



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**DEPARTMENT OF EDUCATION
EXTENDED DAY PROGRAM,
GOVERNMENT OF GUAM**

**REPORT NO. 99-I-455
MAY 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAY 11 1999

Honorable Carl T.C. Gutierrez
Governor of Guam
Office of the Governor
Hagatña, Guam 96932

Subject: Audit Report on Department of Education Extended Day Program, Government of Guam (No. 99-I-455)

Dear Governor Gutierrez:

This report presents the results of our review of the Department of Education Extended Day (DEED) Program, Government of Guam. The objective of our audit was to determine whether the Department of Education complied with Federal and local laws, grant agreements, and procedures applicable to the Program.

We concluded that the Department did not comply with all applicable laws, regulations, and other requirements applicable to the Extended Day Program and that it needed to make improvements in the management of the Program. Specifically, the Department did not ensure that elementary school personnel administering the Program collected and deposited all Program income and expended Program income only for Program purposes, competitively procured goods and services, and adequately accounted for and controlled nonexpendable property. In addition, the Department did not ensure that grant funds used to finance the Program were adequately accounted for and that claims for Federal reimbursement for grant-related expenses were adequately documented.

These conditions occurred because the Department had not delegated responsibility and authority to a specific Departmental office and/or senior-level official for ensuring that school principals and staff were accountable for administering the Program in compliance with applicable rules and regulations. In addition, the turnover of school personnel resulted in a lack of continuity in Program administration, and guidelines on the use of Program fee income were unclear. Further, accounting personnel were not adequately trained or supervised.

As a result, during fiscal years 1996, 1997, and 1998 (through June 30), Program income of at least \$31,670 may not have been deposited into Program bank accounts and another \$1,000 may have been improperly collected; expenditures totaling \$84,342 from Program income were not adequately supported; and Program expenditures totaling \$137,552 were unnecessary or were made for equipment or personnel costs that did not directly benefit the Program's students. In addition, the Department could not ensure that full value was

received for Program purchases totaling \$64,107. Further, six of the eight schools reviewed did not have current inventories of property acquired with Program funds, and two of the eight schools could not locate or account for nonexpendable property totaling \$3,050. The Department lost about \$325,837 in Federal grant funding from the fiscal year 1996 U.S. Department of Education Consolidated Grant for Insular Areas and could not support expenditures of at least \$2,017,126 claimed for reimbursement from the same grant for fiscal years 1996, 1997, and 1998 (through June 30). We made 12 recommendations to correct the deficiencies identified.

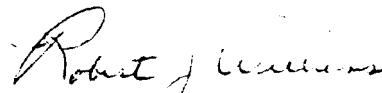
We received a March 30, 1999, response to the draft report from the then-Chairperson of the Board of Education, which generally concurred with the report's 12 recommendations but disagreed with our classification of fees collected from Program participants as "program income." However, on March 25, 1999, Guam Public Law 25-03 was enacted to return control of the Department of Education to the Governor of Guam and eliminate the Board of Education. A new Acting Director of Education was subsequently appointed by the Governor. Because of these changes to the Department's organization, we requested that the Acting Director submit an updated response to the draft report by April 9, 1999. However, a response was not provided. Therefore, since this final report is being issued without the benefit of the Acting Director's response, all of the 12 recommendations are considered unresolved (see Appendix 2).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the US. Congress on all audit reports issued, the monetary impact of audit findings (Appendix I), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by June 11, 1999. The response should be addressed to our Pacific Office, 415 Chalan San Antonio, Baltej Pavilion, Suite 306, Tamuning, Guam 96911. The response should provide the information requested in Appendix 2.

We appreciate the assistance provided by the Department of Education in the conduct of our audit.

Sincerely,



Robert J. Williams
Acting Inspector General

cc: Director, Department of Education

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INTRODUCTION

BACKGROUND

The original (1950) version of the Organic Act of Guam (Title 48, Section 142 1 g(b), of the U.S. Code Annotated) stated, "The Governor [of Guam] shall provide an adequate public educational system of Guam, and to that end shall establish, maintain, and operate public schools according to the laws of Guam." On November 19, 1993, Guam Public Law 22-42 was enacted to repeal and enact a new version of Title 17, Section 3 101, of the Guam Code Annotated, which established the Department of Education within the Government of Guam. Section 3 102 of the new version of Title 17 states, "The Department [of Education] shall be administered through the Territorial Board of Education. . . which shall be the governing and policy-making body of the Department." Further, Section 3 102(a) states that the Territorial Board will hire a Director and a Deputy Director of Education.

Prior to April 28, 1997, Education's primary funding was provided by appropriations from the General Fund. However, on April 28, 1997, Guam Public Law 24- 17 created the School Operations Fund and changed the Department's primary source of funding from General Fund appropriations to the Gross Receipts Tax. Under this law, 88 percent of the total monthly collections of gross receipts taxes are to be transferred to the Department of Education and deposited into the School Operations Fund. Further, effective May 2 1, 1997, Guam Public Law 24-34 amended Title 11 of the **Guam** Code Annotated by adding Section 26208, which designated the Director of Education as the official responsible for receiving, accounting for, and disbursing all monies in the School Operations Fund.

On February 27, 1998, Guam Public Law 24-142 was enacted to divide the Board of Education into **four** elected District Boards of Education, each **with**a District Superintendent. In addition, the Department of Education, with the Director appointed by the Governor, was restructured to provide guidance to and coordinate the activities of the districts and to "serve as the state educational agency for purposes of Federal statutes, policies, grants, programs and regulations." This law also provided for the existing school board to serve on an interim basis for a 1-year transition period and for election, in November 1998, of the members of the four new District Boards of Education.

Subsequent to the completion of our audit, on March 25, 1999, Public Law 25-03 was enacted by the Government of Guam. Chapter 4, Section 18, of the Public Law states, "The governing of the Department of Education shall temporarily revert to the Governor of Guam until further legislative action. The Board currently in place shall cease to exist. The Governor shall not appoint a Board, but shall assume all functions, powers, duties and responsibilities of the Board" As a result of the public law, on March 25, 1999, the Board of Education was eliminated, the Department's Director and Deputy Director were placed on administrative leave (their contracts were terminated on April 1, 1999), and an Acting Director was appointed.

The Government of Guam single audit report for the fiscal year ended September 30, 1997, reported that the Department of Education had total revenues of \$183.4 million (\$166.9 million from local sources and \$16.5 million from Federal sources) and total expenditures of \$174.8 million (local and Federal expenditures were not reported separately). During the same fiscal year, the Department had 3,792 employees and administered 36 schools that had a total enrollment of 32,923 students. For fiscal years 1996 and 1997, the Department emphasized site-based management for the schools, including the Extended Day Program.

Extended Day Program. The Department of Education Extended Day Program offers working parents of children enrolled in kindergarten through the fifth grade the option of after-school educational care for their children. The Program was designed by the Department and, along with other Department programs, was funded by Federal grant funds provided by the U.S. Department of Education Consolidated Grant for Insular Areas (Innovative Education Program Strategies - Title VI). The Department's Federal Programs Office did not formally budget or allocate funds for the Extended Day Program and other programs funded by the Consolidated Grant. According to Departmental records, the Department, during the audit period (October 1, 1995, through June 30, 1998), spent Federal grant funds totaling about \$2 million for the Extended Day Program from the total authorized amount of \$24.8 million in the Consolidated Grant during the same period. The \$2 million was used to employ 6 14 part-time teachers and Program coordinators to teach about 12,325 children.

Other Program expenses were paid from Program income raised from parents, who were required to pay "per child" fees of \$75 for each quarter or \$300 for the entire school year. Program income was to be expended only for participating students' needs. Program fees and other Program income (such as late pick-up fees) were collected, expended, and accounted for at each participating school under guidelines issued by the Federal Programs Office within the Department. Although each school maintained its own records of Program income collections and expenditures, summary accounting data were not available. However, we estimated that about \$900,000 should have been collected from registration fees at the 15 participating schools during the audit period.

On August 7, 1979, the Board of Education issued its Board policy "Management of Non-Appropriated and Student Activities Funds," which provides financial management guidelines for all funds received by the Department without legislative appropriation such as Extended Day Program income. Further, on September 13, 1990, the Department issued the "Non-Appropriated Student Activity Fund Handbook," which established additional guidelines for handling nonappropriated funds and identified the duties and responsibilities of individuals handling these funds. Further, on August 12, 1991, the Department issued the "Non-Appropriated Funds Procedural Handbook," which provided guidelines that were not as detailed as those included in the September 1990 handbook for handling the collection and disbursement of nonappropriated funds. Finally, on October 1, 1995, the Federal Programs Office issued (and on August 20, 1998, revised) "Program Guidelines" for the Extended Day Program to provide policy and operational guidance to Program personnel.

OBJECTIVE AND SCOPE

The objective of our audit was to determine whether the Department of Education complied with Federal and local laws, grant agreements, and procedures applicable to the Extended Day Program. The scope of the audit included a review of the documents and control procedures at the Department of Education that were related to the collection and disbursement of grant funds and income for the Extended Day Program during fiscal years 1996, 1997, and 1998 (through June 30). However, our audit was limited because the Department did not have adequate accounting records to identify the total amount of grant funds used for Program expenditures and did not prepare adequate summary accounting records and reports to determine total Program income and disbursements. In addition to the central offices of the Department of Education, we visited the Department of Administration, the Bureau of Budget and Management Research, and eight public elementary schools to interview officials and review records pertaining to the Extended Day Program. We also interviewed an official from the U.S. Department of Education regarding Federal grant funds for the Program.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls related to the financial and operational management of the Department of Education Extended Day Program to the extent that we considered necessary to accomplish the audit objective. Based on our review, we determined that, in general, the Department adequately managed the processing of Extended Day Program employee payroll charged to the Federal grant. However, we identified internal control weaknesses in the areas of collecting and disbursing Program income, managing Program property, and collecting and accounting for Federal grant funds. These weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the U.S. General Accounting Office nor the Office of Inspector General has issued any audit reports on the Department of Education Extended Day Program. However, on October 19, 1998, an independent public accounting firm issued a single audit report on the Government of Guam, which included the Department of Education's financial statements and the results of audit tests of the Department's grant operations for fiscal year 1997. With regard to the Extended Day Program, the single audit stated that (1) the Department of Education did not properly account for the unobligated balances in the U.S. Department of Education Consolidated Grant for fiscal years 1992, 1993, 1994, and 1995 and (2) the Government of Guam had not performed physical inventories of any equipment purchased with grant funds.

In addition, the Government of Guam's Office of Internal Audit issued audit reports on its reviews of nonappropriated funds, including the Extended Day Programs, at four public elementary schools as follows:

- The report "Audit of the M.U. Lujan Elementary School Non-Appropriated Student Activity Fund for the Period of July 1, 1995 through June 30, 1997" (No. IA-98-03), dated May 1998, stated that school officials (1) did not identify the sources of deposits of \$46,206, (2) did not maintain required accounting records, (3) did not adequately document the disposition of Extended Day Program collections of \$1,265, (4) did not adequately support disbursements of \$14,141, (5) did not prepare monthly and annual financial reports, and (6) made disbursements totaling \$4,710 from Extended Day Program funds that did not relate to the Program.

- The report "Audit of the Price Elementary School Non-Appropriated Student Activity Fund for the Period of July 1, 1995 through February 28, 1997" (No. IA-97-05), dated August 1997, questioned Extended Day Program expenditures of \$15,521, stating that these expenditures did not meet Program guidelines or were unsupported and that receipts were not provided for fees and other payments received by school personnel.

- The report "Harmon Loop Elementary School Student Activities Fund for School Years 1993-1995" (No. IA-97-03), dated June 1997, stated that (1) cash receipt books (the only school records of cash collections) could not be located for 7 months in school year 1994 and 4 months in school year 1995, (2) cash collections totaling \$1,408 were not deposited into bank accounts, (3) the Extended Day Program account was overspent by \$1,567, and (4) monthly and annual financial reports were not prepared.

- The report "Audit of the Wettengel Elementary School Non-Appropriated Student Activity Fund" (No. IA-96-08), dated July 1996, for the period of July 1, 1995, through March 30, 1996, stated that although the School did not adequately segregate responsibilities and adequately account for checks that had insufficient funds, the School generally administered the fund in compliance with applicable Department of Education requirements.

FINDINGS AND RECOMMENDATIONS

A. PROGRAM INCOME

The Department of Education did not adequately control income generated by the Extended Day Program. Specifically, elementary schools administering the Program did not properly collect and deposit all Program income and expended Program income for purposes that did not always relate directly to the Program. In addition, income and related expenditures resulting from the Program were not included in the Department's annual financial statements. The requirements for the accounting and use of Program income are contained in the Code of Federal Regulations (34 CFR 80) and internal procedural manuals of the Board and the Department of Education. The deficiencies occurred because the Department had not delegated responsibility and authority to a specific Departmental office and/or senior-level official for ensuring that school principals and staff were accountable for administering the Program in compliance with applicable rules and regulations. In addition, the turnover of key school personnel resulted in a lack of continuity in Program administration, and Program guidelines on the use of fee collections (Program income) were unclear. Further, Department personnel said that they did not consider the revenues collected from Program fees to be "Program income" but to be "nonappropriated funds," which were excluded from the annual financial statements. As a result, Program income of at least \$11,285 had not been deposited into Program bank accounts, \$20,385 could not be accounted for, and another \$1,000 was collected inappropriately. Also, expenditures from Program income totaling \$84,342⁴ were not adequately supported, and additional expenditures from Program income totaling \$137,552 were unnecessary or were not made for the direct benefit of participating students. Further, the Department's financial statements understated the amount of Program income and expenditures.

General Requirements

The Code of Federal Regulations (34 CFR 80.25 (b)) states, "Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity" The Code (34 CFR 80.20(b)) also states:

The financial management systems of other grantees and subgrantees must meet the following standards: ...

- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to ... obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

⁴Unsupported expenditures from Program income totaled \$108,130, but \$23,788 was not included in the \$108,130 because it was included in the \$137,552 classified as unnecessary expenditures from Program income.

(3) Internal control. Effective control and accountability must be maintained for all grant and **subgrant** cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

In addition, the Code (34 CFR 80.40 (a)) states, "Grantees are responsible for managing the day-to-day operations of grant and **subgrant** supported activities. Grantees must monitor grant and **subgrant** supported activities to assure compliance with applicable Federal requirements. ..."

Local policies and procedures related to the Extended Day Program include Board of Education Policy 7 15, "Management of Non-Appropriated and Student Activities Funds." The policy states, "The school treasurer shall prepare a monthly financial statement for each fund. It shall show the previous balance, income and expenses for the month and the current balance." In addition, the Appendix to the Department's "Non-Appropriated Funds Procedural Handbook" states, "The school treasurer shall be responsible, in accordance with these policies and other rules **and** regulations, for receiving and disbursing non-appropriated funds, arranging for their adequate safekeeping and maintaining adequate records thereon." Further, the Department's Director said that elementary school principals have the responsibility for Extended Day Program funds at their schools. This statement was confirmed by the principals' job descriptions, which stated in part that principals "control non-appropriated funds and supervise the expenditure of such funds."

Controls Over Program Income

Board of Education Policy 7 15 states, "Whenever money is collected a receipt shall be issued by the school activities treasurer. A copy shall be retained for the file." Further, the "Department of Education Extended Day (DEED) Program Guidelines" states, "A fee of \$75.00 per child per quarter will be charged." It also states, "Monies collected in DEED are considered nonappropriated funds The Nonappropriated Student Activity Fund Handbook produced by the Business Office spells out some requirements. However, schools should develop their own internal control system of accounting for funds generated from fees." The Handbook also states, "Written receipts must be issued for every payment made, at the time payment is made. Payments must be recorded in official receipt books"

Based on these requirements, we reviewed the collection process for the Extended Day Program at 8 of the 15 elementary schools offering the Program. During the period of October 1, 1995, through June 30, 1998, the eight schools collected Program fees of at least \$559,977. We found that (1) four schools did not adequately control the use of receipts and/or reconcile accounting reports, accounting records, and bank statements to ensure that all Program income was collected and deposited into appropriate bank accounts; (2) one school collected (and did not subsequently refund) \$1,000 representing an unauthorized \$ 10 preregistration fee from parents of at least 100 prospective students; and (3) one school did not transfer all Extended Day Program funds to a new bank account that was established specifically for Program income. Further, only four of the eight schools submitted monthly

financial reports to the Department's Business Office, and Business Office personnel did not include the financial data in the Department's financial reports or statements.

We also noted that the accuracy and the completeness of Program records were adversely affected when Program administrators were transferred or changed positions. During the period audited, the eight schools had a total of 19 different principals, 15 different Program coordinators, and 11 different school treasurers. Because of the absence of consistent management oversight resulting from the turnover in key administrative positions, Tamuning Elementary School improperly collected \$1,000 from parents of prospective students, and four schools may not have deposited Program fee collections of at least \$3 1,670 into Program bank accounts, as shown in Table 1.

Table 1. Program Income Not Accounted For or Not Deposited Into Program Accounts

<u>School</u>	<u>Description</u>	<u>Amount</u>
M.U. Lujan*	Collections not accounted for	\$20,3 85
Tamuning	Collections exceeded deposits to bank account	9,355
Wettengel	Collections exceeded deposits to bank account	854
Yigo	Collections exceeded deposits to bank account	250
Yigo	Funds not transferred <i>to new</i> bank account	<u>826</u>
	Total	<u>\$3 6 7 0</u>

*Because M.U. Lujan School's accounting records were incomplete for Program income and expenditures during the period of October 1, 1995, through April 13, 1998, we could not determine whether these funds were deposited and used for Program purposes.

School personnel assigned to collect, account for, and deposit Program collections at the eight schools told us that the Department had not provided (1) training and guidance on how to control the collection of Program income; (2) instructions on how to reconcile accounting records, bank statements, and Program financial reports; and (3) monitoring reviews for improving each school's Program financial management. The Administrator of Federal Programs stated that she was generally aware of the deficiencies in fee collections but that she did not have the authority to require compliance with Program regulations and guidelines. She said that the Department's Business Office should have revised the existing collection procedures but that she did *not* consider Program fees to be Program income.

The Department's Acting Comptroller said that the Director of Education had not specifically identified an office or senior-level official responsible for providing oversight of the nonappropriated funds process, including the Extended Day Program, at the individual schools. Further, the Acting Comptroller stated that Extended Day Program fees, in his opinion, met the Federal definition of "Program income" and should have been included as grant-related revenues and expenditures in the financial statements. In addition, the Administrator of the Department's Office of Financial Affairs stated that although she had been verbally tasked by the Director of Education to assist in administering the

nonappropriated funds at the schools by both auditing and providing training to school personnel, she had no authority to require school administrators to comply with applicable regulations. Since school principals are responsible for programs at their schools, we believe that the Director should delegate the responsibility and authority in writing to a specific Departmental office or official to ensure that principals and school staff comply with all applicable Federal and local regulations relating to the Extended Day Program.

Expenditures From Program Income

The Code of Federal Regulations (34 CFR 80.25(g)(2)) states, "The program income shall be used for the purposes and under the conditions of the grant agreement." The Code (34 CFR 80.20(b)) also states:

(4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. ...

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Board of Education Policy 7 15 states:

No disbursement shall be made by the school principal and school treasurer unless a voucher request for payment is first received signed by the activity sponsor and the activity treasurer. Said voucher shall include the fund name, the item(s) for which payment is authorized, the amount of payment and the person or firm payable. No activity sponsor is necessary for disbursements from funds generated from approved fees.

The "Department of Education Extended Day (DEED) Program Guidelines" states, "Funds collected in DEED must be expended for student needs. A subsidiary ledger should be kept that reflects amounts collected and expended of DEED funds."

Unsupported Expenditures. The accounting records maintained at five of the eight schools reviewed did not include documentation to adequately support whether all expenditures made from Extended Day Program income were for Program purposes. Program administrators at the five schools stated that the responsible school personnel did not know that the records were required because prior Program coordinators or school treasurers had not prepared or had misplaced such records. The Program administrators also said that when new personnel assumed the duties related to the Extended Day Program, they were not trained and therefore did not know that these records were required. As a result of the lack of adequate supporting documentation, we were unable to confirm that expenditures totaling \$84,342 (see footnote 1) were incurred for Program purposes.

For example, Program administrators at Tamuning Elementary School did not maintain separate files for Program expenditures or accounting journals or similar summary records

of revenues and expenditures. Therefore, we summarized all transactions for the audit period based on the available source documents. Although invoices and similar documents were sometimes attached to the canceled checks in the checkbook binder, we determined that of 441 transactions reviewed, 268 transactions (61 percent), totaling \$62,914, were supported only by the canceled checks and occasional notations on the check stubs.

Unnecessary Expenditures. Based on our review of 1,184 expenditures at eight schools, we identified 450 transactions at seven schools for the acquisition of goods and personal services that, in our opinion, (1) did not benefit the children who participated in the Program, (2) unnecessarily subsidized regular school operations, or (3) were of only partial or incidental benefit to the children who participated in the Program. In addition, personnel at one school inappropriately loaned Program funds to another nonappropriated fund. As a result, at least seven schools spent Program income totaling \$137,552 for goods and services that did not directly benefit the Extended Day Program, as shown in Table 2.

Table 2. Unnecessary Expenditures From Program Income

<u>School</u>	<u>FY1996</u>	<u>FY1997</u>	<u>FY1998</u>	<u>Total</u>
Agana Heights	\$3,400	\$9,958	\$10,431	\$23,789
Harmon Loop*	9,165	6,092	0	15,257
Merizo	280	374	0	654
M.U. Lujan	10,487	8,902	5,110	24,499
Tamuning	18,717	10,031	15,358	44,106
Wettengel* *	16,265	7,453	2,395	26,113
Yigo	<u>6,188</u>	<u>1,377</u>	<u>1,139</u>	<u>8,704</u>
Total	<u>\$58,932</u>	<u>\$44,187</u>	<u>\$34,433</u>	<u>\$137,552</u>

*Name changed to Juan M. Guerrero School in 1998.

**The \$666 unpaid balance of the \$7,305 loan to a nonappropriated fund is included in the fiscal year 1998 total.

For example, during fiscal years 1996 to 1998 (through June 30), Tamuning Elementary School used Program income of \$21,486 to pay for the following general school expenses: landscaping - \$8,035, janitorial services - \$9,588, and specialized ring binders for all students at the school - \$3,863. In July 1996, Harmon Loop Elementary School used Program income of \$799 to purchase a stair-stepper exercise machine, which, according to the Program Coordinator, was never used in the Extended Day Program, and in August 1996, the school used Program income of \$6,981 to purchase 12 two-way radios and 6 battery chargers for use by School personnel throughout the school day. Further, in January 1996, Wettengel Elementary School personnel used Program income of \$7,305 to make a loan to another nonappropriated fund to pay for T-shirts used by faculty members and students. As of June 30, 1998, \$666 of the loan had not been repaid to the Program. School personnel said that the \$7,305 loan was necessary to allow the school to pay an outstanding bill for the T-shirts.

Although the circumstances and explanations related to each situation were different, the school principals and administrators told us that Program income was used for the questioned goods and services because (1) the Program guidelines were unclear, (2) the Program income was needed to counterbalance the Extended Day Program's costs of school services that were not reimbursed, or (3) the principals believed that all funding collected by their respective schools should be used for the general benefit of the school. However, these reasons for the use of Program funds were not in accordance with Federal and local Program guidance. In addition, personnel at the Department's Federal Programs Office said that the Program is structured to avoid having to draw heavily on regular school personnel and facilities and that, if there are unreimbursed costs of personnel or facilities, funds from the Consolidated Grant can be budgeted for the Program to meet those needs. We also found that none of the eight schools reviewed had publicly released annual Program budgets and year-end reports for the benefit of the parents of participating students. Federal regulations and Extended Day Program guidelines require Program income to be expended only for the benefit of children participating in the Program. Therefore, we believe that publicly available annual budgets and year-end reports for the Program would help to identify shortfalls and provide a mechanism for ensuring that collected funds are used for Program purposes.

Recommendations

We recommend that the Governor of Guam ensure that the Director of the Department of Education:

1. Formally delegates responsibility to a senior-level official and/or office of the Department for ensuring that individual schools comply with applicable Federal and local regulations and guidelines for administering the Extended Day Program.
2. Provides applicable training and day-to-day assistance to school personnel designated responsible for accounting for Extended Day Program income and expenditures.
3. Develops and implements written procedures to require all schools which offer the Extended Day Program to prepare annual budgets for the collection and use of Program income at the beginning of each school year, prepare year-end reports that show the amount of income collected and how it was used, and release budgets and year-end reports publicly for the benefit of Program parents.
4. Develops and implements written guidelines that conform with Federal requirements on the appropriate use of Extended Day Program income.
5. Requires that each school submit to the Department's Business Office separate monthly financial reports for Extended Day Program income and expenditures and that the Business Office include this financial information in the Department's official accounting records for the Consolidated Grant for Insular Areas.
6. Advises the U.S. Department of Education of the questioned costs and either resolves the questioned costs or arranges for repayment.

Department of Education Response and Office of Inspector General Reply

Because the Acting Director of Education did not respond to the draft report, the recommendations are unresolved (see Appendix 2).

B. PROCUREMENT AND PROPERTY MANAGEMENT

School personnel administering the Extended Day Program did not procure goods and services competitively or adequately account for and control nonexpendable property. The requirements for procurement and property management are contained in the Code of Federal Regulations (34 CFR 80) and in internal procedural manuals of the Board and the Department of Education. The deficiencies occurred because (1) the Department had not delegated responsibility and authority to a specific Departmental office or official for enforcement of existing procurement and property management laws and regulations and (2) no Departmental office or official had assumed responsibility for providing individual schools with the necessary guidance and compliance monitoring. As a result, the Department could not ensure that full value was received for Program purchases totaling \$64,107.² In addition, six of the eight schools we reviewed did not have current or complete inventories of property acquired with Program funds, and two of the eight schools could not locate or account for nonexpendable property valued at \$3,050. Subsequent to the audit period, on September 3, 1998, the Department's Federal Programs Office issued guidelines and procedures for property management to the schools that participated in the Extended Day Program.

Procurement

The Code of Federal Regulations (34 CFR 80.36(a)) states, "When procuring property and services under a grant, a State [which includes Guam] will follow the same policies and procedures it uses for procurements **from** its non-Federal funds." The Code (34 CFR 80.36(c)(1)) further states, "All procurement transactions will be conducted in a manner providing full and open competition." In addition, Section 3.8 of the Department of Education's Procurement Regulations states, "Unless otherwise authorized by law, all Department contracts shall be by competitive sealed bidding." Section 3.11.3.1 states, "Insofar as it is practical for small purchases of supplies or services between five hundred dollars (\$500) and fifteen thousand dollars (\$15,000), no less than three (3) businesses shall be solicited to submit written quotations or oral quotations that are recorded and placed in the procurement file. Award shall be made to the business offering the lowest acceptable quotation." Section 3.11.3.2 of the Procurement Regulations states, "The names of the businesses submitting quotations and the date and amount of each quotation **shall** be recorded and maintained as a public record."

Despite the Federal and Departmental regulations, none of the 45 purchases made with Program income, costing between \$500 and \$15,000 (all of which we reviewed), included documentation that Program administrators at the eight schools had obtained competitive bids or the required price quotations, as summarized in Table 3.

*Questioned procurement transactions totaled \$96,302, of which \$32,195 was not included in the \$96,302 because it was included in the \$137,552 classified as unnecessary expenditures from Program income in Finding A.

Table 3. Noncompetitive Procurement Transactions

School	FY 1996		FY 1997		FY 1998		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Agana Heights	5	\$8,362	0	\$0	1	\$1,850	6	\$10,212
Harmon Loop*	6	10,153	3	2,347	1	2,299	10	14,799
Merizo	0	0	0	0	0	0	0	0
M.U. Lujan	0	0	0	0	0	0	0	0
Ordot-Chalan Pago	0	0	1	1,110	0	0	1	1,110
Tamuning	8	17,225	5	9,620	6	16,260	19	43,105
Wettengel	4	20,941	0	0	0	0	4	20,941
Yigo	<u>2</u>	<u>2,579</u>	<u>1</u>	<u>2,189</u>	<u>2</u>	<u>1,367</u>	<u>5</u>	<u>6,135</u>
Total	<u>25</u>	<u>\$59,260</u>	<u>10</u>	<u>\$15,266</u>	<u>10</u>	<u>\$21,776</u>	<u>45</u>	<u>\$96,302</u>

*Name changed to Juan M. Guerrero School in 1998.

Examples of the types of goods and services procured noncompetitively are as follows:

- On July 1, 1996, Wettengel Elementary School purchased six air conditioners at a cost of \$19,300.³

- On August 26, 1996, Tamuning Elementary School purchased vertical window blinds at a cost of \$5,436.

- During the period of October 7, 1997, to May 31, 1998, Tamuning Elementary School made five payments to the same vendor for janitorial services totaling \$9,043.

In each case, there was no documentation to show that competitive bids or the required number of price quotations had been obtained, although multiple vendors were available to bid on the needed goods or services. Therefore, the Department had little assurance that it received full value for the \$64,107 (see footnote 3) in Program income spent on goods and services.

Extended Day Program personnel at the eight schools stated that they believed the expenditure of Program income was exempt from compliance with Department of Education procurement regulations because the "Extended Day Program Guidelines" did not include procurement procedures for the use of Program income. The Administrator of the Department's Federal Programs Office stated that although her office verbally notified schools of the need to follow procurement regulations, the Federal Programs Office had no authority in this area and that it was the responsibility of the Department's Business Office to ensure that the Department's operational units complied with applicable regulations. However, the Department's Acting Comptroller stated that (1) the Business Office had never reviewed the procurement process used by schools for the expenditure of nonappropriated

³According to school records, \$13,000 was paid from Extended Day Program income, and \$6,300 was paid from Parent Teacher Organization funds.

funds, (2) the Office's procurement section was not staffed to perform such reviews, and (3) the Office had not been assigned this responsibility.

Property Management

The Code of Federal Regulations (34 CFR 80.32(b)) requires that property acquired with grant funds be used and managed in accordance with state laws and procedures. The Department's Administrator of Supply Management stated that the March 1981 systems manual entitled "Property Management Systems and Procedures" had been adopted by the Department for property management procedures. The Manual states, "Accountability and responsibility will be charged to the officials having administrative jurisdiction over the physical assets and they shall be Accountable Officers for such properties. Safeguarding and maintenance of these assets shall be the primary responsibility of these officers." The Manual also specifies that property records will be maintained for property costing \$250 or more. Finally, the "Extended Day Program Guidelines" states, "All equipment procured for DEED must be entered into the site school's inventory. Property management requirements regarding equipment control and record keeping must be observed. All equipment should be marked 'DEED' and the fiscal year in which it was acquired so it can be readily identified during audits."

Despite these requirements, we found, for the eight schools we reviewed, that one school did not have sufficient records for us to determine whether it had Extended Day Program property, four schools did not have current and complete property listings, two schools could not locate all recorded property items, and the remaining school did not have Extended Day Program property.

To verify the accuracy of the property listings that were available, we performed limited physical inventories at each of the six schools that purchased nonexpendable property with Program income. Of the 77 procurements, totaling \$7,124,700, for nonexpendable property that were made during the audit period, we were unable to locate the related property items for 4 procurement transactions, totaling \$3,050. Specifically, at Harmon Loop Elementary School, we could not locate a water heater that cost \$400, a set of stereo speakers that cost \$361, and a stair stepper exercise machine that cost \$799. At Wettengel Elementary School, 10 electronic keyboards that cost a total of \$1,490 were reported stolen, although School personnel stated that a police report had not been filed. We also found that a School employee had purchased a video camera to replace one costing \$1,599, which School officials could not locate. The results of our review of Extended Day Program property are summarized in Table 4.

Table 4. Results of Property Management Review

<u>School</u>	<u>Inventory List</u>	<u>No. of Items</u>	<u>Cost of Items</u>	<u>Result of Review</u>
Agana Heights	Aug. 1998	6	\$10,211	Incomplete records; items located and secured.
Harmon Loop*	Jan. 1998	37	18,473	Three items, valued at \$1,560, missing.
Merizo	None	--	--	No property purchased.
M.U. Lujan	None	--	--	No records to determine if property purchased.
Ordot-Chalan Pago	Jun. 1993	1	1,110	incomplete records; items located and secured.
Tamuning	Jul. 1997	12	15,035	Incomplete records; items not secured.
Wettengel	Feb. 1998	17	23,012	Ten items, valued at \$ 1,490, missing.**
Yigo	Jun. 1997	4	<u>3,406</u>	Incomplete records; items located and secured.
Total		<u>77</u>	<u>\$72,477</u>	

*Name changed to Juan M. Guerrero school in 1998.

**Does not include a video camera valued at \$1,599 that was lost but later replaced by a school employee.

School personnel administering the Extended Day Program at the two schools that did not have inventory listings stated that they did not know that such listings were required. Personnel at three of the four schools that had outdated or incomplete inventory listings stated that they had not completed updating the inventories because the Program coordinators had changed and the new coordinators did not understand what to inventory. Further, the two schools with missing property allowed school personnel other than Extended Day Program staff to use Program property without adequate safeguards. Specifically, these two schools did not have an identified property custodian, a secure property area, property tagged as Program/government property, or property check-out/check-in procedures. Finally, the inventory listing at Agana Heights Elementary School was incomplete because it did not include the cost of the property items. Although Program coordinators at the schools we reviewed said that they knew they were accountable for Program property, we found that three schools did not store the Program property in secure locations before and after Program use.

Recommendations

We recommend that the Governor of Guam ensure that the Director of the Department of Education:

1. Formally delegates responsibility and authority to a Departmental senior-level official and/or office for ensuring that individual schools comply with applicable Federal and local procurement and property management regulations.
2. Advises the U.S. Department of Education of the questioned costs and either resolves the questioned costs or arranges for repayment.

Department of Education Response and Office of Inspector General Reply

Because the Acting Director of Education did not respond to the draft report, the recommendations are unresolved (see Appendix 2).

C. FEDERAL GRANT FUNDS

The Department of Education did not have adequate accounting control over Federal grant funds used to finance the Extended Day Program. Specifically, accounting reports showing the status of grant funds were not available timely or were inaccurate. The requirements for accounting controls over grant funds are contained in the Code of Federal Regulations (34 CFR 80) and in internal procedures manuals of the Board and the Department of Education. However, these deficiencies occurred because the Department did not adequately train or supervise its accounting personnel. As a result, the Department lost about \$325,837 in Federal grant funding from the fiscal year 1996 U.S. Department of Education Consolidated Grant for Insular Areas and could not support expenditures of at least \$2,017,126 claimed for reimbursement from the same grant for fiscal years 1996, 1997, and 1998 (through June 30).

Accounting for Grant Funds

The Code of Federal Regulations (CFR 34 80.20(a)) states, "A State [which includes Guam] must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: ... (2) Permit the tracing of funds to the level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Although the Department accounted for grant expenditures by individual program, it accounted for grant fund authorizations and availability only at the grant level. Therefore, we had to review the revenue accounting procedures for the entire U.S. Department of Education Consolidated Grant for Insular Areas to ensure that we reviewed the funding applicable to the Extended Day Program. We found that although the Department's Business Office was aware as early as July 5, 1997, that the Department had unobligated grant funds for the 2-year grant period covering fiscal years 1996 and 1997 that were available for Program purposes, the Federal Programs Office (which was responsible for administering the funds) did not know that the funds were available until October 1998, more than 1 year after the availability of the grant funds had expired on September 30, 1997. The Federal Programs Office did not know about the availability of the funds because the accounting reports prepared by the Business Office to make claims for reimbursement of grant funds were not made available to the Federal Programs Office to identify unobligated and unclaimed grant funds. In addition, the accounting reports prepared by the Federal Programs Office incorrectly showed that the grant had been fully used because the accounting procedures used by the Federal Programs Office to record grant availability and use over the 2-year grant period maintained separate accounts for each year of the grant period. Because expenditures during the early part of fiscal year 1997 were recorded against the internal account for fiscal year 1996, the fiscal year 1996 account was erroneously shown as having been overexpended, and this overexpended balance was carried forward to the fiscal year 1997 account when funds for the new year were drawn down. Additionally, reports of the Business Office and the Federal Programs Office were not reconciled. Although both offices

began using the same accounting reports in October 1997, the accounting procedures that caused the erroneous balances were not revised; therefore, there was no assurance that future grant funds would not expire before they were used. The Department's Comptroller stated that this type of deficiency occurred because the Department did not adequately train or supervise its accounting personnel. As a result of these accounting problems, the Department lost grant funding of \$325,837 for fiscal year 1996.

Claims for Federal Reimbursement

The Department of Education's Financial Management System Policies and Procedures Manual states, "To ensure [the Department of Education] is in accordance with the [U.S. Office of Management and Budget] Common Rule, Section 42, Retention and access requirements for records, all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees must be maintained for a period of no less than three (3) years after finalization of the year end audit." Under the claim process established with the Department of Administration, the Department of Education prepared and sent Request for Reimbursement on Federal Grants Expenditures forms to the Department of Administration, which requested the drawdowns of grant funds from the appropriate Federal agency. Departmental accounting personnel stated that they prepared the requests at the end of each month (based on that month's recorded expenditures) for the Department of Administration to obtain reimbursement from the appropriate Federal grantors.

We attempted to verify that the amount of Extended Day Program expenditures ('primarily payroll charges) were accurately included in claims for Federal grant reimbursement, but the Department's records were incomplete. We could not review any grant reimbursement claims for fiscal year 1996 because Departmental personnel could not locate the claim documents. Although we reviewed 8 of 48 grant reimbursement forms for fiscal years 1997 and 1998, we could not verify that the Program claims were correct because of the lack of supporting documentation. The Department's records identified reimbursement claims by each Federal grant but not by the individual programs funded by each grant. Therefore, we could not distinguish between claims related to the Extended Day Program and claims for other grant programs. The accounting technician stated that she routinely discarded (within 3 weeks after preparation) the listings of the specific expenditures included on the reimbursement forms because of insufficient tiling space to retain the documents and because she did not believe that it was important to retain these listings. These actions were contrary to the 3-year minimum requirement in the Department's Financial Management System Policies and Procedures Manual and applicable Federal grant management regulations. Because of the lack of supporting documentation, we questioned \$2,017,126, which consisted of \$727,743 of Program expenditures claimed for Federal reimbursement for fiscal year 1996, \$679,007 for fiscal year 1997, and \$610,376 for fiscal year 1998 (through June 30, 1998).

Recommendations

We recommend that the Governor of Guam ensure that the Director of the Department of Education:

1. Provides the Federal Programs Office with periodic reports of the status of Federal grant reimbursement claims.
2. Requires all supporting documents for grant reimbursement claims to be retained for the 3-year time period provided in the Department's Financial Management System Policies and Procedures Manual and applicable Federal grant management regulations.
3. Provides adequate training on applicable grant policies and regulations to Departmental accounting personnel responsible for processing transactions and documents related to Federal grants and ascertains that these personnel are adequately supervised in performing these duties.
4. Advises the U.S. Department of Education of the questioned costs and either resolves the questioned costs or arranges for repayment.

Department of Education Response and Office of Inspector General Reply

Because the Acting Director of Education did not respond to the draft report, the recommendations are unresolved (see Appendix 2).

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding. Area</u>	<u>Unrealized Revenues</u>	<u>Unsupported costs</u>	<u>cost Exceptions</u>
A. Program Income			
Controls Over Program Income	\$3 1,670*		\$1,000*
Expenditures from Program Income:			
Unsupported Expenditures		\$84,342*	
Unnecessary Expenditures			137,552*
B. Procurement and Property Management			
Procurement * * *		64,107*	
Property Management* * *			2,251*
C. Federal Grants			
Accounting for Grant Funds	325,837**		
Claims for Federal Reimbursement	<u> </u>	<u>2,017,126**</u>	<u> </u>
Total	<u>\$357,507</u>	<u>\$2,165,575</u>	<u>\$140.803</u>

*Amounts represent Program income generated by a Federally funded program.

**Amounts represent Federal grant funds.

***Although questioned procurement transactions totaled \$96,302, only \$64,107 is shown because \$32,195 was already included in the \$137,552 classified as unnecessary expenditures related to Finding A.

****Although missing equipment had a total value of \$3,050, only \$2,251 is shown because \$799 was already included in the \$137,552 classified as unnecessary expenditures related to Finding A.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	status	Action Rewired
A.1-A.6, B.1-B.2, and C. 1-C.4.	Unresolved.	Provide a response to the recommendations indicating concurrence or nonconcurrence. If concurrence is indicated, provide an action plan that includes the target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.

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