

**GUAM PUBLIC SCHOOL SYSTEM**  
**(A LINE AGENCY OF THE GOVERNMENT OF GUAM'S**  
**GENERAL FUND)**

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**SINGLE AUDIT REPORTS**

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**YEAR ENDED SEPTEMBER 30, 2008**

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

Dr. Nerissa Bretania-Shafer, Ph.D.  
Superintendent of Education  
Guam Public School System:

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, 2008, which collectively comprise GPSS's basic financial statements, and have issued our report thereon dated May 29, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPSS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPSS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 33) as findings 08-08 through 08-10 and 08-12 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

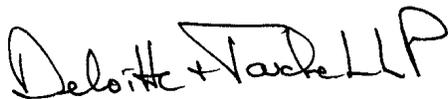
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as finding 08-11.

GPSS's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GPSS's responses and, accordingly, we express no opinion on them.

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 29, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

Dr. Nerissa Bretania-Shafer, Ph.D.  
Superintendent of Education  
Guam Public School System:

### Compliance

We have audited the compliance of the 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, 2008. 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 33). 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 of GPSS's compliance with those requirements.

As described in items 08-03, 08-04, 08-05, 08-07 and 08-08 in the accompanying Schedule of Findings and Questioned Costs, GPSS did not comply with requirements regarding allowable costs/cost principles, and equipment and real property management that are applicable to its CFDA # 84.027 Special Education - Grants to States major program; procurement and suspension and debarment, and equipment and real property management that are applicable to its CFDA # 84.336 Teacher Quality Enhancement Grants major program; procurement and suspension and debarment that is applicable to its CFDA # 84.922 Consolidated Grants major program; and allowable costs/cost principles, and equipment and real property management that are applicable to its CFDA # 93.600 Head Start major program. 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 other major federal programs for the year ended September 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those 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 items 08-01, 08-02 and 08-06.

## 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPSS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as findings 08-01 through 08-08 to be significant deficiencies.

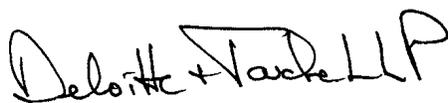
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider findings 08-03, 08-04, 8-05, 08-07 and 08-08 to be material weaknesses.

GPSS's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GPSS's responses and, accordingly, we express no opinion on them.

## 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, 2008, and have issued our report thereon dated May 29, 2009. Our audit was performed for the purpose of forming our 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 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 the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, 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.

  
May 29, 2009

**GUAM PUBLIC SCHOOL SYSTEM**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2008

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>		
Direct:		
National School Lunch Program	10.555	* \$ 8,434,180
State Administrative Expenses for Child Nutrition	10.560	336,821
Commodity Supplemental Food Program	10.565	556,444
Emergency Food Assistance Program (Administrative Costs)	10.568	13,222
Total U.S. Department of Agriculture		<u>\$ 9,340,667</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>		
Direct:		
Army JROTC	12.000	\$ 310,910
Air Force JROTC	12.000	93,392
Total U.S. Department of Defense		<u>\$ 404,302</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Pass-Through Guam Department of Administration:		
Economic, Social, and Political Development of the Territories	15.875	* \$ 6,100,000
Total U.S. Department of the Interior		<u>\$ 6,100,000</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>		
Direct:		
Special Education-Grants to States	84.027	* \$ 15,251,627
Impact Aid	84.041	47,687
Vocational Education: Basic Grants to States	84.048B	139,065
Special Education: Grants for Infants and Families With Disabilities	84.181	1,150,459
Byrd Honors Scholarships	84.185	56,500
Fund for the Improvement of Education (FIE)	84.215	523,548
Freely Associated States-Education Grant Program	84.256	229,749
Teacher Quality Enhancement Grants	84.336	* 1,780,523
Literacy through School Libraries	84.364	5,922
Consolidated Grants	84.922A	* 17,631,363
Total U.S. Department of Education		<u>\$ 36,816,443</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>		
Direct:		
Head Start	93.600	* \$ 2,164,447
Pass-Through Guam Department of Administration:		
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	89,870
Total U.S. Department of Health and Human Services		<u>\$ 2,254,317</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</b>		
Direct:		
Learn and Serve America School and Community Based Programs	94.004	\$ 8,780
Total Corporation for National and Community Service		<u>\$ 8,780</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>		
Pass-Through Guam Department of Administration:		
Public Assistance Grants	83.544	\$ 515,854
Total U.S. Department of Homeland Security		<u>\$ 515,854</u>
Total Federal Awards		<u>\$ 55,440,363</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, 2008

#### 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:

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.

#### 4. CFDA Number 10.555:

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

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Schedule of Expenditures of Federal Awards to  
Basic Financial Statements  
Year Ended September 30, 2008

	Fiscal Year 2008 <u>Expenditures</u>
Federal contributions, as reported in the 2008 financial statements:	
Federal grants assistance fund, expenditures, transfers, and other uses	\$ 109,640,306
Capital lease acquisition	(55,160,750)
<u>CFDA Program</u>	
12.000 Army JROTC	310,910
12.000 Air Force JROTC	93,392
10.565 Commodity Supplemental Food Program	556,444
Unidentified expenditures	<u>61</u>
Total Federal Expenditures Subject to Audit	\$ <u>55,440,363</u>

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2008

**Part I - Summary of Auditors' Results Section**

*Financial Statements*

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued:   | Unqualified   |
| Internal control over financial reporting:  |               |
| 2. Material weakness(es) identified?  | Yes           |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. Noncompliance material to the financial statements noted?                                | Yes           |

*Federal Awards*

Internal control over major programs:

- |   |             |
|---|-------------|
| 5. Material weakness(es) identified?  | Yes         |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness?                               | Yes         |
| 7. Type of auditors' report issued on compliance for major programs:  |             |
| CFDA Program 10.555   | Unqualified |
| CFDA Program 15.875   | Unqualified |
| All other major programs  | Qualified   |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes         |
| 9. GPSS's major programs were as follows:   |             |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster:
10.555	National School Lunch Program
15.875	Economic, Social and Political Development of the Territories
	Special Education Cluster:
84.027	Special Education – Grants to States
84.336	Teacher Quality Enhancement Grants
84.922	Consolidated Grants
93.600	Head Start

- |  |             |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$1,663,211 |
| 11. GPSS qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                       | No          |

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Finding</u>
08-08	Equipment and Real Property Management
08-09	Reconciliations
08-10	Cash
08-11	Local Procurement
08-12	Non-Appropriated Funds

**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>
08-01	10.555	Procurement and suspension and debarment	\$ 3,856	USDA
08-02	84.027	Matching, Level of Effort, Earmarking	\$ 0	ED
08-03	84.027	Allowable Costs/Cost Principles	\$ 0	ED
08-04	84.336	Procurement and suspension and debarment	\$ 0	ED
08-05	84.922	Procurement and suspension and debarment	\$ 0	ED
08-06	93.600	Procurement and suspension and debarment	\$ 0	HHS
08-07	93.600	Allowable Costs/Cost Principles	\$ 0	HHS
08-08	84.027	Equipment and Real Property Management	\$ 0	ED
08-08	84.336	Equipment and Real Property Management	\$ 0	ED
08-08	93.600	Equipment and Real Property Management	\$ 0	HHS
Total Questioned Costs			\$ <u><u>3,856</u></u>	

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-01  
CFDA Program: 10.555 Child Nutrition Cluster  
Federal Agency: U.S. Department of Agriculture  
Grant Number: 7GU300GUB  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$3,856

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of 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 one (or 1%) of 135 transactions tested, no procurement documents, such as request for proposal or bid invitation, analysis of bids, or rationale for the vendor selection, was on file to substantiate the significant history of the following procurement transaction:

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
277587	08/22/08	11711	\$ 1,610	\$ 3,856

Cause:

Procurement requirements do not appear to have been followed.

Effect:

The Guam Public School System (GPSS) is in noncompliance with applicable procurement requirements. A questioned cost of \$3,856 exists. Although the known questioned cost is less than \$10,000, the projected questioned cost exceeds the threshold. Therefore, this finding is considered reportable.

Recommendation:

GPSS should strengthen controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Auditee Corrective Action Plan:

Name and Job title of responsible personnel: Joe Montague, Food & Nutrition Program Coordinator

Specific Corrective Procedures to be performed: Will follow Internal Control and standard operating procedures to ensure that all procurement documents are on file to substantiate transactions.

Date for performance of corrective action: Performance of corrective action will take place by August 1, 2009.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-02  
CFDA Program: 84.027 Special Education – Grants to States  
Federal Agency: U.S. Department of Education  
Grant Number: H027A080013  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$0

Criteria:

In accordance with applicable level of effort-maintenance of effort requirements, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal to the amount of local funds, or a combination of State and local funds expended for this purpose by the LEA in the prior fiscal year.

Condition:

GPSS appears to be deficient with its level of effort requirement, as follows:

Required level of effort (FY 2007 expenditures)	\$ 4,772,004
Actual level of effort (FY 2008 expenditures)	<u>4,742,423</u>
Deficient level of effort	\$ <u>29,581</u>

GPSS did provide an FY 2008 Notification of Personnel Action form for employee # 690-00-9561, with a salary of \$38,351, to demonstrate that the employee is locally funded and that the required level of effort has been exceeded. However, the employee's salary is charged to account 11.08.30.08.10.0111 (for elementary administration) and not to an existing account number specifically for special education. GPSS did not provide contemporaneous time sheets or other activity reports that demonstrate the employee's efforts in FY 2008 were for the education of children with disabilities. Therefore, the finding remains.

GPSS further provided after-the-fact certifications dated in 2009 from the Personnel Administrator and the employee, stating that all of the employee's efforts were for special education. As a result, no questioned cost will be presented.

Cause:

There appears to be a need to strengthen internal controls over ensuring compliance with applicable level of effort-maintenance of effort requirements. GPSS did not anticipate the need to include the employee's locally funded efforts towards the level of effort-maintenance of effort requirement.

Effect:

Although after-the-fact documentation was gathered in an attempt to demonstrate compliance, GPSS appears to have been in noncompliance with applicable level of effort-maintenance of effort requirements during the fiscal year until this matter was broached during the audit process.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-02, Continued  
CFDA Program: 84.027 Special Education – Grants to States  
Federal Agency: U.S. Department of Education  
Grant Number: H027A080013  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$0

#### Recommendation:

GPSS should strengthen controls over compliance with applicable level of effort-maintenance of effort requirements. If an employee's efforts are entirely dedicated to the education of children with disabilities, then the employee's time should be charged to a specific special education account number (i.e., Division 50). Furthermore, such specific account number should be documented in the employee's approved Notice of Personnel Action form.

#### Auditee Response and Corrective Action Plan:

In an effort to strengthen and enforce the internal controls, Guam Public School System implemented:

**Exhibit [A]** SOP 900-012 Matching, Level of Effort, and Earmarking Requirements, dated October 15, 2007. Amendment SOP 900-12a Matching Level of Effort, and Earmarking Requirements dated February 2, 2009.

**Exhibit [B]** Memorandum from Assistant Superintendent of Special Education dated May 11, 2009 enforcing that all locally funded positions assigned to a particular school/staffing pattern submit a TDR report reflecting that employee.

**Exhibit [C]** Certification of federal activities, OCT 2006. Copies of locally funded employees TDR are attached to support enforcement; proof of Certification for 5 employees (Program Coordinator, Psychologist, School Aide I, Handicap Bus Driver, and Teacher IV) is attached. SPED will continue to monitor Time Distribution Support.

**Exhibit [D]** Memo to the Acting Assistant Personal Administrator, dtd June 4, 2009

#### Corrective Action Plan:

**Exhibit [E]** Memorandum from Assistant Superintendent of Special Education dated June 4, 2009 enforcing that all Special Education employees, both locally and federally funded, complete a Personnel Certification form which will be completed and submitted semi-annually.

**Exhibit [F]** Copy of Personnel Certification form.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-03  
CFDA Program: 84.027 Special Education – Grants to States  
Federal Agency: U.S. Department of Education  
Grant Number: H027A080013  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

#### Criteria:

In accordance with applicable allowable costs/cost principles requirements, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

#### Condition:

Of ten program employees interviewed, we noted the following:

1. For six (or 60%), who are program coordinators, teachers, a psychologist, and bus driver, the employee verbally affirmed that he or she worked solely on program activities during FY 2008, but has no recollection of signing the required certifications for FY 2008.
2. For the other four (or 40%), who are school aides and an administrative assistant, the employee verbally affirmed that he or she worked mostly on program activities during FY 2008 and that time is allocated through a Time Distribution Report (TDR) form. However, the TDR has codes for all activities other than local activities. Based on the interviews, it appears that some activities that are occasionally performed include assisting in the school office or other parts of the campus, clerical work and custodial activities, which would benefit local operations as well. Based on our examination of detailed labor cost reports, the employees were paid solely with federal funds during FY 2008.

#### Cause:

There appears to be potential inconsistencies in compliance with applicable allowable costs/cost principles requirements.

#### Effect:

GPSS may be in noncompliance with applicable allowable costs/cost principles requirements. We are unable to quantify the associated questioned costs, if any.

#### Recommendation:

GPSS should strengthen controls to ensure compliance with applicable allowable costs/cost principles requirements. Responsible personnel should ensure that time distribution reports include codes for documenting local activities and that such activities include locally funded programs.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-03, Continued  
CFDA Program: 84.027 Special Education – Grants to States  
Federal Agency: U.S. Department of Education  
Grant Number: H027A080013  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In an effort to strengthen and enforce the internal controls Guam Public School System implemented:

**Exhibit [G]** SOP 900-009, Time Distribution Report (TDR) Procedures dated October 15, 2007.

In response to your comments referencing employees who had no recollection of signing a Certification form, **Exhibit [C]** affirms that these were secured in October 2006. The Certification forms note that *“in the event that the employee(s) is/are instructed to perform unrelated grant activities/duties, their timesheet will reflect the hour(s) on the timesheet and will be charged to local funds.”*

Since this statement was noted on the Certification form, dated 2006, this form remains valid from October 2006 to present.

Pursuant to SOP Number 900-009, dated October 15, 2009 (**Exhibit [G]**), Timely distribution report have been implemented and enforced to present.

Corrective Action Plan:

As part of its Corrective Action Plan, see attached **Exhibit [E] and [F]**. The Time Distribution Reports (TDR) have been and will continuously be monitored.

Auditor Response:

We continue to recommend that the certifications be prepared at least semi-annually in accordance with applicable allowable costs/cost principles requirements.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-04  
 CFDA Program: 84.336 Teacher Quality Enhancement Grants  
 Federal Agency: U.S. Department of Education  
 Grant Number: P336A050004-07  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$0

Criteria:

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

Of 24 transactions tested, we noted noncompliance with applicable procurement requirements, as follows:

1. For four (or 17%), the procurement authority was incorrectly applied. Based on scrutiny of the procurement file, competitive procurement procedures have been applied since the entity received three positive quotations. However, two quotations were solicited on island and one quotation was solicited off-island. Furthermore, as the item does not appear to be exclusive to a single vendor, GPSS should have obtained quotations from other off-island vendors to allow for comparability.

<u>Reference</u>	<u>Transaction Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
PO200800527	03/11/08	\$ 4,398	\$ 4,530
PO200800525	03/03/08	\$ 8,796	10,362
PO200701800	11/14/07	\$ 12,900	14,100
PO200701875	08/06/08	\$ 10,017	<u>10,017</u>
			<u>\$ 39,009</u>

As indicated above, an adequate number of vendors were solicited in accordance with local procurement regulations; therefore, no questioned cost will be presented for this condition.

2. For two (or 8%), GPSS was unable to provide written Grantor communications either waiving competitive procurement procedures, or approving the sole source method to select Vendor 10560.

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
PO200700289	10/17/07	10560	\$ 240,625	\$ 240,625
PO200810210	05/30/08	10560	\$ 300,000	\$ 300,000

However, as the vendor name appears in the approved grant application as a service provider for allowable cost purposes, no questioned cost will be presented for this condition. Furthermore, we noted that GPSS has demonstrated attempts towards corrective action and open competition through the subsequent issuances of requests for proposal for such services as professional consultant services, professional development, and training.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-04, Continued  
CFDA Program: 84.336 Teacher Quality Enhancement Grants  
Federal Agency: U.S. Department of Education  
Grant Number: P336A050004-07  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Cause:

There appears to be potential noncompliance with the intent of local procurement regulations. Regarding Condition 2, GPSS had specified the vendor in its grant proposal and believed that the grantor's approval of the proposal was sufficient.

Effect:

GPSS is in apparent noncompliance with applicable procurement requirements. No questioned costs are presented for the reasons described above.

Recommendation:

GPSS should strengthen controls over compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains required rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, for purposes of naming vendors in grant applications, the Program Office should obtain grantor approval specific to the use of sole source procurement if competitive procedures were not applied in the selection of the named vendor.

Auditee Corrective Action Plan:

[Condition 1]: GPSS does not concur.

1. GPSS provided the documents to support the three (3) informal bids.
2. The Guam Procurement Regulations states that *"no less than three (3) businesses shall be solicited to submit written quotations or oral quotations that are recorded..."* (Ref.: 3.11.3.1 - PROCEDURE). The regulation does not indicate the quotes need to be off-island vendors or on-island vendors. Therefore GPSS performed an open competition.

[Condition 2]: This is in response to the questioned costs regarding the selection of [Vendor 10560] as the vendor for the administration of the Teacher Quality Enhancement (TQE) Grant.

First of all, all federal grant applications include sections where the applicant must document that it has sufficient available project support and resources. This includes administration implementation. In addition, it is required to submit a management plan that is designed to achieve project goals, objectives, and activities. As a result of its proposal, the grant is reviewed, rated, and awarded based on its ability to provide evidence that it has both of these.

Secondly, based on the grant application, the award was made to the Guam Public School System (GPSS) based on the proposal that the grant would be administered by GPSS and implemented in partnership with [Vendor 10560]. This collaborative effort was described in the application of the grant would not have been funded had GPSS not demonstrated, through identification of a collaborative partner, that it had sufficient resources to support the implementation. Due to the fact that it was a grant application and not actual funds available, it was impossible to request a price quotation or conduct a request for proposal (RFP) prior to submission of the grant since the funds had not been awarded.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-04, Continued  
CFDA Program: 84.336 Teacher Quality Enhancement Grants  
Federal Agency: U.S. Department of Education  
Grant Number: P336A050004-07  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

#### Auditee Corrective Action Plan, Continued:

In addition, the priorities for the grant involved teacher quality and preservice training, revisions of teacher certification policies, administrators' training, etc. and [Vendor 10560] is the only higher education entity that graduates individuals with Bachelor's and Master's degrees on island. [Vendor 10560] prepares the majority of the teaching force. It is the only state-approved teacher preparation program on island. In addition, P.L. 27-96 was enacted as an amendment to the Yamashita Education Corps (YEC) to include a Fifth Year Induction Corps Scholarship and Financial Assistance Program for first year teachers through mentoring to address the retention of teachers in the classroom. The '07 fiscal year identified UOG as the administration of the YEC program. The development of a Mentor Program is one of the major activities of the TQE grant. Therefore, it is incumbent that the UOG is selected as the entity to develop and implement the program.

Lastly, Executive Order No. 2000-25, "Relative to Obtaining On-Island Professional Consulting, Education, and Training Services Before Off-Island Professional Consulting, Education, and Training Services, states:

1. **Government savings.** In order to put government savings into effect, and to maximize the use of already-existing and publicly-supported resources, professional consulting, education, and training programs needed by government employees for such various reasons as professional certifications or re-certifications, to meet federal requirements, to upgrade current skills, to obtain needed skills, and so forth, shall be obtained on-island.
2. **First preference for education or training programs.** Whenever professional consulting, education, or training programs can be obtained through the current instructional resources of the University of Guam or the Guam Community College, all governmental departments and agencies shall obtain these services through the University of Guam or the Guam Community College.

Since [Vendor 10560] is the only comprehensive four-year degree granting university in the Western Pacific and on island, it was selected based on the Executive Order as well as its proven ability to provide training and technical assistance in education throughout the region.

#### Auditor Response:

[Condition 1]: As there does appear to be compliance with the letter of the procurement regulations, no questioned cost is presented. However, as potential noncompliance with the intent of the procurement regulations appears to exist, the finding remains.

[Condition 2]: We understand the grantee's written response to our finding; however, no contemporaneous written rationale is documented in the procurement records; therefore, the finding remains. Furthermore, in cases where the application of a local executive order would appear to limit open competition in the procurement of a vendor for a federally funded activity, the grantee should seek written prior grantor approval for documentation in the procurement records.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-05  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.922 Consolidated Grants  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$0

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of 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 three (or 8%) of 37 transactions tested, no supporting documentary evidence was provided for the selection of a Guam institution of higher learning for conducting technical educational programs in GPSS public schools.

<u>Reference</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Number</u>
200680317	11/26/07	30001	\$ 73,061	\$ 210,211	S922A060002
200810217	09/27/08	30001	\$ 49,750	144,583	S922A080002
200810217	09/27/08	30001	\$ 4,787	-	S922A080002
				<u>\$ 354,794</u>	

No questioned cost is presented for this condition as the vendor is currently the only known provider of the service. Furthermore, we noted that GPSS has demonstrated attempts towards corrective action and open competition through the subsequent issuances of requests for proposal for such services as professional consultant services, professional development, and training.

Cause:

The cause of this condition is that GPSS is of the opinion that the vendor is the only known provider of this service.

Effect:

GPSS is in noncompliance with applicable procurement requirements.

Recommendation:

GPSS should strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, GPSS should consider procuring services for a multi-year period to allow others to have the opportunity to obtain resources necessary to providing the service.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-05, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.922 Consolidated Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Auditee Corrective Action Plan:

GPSS does not concur with this finding. [Vendor 30001] is a subrecipient funded under the Consolidated Grant – Title V, Part A. [Vendor 30001] each year submits an application like all eligible participants meeting the criteria which allows them funding under the grant. Approved Project Applications have been provided for support of these monies and also available on our Web-site under the Federal Programs, under the link of '*Special Conditions Compliance*'. There is a section in the Consolidated Grant Application submitted to US Department of Education in which the programs implemented by [Vendor 30001] have met the required criteria under the grant.

Auditor Response:

Documents demonstrating open competition in the selection of Vendor 30001 as either a vendor or subrecipient were not provided. Therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-06  
Federal Agency: U.S. Department of Health and Social Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8453/43  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of compliance with applicable procurement requirements. 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 one (or 11%) of nine transactions tested, the procurement authority was incorrectly applied. Based on scrutiny of the procurement file, competitive procurement procedures have been applied since the entity received three positive quotations. However, two quotations were solicited on island and one quotation was solicited off-island. Furthermore, as the item does not appear to be exclusive to a single vendor, GPSS should have obtained quotations from other off-island vendors for comparability.

<u>Reference</u>	<u>Transaction Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
P200801407	7/28/08	\$ 891	\$ 2,576

Cause:

The entity appears to have complied with the letter of the procurement requirements, but not with the intent.

Effect:

GPSS appears to be in noncompliance with applicable procurement requirements. No questioned cost is presented for this condition as it appears a sufficient number of vendors were solicited.

Recommendation:

GPSS should strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price

Auditee Corrective Action Plan:

GPSS does not concur. The Guam Procurement Regulations states that “no less than three (3) businesses shall be solicited to submit written quotations or oral quotations that are recorded...” (Ref.: 3.11.3.1 - PROCEDURE). The regulation does not indicate the quotes need to be off-island vendors or on-island vendors. Therefore GPSS performed an open competition.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-06, Continued  
Federal Agency: U.S. Department of Health and Social Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8453/43  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Auditee Corrective Action Plan, Continued:

For competitive procurement the program provides as per instruction and the Guam Procurement regulations (3.11.3.1 procedure) three price quotations with the purchase order to the Procurement office for review and processing. When we obtain price quotations from the originator, manufacturer, or publisher, for items, we do research for other vendors of the product which includes both local and off island vendors for submission to the procurement office.

Our corrective action will be to follow the Guam Procurement Regulations with the awareness that we may also need to obtain an equal number of bids for local and off island if we submit a price quotation form off island.

This has already been implemented by the Administrative Assistant and reviewed by the Program Director.

Auditor Response:

As there does appear to be compliance with the letter of the procurement regulations, no questioned cost is presented. However, as potential noncompliance with the intent of the procurement regulations appears to exist, the finding remains.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-07  
Federal Agency: U.S. Department Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8453/43  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

#### Criteria:

In accordance with applicable allowable costs/cost principles requirements, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Of ten program employees interviewed, we noted the following:

1. For 8 (or 80%), who are teachers and social workers, the employee verbally affirmed that he or she worked solely on program activities during FY 2008, but has no recollection of signing the required certifications for FY 2008.
2. For the other 2 (or 20%), who are an aide and typist, the employee verbally affirmed that he or she worked mostly on program activities during FY 2008 and that time is allocated through a Time Distribution Report (TDR) form. However, the TDR has codes for all activities other than local activities. Based on the interviews, it appears that some activities that are occasionally performed include assisting in the school office or other parts of the campus, clerical work and custodial activities, which would benefit local operations as well. Based on our examination of detailed labor cost reports, the employees were paid solely with federal funds during FY 2008.

#### Cause:

There appears to be potential inconsistencies in compliance with applicable allowable costs/cost principles requirements.

#### Effect:

GPSS may be in noncompliance with applicable allowable costs/cost principles requirements. We are unable to quantify the associated questioned costs, if any.

#### Recommendation:

GPSS should strengthen controls to ensure compliance with applicable allowable costs/cost principles requirements. Responsible personnel should ensure that time distribution reports include codes for documenting local activities and that such activities include locally funded programs.

#### Auditee Response and Corrective Action Plan:

Response to interview findings: All Head Start Staff whether they are locally or federally funded work on specific Head Start activities. The program has a code (0 specify) for other than those codes listed on our coding sheet. The program will add, effective July 1, 2009 when the new grant cycle begins, a separate code for local only activities with specifics identified next to the number.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-07, Continued  
Federal Agency: U.S. Department Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8453/43  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

The fact that staff may work at the Head Start office on Head Start specific activities or at our classrooms on school campuses does not mean they are doing local work. The program has many requirements specific to Head Start regulations and performance standards 45 CFR 1301-1311. The fact that our staff cleans our rooms is again part of their job description under Head Start relating to the health and safety of our children, families, and staff. While it may appear to be a benefit to the office or school site, it relates directly to Head Start activities only. The program has its own maintenance worker who works solely on Head Start projects, often with the assistance of the Facilities, Maintenance department of GPSS.

The form that staff are to have signed stating they work only on program activities has not previously been done and it has never been a finding on our federal Head Start triennial reviews. If this is a requirement, we will implement it with the start of the new grant cycle July 1, 2009.

All the above action steps will be the responsibility of the Program Director. Specific training will occur during our Pre-service in August for teaching staff. Training will occur with the support staff in the Central office no later than June 30, 2009.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-08  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.336 Teacher Quality Enhancement Grants  
CFDA Program: U.S. HHS 93.600 Head Start  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

#### Criteria:

1. In accordance with applicable equipment and real property management requirements, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and be reconciled to the equipment records, and an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.
2. Asset maintenance schedules should be prepared, updated, and monitored by management, and activity per the asset maintenance schedule should be reconciled to the asset maintenance history register regularly.
3. Property records of assets purchased with Federal funds should contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.
4. Fixed assets should reflect the existing business circumstances and economic conditions in accordance with the accounting policies being used.

#### Condition:

1. Fixed asset registers were provided; however, such records were not comprehensive. Required information, such as acquisition date, acquisition cost, supporting purchase order, and/or depreciation calculations were lacking for various items.
2. Property records did not indicate the percentage of federal participation in the cost and the condition of the assets listed.
3. Upon receipt of a fixed asset, the item is not recorded in the subsidiary ledger in a timely manner, if at all. Property liaison personnel appear to be reliant on the wall-to-wall inventory count conducted each year. In the event that these items are not presented during physical inventory counts, there may be no accountability over such item.
4. John F. Kennedy High School as of September 30, 2008, was condemned. Asset impairment was not considered by GPSS management. The net value as of September 30, 2008, was \$246,828.

#### Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with applicable equipment management requirements in FY 2008.

Standard Operating Procedures have been created on October 2006 with revisions applied on May 2008. Such procedures do not appear to have been effective for the majority of FY 2008. GPSS management should strengthen controls to ensure that Standard Operating Procedures are followed throughout the school system.

Management does not appear to periodically review the valuations and/or realizability of fixed assets to identify permanent impairments.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-08, Continued  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.336 Teacher Quality Enhancement Grants  
CFDA Program: U.S. HHS 93.600 Head Start  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

#### Effect:

GPSS is in noncompliance with applicable equipment management requirements for FY 2008. Furthermore, the loss or theft of equipment could go undetected and fixed assets may be misstated.

#### Prior Year Status:

The above condition one 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 real property management requirements.

Controls should be in place to ensure that all fixed assets acquired and received are recorded in subsidiary ledgers. Failure to record these assets in the subsidiary in a timely manner may result in an understatement of capital assets and open an opportunity for fraud and abuse to occur.

Furthermore, we recommend management periodically review valuations and/or realizability of fixed assets to identify impairments.

#### Auditee Response and Corrective Action Plan:

1. Business Office and Property Management must communicate and have an understanding as to what to account for based on financial reports and requirements.
  - a.) Only fixed assets \$5,000.00 AND ABOVE to include computers, laptops, multi-media LCD projectors, and networking printers are currently being monitored aggressively. Controlled fixed assets \$4,999.99 AND BELOW continues to be monitored manually and was not included in the planning for automation. This issue must be addressed.
  - b.) A clear understanding as to the dollar value or ceiling to account for equipment purchased under object class 0250. It would save the department time and money by eliminating the reporting of equipment valued at less than \$100.00. Both local and federal.
  - c.) Computer parts or accessories should not be purchased under object class 0250. (Cannibalization of government property is illegal).
  - d.) Computer systems are considered fixed assets and should always be purchased as a Unit or Set.
  - e.) Real property will be assessed, and managed by the Department of Administration. According to upper management GPSS does not own any real property. I was informed that it was not under my purview.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-08, Continued  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.336 Teacher Quality Enhancement Grants  
CFDA Program: U.S. HHS 93.600 Head Start  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

2. In accordance with the Fixed Assets SOP #900-010 Section 4, Accounting For Materials Purchased Under Object Class 0250 and 0450. Any materials purchased under object class 250 and 450 will be delivered directly to the GPSS Central Receiving Warehouse for further processing prior to delivery to final destination.
  - a.) Purchase orders with object class 0250 or 0450 should not be processed on a walk through.
  - b.) Replacement accessories such as battery back-ups (UPS), keyboards, mouse, speakers, monitors less than \$100.00 should not be purchased under object class 0250. Recommend purchasing under object class 0240 if possible.
3. Implement and train on-site, one school/division at a time. Property management staff to be assigned onsite to conduct training, inventory, and reconciliation, until school staff has been fully trained and can be held accountable.
  - a.) Host school/division must provide work area and a desktop computer.
  - b.) Assigned property liaison being trained should be assigned to a Property Control Officer for collaboration and assistance throughout the training.
4. The following phases will address the fixed assets:
  - Phase 1 -Capturing all existing (old) fixed assets within the school/division. To include newly donated or missed fixed assets.
  - Phase 2 -Input and load the server with captured fixed assets to create a listing.
  - Phase 3 -Capture & record all incoming (new) fixed assets within a school/division.
    - a.) Receive, tag & barcode.
    - b.) Access CIMS/ AS400 for recording
    - c.) Create record.
  - Phase 4 -Monitor physical location of property from school/division to again go back into the system for recording.
  - Phase 5 -Monitor until property is retired or disposed and conduct ongoing reconciliation.
4. Existing fixed assets that has exceeded their useful life are continually picked up on the inventory because they exist. Required information are lacking due to age.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-08, Continued  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.336 Teacher Quality Enhancement Grants  
CFDA Program: U.S. HHS 93.600 Head Start  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

5. Audit findings will continue until the transition of the automated system is complete as well as the strict enforcement, and disciplinary action taken against personnel not following standing operating procedures and guidelines. Internal controls are set in place, an SOP was created, and training was accomplished. We just need to make the system work.
6. Although 100% completed, refresher training must continue, and must be conducted at least once a year for all property liaisons. We have done all that we can do. It is up to management now to comply and cooperate.
7. Additional manpower, an office space, phone lines, reliable computer systems, additional electrical circuits, email capabilities for property control officers, (2) two additional scanners, funding for more barcodes, and support from management.

Corrective actions are being taken. Compliance and Enforcement needs to take effect. Administrators need to be more accountable.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-09  
Area: Reconciliations

Criteria:

1. Complete bank reconciliations should be prepared on a monthly basis for all bank accounts.
2. General ledger balances should be reconciled to the subsidiary ledger or supporting details in a timely manner.

Condition:

1. Although GPSS was able to implement timely preparation of bank reconciliations towards the end of the fiscal year (i.e., June 2008 through September 2008), monthly bank reconciliations were not prepared timely from October 2007 through May 2008.
2. Timely reconciliations of balance sheet accounts were not performed or were not provided for the following:

<u>Description</u>	<u>Account</u>	<u>Per General</u>	<u>Ledger</u>	<u>Per Sub-ledger</u>	<u>Variance</u>
Accounts receivables	21.00.00.00.00.2300	\$	1,463,743	\$ 1,283,078	\$ 180,665
Accounts receivables	22.00.00.00.00.2300	\$	7,084,035	\$ 803,089	\$ 6,280,946
Accounts payable	xx.00.00.00.00.3000	\$	4,937,703	\$ 4,374,228	\$ 563,475
Accounts payable others	11.00.00.00.00.3101	\$	4,345,305	\$ 4,043,955	\$ 301,350
Due to Federal Agencies	21.00.00.00.00.3102	\$	-	\$ (931,043)	\$ 931,043
Due to DOA General Fund	22.00.00.00.00.3100	\$	81,108	Not provided	Unknown
Due to Federal Agencies	22.00.00.00.00.3102	\$	-	\$ (2,636,540)	\$ 2,636,540
Due to Federal Agencies	23.00.00.00.00.3102	\$	-	\$ (1,361,241)	\$ 1,361,241
Encumbrances	General Fund	\$	-	\$ 2,486,498	\$ (2,486,498)
Encumbrances	Federal Grant Fund	\$	-	\$ 2,566,264	\$ (2,566,264)

Cause:

1. It appears accounting staff earlier in the fiscal year were not fully trained in the preparation of complete bank reconciliations, but GPSS management was able to hire a knowledgeable accountant in mid-FY 2008.
2. There appears to be a lack of internal controls over ensuring that the general ledger is timely reconciled to the subsidiary ledger.

Effect:

1. The loss, theft, or inaccurate recording of cash would not be detected in a timely manner from October 2007 through May 2008.
2. GPSS management administered funds in FY 2008 without full knowledge of the financial position of GPSS during the fiscal year. During fieldwork, necessary audit adjustments were proposed.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-09, Continued  
Area: Reconciliations

Prior Year Status:

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

Recommendation:

1. GPSS should continue to ensure that monthly bank reconciliations are prepared timely and completely.
2. The Chief Financial Officer should establish and implement controls to ensure that the subsidiary ledger is reconciled to the general ledger on a timely basis.

Auditee Response and Corrective Action Plan:

1. GPSS concurs. The Comptroller will ensure bank reconciliations are prepared timely and completely. Bank reconciliations are assigned to the Funds Control Section as part of their standard duties and responsibilities. When bank statements are received, the bank statements are forwarded to the respective individual. Bank reconciliations will be prepared according to SOP 900-014.
2. Along with the Deputy of Finance and Administrative Services, the Comptroller will establish and implement internal controls to ensure the subsidiary ledger is reconciled to the general ledger on a timely manner. This will include timely recording of the requested audit adjustments and reconciling the general ledgers to the subsidiary ledgers quarterly in Fiscal Year 2009.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-10  
Area: Cash

Criteria:

Bank reconciliations should include all cash transactions.

Condition:

Disbursed checks totaling \$4,727,731 were not reflected on the cash balance; however were cleared through the bank within FY 2008.

Cause:

GPSS management has not enforced controls over ensuring that bank reconciliations for payroll fund 11 account 2001 are correctly performed.

Effect:

Cash was materially misstated; however, audit adjustments were proposed to correct the misstated cash.

Prior Year Status:

GPSS has not recorded all cash transactions for payroll fund 11 account 2001, and this is reiterative of a condition identified in the prior audit.

Recommendation:

GPSS should strengthen controls to ensure that bank balances are reconciled to book balances.

Auditee Response and Corrective Action Plan:

GPSS concurs. The Comptroller will strengthen controls to ensure that bank balances are reconciled to the book balances as prepared monthly by the Funds Control staff. This will include entering the beginning balances of the cash accounts in Fiscal Year 2009.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-11  
Area: Local Procurement

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of compliance with applicable procurement requirements. 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 two (or 3%) of 61 locally funded transactions tested, the procurement authority was incorrectly applied. The transaction was determined to be sole source; however, based on examination of the expenditure file, the transaction should have been determined to fall under the purchased formal contracts and competitive procurement procedures should have been applied. Additionally, we were provided an oral explanation as to the curriculum committee's determination of the purchase of textbooks; however, the underlying documentary evidence was not provided.

<u>Transaction Reference</u>	<u>Amount Tested</u>	<u>Vendor Number</u>	<u>Check No.</u>	<u>Check Amt.</u>	<u>Check Date</u>
DE08-0104	\$ 277,696	20015	0265517	\$ 307,127	04/02/08
200400838	<u>51,936</u>	20006	0258527	\$ 166,794	03/17/05
Total	\$ <u>329,632</u>				

Cause:

There appears to be inadequate controls over ensuring compliance with the criteria.

Effect:

GPSS is in noncompliance with applicable procurement requirements.

Recommendation:

GPSS should strengthen controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan:

Method of Procurement was determined by P.L. 21-136, Selection of Contract Type was through Outright Purchase of Textbooks, Contractor selection made through committee selection and purchased sole source through copyright, and basis of contract price was determined through committee selection of Textbook Adoption.

Name and job title of responsible personnel: Albert G. Garcia, Buyer Supervisor II

Auditor Response:

A written record of the referenced committee selections was not provided to us; therefore, the finding remains.

## GUAM PUBLIC SCHOOL SYSTEM

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No.: 08-12  
Area: Non-Appropriated Funds

#### Criteria:

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

#### Condition:

GPSS continues to evidence issues in accounting for NAF funds during the year ended September 30, 2008. 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 130 transactions approximating \$227,000. Of this sample, a substantial number of items did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- Twenty-nine samples, aggregating \$38,817, were not supported by invoices, receiving reports or other evidential matter. Additionally, nine disbursements were evidenced solely by a quotation or proposal. There was no invoice or receiving report on file to substantiate that goods or services were received. In one instance, a boarding pass or evidence of travel was not on hand to support travel undertaken. We also noted that in one instance, an overpayment of \$270 occurred. Additionally, in 37 instances, no bank statement or cancelled checks were provided to support the finalization of the related expenditure.
- There appears to be an absence of evidence of competitive procurement considerations on file.
- 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; and various transactions have been referred to, or are considered for, referral for criminal investigation.
- Various internal audits have been issued that raise substantial concerns as to whether NAF collections are being deposited or whether misappropriation of those receipts is occurring.

#### 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 2008 and this condition could facilitate fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes GPSS, and possibly the individual Guam Education Policy Board members, to potential lawsuits and increases the Organization’s financial exposure.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 08-12, Continued  
Area: Non-Appropriated Funds

Prior Year Status:

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

Recommendation:

Given the lack of corrective action, despite the expenditure of substantial oversight by the Internal Audit Division and substantial training efforts conducted by GPSS, the Office of the Public Auditor and ourselves, we recommend that the Superintendent remove expenditure authority from any school that has not demonstrated adequate compliance with NAF requirements and consolidate the accounting for NAF in the central business office. If a school has demonstrated adequate compliance and if compliance is certified by the Internal Audit Division, we recommend that schools continue the privilege of accounting for and expending NAF funds.

In all cases, we recommend that NAF funds be receipted at the individual schools and that the central office collect the cash which should be deposited to bank accounts that are controlled at the central business office, unless otherwise authorized by Internal Audit and the Superintendent.

Given the lack of corrective action at the individual schools and given the lack of accounting resources, we have not been able to determine that an effective alternative solution exists.

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, 2008

Unresolved Prior Findings

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

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal Agency</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Total</u>
10.553/10.555	Child Nutrition Cluster	USDA	\$3,856	\$ -	\$ 113,055	\$ 383,533	\$ 126	\$ 596	\$ -	\$ 501,166
15.875	DOI	DOI	-	-	-	24,978	-	-	-	24,978
83.544	Public Assistance Grants	FEMA	-	-	-	386,857	-	304,047	-	690,904
84.181	Special Education – Infants and Families with Disabilities	ED	-	-	-	-	-	-	627	627
84.336	Teacher Quality Enhancement Grant	ED	-	296,312	-	-	-	-	-	296,312
84.922	Consolidated Grants	ED	-	149,625	107,499	-	-	-	-	257,124
93.600	Head Start	HHS	-	-	-	424,288	134,640	6,494	181,337	746,759
	Totals		<u>\$ 3,856</u>	<u>\$445,937</u>	<u>\$220,554</u>	<u>\$ 1,219,656</u>	<u>\$134,766</u>	<u>\$ 311,137</u>	<u>\$ 181,964</u>	<u>\$2,517,870</u>