

GUAM DEPARTMENT OF EDUCATION

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2004

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

Juan P. Flores
Superintendent of Education
Guam Department of Education:

We have audited the financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2004, and have issued our report thereon dated June 6, 2005, which report was qualified due to our inability to ensure the physical presence and completeness of recorded capital assets. Except as discussed in the preceding sentence, 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

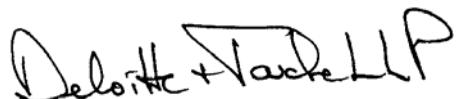
In planning and performing our audit, we considered GDOE's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect GDOE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 04-04 to 04-07, 04-09, 04-11 to 04-13, and 04-14 to 04-21.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 04-14 to 04-20 to be 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 41) as findings 04-04, 04-05, 04-06, 04-07, 04-09, 04-11, 04-13, 04-16, and 04-17.

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

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June 6, 2005

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

Juan P. Flores
Superintendent of Education
Guam Department of Education:

Compliance

We have audited the compliance of 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, 2004. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 41). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 on GDOE's compliance with those requirements.

As described in findings 04-01, 04-02, 04-03, 04-08, 04-10, 04-11, 04-13, 04-16, and 04-19 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; reporting; and procurement and suspension and debarment that are applicable to its major federal programs described in the accompanying summary of auditors' results section (page 8) and federal award findings and questioned cost section (page 9) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for 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 each of its major federal programs for the year ended September 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 04-04 to 04-07, 04-09, and 04-12.

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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

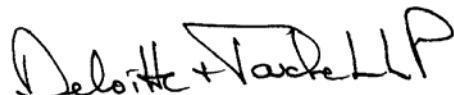
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GDOE's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 04-01 to 04-13, 04-16, and 04-19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 04-02, 04-11, 04-13, and 04-16 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2004, and have issued our report thereon dated June 6, 2005, which report was qualified due to the incomplete presentation of fixed assets. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GDOE. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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

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June 6, 2005

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2003	FY 2004 Cash Receipts	FY 2004 Expenditures	Accrued (Deferred) Balance at September 30, 2004
U.S. DEPARTMENT OF AGRICULTURE					
Direct:					
School Breakfast Program	10.553	\$ 177,895	\$ 1,331,185	\$ 1,353,349 *	\$ 200,059
National School Lunch Program	10.555	279,767	4,428,239	4,339,647 *	191,175
Child and Adult Care Food Program	10.558	(71,138)	-	-	(71,138)
State Administrative Expenses for Child Nutrition	10.560	75,676	238,819	182,299	19,156
Commodity Supplemental Food Program	10.565	(88,345)	-	-	(88,345)
Community Facilities Loans and Grants	10.766	-	24,450	9,875	(14,575)
Total U.S. Department of Agriculture		\$ 373,855	\$ 6,022,693	\$ 5,885,170	\$ 236,332
U.S. DEPARTMENT OF THE INTERIOR					
Pass-Through Guam Department of Administration					
Economic, Social, and Political Development of the Territories and the Freely Associated States	15.875	\$ -	\$ -	\$ 472,391	\$ 472,391
Total U.S. Department of the Interior		\$ -	\$ -	\$ 472,391	\$ 472,391
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration					
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	\$ (101,847)	\$ -	\$ -	\$ (101,847)
Total U.S. Department of Labor		\$ (101,847)	\$ -	\$ -	\$ (101,847)
U.S. DEPARTMENT OF EDUCATION					
Direct:					
Multi State	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	(147,568)	13,890,403	13,788,635 *	(249,336)
Special Education-Personnel Development and Parent Training (Training Personnel for the Education of Individuals with Disabilities)	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	64,877	-	-	64,877
Vocational Education: Basic Grants to States	84.048	1,386	64,835	78,756	15,307
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grants	84.173A	(27,795)	-	-	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	831,691	1,052,893	1,039,031	817,829
Byrd Honors Scholarships	84.185	6,000	109,500	105,000	1,500
Bilingual Education Support Services	84.194Q	41,192	41,192	11,436	11,436
Fund for the Improvement of Education (FIE)	84.215	3,270	-	-	3,270
Education Grant Program for the Freely Associated State	84.256	(50,993)	52,820	81,096	(22,717)
Twenty-First Century Community Learning Center	84.287	76,201	534,215	497,175	39,161
Technology Literacy Challenge Fund Grant	84.318	36,410	36,410	-	-
Advanced Placement Program	84.330	13,544	22,306	6,653	(2,109)
Class Size Reduction	84.340	33,958	31,352	-	2,606
School Renovation Grants	84.352	55,648	109,703	45,247	(8,808)
Literacy through School Libraries	84.364	449	13,409	14,752	1,792
Mathematics and Science Partnerships	84.366	-	2,972	4,104	1,132
Consolidated Grants	84.922A	1,861,776	21,413,120	22,823,422 *	3,272,078
Total U.S. Department of Education		\$ 2,784,392	\$ 37,375,130	\$ 38,495,307	\$ 3,904,569
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Pass-Through Guam Department of Administration					
Child Care and Development Block Grant	93.575	\$ (131,427)	\$ -	\$ -	\$ (131,427)
Promote the Survival and Continued Vitality of Native American Languages	93.587	100	100	-	-
Head Start	93.600	476,272	2,760,906	2,150,043 *	(134,591)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	82,122	130,582	84,190	35,730
Total U.S. Department of Health and Human Service		\$ 427,067	\$ 2,891,588	\$ 2,234,233	\$ (230,288)
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					
Pass-Through Guam Department of Administration:					
Learn and Serve America_School and Community Based Programs	94.004	\$ -	\$ 8,984	\$ 14,276	\$ 5,292
Total Corporation for National and Community Service		\$ -	\$ 8,984	\$ 14,276	\$ 5,292
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Pass-Through Guam Department of Administration					
Public Assistance Grants	97.036	\$ 278,642	\$ 2,278,806	\$ 1,303,098	\$ (697,066)
Total Federal Emergency Management Agency		\$ 278,642	\$ 2,278,806	\$ 1,303,098	\$ (697,066)
Total Federal Awards		\$ 3,762,109	\$ 48,577,201	\$ 48,404,475	\$ 3,589,383

* 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, 2004

1. Scope of Audit:

The Guam Department of Education 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 Health and Human Services has been designated as the Government of Guam's cognizant agency for the Single Audit.

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

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

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.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2004

		<u>Fiscal Year 2004 Expenditures</u>
Federal contributions, as reported in the 2004 financial statements:		
Federal grants assistance fund, expenditures, transfers, and other uses		\$ 42,809,983
<u>CFDA #</u>		
10.553 School Breakfast Program		1,353,349
10.555 National School Lunch Program		4,339,647
Other unidentified expenditures		<u>(98,504)</u>
Total Federal Expenditures Subject to Audit		\$ <u>48,404,475</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Part I - Summary of Auditors' Results

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

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

8. A threshold of \$1,452,134 was used to distinguish between Type A and Type B programs.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Part II - Financial Statement Findings Section

Reference <u>Number</u>	CFDA #	Finding	Questioned Costs	Federal Agency	Guam DOE Division
04-04	84.027/84.173	Level of Effort	\$ 75,864	Education	Special Ed.
04-05	84.027/84.173	Period of Availability	\$ 49,540	Education	Special Ed.
04-06	84.027/84.173	Procurement	\$ 92,374	Education	Special Ed.
04-07	84.922	Allowable Costs/Cost Principles	\$ 3,000	Education	Federal Programs
04-09	84.922	Period of Availability	\$ 8,936	Education	Federal Programs
04-11	93.600	Matching	\$ 50,652	HHS	Head Start
04-12	93.600	Period of Availability	\$ 0	HHS	Head Start
04-13	93.600	Procurement	\$ 83,988	HHS	Head Start
04-14		Cash	\$ 0		Business Office
04-15		Payables/Accrued Expenses	\$ 0		Business Office
04-16		Fixed Assets	\$ 0		All
04-17		Procurement	\$ 0		Supply Management
04-18		Interfund	\$ 0		Business Office
04-19		Receivables and Prepaid Expenses	\$ 0		Business Office
04-20		Non-Appropriated Funds	\$ 0		Schools
04-21		General Computer Controls – Development and Testing of Disaster Recovery Plan/Business Continuity Plan	\$ 0		FSAIS

Part III - Federal Award Findings and Questioned Cost Section

Reference <u>Number</u>	CFDA #	Finding	Questioned Costs	Federal Agency	Guam DOE Division
04-01	10.553/10.555	Eligibility	\$ 126	Agriculture	Food Services
04-02	10.553/10.555	Reporting	\$ 0	Agriculture	Food Services
04-03	84.027/84.173	Cash Management	\$ 0	Education	Special Ed.
04-04	84.027/84.173	Level of Effort	\$ 75,864	Education	Special Ed.
04-05	84.027/84.173	Period of Availability	\$ 49,540	Education	Special Ed.
04-06	84.027/84.173	Procurement	\$ 92,374	Education	Special Ed.
04-07	84.922	Allowable Costs/Cost Principles	\$ 3,000	Education	Federal Programs
04-08	84.922	Cash Management	\$ 0	Education	Federal Programs
04-09	84.922	Period of Availability	\$ 8,936	Education	Federal Programs
04-10	93.600	Cash Management	\$ 0	HHS	Head Start
04-11	93.600	Matching	\$ 50,652	HHS	Head Start
04-12	93.600	Period of Availability	\$ 0	HHS	Head Start
04-13	93.600	Procurement	\$ 83,988	HHS	Head Start
04-16	All	Equipment Management	\$ 0		
04-19	All	Allowable Costs/Cost Principles	\$ 0		
		Total Questioned Costs	\$ <u>364,480</u>		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-01
CFDA No.: 10.553/10.555
Program Name: USDA Child Nutrition Cluster
Grant No: N/A
Requirement: Eligibility
Questioned Costs: \$126

Criteria:

In accordance with applicable eligibility requirements, only eligible children may receive meals at no charge or at a reduced price. Furthermore, documentation of eligibility determinations should be maintained on file.

Condition:

- (1) For 4 (or 5%) of the 74 samples selections, no application was provided.

<u>School</u>	<u>Student</u>
Finegayan Elementary	A.A.A
Finegayan Elementary	K.R.C
Finegayan Elementary	R.M.
Agueda Johnston Middle	J.M.

- (2) For 1 (or 1%) of the 74 sample selections, the student did not meet income eligibility guidelines for free meals, but received meal benefits.

<u>School</u>	<u>Student</u>	Daily Amount of Meals Overpaid	<u>School Days</u>	Total Overpayment
George Washington High	E.D.	\$ 0.70	180	\$126

Cause:

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

Effect:

GDOE is in noncompliance with applicable eligibility requirements. A questioned cost of \$126 exists. Although, the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold.

Prior Year Status:

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

Recommendation:

GDOE should establish and implement internal record keeping controls to ensure that documents are maintained on file to substantiate applicable eligibility determinations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-01, Continued
CFDA No.: 10.553/10.555
Program Name: USDA Child Nutrition Cluster
Grant No.: N/A
Requirement: Eligibility
Questioned Costs: \$126

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The State Agency for USDA, FNS (Guam Department of Education) will provide training annually on proper record keeping controls to ensure that eligibility documentations for all participants are on file. Furthermore, because of an agreement between Guam DOE and the Department of Public Health and Social Services, families receiving social benefits (Food Stamps and TANF) will be automatically eligible under the Direct Certification for the School Lunch and Breakfast Programs.

For students who are not qualified under the Direct Certification, parents of students will be required to complete the required documents. Therefore, the School Food Authority (Guam DOE) will review annually through a random sampling of eligible participant's files to ensure compliance of proper record keeping controls. This process will ensure that proper internal controls are in place.

Although the eligibility determination of applicants is the responsibility of each school administrator, GDOE Food Services will provide training and annual review to ensure proper internal controls are followed.

Additionally, a Coordinated Review Effort (CRE) as required by USDA, FNS will be conducted by the State Reviewer once every four (4) years per school.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-02
CFDA No.: 10.553/10.555
Program Name: USDA Child Nutrition Cluster
Grant No.: N/A
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with applicable requirements, program reports shall be submitted to the respective grantor agencies accurately as specified in the reporting requirements.

Condition:

Guam Department of Education did not submit the required FNS-155 inventory reports.

Cause:

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

Effect:

GDOE is in noncompliance with applicable reporting requirements.

Prior Year Status:

The above condition is reiterative of conditions identified in our prior year audit of the program.

Recommendation:

GDOE should strengthen internal controls ensuring applicable reporting requirements are submitted as specified in the reporting requirements.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The Department of Education Food Service Division will provide the FNS-155 inventory. Currently, an inventory is being kept on a monthly basis. As a result of a meeting in January 2005 with USDA, FNS Western Region officials, GDOE provided to USDA, FNS the previous year's FNS-155 reports. GDOE will ensure compliance with the required reporting (due on January and July of each year).

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-03
CFDA No.: 84.027/84.173
Program Name: ED Special Education Cluster
Grant No.: H027A010069A
Requirement: Cash Management
Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements, the time elapsed between receiving funds from the grantor and disbursement should be minimized.

Condition:

For 3 (or 33%) out of 9 transactions tested, aggregating \$169,328 out of \$1,746,273 in total non-payroll expenditures, the time elapsed between cash receipt and cash disbursement was more than three days, ranging from 17 to 33 days.

Cause:

There appears to be weak internal controls ensuring that the time elapsed between cash receipt and cash disbursement is minimized.

Effect:

GDOE is in noncompliance with applicable cash management requirements.

Recommendation:

GDOE should strengthen internal controls to ensure that the time elapsed between cash receipt and cash disbursement is minimized.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. GDOE has updated its disbursement procedures to ensure that funds already drawn are paid out in a timely manner. This will ensure that the time elapsed between cash receipts and cash disbursement clearing is minimized.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-04
CFDA No.: 84.027/84.173
Program Name: ED Special Education Cluster
Grant No.: H027A030069
Requirement: Level of Effort – Maintenance of Effort
Questioned Costs: \$75,864

Criteria:

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

Condition:

For fiscal year 2004, Level of Effort requirements were not met as follows:

	<u>Aggregate local expenditures</u>
Minimum level of effort: FY 2003	\$ 4,247,990
Actual level of effort: FY 2004	<u>4,172,126</u>
Deficient level of effort	\$(<u>75,864</u>)

Cause:

There appears to be a lack of internal controls over ensuring sufficient local funds are appropriated by the legislature to meet level of effort requirements.

Effect:

GDOE may be in noncompliance with applicable level of effort requirements. A questioned cost of \$75,864 exists.

Recommendation:

GDOE should establish and implement internal controls to ensure that level of effort requirements are communicated to the Guam Legislature during the budget process.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE will ensure that during the set up of the budget for subsequent fiscal years, the mandatory level of effort funding is sufficient to meet these requirements. In addition, GDOE will include as part of their budget request, funds to maintain these levels.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-05
CFDA No.: 84.027/84.173
Program Name: ED Special Education Cluster
Grant No.: H027A010069A
Requirement: Period of Availability
Questioned Costs: \$49,540

Criteria:

In accordance with applicable period of availability requirements, funds appropriated in July of a fiscal year remain available for obligation during the succeeding 27 months.

Condition:

At the end of fiscal year 2004, a total of \$49,540 in expenditures was charged to Grant Year 2001 in liquidation of fiscal year 2003 obligations. However, the liquidation period ended December 31, 2003 for the following:

<u>Account Number</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
22.01.50.00.29.0230.9502	246850	01/2/2004	\$ 388
22.01.50.00.29.0230.9502	246830	01/2/2004	4,511
22.01.50.00.29.0230.9524	246858	01/2/2004	<u>44,641</u>
			<u>\$49,540</u>

Cause:

There appears to be weak internal controls ensuring that expenditures are not charged to expired funds.

Effect:

GDOE is in noncompliance with applicable period of availability requirements. A questioned cost of \$49,540 exists.

Prior Year Status:

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

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. Procedures are already in place to deappropriate/deencumber unexpended balances as the grants expire. Budget Journal Entries are posted against any remaining balances. GDOE will ensure that the liquidation of these encumbrances occurs during the liquidation period.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-06
CFDA No.: 84.027/84.173
Program Name: ED Special Education Cluster
Grant No.: H027A010069A & H027A030069
Requirement: Procurement
Questioned Costs: \$92,374

Criteria:

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

Condition:

Of nine transactions tested, aggregating \$169,328 of \$1,746,273 in total Program non-payroll expenditures, we noted the following noncompliance:

1. For three (or 33%), there are no procurement documents for the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
250365	03/23/04	10485	DE04-3308	\$ 2,746	Travel
252248	05/19/04	214569198	DE04-4481	12,700	Consulting
252268	05/19/04	586107388	DE04-4488	<u>22,914</u>	Attorney fee
					<u>\$38,360</u>

2. For two (or 22%), sole-source procurement procedures were applied although various vendors offer the required goods/services via websites for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
246335	12/10/03	21132	200300820	\$ 7,750	Books (WISC-IV)
250513	04/02/04	10395	200400457	<u>46,264</u>	Audiometers
					<u>\$ 54,014</u>

Cause:

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

Effect:

GDOE is in noncompliance with applicable procurement requirements. A questioned cost of \$92,374 exists.

Prior Year Status:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-06, Continued
CFDA No.: 84.027/84.173
Program Name: ED Special Education Cluster
Grant No.: H027A010069A & H027A030069
Requirement: Procurement
Questioned Costs: \$92,374

Recommendation:

GDOE should strengthen internal controls to ensure compliance with applicable procurement requirements. Prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is valid and properly documented in the procurement file.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE has instituted procedures for procuring travel. Price quotations are obtained for all travel requests. This process was implemented in July 2004. This will ensure that the procurement process is followed on all future travel requests. In addition, the Procurement Office will solicit an updated list of travel agents that are willing to accept GDOE purchase orders.

GDOE concurs with the recommendation surrounding the sole-source procurement of consulting and attorney services, and request for goods. We will institute procedures to request for price quotations or request for proposals (RFP) for these services to provide additional documentation to support the procurement process. The GDOE will make additional efforts to solicit various vendors that offer the required goods or services required.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-07
CFDA No.: 84.922A
Program Name: ED Consolidated Grants
Grant No.: S922A030002
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$3,000

Criteria:

In accordance with applicable allowable costs/cost principles requirements, supporting documents, such as vendor invoices and receiving reports, should be maintained on file to substantiate Program expenditures. Furthermore, prior grantor approval is required for purchases of capital assets.

Condition:

For 1 (or 4%) out of 28 transactions tested, aggregating \$2,022,819 of \$ 7,848,262 in total Program non-payroll expenditures, no vendor invoice and receiving report were provided to substantiate the following expenditure:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
248916	09/14/04	32588	200403010	\$3,000	Postage

Cause:

There appears to be weak internal controls over ensuring that supporting documents are maintained on file to substantiate program expenditures.

Effect:

GDOE may be in noncompliance with applicable allowable costs/cost principles requirements. A questioned cost of \$3,000 exists. Although the known questioned cost is less than \$10,000, the projected questioned cost exceeds the threshold. Therefore, this finding is considered reportable in the Single Audit Reports.

Recommendation:

GDOE should strengthen internal recordkeeping controls to ensure that such documents as vendor invoices and receiving reports are maintained on file to substantiate Program expenditures in accordance with applicable cost principles.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with this recommendation. We have established a procedure that keeps track of each meter access refill to serve as the receipt for the loading of postage into our postal meter.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-08
CFDA No.: 84.922A
Program Name: ED Consolidated Grants
Grant No.: S922A020002 & S922A030002
Requirement: Cash Management
Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements, the time elapsed between receiving funds from the grantor and disbursement should be minimized.

Condition:

For 11 (or 39%) out of 28 transactions tested, aggregating \$2,022,819 out of \$7,848,262 in total non-payroll expenditures, the time elapsed between cash receipt and cash disbursement was more than three days, ranging from 4 to 52 days.

Cause:

There appears to be weak internal controls ensuring that the time elapsed between cash receipt and cash disbursement is minimized.

Effect:

GDOE is in noncompliance with applicable cash management requirements.

Recommendation:

GDOE should strengthen internal controls to ensure that the time elapsed between cash receipt and cash disbursement is minimized.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. GDOE has updated its disbursement procedures to ensure that funds already drawn are paid out in a timely manner. This will ensure that the time elapsed between cash receipts and cash disbursement clearing is minimized.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-09
CFDA No.: 84.922A
Program Name: ED Consolidated Grants
Grant No.: S922A010002
Requirement: Period of Availability
Questioned Costs: \$8,936

Criteria:

In accordance with the Grant Award Notification, funds appropriated in a fiscal year are available until the end of the succeeding fiscal year, with a ninety-day liquidation period.

Condition:

At the end of fiscal year 2004, unliquidated/unobligated balances remain after the fund's period of availability. Furthermore, expenditures were charged to the expired grant, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Expenditures</u>	<u>Unobligated Balance</u>
2001	2003	\$ 8,936	\$326,902

Moreover, a total of \$10,054,753 was charged to Grant Year 2002, which is \$367,219 in excess of the 2002 allotment of \$9,687,534.

Cause:

There appears to be weak internal controls over ensuring that available balances are deappropriated/deencumbered after the fund's period of availability, that expenditures are not charged to expired funds, and that expenditures do not exceed allotments.

Effect:

The available balance for grant year 2001 is misstated, and GDOE is in noncompliance with applicable period of availability requirements. Subsequently, during audit fieldwork, GDOE properly charged the excess of \$367,219 to the available balance for grant year 2003. Therefore, a questioned cost of \$8,936 exists.

Prior Year Status:

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

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-09, Continued
CFDA No.: 84.922A
Program Name: ED Consolidated Grants
Grant No.: S922A010002
Requirement: Period of Availability
Questioned Costs: \$8,936

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. Procedures are already in place to deappropriate/deencumber unexpended balances as the grants expire. Budget Journal Entries are posted against any remaining balances. GDOE will ensure that the liquidation of these encumbrances occurs during the liquidation period.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-10
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38
Requirement: Cash Management
Questioned Costs: \$0

Criteria:

In accordance with applicable cash management requirements, the grantee must follow procedures to minimize the time elapsing between the transfer of funds from the grantor and disbursement.

Condition:

For one (or 25%) of the four Federal receipts received in FY 2004 for grant year 2003, aggregating \$2,167,810, a Federal advance amounting to \$632,894 resulted from the deposit of \$979,730 on August 17, 2004. Such advance was disbursed in fiscal year 2004, as follows:

<u>Check Date</u>	<u>Amount</u>
08/18/04	\$ 259
08/19/04	3,885
08/25/04	2,204
09/17/04	65,267
09/27/04	60,273
09/30/04	<u>28,581</u>
	<u>\$160,469</u>

Cause:

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

Effect:

GDOE is in noncompliance with applicable cash management requirements. An advance of \$472,425 remains at September 30, 2004.

Recommendation:

GDOE should strengthen internal controls to ensure compliance with applicable cash management requirements.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. An error was made during the request for the cash drawdown. GDOE will implement procedures to ensure that reconciliations are done prior to the drawdown of funds to ensure that excess cash is not received.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-11
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38 & 09CH8453/39
Requirement: Matching
Questioned Costs: \$50,652

Criteria:

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

Condition:

The local match is deficient, as follows:

Total Program Costs	\$ 2,129,559
Less Total Federal Share	<u>(1,703,647)</u>
Total Local Share	425,912
Less Available Waiver in FY 2004	<u>(86,712)</u>
Required Local Share in FY 2004	339,200
Less Actual Local Share in FY 2004	<u>(288,548)</u>
Deficient Local Share	\$ <u>50,652</u>

Cause:

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

Effect:

GDOE is in noncompliance with applicable matching requirements. A questioned cost of \$50,652 exists.

Recommendation:

GDOE should strengthen internal controls to ensure that applicable matching requirements are met.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE will ensure that during the set up of the budget for subsequent fiscal years, the mandatory level of effort funding is sufficient to meet these requirements. GDOE will include as part of their budget request to the Guam Legislature, funds to maintain these levels. In addition, GDOE will maintain sufficient records for donated services by individuals that meet this matching requirement to ensure accountability.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-12
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/37 & 09CH8453/38
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

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

Condition:

At the end of fiscal year 2003, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
2002	2003	\$ 111,331
2003	2004	<u>693,652</u>
		\$ <u>804,983</u>

Cause:

There appears to be weak internal controls over ensuring that unobligated/unliquidated balances are deappropriated/deencumbered after the fund's period of availability.

Effect:

The available balances for grant years 2002 and 2003 are misstated. If the balances are not properly deappropriated/deencumbered, GDOE could potentially expend Federal funds in noncompliance with applicable period of availability requirements.

Prior Year Status:

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

Recommendation:

GDOE should strengthen internal controls to ensure that Federal funds are no longer available for obligation or expenditure after the fund's period of availability. When the fund's period of availability ends, responsible personnel should deappropriate/deencumber unexpended balances.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

Documents were provided indicating the request for an extension. Procedures are already in place to deappropriate/deencumber unexpended balances as the grants expire. Budget Journal Entries are posted against any remaining balances. GDOE will ensure that the liquidation of these encumbrances occurs during the liquidation period.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-13
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38
Requirement: Procurement
Questioned Costs: \$83,988

Criteria:

In accordance with applicable procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement to evidence full and open competition among vendors. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Any allowable exceptions must be approved by the Superintendent and properly documented in the procurement file.

Condition:

Out of 8 transactions tested, aggregating \$89,258 of \$358,246 in total Program non-payroll expenditures, we noted the following:

1. For one (or 12%), there is no written rationale for the limited number of travel vendors solicited for the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
250365	03/23/04	10485	T41900048	\$ 2,908	Travel

2. For one (or 12%), sole source procurement was approved for the following transaction despite the fact that the services were available from other engineers.

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
251999	05/11/04	11552	200410007	\$ 18,000	Classroom additions

3. For two (or 25%), there is no documentation on file to indicate that competition was solicited for the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
254682	08/16/04	10047	200402099	\$ 6,254	Supplies
255575	09/30/04	10047	200402099	6,533	Supplies

4. For two (or 25%), potential bidders for the following transactions were given less than the required 15 working days to respond to the bid solicitation:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
255290	09/17/04	11555	200402074	\$ 13,740	Classroom additions
255384	09/27/04	11555	200402074	27,480	Classroom additions

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-13, Continued
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38
Requirement: Procurement
Questioned Costs: \$83,988

Condition, Continued:

5. For one (or 12%), the procurement file lacks sufficient documentation to evidence open competition for the following transaction. Namely, the summary of vendor quotations indicates that two of the three vendors solicited provided no bids, and there is no indication as to the response time the vendors were given. Furthermore, vendors on the internet were not solicited after GDOE received only one quote.

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
255238	09/17/04	10032	200402102	\$ 9,073	Computer server

Cause:

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

Effect:

GDOE is in noncompliance with applicable procurement requirements. A questioned cost of \$83,988 exists.

Prior Year Status:

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

Recommendation:

GDOE should strengthen internal controls to ensure compliance with applicable procurement requirements. Prior to preparing a purchase order or making a direct purchase, the responsible personnel should ensure the rationale for selecting each vendor is documented in the procurement file.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE concurs with the recommendation. GDOE has instituted procedures for procuring travel. Price quotations are obtained for all travel requests. This process was implemented in July 2004. This will ensure that the procurement process is followed on all future travel requests. In addition, the Procurement Office will solicit an updated list of travel agents that are willing to accept GDOE purchase orders.

GDOE issued a bid for the procurement of supplies and materials. It contains a list of more than 500 items that it buys on a regular basis. This bid is an indefinite quantity bid that was awarded in February 2005. Vendors were selected for each of the items and a master listing was provided to each school and

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-13, Continued
CFDA No.: 93.600
Program Name: HHS Head Start
Grant No.: 09CH8453/38
Requirement: Procurement
Questioned Costs: \$83,988

Auditee Response and Corrective Action Plan, Continued:

division to simplify the procurement process and reduce the time associated with these purchases. Additionally, GDOE has reduced the number of blanket purchase orders to ensure that the procurement process takes place for these purchases.

In soliciting for bids, GDOE will ensure that the required response time is adequate and follows the procurement regulations. Further, GDOE has recently implemented procedures to ensure that price quotations are adequate and that effort is made to obtain the required price quotations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No: 04-14
Area: Cash

Criteria:

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

Condition:

Bank reconciliations were not prepared on a monthly basis in fiscal year 2004.

Cause:

There appears to be a lack of internal controls over ensuring that bank reconciliations are prepared on a monthly basis.

Effect:

Cash could be misstated, and the loss or theft of cash would not be detected in a timely manner. However, during the audit process, GDOE reconciled bank accounts as of September 30, 2004.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The GDOE has already implemented procedures for bank reconciliations to be completed on a monthly basis.

For the past several months, the GDOE accounting staff has been working diligently to update the single audits and internal controls. Additional Accountants were hired to assist in the completion of the financial statements and improve on several functions of the Business Office. This has allowed us to keep up to date on the quarterly reporting requirement for the "Special Conditions Compliance", provide updated financial information on a monthly basis to management, and continue with the day-to-day operations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-15

Area: Payables/Accrued Expenses

Criteria:

Accounts payable and accrued expense balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Accounts payable and accrued expense balances per the general ledger and subsidiary ledger are not reconciled.

	<u>Accounts Payable</u>	<u>Federal Tax Payable</u>	<u>Accrued Payroll</u>
Per general ledger	\$ 2,869,083	\$ 399,754	\$ 1,613,052
Per subsidiary ledger	<u>1,149,846</u>	<u>168,797</u>	<u>(3,383,294)</u>
Variance	<u>\$ 1,719,237</u>	<u>\$ 230,957</u>	<u>\$ 4,996,346</u>

Cause:

There appears to be a lack of internal controls over ensuring that accounts payable and accrued expense balances per the general ledger and subsidiary ledger are reconciled.

Effect:

Accounts payable and accrued expense balances could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile accounts payable and accrued expense general ledger and subsidiary ledger balances.

Prior Year Status:

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

Recommendation:

GDOE management/Controller should designate a Business Office employee to be responsible for preparing accounts payable and accrued expense reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The GDOE Comptroller will assign an Accountant III to be responsible for reconciling accounts payable and accrued expenses on a monthly basis.

For the past several months, the GDOE accounting staff has been working diligently to update the single audits and internal controls. Additional Accountants were hired to assist in the completion of the financial statements and improve on several functions of the Business Office. This has allowed us to keep up to date on the quarterly reporting requirement for the "Special Conditions Compliance", provide updated financial information on a monthly basis to management, and continue with the day-to-day operations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-16
Area: Fixed Assets

Criteria:

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

Condition:

The required property management system is not in place. A fixed asset listing as of September 30, 2004, was prepared. However, the listing is incomplete, as follows:

1. For CFDA #84.922A, we were unable to locate the following in the schedule:

	<u>Check #</u>	<u>Check date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
a.	0246308	12/10/03	11209	200301609	24,592	Voltage regulator
b.	0246837	01/02/04	22109	200391482	445,684	Computers
c.	0252716	06/08/04	10032	200401175	2,145	Computer software
d.	0255315	09/17/04	10849	200402251	1,596	Portable radio
e.	0246437	12/15/03	10109	200301474	99,360	Laptop computers

For condition 1.e., out of 40 laptop computers purchased, only 30 were listed.

2. For CFDA #93.600, we were unable to locate the following in the schedule:

	<u>Check #</u>	<u>Check date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
a.	0255575	09/30/04	10047	200402067	5,271	Activity tables
b.	0255290	09/17/04	11555	200402074	13,740	Classroom additions
c.	0255238	09/17/04	10032	200402102	9,073	Computer server
d.	0255384	09/27/04	11555	200402074	27,480	Classroom additions

Cause:

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

Effect:

Fixed assets could be misstated.

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, 2004

Finding No.: 04-16, Continued
Area: Fixed Assets

Recommendation:

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

Auditee Response and Corrective Action:

In a letter dated May 13, 2005, GDOE provided the following response.

The GDOE Assistant Comptroller is assigned to develop and maintain procedures for recording and tracking Fixed Assets. Training will be conducted with school personnel to ensure that all assets are properly tagged, recorded, and that files are maintained. Additionally, an Accountant in the Business Office has been assigned to set up and assist in the implementation of the AS400 Fixed Assets Module to properly track fixed assets for the department.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-17
Area: Procurement

Criteria:

DOE procurement regulations should be used to select all vendors, and documentation of such selection process should be maintained on file.

Condition:

Of eighteen transactions tested, we noted the following conditions:

- 1) For one (or 6%), there is no procurement documentation on file for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
248732	03/12/04	21231	DE04-3298	\$ 21,653

- 2) For six (or 33%), the sole source method was used; however, written justification is lacking for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
951962	05/11/04	20006	DE04-3941, PO200201525 PO04	\$ 275,595
254958	09/02/04	21038	200401345PP200401345	\$ 92,340
254015	07/13/04	10004	PO04 200400085187958664	\$ 135,477
250121	03/09/04	10004	PO04 200400085186441661	\$ 130,858
246861	01/02/04	10004	PO04 200400085185927980	\$ 130,404
247090	01/07/04	10004	PO04 200400085186127424	\$ 130,404

Cause:

There appears to be weak internal controls over ensuring compliance with DOE procurement regulations.

Effect:

GDOE is in noncompliance with DOE procurement regulations.

Prior Year Status:

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

Recommendation:

GDOE should strengthen internal controls to ensure compliance with DOE procurement regulations. The requested procurement documents should be provided to effect resolution of this finding.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-17, Continued
Area: Procurement

Auditee Response and Corrective Action:

In a letter dated May 13, 2005, GDOE provided the following response.

GDOE will ensure that the required documents are maintained to support the procurement process. Further, GDOE has recently implemented procedures to ensure that price quotations are adequate and that effort is made to obtain the required price quotations and/or justification for sole-source procurement.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-18
Area: Interfund Transactions

Criteria:

A reconciliation of interfund transactions should be prepared on a monthly basis.

Condition:

No interfund reconciliations were prepared during fiscal year 2004, resulting in a net interfund balance of \$11,798,394, as follows:

Fund 11	\$ 154,990,690
Fund 12	214,730
Fund 13	(119,901)
Fund 15	(3,631,875)
Fund 21	(68,408)
Fund 22	(4,346,457)
Fund 26	116,373
Fund 27	(41,803)
Fund 28	19,265
Fund 60	(20,979)
Fund 81	(158,910,029)
	\$ (11,798,394)

Cause:

There appears to be a lack of internal controls over ensuring that interfund reconciliations are prepared on a monthly basis.

Effect:

Interfund transactions could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile interfund transactions.

Prior Year Status:

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

Recommendation:

GDOE management/Controller should designate a Business Office employee to be responsible for preparing interfund reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-18, Continued
Area: Interfund Transactions

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The Comptroller has assigned an Accountant III to be responsible for reconciling interfund transactions on a monthly basis.

For the past several months, the GDOE accounting staff has been working diligently to update the single audits and internal controls. Additional Accountants were hired to assist in the completion of the financial statements and improve on several functions of the Business Office. This has allowed us to keep up to date on the quarterly reporting requirement for the "Special Conditions Compliance", provide updated financial information on a monthly basis to management, and continue with the day-to-day operations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-19

Area: Receivables and Prepaid Expenses

Criteria:

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

Condition:

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

<u>Account</u>	<u>Per general ledger</u>	<u>Per sub-ledger</u>	<u>Variance</u>
A/R Fund 11	\$ 261,796	\$ 391,234	\$ (129,438)
A/R Fund 21	\$ 887,490	\$ 209,524	\$ 677,966
A/R Fund 22	\$ 7,008,520	\$ 4,181,316	\$ 2,827,204
Prepaid Fund 11	\$ 0	\$ 12,621	\$ (12,621)
Prepaid Fund 12	\$ 0	\$ 467,554	\$ (467,554)
Prepaid Fund 15	\$ 0	\$ 33,611	\$ (33,611)
Prepaid Fund 21	\$ 0	\$ 7,131	\$ (7,131)
Prepaid Fund 22	\$ 41,697	\$ 327,654	\$ (285,959)

Cause:

There appears to be a lack of internal controls over ensuring that accounts receivable and prepaid expense balances per the general ledger and subsidiary ledger are reconciled.

Effect:

Accounts receivable and prepaid expense balances could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile accounts receivable general ledger and subsidiary ledger balances.

Prior Year Status:

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

Recommendation:

GDOE management/Controller should designate a Business Office employee to be responsible for preparing accounts receivable and prepaid expense reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-19, Continued
Area: Receivables and Prepaid Expenses

Auditee Response and Corrective Action Plan:

In a letter dated May 13, 2005, GDOE provided the following response.

The Comptroller has assigned an Accountant III to be responsible for reconciling accounts receivable and prepaid expenses on a monthly basis.

For the past several months, the GDOE accounting staff has been working diligently to update the single audits and internal controls. Additional Accountants were hired to assist in the completion of the financial statements and improve on several functions of the Business Office. This has allowed us to keep up to date on the quarterly reporting requirement for the "Special Conditions Compliance", provide updated financial information on a monthly basis to management, and continue with the day-to-day operations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Finding No.: 04-20

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. The Guam Department of Education classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

An improvement in the ability of the Guam Department of Education to account for NAF funds was evident in the year ended September 30, 2004. NAF fund expenditures were documented and reported. However, the majority of expenditures tested still indicate noncompliance with established NAF policies and with adequate documentation requirements. Detail expenditures were tested for 353 transactions. Of this sample, 230 items did not appear to meet NAF or adequate documentation requirements (65%). General problem areas noted are as follows:

- . Donations are being made. Donations to non-profits and others are not allowable per NAF regulations.
- . Approvals of requisite committees are not occurring and it is evident that principals are not adequately reviewing underlying documentation since, in many cases, no underlying documentation exists. This exception includes checks being made out to advisors and others for cash without any underlying invoices or support. Additionally, checks are made out ostensibly for certain purposes but the underlying invoices do not relate, in any way, to the stated purpose.
- . All travel appears questionable. There was virtually no documentation in support of class/sports organization travel. Boarding passes, meals receipts, hotel and other accommodation support is not available.

Additionally, the system of cash receipts utilized in various schools appears inadequate. The inadequacies include late deposits of cash, an absence of receipts, and inadequate posting of receipts to the applicable general ledger.

Cause:

The cause of this condition is disregard for NAF requirements by principals and treasurers tasked with NAF documentation maintenance.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2004 and that this condition could facilitate the fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes Guam Department of Education to potential lawsuits and increases its financial exposure.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-20, Continued
Area: Non-Appropriated Funds

Prior Year Status:

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

Recommendation:

These NAF funds are subject to ongoing audits by the Department's Internal Audit Division. We also noted that prosecutions and referrals to the Attorney General are occurring.

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

Auditee Response and Corrective Action Plan:

In a letter dated June 4, 2005, GDOE provided the following response.

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-21, Continued

Area: General Computer Controls - Development and Testing of Disaster Recovery Plan/Business Continuity Plan

Criteria:

Development and regular testing of the DRP and BCP is required to ensure that they remain current and consistent with the critical business processes. The process also trains DOE staff to ensure timely recoverability of key information systems in the event of disaster. The absence of testing of the plans may potentially delay the restoration of critical business processes and information systems, which may result in operational problems and financial losses.

Condition:

We were unable to view a current Disaster Recovery Plan / Business Continuity Plan, nor were we able to view testing of both plans.

Cause:

We believe DOE does not know the importance of a developed Disaster Recovery Plan / Business Continuity Plan.

Effect:

The effect of not having a developed Disaster Recovery Plan / Business Continuity Plan could result in extended computer system down time or complete system failure. Extended down time and/or complete system failure will have a direct impact on the financial statements.

Recommendation:

We recommend that management perform a business impact analysis to ensure that recovery procedures to encompass the existing computing environment, and to test the plans on a periodic basis.

Some possible options to consider (but not restricted to) for the testing are:

- The testing scenario should change from test to test;
- Conduct surprise tests when possible, taking into account financial and safety implications;
- The restoration of off-site data should be tested;
- Vendor (if any) performance should be included in the testing of recovery plans;
- Test objectives and criteria should be formally developed and published;
- Test planning assumptions should be developed and published;
- Test results are formally critiqued and the results published; and
- Identify and document plan inadequacies; test results should be promptly reported.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 04-21

Area: General Computer Controls - Development and Testing of Disaster Recovery Plan/Business Continuity Plan

Auditee Response and Corrective Action Plan:

GDOE's FSAIS division has been understaffed and has not had any stable management for more than three years. The shortage of staff and unstable management has caused the operations and other critical areas concerning the management of the financial systems in an emergency priority status. GDOE does recognize the importance of a disaster recovery plan as well as a business continuity plan, but lacked the staff and funding to initiate such plans. Prior arrangements were initiated for an off site back up, but were unsuccessful because of system differences, time, money, and adequate resources. Currently, arrangements are being initiated with Department of Administration to be a warm off-site as part in the event of a total facility/system loss for GDOE.

Our corrective action would be to assess and initiate a disaster recovery plan and a business continuity plan to ensure that operations and the GDOE's intellectual property are fully protected in the event of any disaster.

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Findings
Year Ended September 30, 2004

Unresolved Prior Findings

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

CFDA #	Program Name	Federal Agency									<u>Total</u>
			<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	-	
10.553/	Child Nutrition Cluster	Agriculture	\$ 126	\$ 596	-	194,468	66,125	132,034	-	-	\$ 393,349
10.555											
12.110	State Planning Assistance	Defense	-	-	-	-	-	-	205,357		205,357
97.036	Public Assistance Grants	FEMA	-	304,047	-	-	1,649,112	3,130,222	1,276,537		6,359,918
84.027	Special Education – Grants to States	Education	217,778	372,544	417,916	77,426	59,481	-	-		1,145,145
84.181	Special Education – Infants and Families with Disabilities	Education	-	21,738	13,364	-	14,917	-	58,204		108,223
84.922	Consolidated Grants	Education	11,936	-	281,811	-	-	-	-		293,747
93.600	Head Start	HHS	<u>134,640</u>	<u>6,494</u>	<u>181,337</u>	<u>43,053</u>	<u>101,913</u>	<u>-</u>	<u>18,797</u>		<u>486,234</u>
Totals			<u>\$ 364,480</u>	<u>\$ 705,419</u>	<u>\$ 894,428</u>	<u>314,947</u>	<u>1,891,548</u>	<u>3,262,256</u>	<u>1,558,895</u>		<u>\$ 8,991,973</u>

Note: Totals are net of resolutions per page 42.

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Findings, Continued
 Summary Schedule of Resolved Prior Findings as Represented by Guam Department of Education
 Year Ended September 30, 2004

The following findings were resolved in a determination letter, dated March 31, 2005, from the Assistant Secretary for Elementary and Secondary Education, U.S. Department of Education, and are excluded from the Schedule of Unresolved Prior Findings.

<u>Finding #</u>	<u>CDFA #</u>	<u>Area</u>	<u>Questioned Costs Resolved</u>
98-12	84.922	Period of Availability	\$ -
98-13	84.922	Allowable Costs/Cost Principles	134,033
98-14	84.922	Procurement	-
98-15	84.922	Subrecipient Monitoring	<u>-</u>
		Total 1998	<u>134,033</u>
99-11	84.922	Allowable Costs/Cost Principles	203,748
99-12	84.922	Reporting	-
99-13	84.922	Period of Availability	-
99-14	84.922	Subrecipient Monitoring	-
99-15	84.922	Procurement	2,805
99-19	84.922	Level of Effort	<u>-</u>
		Total 1999	<u>206,553</u>
00-10	84.922	Reporting	-
00-11	84.922	Allowable Costs/Cost Principles	113,426
00-12	84.922	Period of Availability	-
00-13	84.922	Subrecipient Monitoring	-
00-14	84.922	Procurement	2,500
00-19	84.922	Level of Effort	<u>-</u>
		Total 2000	<u>115,926</u>
01-10	84.922	Period of Availability	-
01-11	84.922	Procurement	82,603
01-12	84.922	Period of Availability	-
01-13	84.922	Reporting	-
01-14	84.922	Subrecipient Monitoring	-
01-20	84.922	Level of Effort	<u>-</u>
		Total 2001	<u>82,603</u>
		Total Resolved	\$ <u>539,115</u>