur. The Comptroller will review and approve the reconciliation.

Officials Responsible — Comptroller Lourdes Perez will work with Designated Program Managers, Division heads, Third Party Fiduciary Agent, and the designated Accountant

Planned Completion Date — August 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-006
Area: Non-Appropriated Funds (Agency Fund)

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. GDOE classifies such agency funds as “Non-Appropriated Funds” (NAF).

Conditions:

Although GDOE continued to evidence challenges associated with NAF funds during the year ended September 30, 2013, it appears that improvements are occurring. Due to the new automated system, reports are easily assessable for monitoring purposes, which provides for faster and better analysis of potential matters of noncompliance.

- 1) Opening balances did not reconcile to prior year ending balances for 3 schools resulting in \$5,841 of prior year funds that were not carried forward to the current year.
- 2) Bank reconciliation(s) should be performed on a timely basis and be supported with attendant schedules (e.g., outstanding check register, bank statement, receipts).

a. Bank reconciliations from the following schools were not available:

CL Taitano Elementary School (All funds)
Inarajan Elementary School (All funds)
Marcial Sablan Elementary School (Student Activity Fund)
MU Lujan Elementary School (Student Activity Fund)
FB Leon Guerrero Middle School (All funds)
Simon Sanchez High School (Admin fund)

b. June 2013 or July 2013 bank statements from the following schools were not:

Agana Heights Elementary School (All funds)
Finegayan Elementary School (All funds)
JQ San Miguel Elementary School (All funds)
Marcial Sablan Elementary School (All funds)
MU Lujan Elementary School (Student Activity Fund)
Ordot Chalan Pago Elementary School (All funds)

- 3) Variances were noted between bank reconciliation(s) and ending cash balances reported for the following schools:

<u>School</u>	<u>Per Bank or Bank Recon</u>	<u>Reported</u>	<u>Variance</u>
Astumbo Elementary School	1,791	6,048	4,257
BP Carbullido Elementary School	7,538	7,758	220
Finegayan Elementary School	5,476	6,968	1,492
HS Truman Elementary School	1,302	324	(978)

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-006, Continued
Area: Non-Appropriated Funds (Agency Fund)

Condition, Continued:

- 3) Variances were noted between bank reconciliation(s) and ending cash balances reported for the following schools:

<u>School</u>	<u>Per Bank or Bank Recon</u>	<u>Reported</u>	<u>Variance</u>
Inarajan Elementary School	6,721	11,492	4,771
JQ SanMiguel Elementary School	4,216	10,025	5,809
Marcial Sablan Elementary School	42	100	58
Maria A Ulloa Elementary School	2,056	1,176	(880)
Merizo Martyrs Elementary School	185	86	(99)
MU Lujan Elementary School	2,292	1,289	(1,003)
Agueda Johnston Middle School	16,244	16,414	170
Astumbo Middle School	18,097	17,216	(881)
FBLG Middle School	26,191	20,370	(5,821)
LP Untalan Middle School	12,122	11,031	(1,091)
OceanView School	7,933	17,728	9,795
Okkudo High School	42,361	58,858	16,497
Simon Sanchez High School	87,483	90,345	2,862
Southern High School	23,381	24,440	1,059
John F. Kennedy High School	66,074	66,728	654
GW High School	57,249	78,366	21,117

- 4) Of the five schools selected, the following exceptions were noted:

- a. Bank statements identified higher deposits versus NAF recorded receipts. Cash collections do not appear to be fully reported.

	<u>Receipts recorded</u>	<u>Deposits per bank</u>	<u>Variance</u>
CL Taitano Elementary School	2,129	2,532	(403)
Carbullido Elementary School	18,001	21,471	(3,471)
Liguan Elementary School	21,710	31,501	(9,791)
Merizo Martyrs Memorial School	2,469	2,549	(79)
Oceanview Middle School	59,307	66,395	(7,088)

- b. Merizo Martyrs Memorial School – For 2 of 15 receipts tested, receipt copies were not available. The nature of the collection was not determinable.
- c. Oceanview Middle School - For 6 of 68 receipts tested, receipt copies were not available. Bank statements for July 2012 thru May 2013 were not available.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-006, Continued
Area: Non-Appropriated Funds (Agency Fund)

Condition, Continued:

- 5) We tested 98 expenditures approximating \$95,189, of which certain items did not appear to meet NAF documentation requirements:
- a. 22 aggregating \$26,050 were not supported by invoices, receiving reports or other evidential matter.
 - b. 13 aggregating \$2,620 indicated an absence of competitive procurement considerations.
 - c. 47 aggregating \$40,985 were either not supported by a required voucher slip, voucher information was incomplete, disbursement was not properly approved or transaction did not appear to be in line with the mission of the individual fund or was questionable in nature.

Cause:

Accounting for NAF is frequently vested in personnel who are not capable of handling the task.

Effect:

NAF were subject to inadequate accounting controls during fiscal year 2013 and the above conditions could facilitate fraudulent use of these funds for illegal purposes. Additionally, inappropriate use of these funds exposes GDOE and possibly the Guam Education Board members, to potential lawsuits and increases in the Organization's financial exposure.

Prior Year Status:

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

Recommendation:

To continue the improvements noted during the year, we recommend that GDOE consider several matters:

1. NAF administration should be formally built into principal evaluations and input from Internal Audit should be requested, at least annually.
2. GDOE central office should consider whether it can obtain read only access of NAF bank accounts.
3. Continued education relative to competitive procurement and adequacy of disbursement documentation should occur.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-006, Continued
Area: Non-Appropriated Funds (Agency Fund)

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendations.

Actions Planned – The Internal Audit Office (IAO) personnel will provide the audit results to each individual school detailing the findings noted during the audit and any suggestions for improvement. Schools identified with high variances will be monitored and provided additional training and guidance by IAO to understand controls and account for all Non-Appropriated Funds.

Plan to Monitor – IAO will ensure that the responsible individuals are aware of the requirements for cash disbursements per the NAF Standard Operating Procedures Manual for their respective schools, and will direct School Administrators to monitor NAF cash receipts and disbursements to ensure that all NAF transactions are signed off on, approved and properly supported by documentation.

Officials Responsible – Chief Auditor Franklin Cooper-Nurse will coordinate with School Administrators and designated school staff

Planned Completion Date – July 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-007
Area: Budgets

Criteria:

Budgets should be timely reviewed and available balances should be released based on availability to minimize the opportunity for creating unfunded liabilities.

Condition 1:

In fiscal year 2013, budgets were loaded in excess of amounts allotted by BBMR:

<u>GL Acct</u>	<u>Description</u>	<u>Allotment per BBMR</u>	<u>Budget loaded per GDOE</u>	<u>Variance</u>
180.21.000.0xxx00.13	Chamorro Studies Division	\$ 87,951	\$367,896	\$(279,945)
140.40.000.0xxx00.13	Interscholastic Sports Fund	\$366,599	\$552,793	\$(186,194)
150.20.000.0xxx00.13	Health and P.E activities	\$157,347	\$262,891	\$(105,544)
160.xx.000.0xxx00.13	Public Library Resource Fund	\$569,779	\$572,806	\$ (3,027)

Condition 2:

As of September 30, 2013, internal reports indicated that approximately \$19M was available for obligation in appropriation accounts created in fiscal years 2005 thru 2012.

Cause:

Budgets are loaded based on appropriations and do not consider the realization of funding resources.

Effect:

Unfunded liabilities may be incurred.

Recommendation:

We recommend the management consider releasing available funding based on allotments released by the office of BBMR.

Auditee Response and Corrective Action Plan:

GDOE does not concur with the finding and recommendations. Per 11 GCA Chapter 52 § 52102, all appropriations of GDOE are subject to the allotment schedule process administered by the Bureau of Budget Management Research (BBMR). Budgets are loaded according to the allotment schedule approved and signed by the Director of BBMR at the beginning of the fiscal year.

GDOE recognizes the rationale in the auditor's recommendation; however it would only be possible if BBMR and DOA would agree to release allotments and cash in the amounts needed to encumber contracts vital to the operations of GDOE. Given the history of allotment and cash provided to GDOE, this is not a likely situation. Fiscal Year 2013 cash and allotment releases are a prime example of this.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-007, Continued
Area: Budgets

Auditee Response and Corrective Action Plan, Continued:

Actions Planned - With regard to funding made available for obligation from prior year appropriation accounts, e.g., approximately \$19M for fiscal years 2005 thru 2012, GDOE shall institute an annual procedure to zero out prior year carryovers of unobligated balances after determining collectability from the Department of Administration is unlikely.

Plan to Monitor – The Budget Management Analyst IV, will develop a schedule to ensure this work is accomplished. The Internal Audit Office will review accounts to ensure work was completed.

Officials Responsible – Management Analyst IV Jeremy Rojas, Budget Office will be responsible. The Internal Audit Office will perform periodic reviews.

Planned Completion Date:

August 31, 2014 for fiscal years 2005 through 2012
October 31st will be the deadline for each subsequent year.

Auditor response:

Over expenditures occurred due to this condition and we recommend that management consider releasing available funding based on allotments released.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2013

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Requirement</u>	Questioned Cost	Questioned Cost	<u>Status</u>
			<u>Unresolved</u>	<u>Resolved</u>	
2012-1	15.875	Equipment Management	\$ -	\$ -	All Federal and Non U.S. DOE Fixed Assets captured will be completed by June 30, 2014. Security has been placed to various school campuses to address vandalism and pilferage.
2012-1	84.394	Equipment Management	-	-	Closed by U.S. ED PDL, 091239787
2012-1	84.402	Equipment Management	-	-	Closed by U.S. ED PDL, 091239787
2012-2	93.600/93.708	Procurement	-	-	Closed BY HHS, A-09-13-23038
2012-3	10.555 84.403	Financial Management	-	-	The new implementation of the new Financial Management Information System (FMIS) called MUNIS is addressing all of these reconciliation issues. Like any new implementation, validation plays a major role for all accounting issues and this is currently on-going to provide reasonable assurance that all internal controls are all in compliance and parallel to the newly establish SOP(s).
2011-1	15.875	Equipment Management	-	-	All Federal and Non U.S. DOE Fixed Assets captured will be completed by June 30, 2014. Security has been placed to various school campuses to address vandalism and pilferage.
10-3	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
09-01	84.027	Maintenance of Effort	-	-	Corrective action was taken
09-03	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
08-01	10.555	Procurement	-	3,856	OMB A-133 .315(b)(4)
08-06	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
08-07	93.600	Allowable Costs	-	-	OMB A-133 .315(b)(4)
08-08	93.600	Equipment Management	-	-	OMB A-133 .315(b)(4)
07-03	84.027	Procurement	-	-	Corrective action was taken
07-14	93.600	Allowable Costs	-	-	OMB A-133 .315(b)(4)
			<u>\$ -</u>	<u>\$ 3,856</u>	