

GUAM PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2006

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
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, 2006, and have issued our report thereon dated May 31, 2007. 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 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 an opinion 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 06-12 through 06-19.

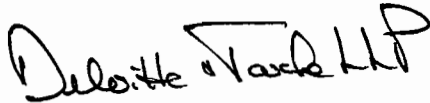
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the financial statements being 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 06-12 through 06-19 to be material weaknesses.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance 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 38) as finding 06-12.

We noted certain matters that we reported to management of GPSS in a separate letter dated May 31, 2007.

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.

May 31, 2007

**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
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, 2006. 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 38). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GPSS management. Our responsibility is to express an opinion on GPSS 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 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 compliance with those requirements.

As described in findings 06-01 through 06-09, 06-11, and 06-12 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, eligibility, procurement and suspension and debarment, program income, subrecipient monitoring, and special tests and provisions that are applicable to its major federal programs as 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, 2006. 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 finding 06-10, 06-16, 06-17, and 06-19.

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 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.

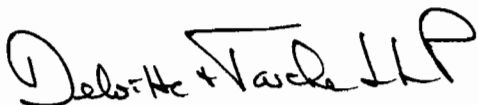
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GPSS 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 06-01 through 06-09, 06-11, and 06-12.

A material weakness is a reportable 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 caused by error or fraud 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 06-01, 06-02, 06-03, and 06-12 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Public School System (GPSS) as of and for the year ended September 30, 2006, and have issued our report thereon dated May 31, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise GPSS's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purposes 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 basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic 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.



May 31, 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2005	FY 2006 Cash Receipts and Adjustments	FY 2006 Expenditures	Accrued (Deferred) Balance at September 30, 2006
U.S. DEPARTMENT OF AGRICULTURE:					
Direct:					
School Breakfast Program	10.553	\$ 419,815	\$ 1,722,327	\$ 1,763,005	* \$ 460,493
National School Lunch Program	10.555	815,204	5,756,408	5,669,027	* 727,823
Child and Adult Care Food Program	10.558	(71,138)	-	-	(71,138)
State Administrative Expenses for Child Nutrition	10.560	103,655	417,437	373,867	60,085
Commodity Supplemental Food Program	10.565	(88,345)	-	-	(88,345)
Emergency Food Assistance Program (Administrative Costs)	10.568	(65,562)	88,229	52,173	(101,618)
Community Facilities Loans and Grants	10.766	(67,222)	-	51,800	(15,422)
Total U.S. Department of Agriculture		<u>\$ 1,046,407</u>	<u>\$ 7,984,401</u>	<u>\$ 7,909,872</u>	<u>\$ 971,878</u>
U.S. DEPARTMENT OF THE INTERIOR					
Pass-Through Guam Department of Administration:					
Economic, Social, and Political Development of the Territories	15.875	\$ 105,156	\$ 105,156	\$ -	\$ -
Total U.S. Department of the Interior		<u>\$ 105,156</u>	<u>\$ 105,156</u>	<u>\$ -</u>	<u>\$ -</u>
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration:					
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	\$ (101,574)	\$ -	\$ -	\$ (101,574)
Total U.S. Department of Labor		<u>\$ (101,574)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (101,574)</u>
U.S. DEPARTMENT OF EDUCATION:					
Direct:					
Services for Children with Deaf-Blindness	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	(1,110,526)	13,708,321	14,618,479	* (200,368)
Special Education-Personnel Development and Parent Training	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	42,622	77,593	34,971	-
Vocational Education: Basic Grants to States	84.048	(245,883)	157,926	197,926	(205,883)
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	718,742	1,397,597	1,507,687	828,832
Byrd Honors Scholarships	84.185	4,500	60,000	55,500	-
Bilingual Education Support Services	84.194Q	11,436	11,436	-	-
Fund for the Improvement of Education (FIE)	84.215	33,370	87,059	56,959	3,270
Freely Associated States-Education Grant Program	84.256	(39,653)	209,640	210,688	(38,605)
Twenty-First Century Community Learning Centers	84.287	4,346	2,859	11,485	12,972
Advanced Placement Program	84.330	(4,743)	-	-	(4,743)
	84.336	-	1,039,170	1,165,981	126,811
Class Size Reduction	84.340	2,606	2,606	-	-
School Renovation Grants	84.352	(8,808)	-	-	(8,808)
Literacy through School Libraries	84.364	-	10,722	10,722	-
Mathematics and Science Partnerships	84.366	258	123,610	125,277	1,925
Consolidated Grants	84.922A	3,208,508	26,515,847	24,480,770	* 1,173,431
Total U.S. Department of Education		<u>\$ 2,573,326</u>	<u>\$ 43,404,386</u>	<u>\$ 42,476,445</u>	<u>\$ 1,645,385</u>
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	(269,573)	2,278,082	2,163,628	* (384,027)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	16,019	38,210	89,954	67,763
Total U.S. Department of Health and Human Services		<u>\$ (384,981)</u>	<u>\$ 2,316,292</u>	<u>\$ 2,253,582</u>	<u>\$ (447,691)</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:					
Direct:					
Learn and Serve America_School and Community Based Programs	94.004	\$ 12,440	\$ 68,916	\$ 45,405	\$ (11,071)
Total Corporation for National and Community Service		<u>\$ 12,440</u>	<u>\$ 68,916</u>	<u>\$ 45,405</u>	<u>\$ (11,071)</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:					
Pass-Through Guam Department of Administration:					
Public Assistance Grants	83.544	\$ (1,750,797)	\$ 1,263,609	\$ 1,311,292	\$ (1,703,114)
Total U.S. Department of Homeland Security		<u>\$ (1,750,797)</u>	<u>\$ 1,263,609</u>	<u>\$ 1,311,292</u>	<u>\$ (1,703,114)</u>
Total Federal Awards		<u>\$ 1,499,977</u>	<u>\$ 55,142,760</u>	<u>\$ 53,996,596</u>	<u>\$ 353,813</u>

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

See notes to Schedule of Expenditures of Federal Awards.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

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 the Interior 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.

3. High-Risk Grantee Status:

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

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2006

	Fiscal Year 2006 <u>Expenditures</u>
Federal contributions, as reported in the 2006 financial statements:	
Federal grants assistance fund, expenditures, transfers, and other uses	\$ 46,564,564
<u>CFDA #</u>	
10.553 School Breakfast Program	1,763,005
10.555 National School Lunch Program	<u>5,669,027</u>
Total Federal Expenditures Subject to Audit	\$ <u>53,996,596</u>

GUAM PUBLIC SCHOOL SYSTEM
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2006

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. An instance of noncompliance considered material to the financial statements was 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

8. A threshold of \$1,619,898 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, 2006

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
06-12	Equipment Management
06-13	Procurement
06-14	General Ledger
06-15	Cash
06-16	Receivables
06-17	Liabilities
06-18	Encumbrances
06-19	Non-Appropriated Fund

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>	<u>GPSS Division</u>
06-01	10.553/10.555	Eligibility	\$ 113,055	USDA	Food and Nutrition Services
06-02	10.553/10.555	Allowable Costs/Cost Principles	\$ 0	USDA	Food and Nutrition Services
06-03	10.553/10.555	Special Tests and Provisions	\$ 0	USDA	Food and Nutrition Services
06-04	84.027	Allowable Costs/Cost Principles	\$ 681	ED	Special Education
06-05	84.027	Cash Management	\$ 0	ED	Business Office
06-06	84.922	Procurement	\$ 107,499	ED	Procurement
06-07	84.922	Cash Management	\$ 0	ED	Business Office
06-08	84.922	Subrecipient Monitoring	\$ 0	ED	Federal Programs
06-09	84.922	Allowable Costs/Cost Principles	\$ 24,449	ED	Federal Programs
06-10	84.922	Allowable Costs/Cost Principles	\$ 0	ED	Federal Programs
06-11	84.922	Program Income	\$ 0	ED	Federal Programs
06-12	All Major Prog	Equipment Management	\$ 0	All above	Business Office
Total Questioned Costs			\$ <u>245,684</u>		

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-01
CFDA Program: 10.553/10.555 Child Nutrition Cluster
Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Eligibility
Questioned Cost: \$113,055

Criteria:

In accordance with applicable eligibility requirements, School Food Authorities (SFAs), institutions, and sponsors should determine a child's eligibility for free or reduced-price meals by comparing the data reported by the child's household to published income eligibility guidelines. Such eligibility determination should be documented and may be established by the submission of an annual application or statement which furnishes such information as family income and family size.

Condition:

The Department of Youth Affairs (DYA) is an institution to which GPSS provides reimbursements for meals served at DYA under the Program. However, no written eligibility determination documents were provided to substantiate the eligibility of children receiving free or reduced-price meals at DYA. In FY 2006, GPSS reimbursed DYA a total of \$113,055.

Cause:

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

Effect:

GPSS is in noncompliance with applicable eligibility requirements. A questioned cost of \$113,055 exists.

Recommendation:

The Program Administrator should implement internal record keeping controls to ensure that eligibility determination documents, such as applications, are complete, accurate, and maintained on file to substantiate each participating child's eligibility for free or reduced-price meals.

Auditee Response and Corrective Action Plan:

State Agency Response:

The United States Department of Agriculture (USDA) FNS has conducted many Management Evaluations on the Department of Youth Affairs (RCCI) and has never sited that the institution to which GPSS provides reimbursements for meals served at DYA under the Program should have written eligibility determination documents to substantiate the eligibility of children institutionalized.

Actions/Solutions:

The State Agency will provide guidance in accordance with the regulations of the Child Nutrition Program to the Department of Youth Affairs. Corrective Action will be implemented commencing SY 2007-2008. DYA will determine eligibility of all children institutionalized and maintain internal record keeping controls.

In order to properly document the eligibility of the Department of Youth Affairs(DYA)children, an RCCI, the following methods of documenting children's eligibility is to have a Statement of Facts on file or a Master List or Enrollment Application at DYA.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-01, Continued
CFDA Program: 10.553/10.555 Child Nutrition Cluster
Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Eligibility
Questioned Cost: \$113,055

Auditee Response and Corrective Action Plan, Continued:

A written statement outlining the general policy or condition within the RCCI which would cause all its institutionalized children (not including day students) to be eligible for free benefits. A prototype form of the following example would qualify as a Statement of Fact for the Department of Youth Affairs (RCCI):

Example: "All our children are wards of the court. They are not permitted to earn, receive, or retain any money while in our custody."

OR

Master List or Enrollment Application – If the RCCI does not have a predetermined policy which indicates the allowable income to children, then it may wish to record eligibility determinations, by child, on a master list or an enrollment application.

Party responsible for the implementation: State Agency

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-02
CFDA Program: 10.553/10.555 Child Nutrition Cluster
Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Allowable Costs/Cost Principles
Questioned Cost: \$0

Criteria:

In accordance with allowable costs/cost principles requirements, payments made to vendors or subrecipients should be based on approved agreements effective for the current year.

Condition:

During our tests of food suppliers and subrecipients, we noted the following:

1. The agreement authorizing purchases of foods through the Department of Defense (DOD) (Defense Logistics) expired on June 30, 1999. The agreement allowed for an extension, but only by mutual agreement of GPSS; U.S. Department of Agriculture, Food and Nutrition Service; and Defense Logistics. No such mutual agreement was provided, and GPSS paid the vendor \$1,177,204 in FY 2006 under the expired agreement.
2. The agreement with Department of Youth Affairs (DYA) expired on September 30, 2000; however, GPSS paid the subrecipient \$113,055 in FY 2006 under the expired agreement.

Cause:

There appears to be a lack of internal controls over ensuring that payments made to vendors or subrecipients are based on approved agreements effective for the current year.

Effect:

GPSS is in noncompliance with allowable costs/cost principles requirements. No questioned costs are presented at this finding as the payments to Defense Logistics were to the Federal Government, and the payments to DYA are already questioned at Finding 06-01.

Recommendation:

The Program Administrator should establish and implement internal controls to ensure that prior to incurring expenditures, all agreements with vendors and subrecipients are effective for the current year.

Auditee Response and Corrective Action Plan:

State Agency Response: GPSS concurs with the recommendation. Agreements with all sponsors, Department of Defense (Defense Logistics) and Department of Youth Affairs were updated but could not be located.

Actions/Solutions:

The Program Administrator will establish and implement internal controls to ensure that prior to incurring expenditures, all agreements with vendors and sub-recipients are effective for the current year. Corrective Action has taken place.

Party responsible for the implementation: State Program Administrator

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-03
CFDA Program: 10.553/10.555 Child Nutrition Cluster
Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Special Tests and Provision
Questioned Cost: \$0

Criteria:

In accordance with applicable special tests and provisions requirements, by December 15 of each school year, the school food authority (SFA) (or State in certain cases) must verify the current eligibility of households selected from a sample of applications that it has approved for free and reduced price meals.

Condition:

In FY 2006, the SFA did not perform verifications of current free and reduced price eligibility.

Cause:

There appears to be a lack of internal controls over ensuring compliance with special tests and provisions relative to the verification of eligibility applications by the SFA.

Effect:

GPSS is in noncompliance with applicable special tests and provisions requirements. Based on our examination of case files, all students tested were determined eligible; therefore, no questioned cost results from this condition. However, it appears the required verification system has not been implemented; therefore, the finding is considered reportable.

Recommendation:

The Program Administrator should establish and implement internal controls to ensure compliance with special tests and provisions requirements relative to verifications of eligibility.

Auditee Response and Corrective Action Plan:

State Agency Response: GPSS concurs with the recommendation. The verification of eligibility of households free and reduced-price meal applications has always been verified by the each school site. During previous years the Food and Nutrition Services Staff functioned both as State Agency and Local School Food Authority Administration.

Actions/Solutions:

The Program Administrator will establish and implement internal controls to ensure compliance with special tests and provisions requirements relative to verification of eligibility.

Party responsible for the implementation: School Food Authority Administration

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-04
CFDA Program: 84.027 Special Education – Grants to States
Agency: U.S. Department of Education
Grant Number: H027A050004A
Area: Allowable Costs/Cost Principles
Questioned Costs: \$681

Criteria:

In accordance with applicable allowable costs/cost principles requirements, each employee should be paid at the approved pay rate. Any overpayments should not be charged to the Federal program.

Condition:

For one (or 1%) of 168 payroll transactions tested, aggregating \$166,528, the employee was overpaid with Federal funds from 10/03/05 to 03/03/06, totaling \$1,382, as follows:

Employee: MJM
Employee #: 2300

Actual rate during the period:	\$ 23.64
Approved salary during the period:	<u>22.07</u>
Rate difference	1.57
Total hours from 10/03/05-03/03/06	<u>880</u>
Amount overpaid	\$ <u>1,382</u>

Per agreement with the employee, a payroll deduction of \$50 per pay period was in effect from PPE 04/15/06 to PPE 03/17/07 and a \$31 payroll deduction on PPE 04/14/07. Of the overpaid amount, \$681 remains unpaid as of 9/30/06.

Cause:

There appear to be weak internal controls over ensuring that personnel are paid according to approved rates and that overpayments are immediately repaid to the Federal program.

Effect:

GPSS is in noncompliance with applicable allowable costs/cost principles requirements. A questioned cost of \$681 exists. Although the known questioned cost is less than \$10,000, the projected questioned cost exceeds the threshold. Therefore, the finding is reportable.

Recommendation:

The Guam Public School System should immediately return the uncollected overpayment amount to the Federal program. Furthermore, the program Administrator should establish and implement internal controls to ensure that personnel costs charged to the program are at approved pay rates and that any overpayments should be immediately credited to the Federal program.

Auditee Response and Corrective Action Plan:

Special Education concurs with the finding. The employee has a scheduled reimbursement plan to return the overpayment dated 4/12/06. The Business Office has established and implemented procedures to ensure that personnel costs charged to the program are at approved rates.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-05
 CFDA Program: 84.027 Special Education – Grants to States
 Agency: U.S. Department of Education
 Area: Cash Management
 Questioned Costs: \$0
 Interest Liability: \$76

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 clearing date of the disbursed check should be minimized to an average clearance pattern of one day. Any amount of interest from advances over \$100 should be returned to the federal government.

Condition:

For 5 (or 31%) of 16 samples tested, the time elapsed between the receipt of federal funds and the date the check cleared the bank was greater than the allowable 1 day, as follows:

Grant Award Number	Check #	Transaction		Check Clearing Date	Reimbursement Date	Days Lapsed
		Amt	Check Date			Passed Allowable 1 day
H027A050002A	266223	20,456	04/13/06	05/17/06	04/10/06	36
H027A050002A	266215	12,420	04/13/06	05/05/06	04/10/06	24
H027A050002A	263839	10,000	01/13/06	02/03/06	01/12/06	20
H027A050004A	264498	3,166	02/15/06	02/23/06	02/10/06	12
H027A050002A	267488	21,638	06/20/06	06/28/06	06/21/06	6

Cause:

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

Effect:

The Guam Public School System is in noncompliance with cash management requirements. The interest liability in excess of the \$100 threshold is \$76. However, no questioned costs result from the condition as the projected interest liability calculated is less than the threshold of \$10,000.

Recommendation:

The Program Administrator should strengthen internal controls to ensure that a minimal amount of time lapses between the reimbursement date and the actual check clearing date in accordance with applicable cash management requirements and the Treasury-State Agreement.

Auditee Response and Corrective Action Plan:

The Business Office implemented an Automated Clearing House (ACH) payment to meet the minimal amount of time that exists between the reimbursement date and the actual payment (check) clearing date. Implementation began on February 19, 2007 and first payments were made to vendors on February 22, 2007.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-06
 CFDA Program: 84.922 Consolidated Grants
 Agency: U.S. Department of Education
 Area: Procurement
 Questioned Costs: \$107,499

Criteria:

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

Condition:

- For 1 (or 4%) of 23 transactions tested, we noted no documented rationale for utilization of an intergovernmental formal contract. The Department of Public Works was hired to perform this service without consideration of the cost of contracting a non-governmental vendor for the following:

<u>Grant Award</u>	<u>Vendor #</u>	<u>PO #</u>	<u>Invoice #</u>	<u>Check #</u>	<u>Amount Sampled</u>	<u>Total Expenditures</u>	<u>Questioned Cost</u>
S922A040002	30005	200510032	BO 05-056	262627	\$18,000	\$101,055	\$ 101,055

- For 4 (or 17%) of 23 transactions tested, we noted no documented rationale for the utilization of sole source procurement for the following:

<u>Grant Award</u>	<u>Vendor #</u>	<u>PO #</u>	<u>Invoice #</u>	<u>Check #</u>	<u>Amount Sampled</u>	<u>Total Expenditures</u>	<u>Questioned Cost</u>
S922A040002	21649	200505800	21649	263931	\$ 6,240	\$ 6,444	\$ 6,444
S922A040002	21410	200600563	21410	264694	2,950	3,573	
S922A050002	20626	200600979	20626	266139	2,592	3,333	
S922A040002	32599	200610010	38478	264126	10,642	10,642	

Cause:

There appears to be weak internal controls over documenting the rationale for using such procurement methods as intergovernmental formal contracts and sole source.

Effect:

The Guam Public School System is in noncompliance with applicable procurement requirements. A questioned cost of \$107,499 exists for check numbers 262627 and 263931 above.

For check numbers 264694, 266139, and 264126 above, the Guam Public School System is in noncompliance with applicable procurement requirements. However, no questioned costs result from the above items as alternative documentation exists to substantiate the reason for the procurement. The transactions above primarily relate to the acquisition of textbooks, which is not supported by a curriculum committee determination, the direct reimbursement of costs incurred for personnel services, or the actual wage cost for personnel utilized from another GovGuam department. However, absence of adequate sole source documentation and documentation supporting the basis of the payment can lead to questioned costs.

Recommendation:

The Guam Public School System should strengthen internal control procedures to ensure that all applicable procurement policies are enforced.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-06, Continued
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Area: Procurement
Questioned Costs: \$107,499

Auditee Response and Corrective Action Plan:

GPSS is currently seeking legal counsel on this finding. Pursuant to GCA 5 (Government Operations), Subsection 5004 (Procurement Law), (B) (Territorial Procurement) GPSS can award a contract within Government body without open and fair competition.

Auditor Response:

Chapter 5, Guam Procurement Law, Section 5210, Methods of Source Selection, states as follows:

Unless otherwise authorized by law, all territorial contracts shall be awarded by competitive sealed bidding, except for the procurement of professional services, and except as provided in Section 5213 Small Purchases, Section 5214 Sole Source Procurement, Section 5215 Emergency Procurement, Section 5216 Competitive Selection Procedures for Services Specified in Section 5121 (i.e., services of accountants, physicians, lawyers, dentists, and other professionals), and Section 5217 Procurement from Nonprofit Corporations.

GCA 5, Subsection 5004 (b) Application to Territorial Procurement, states as follows:

This Chapter shall apply to every expenditure of public funds irrespective of their source, including federal assistance funds except as otherwise specified in Section 5501 of this Chapter, by the Territory, acting through a governmental body as defined herein, under any contract, except that this Chapter shall not apply to either grants or contracts between the Territory and another government. Nothing in this Chapter or in regulations promulgated hereunder shall prevent any governmental body or political subdivision from complying with the terms and conditions of any grant, gift, bequest, or cooperative agreement.

Furthermore, Section 5501, Federal Funds, states as follows:

Where a procurement involves the expenditure of federal assistance or contract funds, or other federal funds as defined by Section 20 of the Organic Act of Guam, all persons within the government of Guam shall comply with such federal law and regulations which are applicable and which may be in conflict with or may not be reflected in this Chapter.

Based on our reading of this Chapter, open and fair competition, or a written rationale for sole source procurement, is required for the transactions cited in Conditions 1 and 2. Therefore, this finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-07
 CFDA Program: 84.922 Consolidated Grants
 Agency: U.S. Department of Education
 Area: Cash Management
 Questioned Costs: \$0
 Interest Liability: \$3,812

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 clearing of the applicable check should be minimized. For Guam, the approved clearance pattern is 1 day. Any amount of interest from advancements over \$100 should be returned to the federal government.

Condition:

For 24 (or 27%) of 89 transactions tested, we noted the time elapsed between the receipt of the Federal Funds and the date the check cleared the bank was greater than the allowable 1 day. Furthermore, the Guam Public School System had interest from advances of \$284 of which \$184 should be returned to the Federal Government.

Grant Award Number	Check #	Transaction Amount	Check Date	Check Clearing Date	Reimbursement Date	Days Lapsed Passed Allowable 1 day
S922A040002	263931	\$ 6,240	01/13/06	01/31/06	01/12/06	18
S922A040002	264126	\$ 10,642	01/20/06	03/08/06	01/12/06	54
S922A040002	264137	\$ 21,446	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 21,281	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 18,147	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 17,597	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 13,940	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 30,708	01/20/06	03/07/06	01/12/06	53
S922A040002	264137	\$ 20,298	01/20/06	03/07/06	01/12/06	53
S922A040002	264694	\$ 2,950	03/01/06	03/20/06	02/27/06	22
S922A050002	264790	\$ 10,760	03/01/06	03/17/06	02/27/06	17
S922A050002	266139	\$ 2,592	03/31/06	04/28/06	03/20/06	38
S922A050002	266199	\$ 43,000	04/13/06	04/17/06	04/10/06	6
S922A050002	266199	\$ 27,950	04/13/06	04/17/06	04/10/06	6
S922A050002	266232	\$240,906	04/13/06	05/01/06	04/10/06	20
S922A050002	266816	\$ 3,910	05/05/06	05/11/06	05/08/06	2
S922A050002	267279	\$ 19,620	06/04/06	06/06/06	05/24/06	12
S922A050002	267475	\$ 73,962	06/20/06	07/07/06	06/21/06	15
S922A050002	267475	\$ 32,456	06/20/06	07/07/06	06/21/06	15
S922A050002	267475	\$ 29,781	06/20/06	07/07/06	06/21/06	15
S922A050002	267475	\$ 29,055	06/20/06	07/07/06	06/21/06	15
S922A050002	267662	\$ 20,596	06/30/06	07/07/06	07/03/06	3
S922A050002	267676	\$ 37,579	06/30/06	07/10/06	07/03/06	6
S922A050002	268841	\$240,906	09/08/06	09/25/06	08/02/06	53

Cause:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.:	06-07, Continued
CFDA Program:	84.922 Consolidated Grants
Agency:	U.S. Department of Education
Area:	Cash Management
Questioned Costs:	\$0
Interest Liability	\$3,812

Effect:

The Guam Public School System is in noncompliance with cash management requirements. The interest liability in excess of the \$100 threshold is \$3,812; however, no questioned costs result from the condition as the projected interest liability calculated is less than the threshold of \$10,000.

Recommendation:

The Guam Public School System should ensure that a minimal amount of time exists between the reimbursement date and the actual check clearing date in accordance with applicable cash management requirements and the Treasury-State Agreement. Also, the responsible personnel should consider coordinating with the Treasurer of Guam to participate in the development of the proposed clearance pattern annually.

Auditee Response and Corrective Action Plan:

The U.S. DOE has accepted GPSS' response to prior audit findings similar to this audit finding and no further action is required (U.S. DOE letter dated 09/18/06).

The Business Office implemented an Automated Clearing House (ACH) payment to meet the minimal amount of time that exists between the reimbursement date and the actual payment (check) clearing date. Implementation began on February 19, 2007 and first payments were made to vendors on February 22, 2007.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 06-08
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A040002
Area: Subrecipient Monitoring
Questioned Costs: \$0

Criteria:

In accordance with applicable subrecipient monitoring requirements, a pass-through entity is responsible for (1) identifying to the subrecipient the Federal award information, (2) monitoring the subrecipient's use of Federal awards, (3) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133, and (4) evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition:

During FY 2006, GPSS performed site visits, which consisted of monitoring for compliance with performance goals. However, there were no indications that GPSS performed the required monitoring of the subrecipient's use of Federal awards through such financial monitoring activities as reviewing financial reports submitted by the subrecipient, or reviewing financial records at the subrecipient's site.

Cause:

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

Effect:

GPSS is in noncompliance with applicable subrecipient monitoring activities.

Recommendation:

The Program Administrator should expand monitoring activities to include reviews of the subrecipient's financial reports and underlying financial records to ensure compliance with applicable subrecipient monitoring activities.

Auditee Response and Corrective Action Plan:

The Program Monitor conducted the monitoring visits between May 22 to 25, 2006 for the Technology Education (\$215,502 grant amount) and Integrating Science and Allied Health (ISAAH) Programs (\$21,300 grant amount).

The Technology Education Program is comprised of the Automotive Technology, Construction Technology, Electronics Technology, Marketing, Tourism and Visual Communications Programs. The ISAAH Program is also known as the Nursing Assistant Program.

During the monitoring visits the Career/Technical Education Counselor escorted the Program Monitor to the various classrooms. Program teachers were interviewed and provided copies of the national standards of their respective programs and/or property inventory to the Program Monitor. All activities were conducted to determine if the sub recipient was adhering to the parameters of the project applications and also if performance goals were being achieved for the programs. The Program Monitor took digital pictures as well as documenting the site visits. These are available on file, if required.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-08, Continued
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A040002
Area: Subrecipient Monitoring
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Overall, the Program Monitor provided a satisfactory account of the classrooms observed. Teachers were actively engaged in presenting their lessons plans for the day and circulating among students to provide individual student help. Students were on task with work assigned. There is a high amount of interest in having all of the six programs and/or more sections of the career/technical education classes. Program teachers have turned away students to comply with safety regulations.

Program monitoring Guides are also submitted for Technology Education and the ISAAH Programs. This monitoring activity of financial records was conducted with the Project Director at the Guam Community College campus of the two programs.

We hope all the attached satisfy the monitoring concerns and returns this sub recipient to compliance status.

Auditor Response:

Evidence of financial monitoring activities has not been provided; therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-09
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A050002
Area: Allowable Costs/Cost Principles
Questioned Costs: \$24,449

Criteria:

In accordance with applicable allowable costs/cost principles requirements, compensation should be reasonable for the services rendered and should conform to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities. Furthermore, each employee should be paid at the approved pay rate.

Condition:

Of 224 payroll transactions tested, aggregating \$260,464, we noted the following:

1. For one transaction, an employee was paid \$2,000 as a one-time-only incentive, pursuant to Guam Public Law 26-167 and Guam Educational Policy Board (GEPB) Policy No. 377, Section 3b. The public law authorizes the Guam Education Policy Board (GEPB) to establish the criteria, rules and regulations for a "Bonuses, Rewards and Incentives Program." According to the established GEPB policy, a one-time, \$2,000 incentive is to be paid to employees who are new to the profession and who graduated from an accredited college or university with a grade point average of 3.5 or higher. Apparently, the incentive was not for services rendered under the Program.

Furthermore, we considered whether the established policy was consistently applied to both Federal and non-Federal funds. Using audit interrogation software, we performed a query of the FY 2006 labor cost reports for all payments to all employees in the amount of \$2,000. The resulting list showed a total of twelve employees, all of whose incentive pay was charged 100% to this Federal program, totaling \$24,000 for FY 2006. No employee was paid the incentive from local funds. In fact, GPSS has acknowledged that the personnel documentation for these twelve employees indicate they were hired under local accounts; however, their incentive pay was charged to the federal account. No prior grantor approval is evident for such inconsistent treatment. Therefore, it appears the total incentive pay of \$24,000 is unallowable.

2. For one transaction, an employee under the Nite School, Eskuelan Puengi Program, was overpaid, and such overpayment was charged to the Federal program, as follows:

Employee: GCM
Employee #: 4907

Incorrect pay rate used:	\$ 23.64
Correct pay rate:	<u>19.90</u>
Difference	\$ 3.74
Total hours (20 hrs/pay period over 6 pay periods)	<u>120</u>
Amount overpaid	\$ <u>449</u>

Cause:

There appear to be weak internal controls over ensuring that policies over personnel costs are applied consistently to both Federal and non-Federal employees, that personnel are paid according to approved rates, and that any overpayments are immediately repaid to the Federal program.

Effect:

GPSS is in noncompliance with applicable allowable costs/cost principles requirements. A questioned cost of \$24,449 exists.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.:	06-09, Continued
CFDA Program:	84.922 Consolidated Grants
Agency:	U.S. Department of Education
Grant Number:	S922A050002
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$24,449

Recommendation:

The Guam Public School System should immediately return the uncollected overpayment amount to the Federal program. Furthermore, the program Administrator should establish and implement internal controls to ensure that policies over personnel costs are applied consistently to both Federal and non-Federal employees, that personnel are paid according to approved rates, and that any overpayments are immediately credited to the Federal program.

Auditee Response and Corrective Action Plan:

[Condition 2]

We concur with the audit finding and that an error was made within Payroll Division. Through the CAP (Corrective Action Plan), a monitoring mechanism will ensure that all overpayments are immediately credited to the Federal Program.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 06-10
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A050002
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

In accordance with applicable allowable costs/cost principles requirements, funds are to be used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; funds to be received are spent only for reasonable and necessary costs of the program; and funds are not to be used for general expenses required to carry out other responsibilities of State or local governments.

Condition:

On or around January 13, 2006, the Guam Education Policy Board (GEPB) decided to remove the second block of the Direct Instruction (DI) Program from all the public schools without consulting with the Federal Awarding Agency. The DI Program consisted of 4.5 hours of instruction per day, and the second Reading block consisted of one hour of the 4.5 hours of total DI. Therefore, the amount of hours removed, as a percentage of the total DI Program, approximates 22%. The remaining 3.5 hours of DI Program continued throughout the schools. Of the 24 elementary schools that taught the second Reading block, 23 ceased and one continued.

A DI instructor is entitled to as much as \$1,500 during a school year, divided among three increments, provided that the instructor did not miss any class or training day. A DI assistant is paid on an hourly basis, based on actual hours worked. A DI coordinator is not affected by the removal of the second Reading block as other DI classes were still being taught.

We conducted interviews with three DI coordinators and 25 DI teacher assistants. Based on our interviews with the DI teacher assistants from four different schools, DI teacher assistants for the kindergarten grade level indicated that the 2nd Reading block was continued. DI teacher assistants for grade levels 1st through 5th indicated that the 2nd Reading block was ceased, and that during the time the 2nd Reading block was supposed to have been instructed, most of them were released. Some of the DI teacher assistants were asked to assist with the kindergarten grade level if needed. In general, all interviewees indicated that they were paid only for actual hours worked as a DI teacher assistant.

In addition to the interviews, we tested 27 payroll transactions related to the DI program. Based on those payroll tests, we noted that the tested DI teacher assistants were paid for actual hours worked under the DI program. DI instructors, however, were paid the full compensation bonus that would have been paid if DI were implemented for the full 4.5 hours per day.

After realizing the possible effects of the removal of the second Reading block, the GEPB reinstated the second Reading block on or around April 17, 2006. GPSS decided to reimburse Federal funds paid to teachers as bonuses. On July 2006, an amount of \$43,794 was determined to be the amount of overpayment paid to DI instructors as bonuses, which was returned to the Federal account through the following journal entry #610:

Debit general fund account 11.06.12.00.29.0111.0000	\$ 43,794
Credit Federal account 22.05.12.00.10.0111.8202	\$ (43,794)

The amount was calculated by the GPSS accounting for all DI instructors, DI classes and training, and absences throughout the school year, and then multiplying that total by 22%, which was the time lost. We recalculated the amount and concluded that the calculation appears to represent a reasonable estimate of the amount to be refunded.

At the end of fiscal year 2006, total DI expenditures amounted to \$10,657,613.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-10, Continued
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A050002
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Cause:

The GEPB's decision to remove the second Reading block was due to community concerns that the DI Program left little instruction time for other subjects.

Effect:

GPSS was in noncompliance with applicable allowable costs requirements.

Recommendation:

The GEPB should obtain Federal Awarding Agency's approval prior to implementing changes that could impact program objectives and jeopardize Federal funding.

Auditor Response:

GPSS has addressed this issue directly with U.S. Department of Education; therefore, a response from GPSS is not necessary.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-11
CFDA Program: 84.922 Consolidated Grants
Agency: U.S. Department of Education
Grant Number: S922A050002
Area: Program Income
Questioned Costs: \$0

Criteria:

In accordance with applicable program income requirements, income generated by a grant-supported activity should be duly accounted for and be reported to the federal agency.

Condition:

GPSS administers an after-hours program entitled "DEED". The Consolidated Grant funds the salaries of DEED teachers. DEED charges each student \$75 for the program. These funds are deposited into the applicable elementary school NAF (Non-Appropriated Funds) and are used to defray various program costs pursuant to guidelines established by GPSS. It is estimated that approximately \$392,501 in fees were generated from this program during the year ended September 30, 2006.

In a program determination letter dated March 31, 2006, the grantor agency required GPSS to compute the proportionate share of fees from the DEED program that constituted program income and to accord the calculated program income the proper treatment. During FY 2006, GPSS did not perform the required computation and did not accord program income proper treatment.

Cause:

There appears to be weak internal controls over ensuring compliance with applicable program income requirements.

Effect:

GPSS is in noncompliance with applicable program income requirements. No questioned cost is presented at this finding, as we are unable to quantify the dollar amount of the noncompliance.

Recommendation:

GPSS should establish and implement internal controls in accordance with applicable program income requirements. The responsible personnel should compute the proportionate share of fees from the DEED program that constitute program income and accord the calculated program income the proper treatment as required by the grantor.

Auditee Response and Corrective Action Plan:

In November 2006, the Chief Financial Officer implemented procedures to account for DEED program income in the financial management system.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-12
CFDA Program: 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 be reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition:

GPSS provided a property inventory listing based on a physical inventory completed by December 6, 2005. However, it appears that such physical inventory was not comprehensive. The listing provided us indicates that the following GPSS schools/divisions lacked data, as follows:

<u>Number</u>	<u>School/Division</u>	<u>Reported Comment</u>
3004	CL TAITANO	"No Data on the file"
3009	INARAJAN	"no amounts on file"
3027	MACHANANAO	"Data unreadable"
1600	F.S.A.I.S.	"None submitted"
1900	Learning Resources Center	"None submitted"
2200	Business Office	"None submitted"
2800	Supply Management Office	"no amounts on file"
4000	Secondary	"no amounts on file"
4100	Vocational Education	"None submitted"

Furthermore, the property inventory listings provided us contain numerous items for which no acquisition cost or supporting purchase order is identified. Therefore, it appears a reconciliation to equipment records was incomplete.

Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with equipment management requirements in FY 2006.

Effect:

GPSS is in noncompliance with applicable equipment and real property management requirements for FY 2006. 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:

The responsible personnel should develop a property management system that complies with equipment and property management requirements.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 06-12, Continued
CFDA Program: All major programs
Requirement: Equipment Management
Questioned Costs: \$0

Auditee Response and Corrective Action:

Improvements were initiated during and especially the latter part of FY 2006. These improvements are included in the following chronological order:

1. Training was conducted April 10 thru 17, 2006 at each school site.
2. Change of supervision was initiated from the Deputy Comptroller to and Accountant III over the Property Management Office. Another change of supervision continued to another Accountant III.
3. A permanent Inventory Management Officer was selected. Two (2) additional Property Control Officers were hired.
4. Designation of Property Control Officers and Alternates were in place.
5. Property Control Officers are given userid/password; however, the Property Management Office has yet to be connected to the AS400 system.
6. There was a big push to develop and update the SOP for Fixed Assets. At that point a draft SOP was developed and was under the review of numerous offices, i.e., Property & Warehouse-Procurement, Internal Audit, to include the Comptroller, Chief Financial Officer and Chairman for the CCB, to name a few. As a result of these efforts, the Superintendent of Education approved a revised Fixed Assets Management System Standard Operating System (SOP) in mid-October 2006.
7. In compliance with the updated SOP, there were numerous trainings conducted in November 2006 to all schools & divisions' designated property liaison. Follow up school site visits were initiated to personally distribute and load up the approved SOP into each of the school property liaisons' computers, and to clarify any questions that were raised, if any. In light of these improvements, the schools/divisions are now submitting their Annual Wall-to-Wall Physical Inventories, which are currently under review by the Property Management Office. Note: Emphasis now is placed on a centralized receiving area for delivery, tagging and disposal of government property.
8. The Pilot Project with LP Untalan School for an automated fixed asset system is still on-going and is by far from completion for implementation. The individual assigned is unable to complete this project for he's inundated with other administrative/logistical tasks.
9. Implementation for an automated fixed assets system with the AS400 mainframe is also still on-going. A proposed contract is currently under a bidding process and is expected to close within this week. The proposal requires performance in a conversion of data within the AS400 transaction ledgers into the fixed assets inventory system. The proposal also included staff training as well.

A comprehensive listing was provided on 04/16/07.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-13
Area: Procurement

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 139 locally funded transactions tested, we noted the following:

- 1) For 5 (or 4%), there is no procurement documentation on file for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
266467	04/17/06	10160	200600002	\$ 587
264138	01/20/06	10643	200506974	854
262662	11/03/05	11374	200505278	33,802
263836	01/13/06	11580	200600321	1,102
263836	01/13/06	11580	200600355	1,850
TOTAL				<u>\$ 38,195</u>

- 2) For 5 (or 4%), 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>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
266453	04/14/06	10613	200601064	\$ 35,479
263890	01/13/06	10578	200503279	44,870
264113	01/20/06	10578	200503279	49,063
268618	08/30/06	10578	200600671	11,700
264565	02/16/06	11008	200600198	1,201
TOTAL				<u>\$ 142,313</u>

- 3) For 1 (or 1%), there was no documented determination or rationale for the selection of the vendor for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
263535	12/30/05	40341	200610073	\$ 1,120

- 4) For 2 (or 1%), 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>
264552	02/16/06	10578	200600342	\$ 3,115
268618	08/30/06	10578	200600748	28,600
TOTAL				<u>\$ 31,715</u>

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-13, Continued
Area: Procurement

Condition, Continued:

- 5) In the prior year, purchase order 200500210 was cited for noncompliance with procurement requirements because 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. In the current year, we noted that expenditures were incurred against that noncompliant purchase order, as follows:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Transaction Amount</u>
262713	10/25/05	10613	200500210	\$ 35,169
262713	10/25/05	10613	200500210	34,065
262713	10/25/05	10613	200500210	20,028

Cause:

The Administrator Supply Management did not enforce established procurement regulations.

Effect:

GPSS is in noncompliance with the Guam Public School System Procurement Regulations.

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:

Procurement documents are on file at the GPSS Procurement Office for the following:

[Condition 1:]

Procurement documents are on file at the GPSS Procurement Office for the following:

P.O. 200506974---FBE 001-2005

The following purchase orders that were issued under a DPW contract for air conditioning repairs as per Public Law 26-128. Contract Files are at DPW:

P.O. 200505278

P.O. 200600321

P.O. 200600355

Purchase Order 20060002, the documents are at Procurement, this purchase order is for advertising IFB's and RFP's at the Pacific Daily News.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 06-13, Continued
Area: Procurement

Auditee Response and Corrective Action, Continued:

[Condition 2:]

Purchase Order 200601064, IFB 010-2003, I do agree on the findings. This was during the time Mr. Albert Garcia was the Acting Supply Administrator. [The Administrator, Supply/Procurement has] issued a memorandum on May 4, 2006 to all Procurement personnel on this matter. [The Administrator, Supply/Procurement has] will ensure that this will not happen again.

[Condition 3:]

Purchase Order 200610073, I do not agree in the findings, this purchase order is for stipend payment for Monessa Tainatongo. There is no need for vendor selection.

Processing the P.O.s for Coaches of Assistant Coaches would follow the Procurement procedures, however, the selection of the Coaches or Assistant Coaches would not follow the Procurement procedure. The Interscholastic Sports Program Office has developed a selection process and is willing to provide D&T the documentation for P.O. 200610073.

[Condition 4:]

Purchase Order 200600342 and 200600748, IFB 009-2005, I do not agree, competitive sealed bidding was used for solicitation. Contract Files are at the Procurement Office to ensure compliance.

[Condition 5:]

Purchase Order 200500210, FBE 010-2003, I do agree. This contract was issued during the time Nerissa Bretania Shafer was Interim Superintendent and Albert Garcia was the Acting Supply Administrator, the 15 working days between the issuance of the RFP and specified opening date pursuant to GPSSPR Section 3.9.4 was not utilized. A memorandum to all Procurement personnel was issued on May 4, 2006 on this matter.

Auditor Response:

For Condition 1, for Purchase Orders 200506974 and 20060002, the procurement folders provided do not contain sufficient procurement documentation (i.e. request for quotation and vendor bid abstract). Therefore, the finding remains.

For Condition 3, the transaction was for services of an Assistant Coach for the Interscholastic Sports Program. Procurement procedures would apply to the selection of the assistant coach. We have not been provided the selection documentation; therefore, the finding remains.

For Condition 4, no procurement documents were provided showing that competitive sealed bidding was utilized. Therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-14
Area: General Ledger

Criteria:

Current year general ledger beginning balances should reflect the prior year audited ending balances.

Condition:

Prior year audited ending balances are not reflected in the current year general ledger beginning balances.

Cause:

There appears to be a lack of internal controls over ensuring that the approved 2005 audit adjustments are recorded in the general ledger and that the books are properly closed in a timely manner after the end of the fiscal year.

Effect:

General ledger balances are misstated. However, during the audit process, GPSS reconciled general ledger balances.

Recommendation:

The Chief Financial Officer should establish and implement internal controls to ensure that approved audit adjustments are recorded in the general ledger and that the books are properly closed in a timely manner after the end of the fiscal year.

Auditee Response and Corrective Action Plan:

GPSS concurs with the finding. The Comptroller has designated the Assistant Comptroller as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the General Accounting Supervisor who was assigned to perform the reconciliation resigned. The accounting office will again be understaffed with the recent resignation of the CFO, resignation of an Accountant, and retirement of an Accountant and an Accounting Tech Supervisor. The Comptroller is requesting for recruitment of Accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period and full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No: 06-15
Area: Cash

Criteria:

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

Condition:

Monthly bank reconciliations were not prepared timely in FY 2006. Furthermore, the monthly bank reconciliations show calculations for an adjusted bank balance; however, there are no calculations for any book balance. We noted the following variances:

<u>Account Number</u>	<u>Preliminary Adjusted Book Balance</u>	<u>Adjusted Bank Balance</u>	<u>Variance</u>
Fund 11 Account 2000	\$ 21,920,335	\$ 2,513,869	\$ 19,406,466
Fund 11 Account 2001	\$ 24,315,149	\$ 220,027	\$ 24,095,122
Fund 11 Account 2002	\$ 1,297,693	\$ 1,050,332	\$ 247,361
Fund 11 Account 2005	\$ (41,130,575)	\$ (30,224,801)	\$ (10,905,774)
Fund 11 Account 2010	\$ (33,755,457)	\$ 1,936,009	\$ (35,691,466)
Fund 11 Account 2011	\$ 124,900	\$ 97,117	\$ 27,783
Fund 15 Account 2007	\$ 427,897	\$ 688,078	\$ (260,181)
Fund 26 Account 2004	\$ 237,757	\$ 272,311	\$ (34,554)
Fund 27 Account 2008	\$ 182,509	\$ 0	\$ 182,509
Fund 60 Account 2006	\$ 20,979	\$ 0	\$ 20,979

Cause:

GPSS management has not enforced internal controls over ensuring that monthly bank reconciliations are prepared timely and completely.

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 cash balances.

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 monthly bank reconciliations are prepared timely and completely. The Chief Financial Officer should designate a well-trained Business Office employee to be responsible for preparing monthly bank reconciliations timely and completely. 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:

GPSS Business Office conducts its monthly bank reconciliations timely and completely. Pursuant to Financial Management System User's Guide, Chapter 9 Working with Cash Disbursements, the Accountant who performs the reconciliation according to the steps outlined in the User's Guide. The steps include 1) the system to compare the information found in the bank statement with the information entered into the system, 2) the system to compare the balance in the bank account with the balance in the general ledger, and 3) for journal entries for any bank charges. Although the system does not provide a summary for book balances, the calculations for any book balance are generated internally in the system.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No: 06-16
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	\$ 9,183,050	\$ 0	\$ 9,183,050
A/R Fund 11 – Federal Receivables	\$ 1,235,917	\$ 1,188,316	\$ 47,601
A/R Fund 21	\$ 229,129	\$ 199,252	\$ 29,877
A/R Fund 22	\$ 311,839	\$ 2,209,336	\$ (1,897,497)

Cause:

GPSS management has not enforced internal controls over ensuring that the necessary reconciliations are prepared.

Effect:

Accounts receivable balances could be misstated. However, during the audit process, GPSS reconciled receivable balances.

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:

GPSS concurs with the finding. The Comptroller has designated the Assistant Comptroller as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the General Accounting Supervisor who was assigned to perform the reconciliation resigned. The accounting office will again be understaffed with the recent resignation of the CFO, resignation of an Accountant, and retirement of an Accountant and an Accounting Tech Supervisor. The Comptroller is requesting for recruitment of Accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period and full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-17
Area: Liabilities

Criteria:

Liability account balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Liability account 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>
Accounts Payable	\$ 964,590	\$ 13,825,605	\$ (12,861,015)
Fund 15 – Due to Federal Agencies	\$ 1,750,797	\$ 1,703,114	\$ 47,683
Fund 21 – Due to Federal Agencies	\$ 740,672	\$ 773,349	\$ (32,677)
Fund 22 – Due to Federal Agencies	\$ 1,347,749	\$ 473,646	\$ 874,103
Accrued Expenses	\$ 5,382,121	\$ 0	\$ 5,382,121
Accrued Annual Leave	\$ 6,332,152	\$ 6,767,690	\$ (435,538)
Installment payment agreement to GPA	\$ 13,666,599	\$ 0	\$ 13,666,599

Cause:

GPSS management has not enforced internal controls over ensuring that the necessary reconciliations are prepared.

Effect:

Liability account balances could be misstated. However, during the audit process, GPSS reconciled liability account balances.

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 reconciliations of liability accounts on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

GPSS concurs with the finding. The Comptroller has designated the Assistant Comptroller as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the General Accounting Supervisor who was assigned to perform the reconciliation resigned. The accounting office will again be understaffed with the recent resignation of the CFO, resignation of an Accountant, and retirement of an Accountant and an Accounting Tech Supervisor. The Comptroller is requesting for recruitment of Accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period and full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-18
Area: Encumbrances

Criteria:

Encumbrance balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Encumbrance 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>
Encumbrances	\$0	\$ 8,975,264	\$(8,975,264)

Cause:

GPSS management has not enforced internal controls over ensuring that the necessary reconciliations are prepared.

Effect:

Encumbrance balances could be misstated. However, during the audit process, GPSS reconciled encumbrance balances.

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 reconciliations of encumbrances on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

GPSS concurs with the finding. The Comptroller has designated the Assistant Comptroller as the individual responsible for preparing reconciliations on a monthly basis. Progress was being made in this area, however, the General Accounting Supervisor who was assigned to perform the reconciliation resigned. The accounting office will again be understaffed with the recent resignation of the CFO, resignation of an Accountant, and retirement of an Accountant and an Accounting Tech Supervisor. The Comptroller is requesting for recruitment of Accountants. It is expected that this condition will continue to exist until the accounting office is properly staffed, over a sustained period and full complement of trained accountants.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 06-19
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:

The Guam Public School System continues to evidence issues in accounting for NAF funds in the year ended September 30, 2006. 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 208 transactions approximating \$358,000. Of this sample, 113 items (54%) approximating \$220,000 (or 61% of the dollars tested) did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- Support, such as invoices, is frequently not on file. Additionally, checks are sometimes paid to teachers/administrators who are responsible for paying vendors.
- Payments for entertainment do not indicate the persons and the reasons the entertainment occurred.
- Payments are for general school supplies and maintenance, which again, does not appear consistent with the underlying fund purpose.
- Major acquisitions, such as equipment with a cost of \$8,000, are acquired from individuals without any evidence of competitive procurement.
- 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 or are considered 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 2006 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.

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 conditions may be appropriate, it is evident that corrective action is required as the current process is not effective.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No.: 06-19, Continued
Area: Non-Appropriated Fund

Recommendation, Continued:

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, 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 organizations, such as parent teacher organizations (PTO's).

Additionally, at a minimum, we believe that the Policy Board should attempt to ensure that the Internal Audit Department is adequately staffed to audit each of these funds on a periodic basis. For example, high schools should be subject to annual audits, middle schools subjected to audits every eighteen months and grade schools be subjected to audits on a biennial basis at a minimum. We do not currently believe that the Internal Audit Department has been provided sufficient staff to adequately monitor the NAF and if improvements are to occur, a regular, recurring audit program must be initiated.

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 Prior Findings
Year Ended September 30, 2006

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	2006	2005	2004	2003	2002	2001	2000	1999	1998	Total
10.553/ 10.555	Child Nutrition Cluster	USDA	\$ 113,055	\$ 383,533	\$ 126	\$ 596	\$ -	\$ 194,468	\$ 66,125	\$ 132,034	\$ -	\$ 889,937
12.110	State Planning Assistance	DOD	-	-	-	-	-	-	-	-	205,357	205,357
15.875	DOI	DOI	-	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	ED	108,180	214,257	217,778	372,544	417,916	77,426	59,481	-	-	1,467,582
84.181	Special Education – Infants and Families with Disabilities	ED	-	-	-	21,738	13,364	-	14,917	-	58,204	108,223
84.922	Consolidated Grants	ED	24,449	-	11,936	-	-	-	-	-	-	36,385
93.600	Head Start	HHS	-	424,288	134,640	6,494	181,337	43,053	101,913	-	18,797	910,522
	Totals		\$ 245,684	\$ 1,433,913	\$ 364,480	\$ 705,419	\$ 612,617	\$ 314,947	\$ 1,891,548	\$ 3,262,256	\$ 1,558,895	\$ 10,389,759