

GUAM PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2005

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

Luis S.N. Reyes
Interim Superintendent of Education
Guam Public School System:

We have audited the financial statements of the Guam Public School System (GPSS) as of and for the year ended September 30, 2005, and have issued our report thereon dated June 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GPSS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect GPSS's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 05-15 to 05-21.

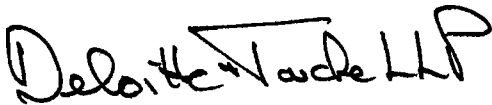
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 05-15 to 05-18 and 05-20, and 05-21 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of GPSS in a separate letter dated June 9, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPSS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 41) as findings 05-01, 05-02, 05-05, 05-07, and 05-09 to 05-12, and 05-19.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Public School System, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

June 9, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD
PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Luis S.N. Reyes
Interim Superintendent of Education
Guam Public School System:

Compliance

We have audited the compliance of Guam Public School System (GPSS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. GPSS's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 41). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GPSS's management. Our responsibility is to express an opinion on GPSS's compliance based on our audit.

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

As described in findings 05-01 to 05-14 in the accompanying Schedule of Findings and Questioned Costs, GPSS did not comply with requirements regarding allowable costs/cost principles; cash management; equipment and real property management; matching, level of effort, earmarking; period of availability of Federal funds; procurement and suspension and debarment; and subrecipient monitoring that are applicable to its major federal programs described in the accompanying federal award findings and questioned cost section (page 9) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for GPSS to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GPSS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 05-16, 05-18, and 05-19.

Internal Control Over Compliance

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

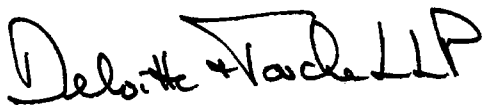
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GPSS's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 05-01 to 05-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 05-01, 05-02, 05-07, 05-09, 05-10, 05-12 and 05-14 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Public School System (GPSS) as of and for the year ended September 30, 2005, and have issued our report thereon dated June 9, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GPSS. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Public School System, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



June 9, 2006

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2004	FY 2005 Cash Receipts	FY 2005 Expenditures	Accrued (Deferred) Balance at September 30, 2005
U.S. DEPARTMENT OF AGRICULTURE:					
Direct:					
School Breakfast Program	10.553	\$ 200,059	\$ 1,398,784	\$ 1,618,540	\$ 419,815
National School Lunch Program	10.555	191,175	4,129,313	4,753,342	815,204
Child and Adult Care Food Program	10.558	(71,138)	-	-	(71,138)
State Administrative Expenses for Child Nutrition	10.560	19,156	187,920	272,419	103,655
Commodity Supplemental Food Program	10.565	(88,345)	-	-	(88,345)
Emergency Food Assistance Program (Administrative Costs)	10.568	-	65,562	-	(65,562)
Community Facilities Loans and Grants	10.766	(14,575)	67,217	14,570	(67,222)
Total U.S. Department of Agriculture		\$ 236,332	\$ 5,848,796	\$ 6,658,871	\$ 1,046,407
U.S. DEPARTMENT OF THE INTERIOR					
Pass-Through Guam Department of Administration:					
Economic, Social, and Political Development of the Territories	15.875	\$ 472,391	\$ 526,705	\$ 159,470	\$ 105,156
Total U.S. Department of the Interior		\$ 472,391	\$ 526,705	\$ 159,470	\$ 105,156
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration:					
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	\$ (101,847)	\$ (273)	\$ -	\$ (101,574)
Total U.S. Department of Labor		\$ (101,847)	\$ (273)	\$ -	\$ (101,574)
U.S. DEPARTMENT OF EDUCATION:					
Direct:					
Services for Children with Deaf-Blindness	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	(249,336)	14,816,571	13,955,381	(1,110,526)
Special Education-Personnel Development and Parent Training	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	64,877	62,266	40,011	42,622
Vocational Education: Basic Grants to States	84.048	15,307	353,963	92,773	(245,883)
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grants	84.173A	(27,795)	-	-	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	817,829	1,569,099	1,470,012	718,742
Byrd Honors Scholarships	84.185	1,500	52,500	55,500	4,500
Bilingual Education Support Services	84.194Q	11,436	-	-	11,436
Fund for the Improvement of Education (FIE)	84.215	3,270	58,000	88,100	33,370
Freely Associated States-Education Grant Program	84.256	(22,717)	226,150	209,214	(39,653)
Twenty-First Century Community Learning Centers	84.287	39,161	227,720	192,905	4,346
Advanced Placement Program	84.330	(2,109)	2,634	-	(4,743)
Class Size Reduction	84.340	2,606	-	-	2,606
School Renovation Grants	84.352	(8,808)	-	-	(8,808)
Literacy through School Libraries	84.364	1,792	1,876	84	-
Mathematics and Science Partnerships	84.366	1,132	314,022	313,148	258
Consolidated Grants	84.922A	3,272,078	24,674,612	24,611,042	3,208,508
Total U.S. Department of Education		\$ 3,904,569	\$ 42,359,413	\$ 41,028,170	\$ 2,573,326
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Pass-Through Guam Department of Administration:					
Child Care and Development Block Grant	93.575	\$ (131,427)	\$ -	\$ -	\$ (131,427)
Head Start	93.600	(134,591)	2,598,826	2,463,844	(269,573)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	35,730	115,815	96,104	16,019
Total U.S. Department of Health and Human Services		\$ (230,288)	\$ 2,714,641	\$ 2,559,948	\$ (384,981)
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:					
Direct:					
Learn and Serve America_School and Community Based Programs	94.004	\$ 5,292	\$ 96,382	\$ 103,530	\$ 12,440
Total Corporation for National and Community Service		\$ 5,292	\$ 96,382	\$ 103,530	\$ 12,440
U.S. DEPARTMENT OF HOMELAND SECURITY:					
Pass-Through Guam Department of Administration:					
Public Assistance Grants	83.544	\$ (697,066)	\$ 2,966,842	\$ 1,913,111	\$ (1,750,797)
Total U.S. Department of Homeland Security		\$ (697,066)	\$ 2,966,842	\$ 1,913,111	\$ (1,750,797)
Total Federal Awards		\$ 3,589,383	\$ 54,512,506	\$ 52,423,100	\$ 1,499,977

* 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 PUBLIC SCHOOL SYSTEM

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2005

1. Scope of Audit:

The Guam Public School System 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 Public School System are included within the scope of the audit. The U.S. Department of Health and Human Services has been designated as the Government of Guam's cognizant agency for the Single Audit.

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

For the purposes of this report, cash receipts relate to all cash derived from the federal agencies for programs within the Catalog of Federal Domestic Assistance. Also, cash receipts include matching funds and other contributions from the Government of Guam. Cash receipts do not include receipts related to program income. GPSS has not allocated interest income that may have been earned in part from cash received from federal programs.

GPSS 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 GPSS maintains its accounting records.

b. Subgrants:

Certain program funds are passed through the Guam Public School System 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 Public School System'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.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2005

	Fiscal Year 2005 <u>Expenditures</u>
Federal contributions, as reported in the 2005 financial statements:	
Federal grants assistance fund, expenditures, transfers, and other uses	\$ 46,051,218
<u>CFDA #</u>	
10.553 School Breakfast Program	1,618,540
10.555 National School Lunch Program	<u>4,753,342</u>
Total Federal Expenditures Subject to Audit	\$ <u>52,423,100</u>

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Part I - Summary of Auditors' Results

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

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Consolidated Grants	84.922
Head Start	93.600
Public Assistance Grants	83.544

8. A threshold of \$1,572,693 was used to distinguish between Type A and Type B programs.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Part II - Financial Statement Findings Section

Reference <u>Number</u>	<u>CFDA #</u>	<u>Finding</u>	Questioned <u>Costs</u>
05-01	10.553/10.555	Procurement	\$ 383,533
05-02	84.027	Allowable Costs/Cost Principles	\$ 214,257
05-05	84.922	Period of Availability	\$ 36,885
05-07	93.600	Procurement	\$ 93,475
05-09	93.600	Period of Availability	\$ 221,218
05-10	93.600	Matching	\$ 92,009
05-11	93.600	Earmarking	\$ 17,586
05-12	93.600	Procurement	\$ 386,857
05-15		Cash	\$ 0
05-16		Receivables	\$ 0
05-17		Payables/Accrued Expenses/Encumbrances	\$ 0
05-18		Due to Federal Agencies	\$ 0
05-19		Procurement	\$ 24,978
05-20		Non-Appropriated Fund	\$ 0
05-21		Budgets	\$ 0

Part III - Federal Award Findings and Questioned Cost Section

Reference <u>Number</u>	<u>CFDA #</u>	<u>Finding</u>	Questioned <u>Costs</u>	<u>Federal Agency</u>	<u>GPSS Division</u>
05-01	10.553/10.555	Procurement	\$ 383,533	USDA	Supply Management
05-02	84.027	Allowable Costs/Cost Principles	214,257	ED	Special Education
05-03	84.027	Cash Management	0	ED	Special Education, Bus. Office
05-04	84.922	Cash Management	0	ED	Federal Programs, Bus. Office
05-05	84.922	Period of Availability	36,885	ED	Federal Programs, Bus. Office
05-06	84.922	Subrecipient Monitoring	0	ED	Federal Programs
05-07	93.600	Procurement	93,475	DHHS	Head Start, Supply Mgmt.
05-08	93.600	Cash Management	0	DHHS	Head Start, Business Office
05-09	93.600	Period of Availability	221,218	DHHS	Head Start, Business Office
05-10	93.600	Matching	92,009	DHHS	Head Start
05-11	93.600	Earmarking	17,586	DHHS	Head Start
05-12	83.544	Procurement	386,857	DHS	Supply Management
05-13	83.544	Cash Management	0	DHS	Business Office
05-14	All Major	Equipment Management	0		Internal Audit, Business Office
05-19	15.875	Procurement	<u>24,978</u>	DOI	Supply Management
Total Questioned Costs			\$ <u>1,470,798</u>		

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-01
CFDA No.: 10.553/10.555
Program Name: USDA Child Nutrition Cluster
Grant No.: N/A
Requirement: Procurement
Questioned Costs: \$383,533

Criteria:

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

Condition:

Of 6 transactions tested, we noted the following:

1. For 2 (or 33%), no procurement files were made available for review for the following transactions:

<u>Vendor Number</u>	<u>Description</u>	<u>Total Vendor Payments</u>
11172	Special Food Items	\$ 1,740
10646	Paper products, Utensils	<u>39,472</u>
		\$ <u>41,212</u>

2. For 2 (or 33%), prospective bidders were not given the minimum 15 working days between the issuance of the RFP and the specified opening date pursuant to GPSSPR Section 3.9.4 for the following transactions:

<u>Vendor Number</u>	<u>Description</u>	<u>Total Vendor Payments</u>
10058	Various Juices & Water	\$ 221,641
10019	Bread Products	<u>120,680</u>
		\$ <u>342,321</u>

Cause:

The Administrator Supply Management did not enforce established procurement regulations.

Effect:

GPSS is in noncompliance with the Guam Public School System Procurement Regulations. A questioned cost of \$383,533 exists.

Prior Year Status:

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

Recommendation:

GPSS management should enforce established procurement regulations. The requested procurement documents should be provided to effect resolution of this finding.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-01, Continued
CFDA No.: 10.553/10.555
Program Name: USDA Child Nutrition Cluster
Grant No.: N/A
Requirement: Procurement
Questioned Costs: \$383,533

Auditee Response and Corrective Action:

Concur with the finding. By June 30, 2006 the Supply Management Administrator in collaboration with the CFO will establish written procedures for maintaining adequate documentation in procurement files; assign responsibility for file maintenance to specific individuals in the procurement office and the financial affairs office; conduct in-house mandatory workshop for all procurement personnel to review GPSS Procurement Regulations with particular emphasis on documentation required for Emergency Procurement, Sole Source Selection, and Small Purchases. By July 15, 2006 the Supply Management Administrator will also review the need for additional procurement personnel and request additional personnel if necessary. The Supply Management Administrator will write and implement Standard Operating Procedures for the Procurement Office by July 31, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-02
CFDA No.: 84.027
Program Name: ED Special Education Cluster
Grant No.: H027A30069A
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$214,257

Criteria:

According to OMB Circular A-87, attachment B, section 19.3.C, capital expenditures for equipment, including replacement equipment, other capital assets, and improvements, which materially increase the value of useful life of equipment or other capital assets, are allowable as a direct cost when approved by the awarding agency. Federal awarding agencies are authorized at their option to waive or delegate this approval requirement.

Condition:

For 1 (or 6%) of 18 transactions tested, aggregating \$499,326 of \$1,423,406 in total non-payroll program expenditures, we noted no prior grantor approval was obtained for the following purchase of two 22-passenger mini buses with wheel chair lifts:

<u>Account Code</u>	<u>P.O.</u>	<u>Invoice</u>	<u>Invoice Date</u>	<u>Amount</u>
22.03.50.00.27.0450.9517	200400397	50412	04/12/05	\$214,257

Cause:

At the time of the purchase, the Associate Superintendent Special Education believed that the requirement to obtain prior grantor approval was not applicable to the Program.

Effect:

The Guam Public School System is in noncompliance with applicable Cost Principle requirements, and therefore, a questioned cost of \$214,257 exists.

Recommendation:

The Guam Public School System should enforce internal controls to ensure that the required prior approval is obtained for all capital expenditures in accordance with OMB Circular A-87 Cost Principles. The responsible Business Office personnel should not charge capital expenditures to the Program unless the payment request is supported by written prior grantor approval. Capital expenditures without prior grantor approval should be charged to the General Fund until such time that written prior grantor approval is obtained.

Auditee Response and Corrective Action Plan:

We concur with the finding. Rehabilitative Services (OSERS) advised the Associate Superintendent for Special Education on April 2, 2004 that the GPSS is required to obtain prior grantor approval for purchases of assets in excess of \$5000. The Associate Superintendent for Special Education is complying with the requirement to obtain prior grantor approval before purchasing assets in excess of \$5,000. We obtained grantor approval to purchase five additional buses in May 2005.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-03
 CFDA No.: 84.027
 Program Name: ED Special Education Cluster
 Grant No.: H027A050002A, H027A030069A
 Requirement: Cash Management
 Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements and the Cash Management Improvement Act (CMIA) Agreement between Guam and the Secretary of the Treasury (Treasury-State Agreement), the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day.

Condition:

For 13 (or 72%) of 18 disbursements tested, aggregating \$499,326 of \$1,423,406 in total non-payroll Program costs, the time elapsed between the receipt of Federal funds and the check clearing date ranged from 5 to 69 days, as follows:

<u>Grant Award</u>	<u>Amount</u>	<u>Check #</u>	<u>Check Date</u>	<u>Check Clearing Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed</u>
H027A050002A	\$ 2,298	257753	02/08/05	02/14/05	12/07/04	(69)
H027A050002A	\$16,418	260986	07/22/05	08/03/05	07/06/05	(27)
H027A050002A	\$14,392	260882	07/22/05	07/29/05	07/06/05	(23)
H027A050002A	\$11,208	259047	04/12/05	06/24/05	06/06/05	(18)
H027A050002A	\$11,283	259807	06/02/05	06/21/05	06/06/05	(15)
H027A050002A	\$ 2,800	259636	05/19/05	06/09/05	05/25/05	(14)
H027A050002A	\$ 875	257821	02/08/05	02/15/05	02/03/05	(12)
H027A030069A	\$17,003	258438	03/17/05	04/18/05	03/31/05	(18)
H027A030069A	\$ 9,649	256180	11/09/04	11/30/04	11/30/04	(15)
H027A030069A	\$ 7,827	257122	12/28/04	01/18/05	01/05/05	(13)
H027A030069A	\$ 3,153	256184	11/09/04	11/23/04	11/15/04	(8)
H027A030069A	\$16,903	258816	04/01/05	04/08/05	03/31/05	(8)
H027A030069A	\$ 3,058	256797	12/14/04	01/10/05	01/05/05	(5)

Cause:

GPSS was unaware of the Treasury-State Agreement and did not establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks.

Effect:

The Guam Public School System is in noncompliance with cash management requirements. There is no questioned cost associated with this finding, and the projected interest liability is less than the threshold. Furthermore, in a letter from M. Fred Williams, CMIA Manager, Department of the Treasury, the Guam Director of Administration is advised that "there is neither a net Federal nor a State interest liability due" for FY 2005.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-03, Continued
CFDA No.: 84.027
Program Name: ED Special Education Cluster
Grant No.: H027A050002A, H027A030069A
Requirement: Cash Management
Questioned Costs: \$0

Recommendation:

GPSS should obtain a copy of the Treasury-State Agreement and establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks in accordance with applicable cash management requirements. The responsible Business Office personnel should delay drawing down Federal Funds until one day before the check is expected to clear the bank.

Auditee Response and Corrective Action Plan:

We concur with the finding. We believe, however, that the Cash Management Improvement Act Agreement (CMIA) between Guam and the Secretary of the Treasury (Treasury-State Agreement) that the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day is unreasonable. The GPSS CFO met with the GOVGUAM Department of Administration representatives on May 11, 2006 to discuss the current agreement, and methods used by DOA to minimize elapsed time from drawdown to disbursement. As a result of the meeting, the CFO directed the General Accounting Supervisor to determine the feasibility of implementing EFT procedures for vendors. Estimated completion date is June 30, 2006. In the interim the Business Office will continue to use cash management procedures previously issued by the CFO.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-04
 CFDA No.: 84.922
 Program Name: ED Consolidated Grants
 Grant No.: S922A030002, S922A040002
 Requirement: Cash Management
 Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements and the Cash Management Improvement Act (CMIA) Agreement between Guam and the Secretary of the Treasury (Treasury-State Agreement), the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day.

Condition:

For 4 (or 4%) of 97 disbursements tested, aggregating \$2,700,656 of \$6,557,238 in total non-payroll program costs, the time elapsed between the receipt of Federal funds and the check clearing date ranged from 8 to 186 days, as follows:

<u>Grant Award</u>	<u>Amount</u>	<u>Check #</u>	<u>Check Date</u>	<u>Check Clearing Date</u>	<u>Receipt Date</u>	<u>Days Lapsed</u>
S922A040002	\$ 6,600	None	None	None	03/28/05	186
S922A040002	\$ 6,139	0259399	05/05/05	06/03/05	05/25/05	8
S922A030002	\$244,406	0260345	06/24/05	07/11/05	06/20/05	21
S922A030002	\$244,406	0261553	08/30/05	09/26/05	08/29/05	28

Cause:

GPSS was unaware of the Treasury-State Agreement and did not establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks.

Effect:

The Guam Public School System is in noncompliance with cash management requirements. There is no questioned cost associated with this finding, and the projected interest liability is less than the threshold. Furthermore, in a letter from M. Fred Williams, CMIA Manager, Department of the Treasury, the Guam Director of Administration is advised that "there is neither a net Federal nor a State interest liability due" for FY 2005.

Prior Year Status:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-04, Continued
CFDA No.: 84.922
Program Name: ED Consolidated Grants
Grant No.: S922A030002, S922A040002
Requirement: Cash Management
Questioned Costs: \$0

Recommendation:

GPSS should obtain a copy of the Treasury-State Agreement and establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks in accordance with applicable cash management requirements. The responsible Business Office personnel should delay drawing down Federal Funds until one day before the check is expected to clear the bank.

Auditee Response and Corrective Action Plan:

We concur with the finding. We believe, however, that the Cash Management Improvement Act Agreement (CMIA) between Guam and the Secretary of the Treasury (Treasury-State Agreement) that the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day is unreasonable. The GPSS CFO met with the GOVGUAM Department of Administration representatives on May 11, 2006 to discuss the current agreement, and methods used by DOA to minimize elapsed time from drawdown to disbursement. As a result of the meeting, the CFO directed the General Accounting Supervisor to determine the feasibility of implementing EFT procedures for vendors. Estimated completion date is June 30, 2006. In the interim the Business Office will continue to use cash management procedures previously issued by the CFO.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-05
CFDA No.: 84.922
Program Name: ED Consolidated Grants
Grant No.: S922A020002, S922A030002
Requirement: Period of Availability
Questioned Costs: \$36,885

Criteria:

In accordance with the grant terms and conditions, obligations must be liquidated within 90 days after the end of the budget period. The budget period is 15 months beginning July 1 of each grant year. Under the "Tydings Amendment," any funds that are not obligated at the end of the federal funding period shall remain available for obligation for an additional period of 12 months.

Condition:

For grant year 2002 (grant number S922A020002), obligations were not liquidated within ninety days after the budget period ended September 30, 2004 (i.e., from October 1, 2004 to December 31, 2004). Instead, liquidations totaling \$36,885 under grant year 2002 were made subsequent to December 31, 2004.

Furthermore, for grant year 2003 (grant number S922A030002), as of September 30, 2005, unfunded outstanding encumbrances of \$1,117,358 exist, as follows:

<u>Grant Year 2003</u>	<u>Total</u>
Allotment	\$ 6,772,581
Expenditures	<u>6,752,602</u>
Available Balance	\$ 19,979
Outstanding Encumbrances	<u>(1,137,337)</u>
Unfunded Encumbrances	<u>\$(1,117,358)</u>

Cause:

GPSS management has not enforced internal controls over ensuring that obligations are liquidated within the fund's period of availability, that expired grants are deappropriated in a timely manner, and that outstanding encumbrances do not exceed available funding.

Effect:

GPSS is in noncompliance with applicable period of availability requirements. A questioned cost of \$36,885 exists.

Recommendation:

GPSS management should develop more specific internal control procedures over monitoring a fund during the period of availability and deappropriating expired funds. On a periodic basis, the responsible program personnel should monitor funds for unliquidated obligations and should follow up with the responsible Business Office personnel to ensure that the liquidations occur before the funds expire. Furthermore, the responsible Business Office personnel should ensure that expired grants are deappropriated in a timely manner, that outstanding encumbrances do not exceed available funding, and that any unliquidated obligations for expired grants are charged to the General Fund.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-05, Continued
CFDA No.: 84.922
Program Name: ED Consolidated Grants
Grant No.: S922A020002, S922A030002
Requirement: Period of Availability
Questioned Costs: \$36,885

Auditee Response and Corrective Action Plan:

We concur with the finding. The GPSS CFO will meet with the Associate Superintendent for Special Education, the Federal Programs Administrator, the Head Start Administrator and the GPSS Internal Auditor by May 30, 2006 to develop specific internal controls for monitoring funds during the period of availability. Controls will be established to ensure that obligations are liquidated before funds expire and that expired grants are deappropriated in a timely manner. Written procedures assigning responsibility for specific actions will be issued by June 30, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-06
CFDA No.: 84.922
Program Name: ED Consolidated Grants
Grant No.: S922A030002
Requirement: Subrecipient Monitoring
Questioned Costs: \$0

Criteria:

A pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition:

GPSS paid Guam Community College a total of \$128,511 on December 14, 2004, with check number 256820 under a subgrant agreement. However, there is no documentation of monitoring activities performed in FY 2005.

Cause:

GPSS did not enforce internal controls over ensuring that subrecipient monitoring is performed and documented.

Effect:

GPSS is in noncompliance with applicable subrecipient monitoring requirements. There is no questioned cost for this condition as we are aware that the Guam Community College is undergoing a Single Audit, for which issuance of the Single Audit Reports is imminent.

Recommendation:

GPSS should enforce internal controls over ensuring compliance with subrecipient monitoring. The Administrator Federal Programs should assign a compliance monitor for each subrecipient and should follow up with the compliance monitor to ensure that monitoring activities are performed and documented in accordance with applicable subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

We concur with the finding. The GPSS CFO and Internal Auditor will collaborate with the Federal Programs Administrator in establishing specific internal controls to ensure that compliance monitors are assigned and that monitoring activities are performed and documented. Written procedures will be issued by June 30, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-07
 CFDA No.: 93.600
 Program Name: HHS Head Start
 Grant No.: 09CH8453/38, 09CH8453/39
 Requirement: Procurement
 Questioned Costs: \$93,475

Criteria:

In accordance with applicable procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement to evidence full and open competition among vendors. 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. Any allowable exceptions must be approved by the Superintendent and properly documented in the procurement file.

Condition:

Of 15 transactions tested, aggregating \$338,321 of \$598,952 in total Program non-payroll expenditures, we noted the following:

1. For 6 (or 40%), prospective bidders were not given the minimum 15 days between the issuance of the RFP and the specified opening date, pursuant to GPSSPR Section 3.9.4, for the following transactions charged to grant number 09CH8453/38:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
256382	11/17/04	10857	200402066	\$ 4,419	Supplies
256232	11/12/04	11555	200402074	27,480	Construction – classrooms
256232	11/12/04	11555	200402074	27,480	Construction – classrooms
256568	11/24/04	11555	200402074	27,480	Construction – classrooms
256844	12/14/04	11555	200402074	20,610	Construction – classrooms
257065	12/22/04	11555	200402074	20,610	Construction – classrooms
				<u>\$ 128,079</u>	

However, based on our review of the procurement documents, we noted the following:

- a) For Reference number 200402066 above, three vendors picked up a bid package, and three vendors submitted a bid prior to the opening date.
- b) For Reference number 200402074 above, eight vendors picked up a bid package, and seven vendors submitted a bid prior to the opening date.

Therefore, as it appears that open competition was maintained, no questioned cost results from this condition.

2. For 2 (or 13%), the procurement file lacks sufficient documentation of open competition. Specifically, supplies were procured from an off-island vendor citing sole source; however, there is no documentation to support such sole source determination for the following transactions charged to grant number 09CH8453/39:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
262196	9/30/05	22250	200504242	\$ 34,000	Child restraint system
262196	9/30/05	22250	200504242	59,475	Child restraint system
				<u>\$ 93,475</u>	

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-07, Continued
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38, 09CH8453/39
Requirement: Procurement
Questioned Costs: \$93,475

Cause:

The Administrator Supply Management did not enforce established procurement regulations.

Effect:

GPSS is in noncompliance with applicable procurement requirements. A questioned cost of \$93,475 exists.

Recommendation:

GPSS management should enforce established procurement regulations. The Administrator Supply Management should review all bid advertisements to ensure that the specified opening date is no less than 15 working days after the issuance of the bid. Also, the Administrator Supply Management should properly document the approved rationale for use of sole source procurement.

Auditee Response and Corrective Action Plan:

We concur with the finding. On May 4, 2006 the GPSS Supply Administrator issued a memorandum to all procurement office personnel reminding them that a minimum of 15 working days must elapse between the issuance of the RFP and the specified bid opening date. For most of the procurement actions listed in the finding, 15 calendar days were inadvertently specified. For one of the items, reference number 200402066, the GPSS Superintendent approved a shorter bid opening date

Part 2 of this finding provided that there was no documentation to support the sole source procurement of a child restraint system from an off-island vendor, however, we were advised by the Guam Department of Public Works (letter dated March 11, 2006) that the vendor is considered a sole source supplier.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-08
 CFDA No.: 93.600
 Program Name: HHS Head Start
 Grant No.: 09CH8453/38, 09CH8453/39
 Requirement: Cash Management
 Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements and the Cash Management Improvement Act (CMIA) Agreement between Guam and the Secretary of the Treasury (Treasury-State Agreement), the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day.

Condition:

For 13 (or 83%) of 15 transactions tested, aggregating \$338,321 of \$598,952 in total Program non-payroll expenditures, the time elapsed between the receipt of Federal funds and the check clearing date ranged from 6 to 97 days, as follows:

<u>Grant Award</u>	<u>Amount</u>	<u>Receipt Date</u>	<u>Check #</u>	<u>Date Check Cleared</u>	<u>Days Elapsed</u>
09CH8453/38	\$20,610	09/30/04	257065	01/05/05	97
09CH8453/38	\$20,610	09/30/04	256844	12/20/04	81
09CH8453/38	\$27,480	09/30/04	256568	12/02/04	63
09CH8453/38	\$ 4,419	09/30/04	256382	12/01/04	62
09CH8453/38	\$27,480	09/30/04	256232	11/16/04	47
09CH8453/38	\$27,480	09/30/04	256232	11/16/04	47
09CH8453/39	\$38,304	08/12/05	262202	09/30/05	49
09CH8453/39	\$30,641	08/12/05	261764	09/07/05	26
09CH8453/39	\$34,000	09/23/05	262196	10/17/05	24
09CH8453/39	\$59,475	09/23/05	262196	10/17/05	24
09CH8453/39	\$ 1,580	09/23/05	262207	10/17/05	24
09CH8453/39	\$29,549	08/12/05	261540	08/30/05	18
09CH8453/39	\$ 6,438	09/23/05	261961	09/29/05	6

Cause:

GPSS was unaware of the Treasury-State Agreement and did not establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks.

Effect:

The Guam Public School System is in noncompliance with cash management requirements. There is no questioned cost associated with this finding, and the projected interest liability is less than the threshold. Furthermore, in a letter from M. Fred Williams, CMIA Manager, Department of the Treasury, the Guam Director of Administration is advised that "there is neither a net Federal nor a State interest liability due" for FY 2005.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-08, Continued
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38, 09CH8453/39
Requirement: Cash Management
Questioned Costs: \$0

Recommendation:

GPSS should obtain a copy of the Treasury-State Agreement and establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks in accordance with applicable cash management requirements. The responsible Business Office personnel should delay drawing down Federal Funds until one day before the check is expected to clear the bank.

Auditee Response and Corrective Action Plan:

We concur with the finding. We believe, however, that the Cash Management Improvement Act Agreement (CMIA) between Guam and the Secretary of the Treasury (Treasury-State Agreement) that the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day is unreasonable. The GPSS CFO met with the GOVGUAM Department of Administration representatives on May 11, 2006 to discuss the current agreement, and methods used by DOA to minimize elapsed time from drawdown to disbursement. As a result of the meeting, the CFO directed the General Accounting Supervisor to determine the feasibility of implementing EFT procedures for vendors. Estimated completion date is June 30, 2006. In the interim the Business Office will continue to use cash management procedures previously issued by the CFO.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-09
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38, 09CH8453/39
Requirement: Period of Availability
Questioned Costs: \$221,218

Criteria:

In accordance with the Financial Assistance Award, funds are available for obligation during a period of twelve months (i.e., budget period from July 1 to June 30), and all obligations incurred under the award must be liquidated not later than 90 days after the budget period.

Condition:

1. At the end of fiscal year 2005, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Award</u>	<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
09CH8453/39	2004	2005	\$ 41,156

2. For grant year 2003 (grant award number 09CH8453/38), obligations were not liquidated within 90 days of the budget period ended June 30, 2004 (i.e., from July 1, 2004 to September 30, 2004). Instead, liquidations totaling \$221,218 under grant year 2003 were made in FY 2005.

Cause:

GPSS management has not enforced internal controls over ensuring that obligations are liquidated within the fund's period of availability and that expired grants are deappropriated in a timely manner.

Effect:

1. The available balance for grant year 2004 is misstated. If the balances are not properly deappropriated/deencumbered, GPSS could potentially expend Federal funds in noncompliance with applicable period of availability requirements.
2. GPSS is in noncompliance with applicable period of availability requirements. A questioned cost of \$221,218 exists.

Prior Year Status:

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

Recommendation:

GPSS management should develop more specific internal control procedures over monitoring a fund during the period of availability and deappropriating expired funds. On a periodic basis, the responsible program personnel should monitor funds for unliquidated obligations and should follow up with the responsible Business Office personnel to ensure that the liquidations occur before the funds expire. The responsible Business Office personnel should ensure that expired grants are deappropriated in a timely manner and that any unliquidated obligations for expired grants are charged to the General Fund.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-09, Continued
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38, 09CH8453/39
Requirement: Period of Availability
Questioned Costs: \$221,218

Auditee Response and Corrective Action Plan:

We concur with the finding. The GPSS CFO will meet with the Associate Superintendent for Special Education, the Federal Programs Administrator, the Head Start Administrator and the GPSS Internal Auditor by May 30, 2006 to develop specific internal controls for monitoring funds during the period of availability. Controls will be established to ensure that obligations are liquidated before funds expire and that expired grants are deappropriated in a timely manner. Written procedures assigning responsibility for specific actions will be issued by June 30, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-10
 CFDA No.: 93.600
 Program Name: HHS Head Start
 Grant No.: 09CH8453/38, 09CH8453/39
 Requirement: Matching
 Questioned Costs: \$92,009

Criteria:

In accordance with applicable matching requirements, the required non-Federal match is 20% of total Program costs.

Condition:

The local match is deficient, as follows:

	<u>Grant Year</u> 2004	<u>Grant Year 2003</u>
Total Program Costs	\$ 2,256,705	\$ 276,523
X Local matching rate	20%	20%
Total Local Share	451,341	55,305
Less: Available Waiver in FY 2005	(88,401)	0
Required Local Share in FY 2005	362,940	55,305
Less: Actual Local Share in FY 2005	(326,236)	0
Deficient Local Share	\$ 36,704	\$ 55,305

Grant Number 09CH8453/39 09CH8453/38

Cause:

It appears that local funds are insufficient to meet applicable matching requirements.

Effect:

GPSS is in noncompliance with applicable matching requirements. A total questioned cost of \$92,009 exists

Recommendation:

GPSS management should determine local match requirements for its Federal funds and should ensure that such required levels of funding are communicated to, and appropriated by, the Guam Legislature.

Auditee Response and Corrective Action Plan:

We concur with the finding. The GPSS Head Start Administrator, CFO, General Accounting Supervisor, and the Internal Auditor will meet and collaborate to develop and publish written internal control procedures by June 30, 2006 to ensure that sufficient mandatory level of effort funding (Matching) is included in future GPSS budget requests to the Guam Legislature. In addition, internal control procedures will be established to ensure that the GPSS Head Start Administrator maintain sufficient records for donated services by individuals that meet this matching requirement.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-11
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/40
Requirement: Earmarking
Questioned Costs: \$17,586

Criteria:

In accordance with applicable earmarking requirements, the costs of developing and administering a Head Start Program shall not exceed 15% of the annual total program costs.

Condition:

For grant year 2005, the administrative cost limit of 15% of the annual total program cost was exceeded as follows:

Program costs	\$ 546,578
X 15% ceiling	<u>15%</u>
Administrative cost limit	\$ 81,987
Administrative cost charged	<u>(99,573)</u>
Excess administrative cost charged	\$ <u>(17,586)</u>

Cause:

GPSS management did not monitor applicable earmarking requirements.

Effect:

GPSS is in noncompliance with applicable earmarking requirements. A questioned cost of \$17,586 exists.

Recommendation:

The responsible personnel should monitor applicable earmarking requirements. On a periodic basis, the responsible personnel should account for actual administrative costs charged to the program and should ensure that applicable administrative cost limits are not exceeded.

Auditee Response and Corrective Action Plan:

We concur with the finding. The GPSS CFO, General Accounting Supervisor, Head Start Administrator, responsible Program Coordinator, and the Internal Auditor will meet to establish internal controls to ensure that local funding requirements for earmarking are determined when grants are received, and that the budgeting processes address/provide adequate resources to meet earmarking requirements. Written procedures will be published by June 30, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-12
 CFDA No.: 83.544
 Program Name: DHS Public Assistance Grants
 Grant No.: N/A
 Requirement: Procurement
 Questioned Costs: \$386,857

Criteria:

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

Condition:

Of 48 transactions tested, aggregating \$1,145,836 of \$1,767,243 in total Program non-payroll expenditures, we noted the following conditions:

- For 2 (or 4%), emergency procurement was selected as the method of procurement, but such selection does not appear to be appropriate. The supporting certificate of emergency was signed by the Superintendent of Education, School Recovery Task Force Chairman, and Governor of Guam on July 23, 2004. However, the supporting project worksheet (PW1001) was dated as prepared on July 1, 2003. Therefore, GPSS should have used the competitive sealed bidding method to ensure open competition for the following transactions:

	<u>Check #</u>	<u>Check Date</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
a.	259155	04/25/05	200403105	\$ 37,786	Southern HS – Air conditioning
	259143	04/22/05	200403105	79,704	Southern HS – Air conditioning
	248969	11/29/04	200403105	115,886	Southern HS – Air conditioning
b.	249080	05/16/05	200502972	41,918	Southern HS – Air conditioning
	260313	06/24/05	200502972	<u>98,877</u>	Southern HS – Air conditioning
			Total	<u>\$374,171</u>	

- For 2 (or 4%) potential bidders were not given sufficient time (minimum 15 working days) to respond prior to the specified opening date for the evaluation process for the following transactions:

	<u>Check #</u>	<u>Check Date</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
	0259327	05/05/05	200402649	\$ 7,936	PC Lujan ES – Various equipment
	0257779	02/08/05	200404010	4,750	Marcial Sablan ES – Various equipment
				<u>\$ 12,686</u>	

Cause:

The Administrator Supply Management did not enforce established procurement regulations.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-12
CFDA No.: 83.544
Program Name: DHS Public Assistance Grants
Grant No.: N/A
Requirement: Procurement
Questioned Costs: \$386,857

Effect:

The Guam Public School System is in noncompliance with applicable procurement requirements. A questioned cost of \$386,857 exists.

Recommendation:

GPSS management should enforce established procurement regulations. The Administrator Supply Management should review all bid advertisements to ensure that the specified opening date is no less than 15 working days after the issuance of the bid.

Auditee Response and Corrective Action Plan:

Concur with the finding. By June 30, 2006 the Supply Management Administrator in collaboration with the CFO will establish written procedures for maintaining adequate documentation in procurement files; assign responsibility for file maintenance to specific individuals in the procurement office and the financial affairs office; conduct in-house mandatory workshop for all procurement personnel to review GPSS Procurement Regulations with particular emphasis on documentation required for Emergency Procurement, Sole Source Selection, and Small Purchases. By July 15, 2006 the Supply Management Administrator will also review the need for additional procurement personnel and request additional personnel if necessary. The Supply Management Administrator will write and implement Standard Operating Procedures for the Procurement Office by July 31, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-13
 CFDA No.: 83.544
 Program Name: DHS Public Assistance Grants
 Grant No.: N/A
 Requirement: Cash Management
 Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements and the Cash Management Improvement Act (CMIA) Agreement between Guam and the Secretary of the Treasury (Treasury-State Agreement), the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day.

Condition:

For 4 (or 8%) of 48 transactions tested, aggregating \$1,145,836 of \$1,767,243 in total Program non-payroll expenditures, the time elapsed between the receipt of Federal funds and the check clearing date ranged from 12 to 278 days, as follows:

<u>Amount</u>	<u>Check #</u>	<u>Check Date</u>	<u>Check Clearing Date</u>	<u>Cash Receipt Date</u>	<u>Days Lapsed</u>
\$ 17,048	0260465	06/30/05	07/11/05	10/06/04	278
\$ 4,453	0257761	02/08/05	02/14/05	10/14/04	123
\$ 5,978	0256120	10/29/04	11/08/04	10/06/04	33
\$ 18,848	0255942	10/18/04	10/26/04	10/14/04	12

Cause:

GPSS was unaware of the Treasury-State Agreement and did not establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks.

Effect:

The Guam Public School System is in noncompliance with cash management requirements. There is no questioned cost associated with this finding, and the projected interest liability is less than the threshold. Furthermore, in a letter from M. Fred Williams, CMIA Manager, Department of the Treasury, the Guam Director of Administration is advised that "there is neither a net Federal nor a State interest liability due" for FY 2005.

Recommendation:

GPSS should obtain a copy of the Treasury-State Agreement and establish internal controls to minimize the time elapsed between the receipt of Federal funds and the disbursement of checks in accordance with applicable cash management requirements. The responsible Business Office personnel should delay drawing down Federal Funds until one day before the check is expected to clear the bank.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-13, Continued
CFDA No.: 83.544
Program Name: DHS Public Assistance Grants
Grant No.: N/A
Requirement: Cash Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

We concur with the finding. We believe, however, that the Cash Management Improvement Act Agreement (CMIA) between Guam and the Secretary of the Treasury (Treasury-State Agreement) that the time elapsed between the receipt of Federal funds and the disbursement of checks should be minimized to an average clearance pattern of one day is unreasonable. The GPSS CFO met with the GOVGUAM Department of Administration representatives on May 11, 2006 to discuss the current agreement, and methods used by DOA to minimize elapsed time from drawdown to disbursement. As a result of the meeting, the CFO directed the General Accounting Supervisor to determine the feasibility of implementing EFT procedures for vendors. Estimated completion date is June 30, 2006. In the interim the Business Office will continue to use cash management procedures previously issued by the CFO.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-14
CFDA No.: All major programs
Program Name: All major programs
Requirement: Equipment Management
Questioned Costs: \$0

Criteria:

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

Condition:

In FY 2005, the required property management system was not in place. A comprehensive physical inventory was not conducted during the last two years.

Cause:

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

Effect:

GPSS is in noncompliance with applicable equipment and real property management requirements. The loss or theft of equipment could go undetected.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action:

We concur with the finding, however, there are extenuating circumstances. The following events occurred subsequent to the end of FY 2005. GPSS's Property Management System was in place by February 2006. A physical inventory of fixed assets was completed by December 6, 2005. The Fixed Assets Accounting Module was operational as of February 2006. A master Inventory Listing was completed by March 2006. Additionally, a WASP Bar Coding System was procured to implement a pilot program for on-site inventory management. As a result of our completed actions we believe that GPSS's Property Management System is in place.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No: 05-15
Area: Cash

Criteria:

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

Condition:

Bank reconciliations were not prepared on a monthly basis in fiscal year 2005.

Cause:

GPSS management has not enforced internal controls over ensuring that bank reconciliations are prepared on a monthly basis.

Effect:

Cash could be misstated, and the loss or theft of cash would not be detected in a timely manner. However, during the audit process, GPSS reconciled bank accounts as of September 30, 2005.

Prior Year Status:

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

Recommendation:

GPSS should strengthen internal controls to ensure that bank reconciliations are prepared on a monthly basis. The Chief Financial Officer should designate a well-trained Business Office employee to be responsible for preparing bank reconciliations on a monthly basis. Upon receipt of the monthly bank statement, the responsible personnel should reconcile the bank cash balance with the book cash balance. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

We concur with the finding. The CFO has designated the General Accounting Supervisor as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the accountant assigned to perform the monthly bank reconciliation recently resigned. The Accounting Office is severely understaffed with qualified accountants. There are not enough accountants to keep reconciliations current. This condition exists for bank reconciliation, receivables and payables/accrued expenses/encumbrances and Due to Federal Agencies. To alleviate this condition, on May 3, 2006, the CFO requested the Personnel office to commence immediate recruitment for a Comptroller, and several accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period with a comptroller and a full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-16
Area: Receivables

Criteria:

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

Condition:

Accounts receivable balances per the general ledger and subsidiary ledger are not reconciled, as follows:

<u>Account</u>	<u>Per general ledger</u>	<u>Per sub-ledger</u>	<u>Variance</u>
A/R Fund 11 – Due from DOA	\$ 8,100,000	\$ 6,000,000	\$ 2,100,000
A/R Fund 11	\$ 1,298,758	\$ 2,856,574	\$(1,557,816)
A/R Fund 21	\$ (50,378)	\$ 294,510	\$ (344,888)
A/R Fund 22	\$ (271,197)	\$ 1,673,965	\$(1,945,163)

Cause:

GPSS was without a Controller during the last quarter of FY 2005.

Effect:

Accounts receivable balances were misstated in internal financial reports. However, we tested the subsidiary ledger without exception, and GPSS corrected the general ledger. This condition relates solely to internal controls over the financial statements and does not impact federal program transactions.

Prior Year Status:

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

Recommendation:

The Chief Financial Officer should designate a well-trained Business Office employee to be responsible for preparing accounts receivable reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

We concur with the finding. The CFO has designated the General Accounting Supervisor as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the accountant assigned to perform the monthly bank reconciliation recently resigned. The Accounting Office is severely understaffed with qualified accountants. There are not enough accountants to keep reconciliations current. This condition exists for bank reconciliation, receivables and payables/accrued expenses/encumbrances and Due to Federal Agencies. To alleviate this condition, on May 3, 2006, the CFO requested the Personnel office to commence immediate recruitment for a Comptroller, and several accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period with a comptroller and a full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-17
Area: Payables/Accrued Expenses/Encumbrances

Criteria:

Accounts payable, accrued expenses, and encumbrance balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Accounts payable and encumbrance balances per the general ledger and subsidiary ledger were not reconciled, as follows:

<u>Account</u>	<u>Per general ledger</u>	<u>Per sub-ledger</u>	<u>Variance</u>
Accounts payable	\$ 8,112,927	\$ 3,787,199	\$ 4,325,728
Encumbrances	\$ 0	\$ 14,926,539	\$ (14,926,539)

Furthermore, certain accrued expense accounts have debit balances, including a debit balance of \$1,919,827 for accrued payroll.

Cause:

GPSS was without a Controller during the last quarter of FY 2005.

Effect:

Accounts payable, accrued expense balances, and encumbrances could be misstated.

Prior Year Status:

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

Recommendation:

The Chief Financial Officer should designate a well-trained Business Office employee to be responsible for preparing accounts payable and accrued expense reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

We concur with the finding. The CFO has designated the General Accounting Supervisor as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the accountant assigned to perform the monthly bank reconciliation recently resigned. The Accounting Office is severely understaffed with qualified accountants. There are not enough accountants to keep reconciliations current. This condition exists for bank reconciliation, receivables and payables/accrued expenses/encumbrances and Due to Federal Agencies. To alleviate this condition, on May 3, 2006, the CFO requested the Personnel office to commence immediate recruitment for a Comptroller, and several accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period with a comptroller and a full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-18
Area: Due to Federal Agencies

Criteria:

Liabilities to Federal agencies per the general ledger and subsidiary ledger should be reconciled.

Condition:

Liabilities to Federal agencies per the general ledger and subsidiary ledger are not reconciled, as follows:

<u>Fund</u>	<u>Per general ledger</u>	<u>Per sub-ledger</u>	<u>Variance</u>
Fund 15	\$697,066	\$ 775,089	\$ (78,023)
Fund 21	\$306,721	\$ 818,511	\$ (511,790)
Fund 22	\$420,997	\$1,440,673	\$(1,019,676)

Cause:

GPSS was without a Controller during the last quarter of FY2005.

Effect:

Liabilities to Federal agencies were misstated in internal financial reports. This condition relates solely to internal controls over the financial statements and does not impact federal program transactions.

Prior Year Status:

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

Recommendation:

The Chief Financial Officer should designate a well-trained Business Office employee to be responsible for preparing accounts payable reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

We concur with the finding. The CFO has designated the General Accounting Supervisor as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the accountant assigned to perform the monthly bank reconciliation recently resigned. The Accounting Office is severely understaffed with qualified accountants. There are not enough accountants to keep reconciliations current. This condition exists for bank reconciliation, receivables and payables/accrued expenses/encumbrances and Due to Federal Agencies. To alleviate this condition, on May 3, 2006, the CFO requested the Personnel office to commence immediate recruitment for a Comptroller, and several accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period with a comptroller and a full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-19
 Area: Procurement
 CFDA No.: 15.875
 Program Name: Economic, Social, and Political Development of the Territories
 Grant No.: N/A
 Requirement: Procurement
 Questioned Costs: \$24,978

Criteria:

The Guam Public School System Procurement Regulations (GPSSPR) should be used to select all vendors, and documentation of such selection process (including the bid announcement, bid abstract, and written rationale for the vendor selected) should be maintained on file. Furthermore, in accordance with the Guam Procurement Law, an emergency condition exists only when an imminent threat to public health, welfare, or safety could not have been foreseen through the use of reasonable management procedures.

Condition:

Of 135 transactions tested, we noted the following:

- 1) For 11 (or 8%), emergency procurement was selected as the method of procurement, but such selection does not appear to be appropriate. The supporting certificate of emergency was signed by the Superintendent of Education, School Recovery Task Force Chairman, and Governor of Guam on July 23, 2004, however, informal quotations were solicited from vendors in November 2004. Given the time elapsed between the certificate of emergency and the quotation solicitations, competitive sealed bidding should have been used for the following locally funded transactions.

	<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
a.	256832	12/14/04	10578	200200227	\$ 22,833
	257053	12/22/04	10578	200500227	\$ 26,155
b.	256622	12/06/04	10578	200500068	\$ 24,626
	256622	12/06/04	10578	200500068	\$ 23,969
c.	258839	04/06/05	10578	200501483	\$ 24,946
	259099	04/22/05	10578	200501483	\$ 8,044
d.	256123	10/29/04	10980	200402341	\$ 23,128
e.	248972	12/03/04	10980	200402598	\$140,488
f.	257538	01/21/05	10980	200500228	\$ 15,234
g.	258842	04/06/05	10980	200501485	\$ 7,098
h.	257524	01/21/05	11374	200402368	\$ 9,000
i.	256117	10/29/04	11374	200402866	\$ 14,900
j.	257285	01/07/05	11374	200500067	\$ 43,016
	258234	03/03/05	11374	200500067	\$ 5,897
k.	259012	04/12/05	11374	200500535	\$ 30,000

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-19, Continued
Area: Procurement
CFDA No.: 15.875
Program Name: Economic, Social, and Political Development of the Territories
Grant No.: N/A
Requirement: Procurement
Questioned Costs: \$24,978

Condition, Continued:

- 2) For 4 (or 3%), prospective bidders were not given the minimum 15 working days between the issuance of the RFP and the specified opening date pursuant to GPSSPR Section 3.9.4 for the following transactions, all of which are locally funded, with the exception of check number 255944 in the amount of \$24,978, which was charged to CFDA # 15.875 Economic, Social and Political Development of the Territories:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
256643	12/06/04	10613	200500210	\$ 29,735
260691	07/08/05	10613	200500210	\$ 33,093
257285	01/07/05	11374	200500004	\$ 19,750
257997	02/18/05	11374	200500004	\$ 5,192
255944	10/18/04	11374	200401330	\$ 24,978
259778	06/02/05	10024	200502814	\$ 3,974

Cause:

The Administrator Supply Management did not enforce established procurement regulations.

Effect:

GPSS is in noncompliance with the Guam Public School System Procurement Regulations. A questioned cost of \$24,978 exists.

Prior Year Status:

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

Recommendation:

GPSS management should enforce established procurement regulations. The requested procurement documents should be provided to effect resolution of this finding.

Auditee Response and Corrective Action:

Concur with the finding. By June 30, 2006 the Supply Management Administrator in collaboration with the CFO will establish written procedures for maintaining adequate documentation in procurement files; assign responsibility for file maintenance to specific individuals in the procurement office and the financial affairs office; conduct in-house mandatory workshop for all procurement personnel to review GPSS Procurement Regulations with particular emphasis on documentation required for Emergency Procurement, Sole Source Selection, and Small Purchases. By July 15, 2006 the Supply Management Administrator will also review the need for additional procurement personnel and request additional personnel if necessary. The Supply Management Administrator will write and implement Standard Operating Procedures for the Procurement Office by July 31, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-20
Area: Non-Appropriated 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. The Guam Public School System classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

Slippage in the ability of the Guam Public School System to account for NAF funds was evident in the year ended September 30, 2005. Supporting documents for NAF Fund expenditures and bank reconciliations are lacking, indicating noncompliance with established NAF policies and with adequate documentation requirements. Detail expenditures were tested for 330 transactions. Of this sample, 158 items (48%) did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- Accounts are either not in balance or have no end product, such as financial statements.
- Complete supporting documents are not maintained as frequently, invoices are not on file. Rather, checks are paid to teachers/administrators who are responsible for paying vendors.
- Payments are for entertainment of faculty and staff and do not appear to relate to the fundraising purpose.
- Payments are for general school supplies and maintenance, which again, does not appear consistent with the underlying fund purpose.
- Monitoring by Administrators is inconsistent. Monthly reports either have no bank reconciliations, unreconciled data, or are not being filed.
- Various schools have been designated for additional investigation due to the lack of support for expenses, the lack of reporting and the lack of accountability at various schools and various transactions have been referred for criminal investigation.

Cause:

The cause of this condition is disregard for NAF requirements by school administrators and treasurers tasked with NAF documentation maintenance. Additionally, it is evident that the accounting for NAF is frequently vested in personnel who are not capable of handling the task.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2005 and this condition could facilitate fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes Guam Public School System, and possibly the individual Guam Education Policy Board members, to potential lawsuits and increases the Organization's financial exposure.

Prior Year Status:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-20, Continued
Area: Non-Appropriated Fund

Recommendation:

We recommend that the Guam Education Policy Board reconsider whether the Guam Public School System should continue to assume responsibility for the accounting for these funds. If so, then the contracting out of this service should be explored. Alternatively, all fund collections should be disbursed through the central office, unless a school can demonstrate the adequacy of its procedures. While a combination of these actions may be appropriate, it is evident that corrective action is required as the current process is not effective.

However, if improvements do not occur in the basic documentation supporting disbursements, we recommend that the Policy Board meet with the Guam Legislature and determine whether the Guam Public School System should continue to provide the NAF service to public schools. The service is very costly, and it is evident that additional manpower is required to audit and monitor and account for the NAF activities. The Guam Legislature should determine whether these costs are appropriate and necessary or whether this responsibility should be turned over to other adjunct school organization, such as parent teacher organizations (PTO's).

Auditee Response and Corrective Action:

We concur with the recommendation. The Guam Public School System does not have the human resources to assign to oversee the NAF operations at each of the school sites. The Internal Audit Division will continue to conduct training and on-going audits of the financial records for these activities.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 05-21
Area: Budget

Criteria:

Actual expenditures should not exceed budgeted amounts.

Condition:

GPSS expended funds in excess of amounts budgeted, as follows:

	<u>Budgeted Expenditures in FY 2005</u>	<u>Actual Expenditures/Encumbrances in FY 2005</u>	<u>Over-Expended Budget</u>
Personnel	\$ 128,846,177	\$ 130,327,399	\$ (1,481,222)
Utilities	\$ 8,006,534	\$ 11,136,777	\$ (3,130,243)
Contractual	\$ 4,594,893	\$ 8,984,095	\$ (4,389,202)
Textbooks	\$ 6,584,375	\$ 7,875,389	\$ (1,291,014)
Food Service	\$ 5,500,000	\$ 8,785,479	\$ (3,285,479)

Also, actual expenditures/encumbrance for the Supplies/Equipment, Capital Outlay, and Other category was under budget by \$1,235,059, \$1,036,598, and \$2,047,713, respectively.

Cause:

Due to an inadequate financial management and accounting infrastructure, GPSS management did not monitor actual expenditures against budgeted expenditures. Furthermore, certain actual expenditures in excess of budgeted amounts are attributed to the following circumstances:

- 1) Actual expenditures for the Personnel category include \$3.8 million in salaries owed to teachers as affirmed by a court order.
- 2) Actual expenditures for the Utilities category are consistent with prior years' levels; however, budgeted expenditures are historically well below actual levels.

Effect:

GPSS is in noncompliance with applicable budget laws and must use current year appropriations to fund prior year obligations.

Recommendation:

GPSS management should seek support from the Guam Legislature and Civil Service Commission to develop an adequate financial management and accounting infrastructure.

Auditee Response and Corrective Action Plan:

We concur with the finding. In April 2006 the CFO commenced the process of developing an adequate financial management and accounting infrastructure by identifying adequate staffing needed to improve financial operations. The CFO determined that additional professional staffing was needed. Accordingly, the GPSS Personnel Services Division published a continuous announcement to recruit for a Comptroller and three Accountants on May 16, 2006. When recruitment is complete and accountants are on board, sufficient professional staffing will be in place to allow for successful implementation of an adequate financial management and accounting infrastructure. Estimated completion date is October 31, 2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Prior Findings
Year Ended September 30, 2005

Unresolved Prior Findings

Unresolved prior findings remain and are reiterated in current findings. A summary of unresolved questioned costs is as follows:

CFDA #	Program Name	Federal Agency	2005	2004	2003	2002	2001	2000	1999	1998	Total
10.553/ 10.555	Child Nutrition Cluster	Agriculture	\$ 383,533	\$ 126	\$ 596	\$ -	\$ 194,468	\$ 66,125	\$ 132,034	\$ -	\$ 776,882
12.110	State Planning Assistance	Defense	-	-	-	-	-	-	-	205,357	205,357
15.875	DOI	Interior	24,978	-	-	-	-	-	-	-	24,978
83.544	Public Assistance Grants	FEMA	386,857	-	304,047	-	-	1,649,112	3,130,222	1,276,537	6,746,775
84.027	Special Education – Grants to States	Education	214,257	217,778	372,544	417,916	77,426	59,481	-	-	1,359,402
84.181	Special Education – Infants and Families with Disabilities	Education	-	-	21,738	13,364	-	14,917	-	58,204	108,223
84.922	Consolidated Grants	Education	36,885	11,936	-	281,811	-	-	-	-	330,632
93.600	Head Start	HHS	424,288	134,640	6,494	181,337	43,053	101,913	-	18,797	910,522
	Totals		\$ 1,470,798	\$ 364,480	\$ 705,419	\$ 894,428	\$ 314,947	\$ 1,891,548	\$ 3,262,256	\$ 1,558,895	\$ 10,462,771