

GUAM DEPARTMENT OF EDUCATION

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

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2011

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

Taling M. Taitano
Interim Superintendent of Education
Guam Department of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2011, which collectively comprise GDOE's basic financial statements and have issued our report thereon dated June 27, 2012. 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 and a reference for the adoption of a new accounting standard. 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 23), 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 2011-2 through 2011-7 to be material weaknesses.

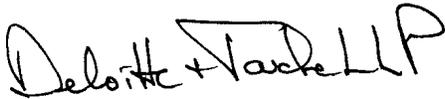
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 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 2011-3.

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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 27, 2012

**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**

Taling M. Taitano
Interim Superintendent of Education
Guam Department of Education:

Compliance

We have audited the 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, 2011. 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 23). 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 2011-4 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding allowable costs/cost principles that are applicable to the Special Education Cluster (IDEA); CFDA Program 84.402 Consolidated Grants to the Outlying Areas, Recovery Act; and CFDA Program 84.403 Consolidated Grants to the Outlying Areas. 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 the Special Education Cluster (IDEA); CFDA Program 84.402 Consolidated Grants to the Outlying Areas, Recover Act; and CFDA Program 84.403 Consolidated Grants to the Outlying. Also in our opinion, 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 other major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed 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 item 2011-1.

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 2011-4 to be material weaknesses.

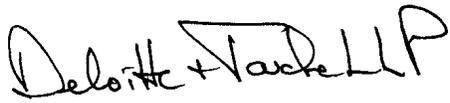
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 2011-1 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 the Guam Department of Education (GDOE) as of and for the year ended September 30, 2011, and have issued our report thereon dated June 27, 2012. 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 and a reference for the adoption of a new accounting standard. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise GDOE's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GDOE. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken 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 + Stacke LLP". The signature is written in a cursive, slightly stylized font.

June 27, 2012

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:		
Direct:		
National School Lunch Program	10.555	* \$ 8,914,146
State Administrative Expenses for Child Nutrition	10.560	346,119
ARRA Emergency Food Assistance Program (Administrative Costs)	10.568	27,488
ARRA Child Nutrition Discretionary Grants Limited Availability	10.579	19,772
Fresh Fruits and Vegetable Program	10.582	<u>8,125</u>
Total U.S. Department of Agriculture		\$ <u>9,315,650</u>
U.S. DEPARTMENT OF DEFENSE:		
Direct:		
Army JROTC	12.000	\$ 182,745
Air Force JROTC	12.000	87,114
Marine JROTC	12.000	<u>78,163</u>
Total U.S. Department of Defense		\$ <u>348,022</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>7,100,000</u>
Total U.S. Department of the Interior		\$ <u>7,100,000</u>
U.S. DEPARTMENT OF EDUCATION:		
Direct:		
Special Education-Grants to States	84.027	* \$ 13,380,356
Impact Aid	84.041	9,219
Special Education: Grants for Infants and Families	84.181	1,333,606
Byrd Honors Scholarships	84.185	37,500
Fund for the Improvement of Education	84.215	492,941
Freely Associated States-Education Grant Program	84.256	374,515
Literacy through School Libraries	84.364	29,722
ARRA Special Education Grants to States, Recovery Act - B	84.391A	* 176,048
ARRA Special Education Grants to States, Recovery Act - C	84.393A	52,064
ARRA Consolidated Grants to the Outlying Areas, Recovery Act	84.402A	* 3,271,295
Consolidated Grants to the Outlying Areas	84.403A	* <u>18,327,267</u>
Subtotal Direct Programs		<u>37,484,533</u>
Pass-Through Government of Guam - Office of the Governor:		
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394A	* 65,773,895
Education Jobs Fund	84.410A	* <u>20,146,108</u>
Subtotal Pass-Through Government of Guam - Office of the Governor		<u>85,920,003</u>
Total U.S. Department of Education		\$ <u>123,404,536</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Direct:		
Head Start	93.600	\$ 2,518,735
ARRA - Head Start	93.708	<u>286,759</u>
Subtotal Direct Programs		2,805,494
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>126,116</u>
Total U.S. Department of Health and Human Services		\$ <u>2,931,610</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
Pass-Through Government of Guam - Department of Administration: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ <u>14,506</u>
Total U.S. Department of Homeland Security		\$ <u>14,506</u>
Total Federal Awards Expended		\$ <u>143,114,324</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

1. Scope of Audit:

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

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

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

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

b. Subgrants:

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

3. High-Risk Grantee Status:

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

4. CFDA Number 10.555:

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

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

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, 2011, GDOE's expenditures and grant award notifications are as follows:

<u>CFDA Number</u>	<u>Grant Amount</u>	<u>FY 2011 Expenditures</u>
10.568	\$ 23,569	\$ 27,488
10.579	215,764	19,772
84.391	510,352	176,048
84.393	52,064	52,064
84.394	75,742,784	65,773,895
84.402	12,206,153	3,271,295
93.708	517,295	286,759
	<u>\$89,267,981</u>	<u>\$69,607,321</u>

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2011

	<u>Expenditures</u>
Federal contributions, as reported in the 2011 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 142,766,302
<u>CFDA Program</u>	
12.000 Army JROTC	182,745
12.000 Air Force JROTC	87,114
12.000 Marine JROTC	<u>78,163</u>
Total Federal Expenditures Subject to Audit	\$ <u>143,114,324</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

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 the 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: | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special Education Cluster (IDEA) | Qualified | | | | | | | | | | | | | | | | | | | | | | | | |
| Consolidated Grants to the Outlying Areas, Recovery Act | Qualified | | | | | | | | | | | | | | | | | | | | | | | | |
| Consolidated Grants to the Outlying Areas | 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: | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Numbers</u></th> <th style="text-align: left;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td colspan="2">Child Nutrition Cluster:</td> </tr> <tr> <td>10.555</td> <td>National School Lunch Program</td> </tr> <tr> <td>15.875</td> <td>Economic, Social and Political Development of the Territories</td> </tr> <tr> <td colspan="2">Special Education Cluster (IDEA):</td> </tr> <tr> <td>84.027</td> <td>Special Education – Grants to States</td> </tr> <tr> <td>84.391</td> <td>ARRA Special Education Grants to States, Recovery Act</td> </tr> <tr> <td colspan="2">State Fiscal Stabilization Fund Cluster:</td> </tr> <tr> <td>84.394</td> <td>State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act</td> </tr> <tr> <td>84.402</td> <td>Consolidated Grants to the Outlying Areas, Recovery Act</td> </tr> <tr> <td>84.403</td> <td>Consolidated Grants to the Outlying Areas</td> </tr> <tr> <td>84.410</td> <td>Education Jobs Fund</td> </tr> </tbody> </table> | <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 | 84.410 | Education Jobs Fund | |
| <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 | | | | | | | | | | | | | | | | | | | | | | | | |
| 84.410 | Education Jobs Fund | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$3,000,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. Auditee qualified as a low-risk auditee? | No | | | | | | | | | | | | | | | | | | | | | | | | |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Part II – Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
2011-1	Equipment and Real Property Management
2011-2	Journal Voucher Processing
2011-3	Non-Appropriated Funds
2011-4	Expenditures
2011-5	General Ledger Reconciliations – Subsidiary Ledgers
2011-6	General Ledger Reconciliations – Third Party Fiduciary Agent Records
2011-7	Budget

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>
2011-1	15.875	Equipment and Real Property Management	\$ -	U.S. DOI
2011-1	84.027/84.391	Equipment and Real Property Management	\$ -	U.S. ED
2011-4	84.027/84.391	Allowable Costs/Cost Principles	\$ -	U.S. ED
2011-4	84.402	Allowable Costs/Cost Principles	\$ -	U.S. ED
2011-4	84.403	Allowable Costs/Cost Principles	\$ -	U.S. ED
		Total Questioned Costs	\$ -	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-1
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: 84.027/84.391 Special Education Cluster
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, and 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.

Condition:

1. Property records of prior year assets purchased with federal funds did not routinely 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. Vehicle acquisitions of approximately \$93,000 were not included as current year fixed asset additions for financial statement reporting purposes. An audit adjustment was proposed to record these assets.
4. Construction work-in-progress of approximately \$517,000 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.
5. Maintenance of the new schools rest with the Guam Education Financing Foundation; however, there is no formal maintenance plan used by GDOE to monitor maintenance activities.
6. GDOE has developed a Comprehensive Corrective Action Plan (CCAP) to address deficiencies with its equipment management system; however, in a letter from the U.S. Department of Education, Office of Special Education and Rehabilitative Services, dated December 10, 2009, the Assistant Secretary states, "The GDOE failed to demonstrate that it has fully implemented adequate procedures for managing equipment purchased with program grant funds."

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-1, 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: 84.027/84.391 Special Education Cluster
 Area: Equipment and Real Property Management
 Questioned Costs: \$0

Major programs with material capital expenditures over the past four years are as follows:

	<u>FY 2011</u> <u>Purchases</u>	<u>FY 2010</u> <u>Purchases</u>	<u>FY 2009</u> <u>Purchases</u>	<u>FY 2008</u> <u>Purchases</u>
CFDA #15.875	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
CFDA #84.027/84.391	\$ -	\$ -	\$ -	\$ 506,730

Cause:

There appears to be a lack of resources allocated to establishing compliance with applicable equipment management requirements in FY 2011.

Effect:

GDOE is in noncompliance with applicable equipment management requirements for FY 2011. 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 the requirements of U.S. ED. In the letter described above, the Assistant Secretary “emphasized the need for the intervention of a third-party fiduciary and technical assistance provider” to help address the equipment management needs of GDOE. Areas of need highlighted by the Assistant Secretary include consistent application of a uniform definition of the term “fixed assets,” enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports.

Auditee Response and Corrective Action Plan:

We concur. The Equipment and Property Management section continues to be faced with resource challenges that affect its ability to address compliance issues in a timely fashion. However, with the technical assistance from the third party fiduciary as detailed in the Comprehensive Corrective Action Plan and the implementation of the new financial management information system issues related to GDOE's management of equipment and fixed assets should be addressed.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-2
Area: Journal Voucher Processing

Criteria:

Journal vouchers should be reviewed and authorized by management to validate the appropriateness of the entry.

Condition:

The following transactions do not evidence the validity of the underlying entries.

<u>AJE</u>	<u>Amount</u>	<u>Description</u>
9124	\$3,089,219	Debit entry was erroneously posted to interest income resulting in a \$3M debit balance in that account.
9117	3,000,000	AJE 9143 is a duplicate of AJE 9117.
9143	3,000,000	
972	349,921	AJE 9156 is a duplicate of 972 and 9103.
9103	(138)	
9156	349,783	
929	15,517,663	Entry resulted in a \$15,517,663 credit balance in expenditure account 24.10.22.00.25.0111.8405.
935	881,165	Entry resulted in a \$881,165 credit balance in expenditure account 24.10.22.00.25.0250.8404.
9129	5,259,343	Underlying support was insufficient to support this reclassification between liability accounts. The basis of this transaction was not determinable.
9131	798,976	Underlying support was insufficient to support an increase in liabilities and a decrease in revenues. The basis of this transaction was not determinable.

Cause:

Management did not scrutinize and determine the propriety of the above journal entries.

Effect:

Material financial statement misstatements resulted from these discrepancies. Audit adjustments were proposed to correct these misstatements.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-2, Continued
Area: Journal Voucher Processing

Recommendation:

We recommend that management challenge the propriety of journal vouchers before approval and entry.

Auditee Response and Corrective Action Plan:

We concur. We will revise our policies related to the preparation and approval of journal vouchers and required supporting documentation. GDOE will provide training to staff preparing journal entries to ensure all entries are appropriately and accurately charged. GDOE will mitigate this risk by providing proper training to staff in processing journal vouchers, ensuring that direct general ledger postings are performed timely and are supported by proper documentation, and that appropriate approval and verification occur. The new financial management information system and related Standard Operating Procedures should strengthen this process.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-3
Area: Non-Appropriated Funds

Criteria:

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

Condition:

GDOE continued to evidence challenges in accounting for NAF funds during the year ended September 30, 2011. Supporting documents for NAF fund expenditures and bank reconciliations are lacking, indicating noncompliance with established NAF policies and with adequate documentation requirements. Detail expenditures were tested for 278 transactions approximating \$289,932. Of this sample, a substantial number of items did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- 56 samples, aggregating \$77,652, were not supported by invoices, receiving reports or other evidential matter to substantiate that goods or services were received or approved for disbursement.
- There appears to be an absence of evidence of competitive procurement considerations on file.
- Various schools have been designated for additional investigation due to the lack of support for expenses, the lack of reporting, and the lack of accountability; and various transactions have been referred to, or are considered for, referral for criminal investigation.
- Various internal audits have been issued that raise substantial concerns as to whether NAF collections are being deposited or whether misappropriation of those receipts is occurring.
- Records of receipts and disbursements were not available for the following schools:
F.B. Leon Guerrero Middle School and Southern High School
- Bank reconciliations for the following schools:
 - A) were not provided
 - B) were not complete (i.e. administrative account or student account reconciliations were missing)
 - C) did not have supporting bank statements for examination, or
 - D) differences were noted between bank reconciliation and ending cash balance reported.

A-Agana Heights Elementary	B-Finegayan Elementary
A-D.L. Perez Elementary	B-H.S. Truman Elementary
A-F.Q. Sanchez Elementary (Disposition of the fund is unknown)	B-Inarajan Elementary
A-Tamuning Elementary	B-J.Q. San Miguel Elementary
A-F.B. Leon Guerrero Middle	B-Juan M. Guerrero Elementary
B-Astumbo Elementary	B-Jose Rios Middle School
B-C.L. Taitano Elementary	C-Astumbo Middle School
B-B.P. Carbullido Elementary	B, C, D-Southern High School

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-3, Continued
Area: Non-Appropriated Funds, Continued

Condition, Continued:

- Opening balances did not reconcile to the prior year ending balances reported.

	<u>SY2009-10</u> <u>Ending</u>	<u>SY2010-11</u> <u>Beginning</u>	<u>Variance</u>
Elementary:			
Adacao	\$ 219	\$ 512	\$ 293
C.L. Taitano	4,364	6,853	2,489
F.Q. Sanchez	232	2,214	1,982
Finegayan	3,786	3,865	79
HS Truman	3,172	5,992	2,820
JM Guerrero	5,007	2,215	(2,792)
Machananao	-	2,072	2,072
M.U. Lujan	8,031	7,379	(652)
Maria A Ulloa	5,925	4,399	(1,526)
Merizo Memorial	1,686	1,082	(604)
Ordot Chalan Pago	4,656	4,673	17
PC Lujan	7,271	4,642	(2,628)
Price	7,983	3,640	(4,343)
Tamuning	5,398	5,395	(3)
Secondary:			
Agueda	15,214	(17,055)	(1,840)
Benavente MS	4,748	(5,674)	(926)
FBLG	27,868	(27,868)	1,723
JFK	63,287	(63,287)	200
Oceanview MS	2,405	(3,172)	(767)

Cause:

The cause of this condition is disregard for NAF requirements by school administrators and treasurers tasked with NAF documentation maintenance. Additionally, it is evident that the accounting for NAF is frequently vested in personnel who are not capable of handling the task.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2011 and this condition could facilitate fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes GDOE, and possibly the individual Guam Education Board members, to potential lawsuits and increases the Organization's financial exposure.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-3, Continued
Area: Non-Appropriated Funds, Continued

Prior Year Status:

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

Recommendation:

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

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

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

Auditee Response and Corrective Action Plan:

We concur. GDOE has taken enforcement action by notifying and suspending all expenditure activities of non-complaint School Administrators. The Internal Auditor section continues to provide training and assistance to School Administrators and their assigned staff. With the technical assistance of the Third Party Fiduciary Agent, GDOE continues to address the Comprehensive Corrective Action Plan on improving internal controls in this area and department wide. Further, the implementation of the new financial management information system should aid the School Administrator's management of non-appropriated funds and ensure the proper recording and accounting of funds received and expended.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-4
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster
CFDA Program: 84.402 Consolidated Grants to Outlying Areas, Recovery Act
CFDA Program: 84.403 Consolidated Grants to Outlying Areas
Area: Local Expenditures and Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

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

Condition:

- 1) A total of \$4.2M of goods or services and \$2.7M of payroll were received or incurred in fiscal year 2011, but were not recorded in the appropriate period. An audit adjustment has been proposed to record these expenditures, which include the following proposed adjustments that are material to major programs in the Schedule of Expenditures of Federal Awards:

CFDA Number	Proposed Expenditures
84.027	\$ 351,659
84.391	66,656
84.402	985,863
84.403	<u>1,115,083</u>
	\$ <u>2,519,261</u>

- 2) \$1.4M of expenditures represented textbooks and supplies that were not received as of September 30, 2011. An audit adjustment has been proposed to correct this misstatement.

Cause:

There may be insufficient accounting personnel to carry out necessary reporting and accounting requirements.

Effect:

An understatement of expenditures, accounts payable and prepaid expenses may result from this condition.

Prior year status:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-4, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster
CFDA Program: 84.402 Consolidated Grants to Outlying Areas, Recovery Act
CFDA Program: 84.403 Consolidated Grants to Outlying Areas
Area: Local Expenditures and Allowable Costs/Cost Principles
Questioned Costs: \$0

Recommendation:

GDOE Financial Affairs management should assess its current staffing levels to determine whether sufficient personnel exist to carry out necessary reporting and accounting requirements.

Management should maintain a record of prepaid expenditures and such should be properly recorded.

Auditee Corrective Action Plan:

We concur. The TPFA is on a cash basis system and they did not become aware of the need to capture accruals until sometime in November 2011. GDOE is working closely with the TPFA to ensure that tracking of accruals occurs as part of year-end process. In addition, GDOE is currently re-assessing its current staffing assignment to ensure that staff is properly trained and tasks are appropriately delegated.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-5
Area: General Ledger Reconciliations – Subsidiary Ledgers

Criteria:

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

Condition:

- 1) Reconciliation of subsidiary ledgers was still in progress as of April 9, 2012. Audit adjustments have been proposed to reconcile accounts payable, accounts receivable, deferred revenues and encumbrances.
- 2) Liability accounts should be reviewed for ongoing pertinence. Accrued expenses are not relieved when a liability no longer existed. No controls were noted for this risk. \$350,150 of prior year liabilities were not relieved when disbursements were processed.

Cause:

There appears to be a lack of control over the timely reconciliation of the general ledger to subsidiary ledgers and to reflect necessary year-end adjustments in the financial statements of GDOE to conform to accounting principles generally accepted in the United States of America.

Effect:

GDOE management administered funds in FY2011 without full knowledge of the financial position of GDOE during the fiscal year. During fieldwork, necessary audit adjustments were proposed to reflect appropriate balances.

Recommendation:

We recommend that management strengthen controls to timely update and reconcile general ledger accounts with corresponding subsidiary ledgers.

On a periodic basis, management should analyze recorded accrued expenses for ongoing relevance. Inconsistencies or discrepancies should be timely investigated and resolved.

Auditee Response and Corrective Action Plan:

We concur. Because Financial Affairs personnel have been involved in the implementation of GDOE's new financial information system, the reconciliation of subsidiary ledgers was delayed. The assignments of tasks within Financial Affairs will be re-evaluated to ensure that the reconciliation of subsidiary ledgers to general ledger accounts are performed timely and accounts are updated as necessary.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding no.: 2011-6
Area: General Ledger Reconciliations – Third Party Fiduciary Agent Records

Criteria:

Periodic reconciliations should occur with records maintained by the third party fiduciary agent (third party) to allow for timely recordation of payables in the appropriate period and to substantiate the completeness of the Schedule of Expenditures of Federal Awards.

Condition:

In May 2012, documentation was obtained from the third party to allow for tests of subsequent disbursements to ascertain the completeness of recorded payables. As a result of the performed procedures, approximately \$1.9 million of previously unidentified accounts payable were identified. The additional payables related to U.S Education federal programs and caused an additional major federal program to be audited under the Single Audit Act threshold that was not previously classified as major.

Additionally, the Guam Department of Education is engaged in ongoing efforts to be reimbursed for payroll expenditures incurred under US Department of Education programs. It appears that as of September 30, 2011, some \$2 million was outstanding, of which some \$486K remains uncollected as of May 31, 2012.

Cause:

The cause of this condition is that the records of the third party are maintained on a cash basis and an analysis of payments made in 2012 for 2011 expenditures did not occur. Additionally, due to the volume of payroll transactions that must be individually approved, the process appears to take more time than originally anticipated.

Effect:

The effect of this condition was a material understatement of program expenditures and accounts payable, lack of compliance with requirements governing the preparation of the Schedule of Expenditures of Federal Awards, and the potential for unreimbursed expenditures.

Recommendation:

The Department may have to re-designate resources to determine year end accounts payable in a timely manner and to obtain required documentation supporting costs incurred to obtain reimbursement from the third party.

Auditee Response and Corrective Action Plan:

We concur. Because the TPFA is on a cash basis system, GDOE needs to ensure that monthly reconciliations are performed timely in order to compare, identify and follow-up on any payable differences between what was expensed by GDOE to those paid by TPFA. An accounting staff has been designated to working closely with the TPFA to ensure that the recording of payables occur within the appropriate period and made timely and to resolve any discrepancies.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-7
Area: Budget

Criteria:

Finance/Budget Department is to review and approve final budget balances based actual available funding.

Condition:

At the opening of FY2011, \$7.9M of funds was stated as being available for obligation from FY 2005 through FY 2010 appropriations.

At the close of FY2011, \$2.6M of funds was available for obligation from these appropriations.

<u>Appropriation Year</u>	<u>FY2011 Opening</u>	<u>FY 2011 Closing</u>
2005	\$ 32,348	\$ 29,079
2006	122,191	44,336
2007	660,927	375,016
2008	5,517,877	1,628,640
2009	1,503,192	1,145,283
2010	<u>3,704,846</u>	<u>1,886,732</u>
Total carryover	11,541,381	5,109,086
Encumbered	<u>(3,588,152)</u>	<u>(2,501,052)</u>
Available for obligation	\$ <u><u>7,953,229</u></u>	\$ <u><u>2,608,034</u></u>

Cause:

GDOE management did not evaluate budgetary accounts carried forward from prior years.

Effect:

Unfunded obligations may occur.

Recommendation:

We recommend that management monitor the carryover of unobligated balances and close unavailable accounts. This practice should assist in minimizing the expenditure of unbudgeted funds.

Auditee Response and Corrective Action Plan:

We concur. The Budget section has increased its staffing levels by three management analysts to ensure that prior year carryovers of unobligated balances are monitored in a timely manner and all accounts with zero balances are closed. The new Financial Management System and related Standard Operating Procedures will support this effort.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2011

Unresolved Prior Findings

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

Questioned Costs

A summary of unresolved questioned costs is as follows:

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal Agency</u>	<u>2008</u>	<u>2006</u>	<u>Total</u>
10.555	Child Nutrition Cluster	USDA	\$ 3,856	\$ 113,055	\$ 116,911
84.922	Consolidated Grants	ED	<u>-</u>	<u>107,499</u>	<u>107,499</u>
	Totals		<u>\$ 3,856</u>	<u>\$ 220,554</u>	<u>\$ 224,410</u>