

GUAM DEPARTMENT OF EDUCATION

**(A LINE AGENCY OF THE
GOVERNMENT OF GUAM)**

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2012

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

Mr. Jon Fernandez
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 Guam Department of Education (GDOE) as of and for the year ended September 30, 2012, which collectively comprise GDOE's basic financial statements and have issued our report thereon dated June 29, 2013. Our report includes an explanatory paragraph that the financial statements of GDOE are not intended to present the financial position and results of operations of the Government of Guam. 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

Management of GDOE is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 10 through 25), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3, and 2012-4 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be significant deficiencies.

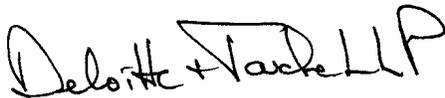
Compliance and Other Matters

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 item 2012-2 and 2012-4.

We noted certain matters that we reported to management of GDOE in a separate letter dated June 29, 2013.

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.

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June 29, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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**

Mr. Jon Fernandez
Superintendent of Education
Guam Department of Education:

Compliance

We have audited Guam Department of Education's (GDOE's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GDOE's major federal programs for the year ended September 30, 2012. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 10 through 25). 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 2012-1 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding equipment and real property management that are applicable to its CFDA Program 15.875 Economic, Social, and Political Development of the Territories major program, 84.394 State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act major program and 84.402 Consolidated Grants to the Outlying Areas, Recovery Act 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. 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 2012-2 and 2012-3.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 and 2012-3 to be material weaknesses.

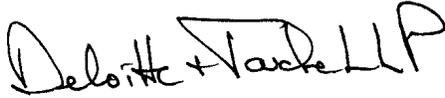
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be significant deficiencies.

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 Guam Department of Education (GDOE) as of and for the year ended September 30, 2012, and have issued our report thereon dated June 29, 2013, which contained an unqualified opinion on those financial statements. Our report includes an explanatory paragraph that the financial statements of GDOE are not intended to present the financial position and results of operations of the Government of Guam. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise GDOE's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the responses.

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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

June 29, 2013

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:		
Direct:		
National School Lunch Program	10.555	* \$ 9,121,787
State Administrative Expenses for Child Nutrition	10.560	266,793
ARRA Emergency Food Assistance Program (Administrative Costs)	10.568	19,888
Team Nutrition Grants	10.574	58,656
Fresh Fruits & Vegetable	10.582	<u>41,229</u>
Total U.S. Department of Agriculture		<u>\$ 9,508,353</u>
U.S. DEPARTMENT OF DEFENSE:		
Direct:		
Army JROTC	12.000	\$ 201,251
Air Force JROTC	12.000	84,553
Marine JROTC	12.000	<u>60,774</u>
Total U.S. Department of Defense		<u>\$ 346,578</u>
U.S. DEPARTMENT OF THE INTERIOR:		
Pass-Through Government of Guam - Department of Administration:		
Economic, Social, and Political Development of the Territories	15.875	* \$ <u>7,103,468</u>
Total U.S. Department of the Interior		<u>\$ 7,103,468</u>
U.S. DEPARTMENT OF EDUCATION:		
Direct:		
Special Education-Grants to States	84.027	* \$ 13,356,214
Impact Aid	84.041	77,611
Special Education: Grants for Infants and Families	84.181	1,703,412
Byrd Honors Scholarships	84.185	42,000
Fund for the Improvement of Education	84.215	49,643
Freely Associated States-Education Grant Program	84.256	392,971
Striving Readers	84.371	233,560
ARRA Special Education Grants to States, Recovery Act - B	84.391A	* 203,025
ARRA Consolidated Grants to the Outlying Areas, Recovery Act	84.402A	* 3,585,690
Consolidated Grants to the Outlying Areas	84.403A	* <u>26,444,874</u>
Subtotal Direct Programs		<u>46,089,000</u>
Pass-Through Government of Guam - Office of the Governor:		
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394A	* <u>9,501,790</u>
Subtotal Pass-Through Government of Guam - Office of the Governor		<u>9,501,790</u>
Total U.S. Department of Education		<u>\$ 55,590,790</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Direct:		
Head Start	93.600	* \$ 2,540,472
ARRA - Head Start	93.708	* <u>28,245</u>
Subtotal Direct Programs		2,568,717
Pass-Through Government of 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	<u>78,880</u>
Total U.S. Department of Health and Human Services		<u>\$ 2,647,597</u>
Total Federal Awards Expended		<u>\$ 75,196,786</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, 2012

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 Education has been designated as GDOE'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, 2012

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, 2012, GDOE's expenditures and grant award notifications are as follows:

<u>CFDA Number</u>	<u>Grant Amount</u>	<u>FY 2012 Expenditures</u>
10.568	\$ 23,569	\$ 19,888
84.391	510,352	203,025
84.394	75,742,784	9,501,790
84.402	12,206,153	3,585,690
93.708	<u>517,295</u>	<u>28,245</u>
	\$ <u>89,000,153</u>	\$ <u>13,338,638</u>

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2012

	<u>Expenditures</u>
Federal contributions, as reported in the 2012 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 74,850,208
<u>CFDA Program</u>	
12.000 Army JROTC	201,251
12.000 Air Force JROTC	84,553
12.000 Marine JROTC	<u>60,774</u>
Total Federal Expenditures Subject to Audit	\$ <u>75,196,786</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

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? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | |
|--|-------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors’ report issued on compliance for major programs: | |
| CFDA # 15.875 | Qualified |
| CFDA # 84.394 | Qualified |
| CFDA # 84.402 | 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. Identification of major programs: | |

<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 (IDEA):
84.027	Special Education – Grants to States
84.391	ARRA Special Education Grants to States, Recovery Act
	State Fiscal Stabilization Fund Cluster:
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.402	Consolidated Grants to the Outlying Areas, Recovery Act
84.403	Consolidated Grants to the Outlying Areas
	Head Start Cluster:
93.600	Head Start
93.708	ARRA – Head Start

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,255,904 |
| 11. Auditee qualified as low-risk auditee? | No |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Part II – Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
2012-1	Equipment and Real Property Management
2012-2	Local and Federal Procurement
2012-3	General Ledger and SEFA Reconciliations
2012-4	Non-Appropriated Funds (Fiduciary Fund)

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>
2012-3	10.555	Financial Management	\$ -	USDA
2012-1	15.875	Equipment and Real Property Management	\$ -	U.S. DOI
2012-3	84.027	Financial Management	\$ -	U.S. ED
2012-1	84.394	Equipment and Real Property Management	\$ -	U.S. ED
2012-1	84.402	Equipment and Real Property Management	\$ -	U.S. ED
2012-3	84.403	Financial Management	\$ -	U.S. ED
2012-2	93.600/93.708	Procurement and Suspension and Debarment	\$ -	U.S. ED
Total Questioned Costs			\$ -	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Agency: U.S. Department of Education
CFDA Program: 84.394 SFSF – Education State Grants, Recovery Act
CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

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, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

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.

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.

Conditions:

- 1) Property records of prior year assets purchased with federal funds did not include applicable acquisition costs.
- 2) Several vehicles and equipment exceeding \$50,000 were reported in the financial statements but were not in the inventory records and this condition also occurred in the reverse.
- 3) The following equipment examined was not operational. No maintenance or repair plan was provided for examination.

<u>Location</u>	<u>Acquisition Date</u>	<u>Tag #</u>	<u>Description</u>	<u>Acquisition Cost</u>
432	03/01/2010	26122	KATOLIGHT GENERATOR	\$153,000
321	03/01/2010	26123	GENSET GENERATOR	\$153,000
322	09/30/2009	25984	WATER TANK GENERATOR	\$165,530

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1, Continued

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.394 SFSF – Education State Grants, Recovery Act
CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act

Area: Equipment and Real Property Management
Questioned Costs: \$0

Conditions, Continued:

- 4) Construction work-in-progress of approximately \$378,433 was not reported in either the fixed asset summary report or the general ledger. An audit adjustment was proposed to include such in the financial statements.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>	<u>CFDA#</u>
TPFA CK# 3000049	Engineering & Architectural services	\$ 23,421	84.394
TPFA CK# 3000055	Engineering & Architectural services	175,000	84.394
TPFA CK# 3000060	Engineering & Architectural services	<u>180,012</u>	84.394
		<u>\$378,433</u>	

- 5) Capital improvements and asset acquisitions of approximately \$1,200,000 were not included as current year fixed asset additions for financial statement reporting purposes. An audit adjustment was proposed to record these assets.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>	<u>CFDA#</u>
TPFA IFB 008-2011	Wiring upgrade	\$ 593,800	84.402
TPFA PO 20111210	Wiring upgrade	<u>629,069</u>	84.402
		<u>\$1,222,869</u>	

- 6) Maintenance of the new schools rests with the Guam Education Financing Foundation; however, no documentation was provided to demonstrate GDOE's monitoring of GEFM maintenance activities, for which annual funding of approximately \$1,000,000 is provided by CFDA # 15.875.

Cause:

There appears to be a lack of resources allocated to establishing compliance with applicable equipment management requirements in FY 2012.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1, Continued

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.394 SFSF – Education State Grants, Recovery Act
CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act

Area: Equipment and Real Property Management
Questioned Costs: \$0

Effect:

GDOE is in noncompliance with applicable equipment management requirements for FY 2012. Furthermore, the loss or theft of equipment could go undetected, and fixed assets may be misstated.

Prior Year Status:

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

Recommendation:

GDOE should comply with applicable equipment management requirements, including enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports. In addition, maintenance budgets generated by the Guam Education Financing Foundation could be monitored through a quarterly reporting process.

Auditee Response and Corrective Action Plan:

GDOE will identify resources to hire an additional accountant who will be responsible for the fixed asset control account and related subsidiary ledger. Additionally, as part of the month-end closing procedures, accountants will be required to review relevant documents such as purchase orders, contracts, and invoices, to ensure that costs are properly identified and appropriately capitalized in the fixed asset ledger. This will include reviewing expenses that are contractual in nature, as well as expenses related to construction or other projects that should be set up as CWIP. Training will be developed to encompass the identification and proper procedures of cost capitalization. The Third Party Fiduciary Agent (TPFA) has also agreed to be more vigilant in their identification and capture of fixed assets.

The GDOE Property section worked with the TPFA in 2012 and 2013 to conduct a physical inventory, using bar code scanners to capture fixed asset additions and deletions. Part of the process included reconciliation between the physical inventory and the fixed asset records. Prior to FY13 year-end, GDOE will load the information from the bar code scanners into the fixed asset module of GDOE's new financial management information system, Munis from Tyler Technologies. One of the tasks of the fixed asset accountant will be to coordinate, at least monthly, with the Property section to ensure that the fixed assets listing is reconciled regularly to capture additions and deletions to accurately reflect the results of the physical inventory.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1, Continued

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories

Federal Agency: U.S. Department of Education
CFDA Program: 84.394 SFSF – Education State Grants, Recovery Act
CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act

Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

GDOE is in the process of addressing the replacement of stolen copper wire that connects the emergency generators to their respective schools. Additionally, funds have been appropriated for security of the school campuses to help prevent vandalism and theft. The scope of work for the maintenance of the generators and the water tanks is under review to determine if the GDOE Maintenance Division can address the work or if it is necessary to outsource the maintenance service.

The insurance and maintenance budget for the leased schools is approved prior to the beginning of each fiscal year. The owner outsources preventive and regular maintenance of the facilities and related equipment. The school administrative teams work directly with the owner's point of contact and issue work orders for any maintenance work. Any work identified by the schools that is not performed is escalated. In general, the owner has responded within a reasonable time to resolve any maintenance concerns. GDOE is working with the owner to put in place a more formal process to document maintenance performed at the schools.

The Deputy Superintendent of Finance and Administrative Services will work with the appropriate Division Managers and outside organizations to ensure that the corrective actions discussed above are in place before the end of FY13.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2
Area: Local and Federal Procurement
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Number: 09CH8453/47
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.

Local procurement regulations require that 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:

1. GDOE's Office of Supply Management centrally procures goods and services for both locally and federally funded activities and applies procurement guidance from a Guam assistant attorney general. That guidance was provided in June 2010 in an email memorandum, which states the following:

“ (1) Small purchase - The regulation states at 2 GAR, Div.4, Section 3111(c)(1) that insofar as it is practical, for small purchases between \$500 and \$15000, no less than three positive written quotations from businesses shall be solicited to submit written quotations or oral quotations that are recorded and placed in the procurement file. Solicitation (n.) is defined as the act or an instance of requesting or seeking to obtain something; a request or petition. [the verb is solicit]. I simply note that the law and the regulation do not indicate that an agency must acquire three positive written (or oral) quotations, but rather must solicit three positive written (or oral) quotations.”

As a result, we have examined procurement files that contain three solicitations, but less than three positive written quotations from businesses. However, the same assistant AG memorandum also states the following:

“Having said that, it is always the positive responsibility of the procurement officer to seek competitive bids, and so you must, nonetheless, decide whether you have received enough quotations in order to determine whether the lowest quote received is, in fact, competitive.”

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2, Continued
Area: Local and Federal Procurement
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Number: 09CH8453/47
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Condition, Continued:

As such, it appears guidance from the assistant AG is only partially applied, and such partial application may result in noncompliance with procurements, with the exception of procurements funded by the U.S. Department of Education. Based on tests of U.S. ED-funded procurements, procurement files do contain documentation of at least three positive written quotations, as required in our reading of the local procurement regulations. Therefore, it appears internal controls over compliance are inconsistently enforced across federal and local programs and among federal agencies.

CFDA 93.600

2. For one (or 4%) of 23 transactions tested, no sole source documentation was provided for the procurement of educational and training books in the amount of \$2,899 through PO Number 20120069 from Vendor Number 21009.

No questioned cost is presented because we determined that the books purchased are within the program's performance standards, the vendor is a recognized vendor of such educational and training books, and GDOE has transacted with approximately forty different vendors throughout FY 2012 for such supplies.

Cause:

GDOE Supply Management did not uniformly enforce internal control over compliance with procurement requirements applicable to both local and federal funds.

Effect:

GDOE may be in noncompliance with applicable procurement regulations.

Prior Year Status:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2, Continued
Area: Local and Federal Procurement
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Number: 09CH8453/47
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Recommendation:

GDOE Supply Management should enforce established procurement regulations consistently for all procurements, whether locally or federally funded, and should maintain records sufficient to detail the significant history of a procurement to substantiate compliance with applicable procurement requirements.

For each small purchase of supplies or services, GDOE Supply Management should maintain copies of solicitations and positive written quotations in accordance with applicable procurement requirements. Furthermore, GDOE management should continue efforts to obtain an AG opinion on whether local procurement law requires no less than three positive written “quotations” or “solicitations.”

Auditee Response and Corrective Action Plan:

GDOE sends, at minimum, three (3) Requests For Quotation (“RFQ”) to businesses for every small purchase. At times, GDOE sends and follows-up hundreds of RFQs per day. Purchasing SOPs will be reviewed and enforced to ensure the filing of written responses for each RFQ sent forth. It is possible a business determined it wished not to participate in a particular sales opportunity with GDOE and simply disregarded the RFQ. It is imperative procurement officials follow-up nonresponsive RFQs before the deadline of submission in order to obtain a minimum three (3) responses. When follow-up on such “nonresponsive” businesses is conducted via telephone, it will be adequate for the procurement official to document the time, date and individual of the communication confirming the “No Bid” or “No Quote.” Procurement officials will attach documentation necessary to show at least three (3) responses were solicited, recorded and placed in the procurement file of each purchase.

GDOE has procedures in place to document the justification of sole source purchases. In the transaction tested, the buyer failed to ensure the appropriate documentation was entered to the procurement file.

Similar procurement procedures apply to both federal and local purchases. Regular staff meetings will be held to reinforce these requirements and clarify any concerns.

The Supply Management Administrator will be responsible for ensuring that these corrective actions are put into place before the end of FY13.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-3

Area: General Ledger and SEFA Reconciliations

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
CFDA Program: 84.403 Consolidated Grants to Outlying Areas

Area: Financial Management
Questioned Cost: \$0

Criteria:

General ledger balances should be timely reconciled to the subsidiary ledger or supporting details and reviewed for ongoing pertinence.

Conditions:

- 1) Reconciliation between the general ledger and the subsidiary ledgers should be timely performed.

Reconciliation of subsidiary ledgers was still in progress as of March 31, 2013. Audit adjustments have been proposed to reconcile fund balance, accounts payable, accounts receivable, deferred revenues, long-term debt, local appropriations, and expenditures.
- 2) General ledger balances should be reviewed for unusual entries and ongoing pertinence.
 - a. Over \$4M of debit entries were included in the general ledger liabilities account. Subsequent adjustments were provided by Department personnel and audit adjustments were proposed to correct this misstatement. Remaining unidentified balances have been included in the summary of uncorrected misstatements.
 - b. As of September 30, 2012, cleared checks of \$1.3 million were included in the outstanding check register.
 - c. General Fund appropriations were not reconciled with GovGuam. An audit adjustment was proposed to correct \$4M of prior year accruals collected in the current year.
- 3) Periodic reconciliations should occur with records maintained by the third party fiduciary agent (third party) to allow for timely recordation of payables and receivables in the appropriate period and to substantiate the completeness of the Schedule of Expenditures of Federal Awards.

As of September 30, 2012, approximately \$3.3M for payroll, contractual, and travel expenditures were incurred, but were not recorded in the appropriate period. An audit adjustment has been proposed to record the additional federal expenditures.

<u>CFDA Number</u>	<u>Proposed Expenditures</u>
84.403	\$ 1,759,168
84.027	708,114
10.555	699,566
Others	<u>157,387</u>
	\$ <u>3,324,235</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-3, Continued

Area: General Ledger and SEFA Reconciliations

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
CFDA Program: 84.403 Consolidated Grants to Outlying Areas

Area: Financial Management
Questioned Cost: \$0

Cause:

Due to the system implementation, daily operations were hindered and the closing process was affected. Under these circumstances, reconciliations of the general ledger to subsidiary ledgers and recording of necessary year-end adjustments were adversely impacted.

In addition to the impact of the system implementation, substantial effort was required to reconcile to third party records as those records are maintained on a cash basis. The provided third party SEFA included reimbursements for expenditures previously reported, excluded unreimbursed payroll and travel expenditures prepaid by GDOE and excluded various accruals.

Effect:

As the focus was on the system implementation, daily operations and the year-end closing process were adversely impacted.

Prior Year Status:

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

Recommendation:

While we are aware of the impact of the major system implementation that occurred during the period, the lack of certain reconciliations has previously been reported and we continue to recommend that management strengthen controls to timely update and reconcile general ledger accounts and the Schedule of Expenditures of Federal Awards, with corresponding subsidiary ledgers.

Auditee Response and Corrective Action Plan:

In April 2012, GDOE implemented a new Financial Management Information System (FMIS). The FMIS has a robust reporting capability and will be used to mitigate these errors. GDOE management recognizes that timely and accurate account reconciliation is a critical control over financial reporting. Updates will be made to existing policies and procedures to strengthen management controls related to the reconciliation of general ledger, the balance sheet and the Schedule of Expenditures of Federal Awards (SEFA).

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-3, Continued

Area: General Ledger and SEFA Reconciliations

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
CFDA Program: 84.403 Consolidated Grants to Outlying Areas

Area: Financial Management
Questioned Cost: \$0

Auditee Response and Corrective Action Plan, Continued:

Accounting personnel will be required to timely perform monthly reconciliations and analytical reviews of their accounts, investigate any differences, prepare required journal entries for review and approval by their respective supervisors, and post the adjustments. These updates and practices should reduce the risk of possible significant or material misstatements. Staff evaluations will specifically address the completion of the tasks listed above.

GDOE will also schedule monthly meetings with the Third Party Fiduciary Agent (TPFA) to ensure that balances are reconciled. Procedures will be developed for reconciling and resolving differences between GDOE and TPFA balances.

Training for accounting personnel focused on grants administration and familiarization with relevant federal rules and regulations will be scheduled at least annually.

GDOE management believes that these changes will significantly improve this process and will serve as both preventive and detective controls to capture material misstatements within all accounts.

The Comptroller will be responsible for ensuring that these corrective actions are put into place before the end of FY13.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-4
Area: Non-Appropriated Funds (Fiduciary Fund)

Criteria:

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

Condition:

- 1) Though GDOE continued to evidence challenges associated with NAF funds during the year ended September 30, 2012, it appears that improvements are occurring. The improvements appear to stem from two factors. The first is that schools are utilizing the new automated system and are reporting in real time. The second factor is that school principals have been formally tasked with responsibility for NAF accounting. As a result, compliance with NAF requirements is increasing, especially in the area of timely cash deposits. Additionally, it is evident that an increased level of communication with the school principals is occurring. However, these improvements started in the middle of FY 2012, so certain matters continue to be reported. This is especially true in the area of disbursement documentation. We tested 374 expenditures approximating \$440,818, of which certain items did not appear to meet NAF documentation requirements.
 - a) 70 selections aggregating \$108,112 were not supported by invoices, receiving reports or other evidential matter.
 - b) Approximately 77 selections aggregating \$113,519 indicated an absence of competitive procurement considerations.
- 2) Opening balances did not reconcile to prior year ending balances reported for 4 of 78 school funds resulting in \$18,874 of prior year funds that were not carried forward to the current year.
- 3) Various bank reconciliations or attendant statements were not provided for 4 of 78 schools.
- 4) Variances were noted between bank reconciliation(s) and ending cash balances reported for 17 of 78 funds.

Cause:

The cause of this condition is increased monitoring of deposits in real time due to the new system implementation and affixed responsibility for the NAF operations. However, increased education appears to be required relative to competitive procurement and support for disbursements.

Effect:

The effect of this condition is that while improvements have been noted, the adequacy of the basis of certain expenditures and related procurement still requires improvement.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-4, Continued
Area: Non-Appropriated Funds (Fiduciary Fund)

Prior Year Status:

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

Recommendation:

To continue the improvements noted during the year, we recommend that GDOE consider several matters:

1. NAF administration should be formally built into principal evaluations and input from Internal Audit should be requested, at least annually.
2. The GDOE central office should consider whether it can obtain read only access of NAF bank accounts.
3. Continued education relative to competitive procurement and adequacy of disbursement documentation should occur.

Auditee Response and Corrective Action Plan:

With GDOE's implementation of its MUNIS Student Activity Tracker, school administrators can now better account for and manage Non-Appropriated Funds (NAF). Designated administrative staff are able to key in all cash transactions and generate pre-numbered receipts on a daily basis. School administrators, as well as internal auditors, are able to monitor school funds real time by comparing pre-numbered cash receipts and deposit slips to bank statements and "cash out" reports. The automation has allowed schools to discontinue the use of manual receipts. Bank reconciliations must occur on a timely basis for all accounts and subsidiary accounts.

The system also prevents school administrators and designated staff from erroneously entering disbursements that would cause a negative balance for a club. Although annual training occurs along with technical assistance by Internal Audit Office (IAO), missing or insufficient support documents to justify expenses (i.e. request forms, money committee approvals, quotes, invoices, cash count sheets) continue to plague the schools. Improvements are underway to require schools to provide at least three quotes so that goods and/or services are procured fairly and competitively. Non-compliance of NAF financial reporting requirements is being considered by management as part of the administrator's performance standards.

IAO will perform a risk assessment evaluation of each school's NAF account to determine the level of risk associated with NAF funds. Schools that are found to be non-compliant and/or high risk are suspended from operating the NAF until the accounts are brought into compliance and risk levels are lowered.

These changes are expected to eventually eliminate NAF as a material finding in future audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding no.: 2012-4, Continued
Area: Non-Appropriated Funds (Fiduciary Fund)

Auditee Response and Corrective Action Plan, Continued:

The Chief Auditor will be responsible for monitoring compliance by the School Administrators. Noncompliance will be reported to the Deputy Superintendent of Educational Support and Community Learning and the Superintendent for possible disciplinary action. School Administrators will be responsible for complying with the NAF procedures.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2012

Unresolved Prior Findings

Unresolved prior audit findings remain and are reiterated in current findings.