

**GUAM DEPARTMENT OF EDUCATION  
(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, 2009**

**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 Underwood, Ph.D.  
Superintendent of Education  
Guam Department of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2009, which collectively comprise GDOE's basic financial statements, and have issued our report thereon dated March 31, 2010. 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 GDOE'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 GDOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GDOE'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 9 through 26) as items 09-04, 09-06, 09-07, 09-08, and 09-10 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.

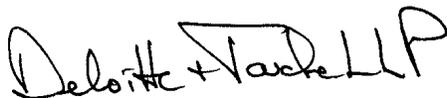
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose 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 GDOE'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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 09-05 and 09-09.

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

This report is intended solely for the information and use of management, the Guam Education Policy Board, others within the entity, the Office of Public Accountability - 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.



March 31, 2010

**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 Underwood, Ph.D.  
Superintendent of Education  
Guam Department of Education:

Compliance

We have audited the compliance of the Guam Department of Education (GDOE) 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, 2009. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 26). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GDOE's management. Our responsibility is to express an opinion on GDOE'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 GDOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of GDOE's compliance with those requirements.

As described in item 09-08 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding equipment and real property management that is applicable to its CFDA # 84.027 Special Education - Grants to States major program and its CFDA # 84.336 Teacher Quality Partnership Grants major program. Compliance with such requirements is necessary, in our opinion, for GDOE to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GDOE complied, in all material respects, with the requirements referred to above that are applicable to CFDA #84.027 Special Education – Grants to States and CFDA #84.336 Teacher Quality Partnership Grants. Also in our opinion, GDOE 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, 2009. 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 09-02 and 09-03.

## Internal Control Over Compliance

The management of GDOE 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 GDOE'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 GDOE'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 items 09-01 and 09-08 to be significant deficiencies.

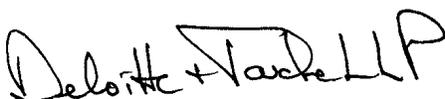
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 09-01 and 09-08 to be material weaknesses.

GDOE's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GDOE'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 Department of Education (GDOE) as of and for the year ended September 30, 2009, and have issued our report thereon dated March 31, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise GDOE'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 GDOE. 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 management, the Guam Education Policy Board, others within the entity, the Office of Public Accountability - 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.



March 31, 2010

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>		
Direct:		
National School Lunch Program	10.555	\$ 7,186,302
State Administrative Expenses for Child Nutrition	10.560	263,784
Commodity Supplemental Food Program	10.565	591,313
Emergency Food Assistance Program (Administrative Costs)	10.568	6,631
Total U.S. Department of Agriculture		<u>\$ 8,048,030</u>
<b>U.S. DEPARTMENT OF DEFENSE:</b>		
Direct:		
Army JROTC	12.000	\$ 253,118
Air Force JROTC	12.000	74,847
Total U.S. Department of Defense		<u>\$ 327,965</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	\$ 7,191,820
Total U.S. Department of the Interior		<u>\$ 7,191,820</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>		
Direct:		
Special Education-Grants to States	84.027	* \$ 12,658,577
Impact Aid	84.041	7,681
Career and Technical Education-Basic Grants to States	84.048B	77,978
Special Education: Grants for Infants and Families	84.181	* 1,133,896
Byrd Honors Scholarships	84.185	-
Fund for the Improvement of Education	84.215	419,190
Freely Associated States-Education Grant Program	84.256	407,110
Teacher Quality Partnership Grants	84.336	* 75,710
Literacy through School Libraries	84.364	37,783
Consolidated Grants	84.922A	* 18,432,070
Total U.S. Department of Education		<u>\$ 33,249,995</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>		
Direct:		
Head Start	93.600	* \$ 2,157,321
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	93,544
Total U.S. Department of Health and Human Services		<u>\$ 2,250,865</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</b>		
Direct:		
Learn and Serve America-School and Community Based Programs	94.004	\$ -
Total Corporation for National and Community Service		<u>\$ -</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>		
Pass-Through Guam Department of Administration:		
Public Assistance Grants	83.544	\$ 21,007
Total U.S. Department of Homeland Security		<u>\$ 21,007</u>
Total Federal Awards		<u>\$ 51,089,682</u>

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

See notes to Schedule of Expenditures of Federal Awards.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

1. Scope of Audit:

The Guam Department of Education (GDOE) is a line agency of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the operations of the Guam Department of Education are included within the scope of the audit. The U.S. Department of 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:

GDOE is named as the grant recipient on grant awards and is responsible for maintaining the accounting records for federal expenditures. The federal programs were not charged allocated costs or indirect costs. Therefore, all costs charged were direct.

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures are recognized on the modified accrual basis of accounting, consistent with the manner in which GDOE maintains its accounting records.

b. Subgrants:

Certain program funds are passed through the Guam Department of Education to subrecipient organizations. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the Guam Department of Education's control utilized the funds. If the subrecipient expends more than \$500,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. High-Risk Grantee Status:

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

4. CFDA Number 10.555:

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

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

5. American Recovery and Reinvestment Act of 2009:

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2009, GDOE did not expend any funding provided under ARRA, but received grant award notifications, as follows:

<u>CFDA Program</u>	<u>Grant Number</u>	<u>Grant Amount</u>
10.568 Emergency Food Assistance Program (Administrative Costs)	7GU840GUX	\$ 15,375
10.579 Child Nutrition Discretionary Grants Limited Availability	7GU340GU3	\$ 215,764
84.391 Special Education-Grants to States, Recovery Act	H391A090013	\$ 510,352
84.393 Special Education-Grants for Infants and Families, Recovery Act	H393A090008	\$ 52,064
93.708 ARRA-Head Start	09SE8453/01	\$ 228,859

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to  
Basic Financial Statements  
Year Ended September 30, 2009

	Fiscal Year 2009 <u>Expenditures</u>
Federal contributions, as reported in the 2009 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 67,424,654
Capital lease acquisition	(17,254,250)
<u>CFDA Program</u>	
12.000 Army JROTC	253,118
12.000 Air Force JROTC	74,847
10.565 Commodity Supplemental Food Program	<u>591,313</u>
Total Federal Expenditures Subject to Audit	\$ <u>51,089,682</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

**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 are not considered to be material weakness(es)? | 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 are not considered to be material weakness(es)?                            | None reported |
| 7. Type of auditors' report issued on compliance for major programs:  |               |
| CFDA Number 84.027  | Qualified     |
| CFDA Number 84.336  | Qualified     |
| All other major programs  | Unqualified   |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes           |
| 9. GDOE's major programs were as follows:   |               |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Special Education Cluster:
84.027	Special Education – Grants to States
84.181	Special Education-Grants for Infants and Families
84.336	Teacher Quality Partnership 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: | \$1,532,690 |
| 11. GDOE qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                       | No          |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Finding</u>
09-04	Reconciliations
09-05	Local Procurement
09-06	Expenditures
09-07	Encumbrances
09-08	Equipment Management
09-09	Transfer Authority
09-10	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>
09-01	84.027	Matching, Level of Effort, Earmarking	\$ 0	U.S. ED
09-08	84.027	Equipment and Real Property Management	\$ 0	U.S. ED
09-02	84.181	Procurement and Suspension and Debarment	\$ 4,862	U.S. ED
09-08	84.336	Equipment and Real Property Management	\$ 0	U.S. ED
09-03	93.600	Procurement and Suspension and Debarment	\$ 0	U.S. DHHS
			\$ 0	
		Total Questioned Costs	\$ <u>4,862</u>	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-01  
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:

Title 34 Part 300 of the Code of Federal Regulations (CFR) specifies two separate requirements for a State and a local education agency (LEA), as follows:

1. State requirement: Per 34 CFR 300.163(a), “A State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.”
2. LEA requirement: Per 34 CFR 300.203(a), “...funds provided to an LEA...must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.” Furthermore, 34 CFR 300.203(b) requires that an LEA budget for the education of children with disabilities, at least the same total from local funds, or a combination of State and local funds, for the most recent prior year for which information is available.

In the FY 2008 Single Audit Reports for GDOE, noncompliance with the LEA requirement was cited. In a subsequent program determination letter issued by the U.S. Department of Education (ED), Office of Special Education and Rehabilitative Services, dated December 10, 2009, the Assistant Secretary did not sustain the finding. The letter stated, “As a unitary system, GDOE is required to adhere to the maintenance of State financial support requirements in CFR 34 [Section] 300.163(a), rather than the maintenance of effort requirements for local education agencies (LEA) in CFR 34 [Section] 300.203(b).” The letter further concluded, “The information provided in the audit report is relevant to establishing compliance with 34 CFR [Section] 300.203(b), which does not apply in this instance, rather than 34 CFR [Section] 300.163(a), which does.” [Emphasis added]

Therefore, only the State requirement above was tested.

Condition:

For purposes of the State requirement above, GDOE does not meet the definition of a State. Rather, it is a public agency within the Government of Guam (the State) with an accounting system that is segregated from that of the State. As a result of such segregation, much of the data required to demonstrate compliance with the State requirement is not available within GDOE.

Based on data available at GDOE (i.e., the FY 2009 and FY 2010 Budget Digest for GDOE Special Education), financial support appears compliant, as follows:

Required level of financial support (FY 2008 authorized budget)	\$ 4,667,301
Actual level of financial support (FY 2009 authorized budget)	<u>5,161,842</u>
Excess GDOE maintenance of support	\$ <u>(494,541)</u>

## GUAM DEPARTMENT OF EDUCATION

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 09-01, 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

#### Condition, Continued:

However, because GDOE does not have information available from the Government of Guam regarding the State's overall financial support for purposes of the State requirement, we are unable to determine Guam's overall compliance with 34 CFR 300.163(a). Our office made inquiries at Government of Guam agencies, such as Department of Administration and Department of Integrated Services for Individuals with Disabilities/Division of Vocational Rehabilitation, but received no data on financial support.

#### Cause:

There is a lack of coordination between Government of Guam and Guam Department of Education for purposes of ensuring compliance with the State requirement.

#### Effect:

Based on available information within GDOE, it appears that compliance with the State requirement might exist. However, Guam's compliance cannot be determined until information external to GDOE is obtained. The State requirement goes beyond the operations of GDOE, and until such time that coordinated efforts are established, the condition above is likely to remain unresolved.

#### Recommendation:

GDOE should identify responsible parties within its Federal Programs Office, as well as within the Government of Guam, to liaise and determine the amount of overall State financial support for special education and related services for children with disabilities. Also, GDOE's coordination with the Government of Guam should be communicated in writing.

#### Auditee Response and Corrective Action Plan:

DOE concurs with the finding. As specified in the December 10, 2009 Determination Letter from U.S. Department of Education, Office of Special Education and Rehabilitative Services, the support provided by other Guam agencies for the provision of special education and related services should also be included in this analysis. The Guam Department of Education does not currently have access to this information. DOE's Federal Programs Division will work with GovGuam to develop mechanisms to capture such information at the government wide level.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-02  
CFDA Program: 84.181 Special Education – Grants for Infants and Families With Disabilities  
Federal Agency: U.S. Department of Education  
Grant Number: H181A080008, H181A070008  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,862

Criteria:

Local procurement regulations for small purchases of supplies or services between \$500 and \$15,000 require no less than three positive written quotations from businesses to be solicited, recorded and placed in the procurement file.

Condition:

For two (or 8%) of 24 transactions tested, we noted that only two positive price quotations were received for website hosting and fuel transactions. For PO 200801941, three vendors were solicited and given a deadline on 09/04/08. Vendor 1 was solicited on 06/25/08, Vendor 2 was solicited 07/08/08, and Vendor 3 was solicited on 09/02/08, but no price quotation was obtained from Vendor 3 as of 09/04/08. Similarly, for PO 200801988, three vendors were solicited and given a deadline of 08/08/08. Vendor 1 and 2 were solicited on 07/14/08, while Vendor 3 was solicited on 08/08/08. The request from Vendor 3 was sent at 10:00 am and was due by 3:00 pm the same day. No response was received from Vendor 3.

<u>Transaction Reference</u>	<u>Date</u>	<u>Amount Tested</u>	<u>Grant Number</u>
200801941	04/13/09	\$ 2,700	H181A080008
200801988	11/24/08	<u>2,162</u>	H181A070008
		<u>\$4,862</u>	

Cause:

The GDOE Supply Management Administrator believed the local procurement requirements were met with the mere solicitation of price quotations, regardless of a response.

Effect:

GDOE is in noncompliance with applicable local procurement requirements. A questioned cost of \$4,862 exists. Although the known questioned cost is below \$10,000, the projected questioned cost exceeds the threshold; therefore, this finding is considered reportable.

Recommendation:

The GDOE Supply Management Administrator should consider obtaining a legal opinion from the Guam Attorney General regarding the definition of “three positive quotes” and should adhere to the requirement.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-02, Continued  
CFDA Program: 84.181 Special Education – Grants for Infants and Families With Disabilities  
Federal Agency: U.S. Department of Education  
Grant Number: H181A080008, H181A070008  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,862

Auditee Response and Corrective Action Plan:

**Responsible Party:** Supply Management Administrator, Brian C Mafnas

DOE concurs with the finding. Although three quotes were solicited, they were not properly recorded as specified in the Department of Education Procurement Regulations 3.11.3.1

In accordance to DOE Procurement Regulations, all buyers will adhere by soliciting a minimum of three written quotes and documenting each to file. To ensure these regulations are strictly followed, a procurement checklist will be provided to each buyer and will accompany the procurement file. In addition, training on procurement regulations will be provided to the staff on a monthly basis or more regularly as required. The procurement checklist is being developed in consultation with the Internal Auditor and Federal Grants Administrator and will be formally adopted before the end of April, 2010. Additionally, monthly training has begun in the month of March, 2010.

Additionally, a letter to the Attorney General will be drafted with the assistance of DOE Legal Council for issuance before the end of April, 2010.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-03  
CFDA Program: 93.600 Head Start  
Federal Agency: U.S. Department of Health and Human Services  
Grant Number: 09CH8453/43  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria:

Local procurement regulations require that procurement of air travel vouchers from local travel agencies with a valid business license and on good standing with the Guam Department of Revenue and Taxation shall be rotated fairly and competitively to ensure that no single travel agency or a small group of travel agencies monopolize the sale of air travel vouchers. Also, for small purchases of supplies or services between \$500 and \$15,000, no less than three positive written quotations from businesses shall be solicited, recorded and placed in the procurement file.

Condition:

GDOE does not have established policies and procedures for rotating the procurement of travel with local travel agencies. Therefore, GDOE procures travel by applying procedures for small purchases. For one (or 10%) of ten transactions tested, only two positive price quotations were solicited and received for the following procurement of travel services.

<u>Transaction Reference</u>	<u>Date</u>	<u>Amount Tested</u>
200940178	06/05/09	\$3,121

Cause:

The GDOE Supply Management Administrator has not developed policies and procedures for the procurement of travel using fair and competitive rotation, and in applying small purchases procedures to travel procurement, did not ensure the solicitation of at least three vendors.

Effect:

GDOE is in noncompliance with applicable local procurement regulations. However, although such regulations require that “no less than three positive quotations from businesses shall be solicited,” we noted that GDOE has made efforts to distribute business opportunities to travel service providers. During FY 2009, the program required travel services seven times during the year and made use of three different travel service providers. Therefore, no questioned cost is presented for this finding.

Recommendation:

The GDOE Supply Management Administrator should develop policies and procedures for selecting travel services providers through fair and competitive rotation. Prior to developing such procedures, the GDOE Supply Administrator should consider reading and incorporating the rotation policy already developed by the Government of Guam, Department of Administration.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-03, Continued  
CFDA Program: 93.600 Head Start  
Federal Agency: U.S. Department of Health and Human Services  
Grant Number: 09CH8453/43  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

**Responsible Party:** Supply Management Administrator, Brian C Mafnas

DOE concurs with the audit finding. However three quotes were solicited they were not properly recorded as specified in the Department of Education Procurement Regulations 3.11.3.1.

In accordance to DOE Procurement Regulations, all buyers will adhere by soliciting a minimum of three written quotes and documenting each of the three to file. To ensure these regulations are strictly followed a procurement checklist will be provided to each buyer and will accompany the procurement file. The procurement checklist is being developed in consultation with the Internal Auditor and Federal Grants Administrator and will be formally adopted before the end of April, 2010. In addition, policies and procedures for providing fair and competitive rotations in the procurement of travel will be established by the Supply Management Administrator in consultation with the Controller no later than May, 2010.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-04  
Area: Reconciliations

Criteria:

General ledger balances should be reconciled to the subsidiary ledger or supporting details in a timely manner.

Condition:

GDOE has demonstrated timely preparation of monthly bank reconciliations, which is an improvement over prior years. However, reconciliations of such general ledger accounts as accounts receivable, accounts payable, and deferred revenues occurred only after year end.

Cause:

Due to the changes in management personnel within the GDOE Financial Affairs Office during FY 2009, timely reconciliations of general ledger balances did not occur.

Effect:

GDOE management administered funds in FY 2009 without full knowledge of the financial position of GDOE during the fiscal year. During fieldwork, necessary audit adjustments were proposed to reflect the appropriate balances.

Prior Year Status:

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

Recommendation:

GDOE Financial Affairs management should establish and implement controls to ensure that the general ledger is reconciled to the subsidiary ledgers on a timely basis. Furthermore, we recommend that a GDOE Financial Affairs employee be designated to liaise with a designated Department of Administration (DOA), Division of Accounts employee on a periodic basis (i.e., monthly) to ensure that GDOE captures all transactions recorded by DOA on behalf of GDOE.

Auditee Corrective Action Plan:

**Responsible Party:** Acting Controller, Ricardo Ang

We have noted that in previous audits, reconciliation of payables and receivables were not addressed. However, DOE concurs with the finding. DOE is currently in the process of hiring an additional accountant, who should be in place by April, 2010. Monthly reconciliations of the general ledger to subsidiary ledgers will be implemented beginning April, 2010. Additionally, an accountant will be assigned to work with DOA on a monthly basis to reconcile transactions recorded by DOA on behalf of DOE.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-05  
Area: Local Procurement

Criteria:

Local procurement regulations require that 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:

1) No procurement documents were provided for the following locally funded purchase orders:

<u>Reference Number</u>	<u>Total purchase Order</u>	<u>Expenditures incurred in FY 2009</u>	<u>Description</u>
200900096	\$1,066,907	\$ 941,865	Janitorial services
200891533	\$ 206,764	\$ 204,057	Air-conditioning services
200810216	\$ 800,000	\$ 227,291	A/E Services
DE-09-0014	\$ 210,135	\$ 210,135	Waste pickup and removal
DE-09-0090	\$ 8,656	\$ 8,656	Termite treatment

2) As technology continues to evolve, services that were sole-sourced on Guam, such as telephone services, are beginning to experience competition. The procurement process should be revisited periodically for sole-sourced services.

Cause:

The GDOE Supply Management Administrator did not ensure compliance with the criteria.

Effect:

GDOE is in noncompliance with applicable procurement requirements.

Prior Year Status:

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

Recommendation:

GDOE should strengthen controls over ensuring compliance with applicable procurement requirements. The Supply Management 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, GDOE should revisit sole-sourced vendors on island periodically due to the evolution of technology as additional vendors enter the competition.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-05, Continued  
Area: Local Procurement

Auditee Corrective Action Plan:

**Responsible Party:** Supply Management Administrator, Brian C Mafnas

DOE concurs with the finding. Due to the reoccurrence of issues regarding policy and procedures, it is evident that the DOE procurement staff requires training and enforcement in these areas.

As of March, 2010 a monthly training requirement on Procurement Policies and Procedures will be enforced as a refresher to the staff. This training will be approved by the Supply Management Administrator for completeness. To further our compliance attempts, a DOE compliance checklist will be created by the Supply Management Administrator listing the minimum requirements before procurement can be initiated. The procurement checklist is being developed in consultation with the Internal Auditor and Federal Grants Administrator and will be formally adopted before the end of April, 2010. Additionally, monthly training has begun in the month of March, 2010. In addition, all vendors and market research will be conducted for new procurement. Award history will not justify the repeat usage of any particular vendor.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-06  
Area: Expenditures

Criteria:

Amounts for goods or services received are recorded in the appropriate period.

Condition:

We noted the following deficiencies:

1. For sixteen (80%) of twenty transactions tested, \$6,491,308 of purchases for textbooks or reading materials was recorded under equipment account "250" instead of under account "251," which is designated for textbooks. Audit reclassification has been proposed to classify these items accurately.
2. Purchase order number 20090012 of \$82,636 represents a prepayment for the purchase of textbooks; however, the books were not received as of fiscal year ended September 30, 2009.
3. Eighteen of thirty-five (51%) transactions tested, \$1,745,109 of goods or services were received or incurred in fiscal year 2009, but were not recorded in the appropriate period. An audit adjustment has been proposed to record these expenditures.

Cause:

GDOE accounting personnel might not possess a complete understanding of cutoff.

Effect:

Understatement of expenditures and accounts payable to vendors may result from this control deficiency.

Prior Year Status:

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

Recommendation:

GDOE Financial Affairs management should have accounting personnel participate in training courses that will enhance their understanding of such areas as cutoff and recording expenditures and capital outlays.

Auditee Corrective Action Plan:

**Responsible Party:** Acting Controller, Ricardo Ang

DOE concurs that there were issues with cut-off of expenditures. The current year-end procedures will be updated so that they are clearly understood and that tasks are clearly defined and assigned. These updated procedures will be in place by August, 2010.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-07  
Area: Encumbrances

Criteria:

Encumbrances represent valid and approved purchase orders.

Condition:

1. For one (2%) of thirty-five transactions tested, purchase order 200901666 totaling \$810,000 was not provided. An audit adjustment has been proposed to correct this balance, as such was subsequently cancelled.
2. For three (8%) of thirty-five transactions tested, transactions totaling \$980,867 represented cancelled purchase orders or purchase orders that lapsed as of September 30, 2009. An audit adjustment has been proposed to correct this overstatement.

Cause:

GDOE Financial Affairs management did not effectively monitor the validity of encumbrances.

Effect:

Encumbrances are overstated. During fieldwork, necessary audit adjustments were proposed to reflect the appropriate balances.

Prior Year Status:

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

Recommendation:

GDOE Financial Affairs management should ensure that the validity of encumbrances is monitored on a periodic basis (i.e., monthly).

Auditee Corrective Action Plan:

**Responsible Party:** Acting Controller, Ricardo Ang and Supply Management Administrator, Brian C Mafnas

DOE concurs with the finding. Effective April, 2010, accountants will be required to review at least quarterly and encouraged to review monthly all outstanding encumbrances. Additionally, regular review of outstanding purchase orders and contracts by the procurement staff, school administrators, and division heads will be put in the procurement SOPs and made part of the training. The SOP will be updated by May, 2010.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-08  
CFDA Program: 84.027 Special Education – Grants to States  
CFDA Program: 84.336 Teacher Quality Partnership Grants  
Federal Agency: U.S. Department of Education  
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.

Condition:

Although physical inventories are occurring as required, the necessary reconciliations have not been performed, resulting in incomplete property records.

GDOE has developed a Comprehensive Corrective Action Plan (CCAP) to address deficiencies with its equipment management system; however, in a letter from the U.S. Department of Education, Office of Special Education and Rehabilitative Services, dated December 10, 2009, the Assistant Secretary states, “The GDOE failed to demonstrate that it has fully implemented adequate procedures for managing equipment purchased with program grant funds.”

Equipment purchases over the past three years are as follows:

	<u>FY 2009 Purchases</u>	<u>FY 2008 Purchases</u>	<u>FY 2007 Purchases</u>
CFDA # 84.027	\$0	\$ 506,730	\$ 430
CFDA # 84.336	\$0	\$ 32,865	\$ 8,744

Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with applicable equipment management requirements in FY 2009.

Effect:

GPSS is in noncompliance with applicable equipment management requirements for FY 2009. Furthermore, the loss or theft of equipment could go undetected and fixed assets may be misstated.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-08, Continued  
CFDA Program: 84.027 Special Education – Grants to States  
CFDA Program: 84.336 Teacher Quality Partnership Grants  
Federal Agency: U.S. Department of Education  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Prior Year Status:

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

Recommendation:

GDOE should comply with the requirements of U.S. ED. In the letter described above, the Assistant Secretary “emphasized the need for the intervention of a third-party fiduciary and technical assistance provider” to help address the equipment management needs of GDOE. Areas of need highlighted by the Assistant Secretary include consistent application of a uniform definition of the term “fixed assets,” enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports.

Auditee Corrective Action Plan:

**Responsible Party:** Supply Management Administrator, Brian C Mafnas

DOE concurs with the audit finding.

SOPs are currently in place. The obvious solution to the problem is to establish and enforce an SOP. This enforcement will be monitored by the Supply Management Administrator which will include but is not limited to the usage of procedures, established timeframes, timely reports, and asset validations. To ensure the success of establishing and enforcing these procedures and the staffing issues, DOE will utilize technology to reach the end-users by providing an electronic SOP, mandatory online training, and monthly bulletin submissions from the Supply Administrator.

Additionally, the fixed asset group will work with procurement and accounting to ensure that they are tracking all purchases and receipts of fixed assets. A quarterly reconciliation will be put in place to ensure we are tagging and capturing fixed asset information.

These procedures should be fully in place and operational before the end of FY2010. Once in place, monitoring systems will be established to ensure the procedures are being followed.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-09  
Area: Transfer Authority

Criteria:

Public Law 29-106, Section 2, authorizes the Guam Department of Education to transfer in increments of up to \$500,000 between items in Attachment A of Public Law 29-106. GDOE shall notify the Speaker of I Liheslaturan Guahan five (5) days before such transfer can be effective.

Condition:

Notification of transfer to the Speaker and approved journal vouchers were not provided for examination for the following transfers:

1. Transfer of \$500,000 from the ADA Compliance category for the Bond fund to the General CIP category.
2. Transfer of \$500,000 from the ADA Compliance category for the Bond funds to the A/C Maintenance Repairs category.
3. Transfer of \$500,000 from the ADA Compliance category for the Bond funds to the A/C Maintenance Repairs category.

Cause:

GDOE Financial Affairs management has not maintained relevant financial documentation.

Effect:

Unapproved transfers and expenditures may result from this condition.

Recommendation:

We recommend management strengthen internal controls to ensure relevant financial documentation is stored and maintained. Furthermore, we recommend GDOE perform reconciliation with the Department of Administration records on a timely basis to ensure that all transfer authority memos are recorded.

Auditee Corrective Action Plan:

**Responsible Party:** Acting Controller, Ricardo Ang

DOE concurs with this finding and recommendation. Procedures will be put in place in April 2010 to address this concern.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-10  
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. GDOE classifies such agency funds as “Non-Appropriated Funds” (NAF).

Condition:

GDOE continues to evidence issues in accounting for NAF funds during the year ended September 30, 2009. 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 282 transactions approximating \$135,995. 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:

- Eighty-two (82) samples, aggregating \$61,532, were not supported by invoices, receiving reports or other evidential matter. Additionally, twelve 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 two instances, a boarding pass or evidence of travel was not on hand to support travel undertaken. We also noted nine instances wherein payments did not agree with the invoices. Additionally, in eighteen (18) 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 GDOE, and possibly the individual Guam Education Policy Board members, to potential lawsuits and increases the Organization’s financial exposure.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 09-10, Continued  
Area: Non-Appropriated Funds

Prior Year Status:

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

Recommendation:

Given the lack of corrective action, despite the expenditure of substantial oversight by the Internal Audit Division and substantial training efforts conducted by GDOE, 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:

**Responsible Party:** Internal Audit Division

DOE concurs with the finding and recommendation. The Guam Department of Education does not have the human resources to assign to oversee the NAF operations at each school site. The Internal Audit Division will continue to conduct training and on-going audits of the financial records for these activities.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2009

Unresolved Prior Findings

Unresolved prior audit 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>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Total</u>
10.555	Child Nutrition Cluster	USDA	\$ -	\$3,856	\$ -	\$ 113,055	\$ 383,533	\$ 126	\$ 500,570
15.875	DOI	DOI	-	-	-	-	24,978	-	24,978
83.544	Public Assistance Grants	FEMA	-	-	-	-	386,857	-	386,857
84.181	Special Education – Infants and Families with Disabilities	ED	4,862	-	-	-	-	-	4,862
84.922	Consolidated Grants	ED	-	-	149,625	107,499	-	-	257,124
93.600	Head Start	HHS	-	-	-	-	424,288	134,640	558,928
	Totals		<u>\$ 4,862</u>	<u>\$ 3,856</u>	<u>\$149,625</u>	<u>\$220,554</u>	<u>\$ 1,219,656</u>	<u>\$134,766</u>	<u>\$1,733,319</u>