

GUAM DEPARTMENT OF EDUCATION

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

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2017

GUAM DEPARTMENT OF EDUCATION

SINGLE AUDIT REPORTS
Year Ended September 30, 2017

CONTENTS

	<u>PAGE</u>
Part I. 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 <i>Government Auditing Standards</i>	1
Part II. Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Part III. Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Reconciliation of Schedule of Expenditures of Federal Awards to Basic Financial Statements	8
Part IV. Schedule of Findings and Questioned Costs	9
Part V. Corrective Action Plan	17
Part VI. Summary Schedule of Prior Audit Findings	21

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

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

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements, and have issued our report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GDOE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 that we consider to be significant deficiencies.

Compliance and Other Matters

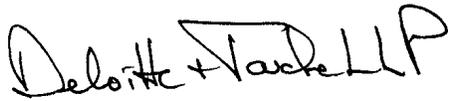
As part of obtaining reasonable assurance about whether GDOE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

GDOE's Response to Findings

GDOE's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. GDOE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 25, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Guam Department of Education's (GDOE's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of GDOE's major federal programs for the year ended September 30, 2017. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of GDOE's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of GDOE's compliance.

Opinion on Each Major Federal Program

In our opinion, GDOE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

GDOE's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. GDOE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GDOE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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 a 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. 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.

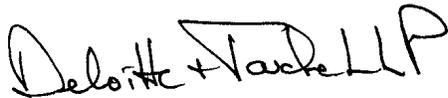
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002 and 2017-003, that we consider to be significant deficiencies.

GDOE's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. GDOE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements. We issued our report thereon dated June 25, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 25, 2018

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:				
Direct:				
Professional Standards for School Nutrition Employees	10.547			\$ 6,098
Child Nutrition Cluster:				
National School Lunch Program (NSLP)	10.555			<u>11,891,713</u>
Child Nutrition Cluster Subtotal			\$ 265,824	11,891,713
Child and Adult Care Food Program	10.558		19,867	37,807
Food Distribution Cluster:				
Emergency Food Assistance Program (Administrative Costs)	10.568			<u>43,153</u>
Food Distribution Cluster Subtotal				43,153
State Administrative Expenses for Child Nutrition	10.560			303,033
Child Nutrition Discretionary Grants Limited Availability	10.579		14,784	416,795
Fresh Fruit and Vegetable Program	10.582			<u>33,545</u>
Total U.S. Department of Agriculture				\$ <u>12,732,144</u>
U.S. DEPARTMENT OF DEFENSE:				
Direct:				
Army JROTC	12.000			\$ 281,248
Air Force JROTC	12.000			129,924
Marine JROTC	12.000			<u>25,655</u>
Total U.S. Department of Defense				\$ <u>436,827</u>
U.S. DEPARTMENT OF THE INTERIOR:				
Pass-Through Government of Guam - Bureau of Budget and Management Research:		778904292		
Economic, Social, and Political Development of the Territories	15.875			\$ <u>9,933,098</u>
Total U.S. Department of the Interior				\$ <u>9,933,098</u>
U.S. DEPARTMENT OF EDUCATION:				
Direct:				
Special Education Cluster:				
Special Education-Grants to States (IDEA, Part B)	84.027			\$ <u>12,721,391</u>
Special Education Cluster Subtotal				12,721,391
Impact Aid	84.041			1,580
Special Education-Grants for Infants and Families	84.181			1,813,095
Territories and Freely Associated States Education Grant Program	84.256			1,351,133
Striving Readers	84.371			281,803
Consolidated Grant to the Outlying Areas	84.403			<u>24,153,090</u>
Total U.S. Department of Education				\$ <u>40,322,092</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Direct:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079			\$ 18,494
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			189,253
Head Start	93.600			<u>2,645,316</u>
Total U.S. Department of Health and Human Services				<u>2,853,063</u>
Total Federal Awards Expended			\$ <u>300,475</u>	\$ <u>66,277,224</u>

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, 2017

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 Single Audit.

2. Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of GDOE under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of GDOE, it is not intended to and does not present the financial position, changes in net position or cash flows of GDOE.

3. Summary of Significant Accounting Policies:

a. Basis of Accounting:

GDOE is named as the federal award recipient on federal award documents and is responsible for maintaining the accounting records for federal expenditures. All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which GDOE maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. GDOE does not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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 \$750,000 or more in federal awards, the subrecipient separately satisfies the audit requirements of the Uniform Guidance.

4. High-Risk Grantee Status:

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

5. 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

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2017

	<u>Expenditures</u>
Federal contributions, as reported in the 2017 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 59,175,147
<u>CFDA Program</u>	
15.875 Economic, Social, and Political Development of the Territories	6,665,250
12.000 Army JROTC	281,248
12.000 Air Force JROTC	129,924
12.000 Marine JROTC	<u>25,655</u>
Total Federal Expenditures Subject to Audit	\$ <u>66,277,224</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I – Summary of Auditors’ Results

Financial Statements

- | | |
|---|------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors’ report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal programs: | |

<u>CFDA</u>	<u>Name of Federal Program or Cluster</u>
<u>Numbers</u>	
	Child Nutrition Cluster
15.875	Economic, Social, and Political Development of the Territories
84.181	Special Education-Grants for Infants and Families
84.256	Territories and Freely Associated States Education Grant Program
93.600	Head Start

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$1,988,317 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Reference</u>	<u>Finding</u>
<u>Number</u>	
2017-001	Reporting

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2017-002	15.875	Procurement and Suspension and Debarment	\$ 32,260
2017-003	84.181	Matching, Level of Effort, Earmarking	_____ -
		Total Federal Questioned Costs	\$ <u>32,260</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001
Federal Agency: U.S. Department of Agriculture
Area: Reporting
Questioned Costs: \$0

Criteria:

Federal reimbursements should offset against program expenditures.

Condition:

As of September 30, 2017, a total of \$142,689 of reimbursements was collected over the years from the grantor; however, insufficient expenditures were reported on the Schedule of Expenditures of Federal Awards for the respective program:

10.568 Emergency Food Assistance Program	\$ 109,144
10.582 Fresh Fruits & Vegetables Program	<u>33,545</u>
	\$ <u>145,811</u>

An adjustment was recorded by management to correct the program expenditures in the current year and transfer collections to the General Fund. As such, expenditures were reported in the General Fund in the previous years.

Cause:

The Child Nutrition and Food Distribution Programs Office did not authorize the transfer of expenditures to Financial Affairs timely.

Effect:

A misstatement between the General Fund and the Federal Grants Fund may exist as expenditures are not transferred timely to the program as they are drawn down.

Recommendation:

Controls may need to be implemented to include a verification process of expenditures in the general ledger program expenditures account before drawdown requests are approved.

Views of Auditee and Planned Corrective Actions:

See full response described in the Corrective Action Plan.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-002
Pass-Through Entity: Government of Guam - Bureau of Budget and Management Research
Federal Agency: U.S. Department of the Interior
CFDA Program 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: GUAM-CI-2014-6, GUAM-CIP-2015-2, GUAM-CIP-2017-1
Area: Procurement and Suspension and Debarment
Questioned Costs: \$32,260

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

In accordance with applicable State procurement regulations, sole source procurement is not permissible unless a requirement is available from only a single supplier. A requirement for a particular proprietary item does not justify a sole source procurement if there is more than one potential bidder or offeror for that item.

In addition, for small purchases of supplies or services, no less than three positive written quotations from businesses shall be solicited, recorded, and placed in the procurement file.

Lastly, for indefinite quantity contracts, the head of the purchasing agency shall indicate the rationale for using this type of contract and the reasons why another contract form will not suffice. When an extension on the time of performance of such contract is needed, the head of a purchasing agency must determine in writing that it is not practical to award another contract at the time of such extension.

Condition:

Of twenty-seven transactions, aggregating \$8,717,682 of \$9,931,724 in total program non-payroll costs, we noted the following:

1. For one (or 4%), sole source procurement was used for structural engineering services, with the justification that the contractor had designed the original structure plan and possessed the necessary qualifications. However, there is no documentation explaining why no other available engineer or engineering firm could have performed the required services.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Transaction Amount</u>	<u>FY 2017 Expenditures</u>
Engineering services	20170019	80423	\$13,014	\$14,460

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-002, Continued
 Pass-Through Entity: Government of Guam - Bureau of Budget and Management Research
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: GUAM-CI-2014-6, GUAM-CIP-2015-2, GUAM-CIP-2017-1
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$32,260

Condition, Continued:

2. For one (or 4%), small purchase procedures were applied for the procurement of construction services. Requests for quotations were sent to three vendors on 08/11/2017, Friday afternoon, and responses to the solicitation were due 08/14/2017, Monday morning. Only one vendor responded to the request by providing a quotation, while the other two vendors did not submit a quotation. It was also noted that one vendor requested the opportunity to perform a site visit prior to providing a quotation, however, GDOE did not consider the request. GDOE did not perform further solicitations despite the fact that nearly 90 construction companies are listed in the 2017 phone book.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Transaction Amount</u>	<u>FY 2017 Expenditures</u>
Construction services	20171927	10021	\$17,800	\$17,800

3. For one (or 4%), an extension for an indefinite quantity contract was approved without written indication that it was not practical to award another contract at the time of the extension period from 03/25/2017 to 06/24/2017. No questioned cost is presented as the contractor had been initially selected through competitive procedures.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Transaction Amount</u>	<u>FY 2017 Expenditures</u>
Hardware supplies	20170962	10024	\$35,112	\$75,509

4. For one (or 4%), an indefinite quantity contract was used for the purchase of air conditioning equipment and preventive maintenance services. However, no rationale was documented in the procurement file with regard to the use of an indefinite quantity bid and to the rationale why another contract form would not have sufficed at that time. No questioned cost is presented as the contractor had been initially selected through competitive procedures.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Transaction Amount</u>	<u>FY 2017 Expenditures</u>
Preventive maintenance	20170061	101113	\$88,887	\$88,887

Cause:

GDOE Supply Management did not enforce internal control over compliance with applicable procurement requirements.

Effect:

GDOE is in noncompliance with applicable procurement regulations. Questioned costs of \$32,260 exist.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-002, Continued
Pass-Through Entity: Government of Guam - Bureau of Budget and Management Research
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: GUAM-CI-2014-6, GUAM-CIP-2015-2, GUAM-CIP-2017-1
Area: Procurement and Suspension and Debarment
Questioned Costs: \$32,260

Recommendation:

GDOE should consider applying similar procedures described in GDOE's SOP No. 200-018, such as performing procedures that require Supply Management buyers to research via internet or telephone on the sole source documentation as provided by the end user, and further verify that the supplies or services are reasonably limited to a single supplier. In addition, procurement files should demonstrate that sufficient price competition was obtained and that maximum practicable competition was performed. GDOE should enforce established procurement regulations consistently for all procurements and strengthen internal control procedures to maximize full and open competition.

Views of Auditee and Planned Corrective Actions:

For Condition 1, 2, and 3 GDOE does not concur with the findings.

Condition 1: GDOE believes that it complied with sole source procurement procedures and that the vendor was selected based on his qualifications and knowledge of the project from the 1990's.

Condition 2: GDOE believes that it complied with small purchase procurement procedures and that due to the urgency to repair the school's underground drainage system, the solicitation of three quotations was sufficient to provide broad-based competition.

Condition 3: GDOE believes that it extended the time of performance in accordance with local procurement regulations and that the Indefinite Quantity Bid contract was extended to secure the competitive pricing.

For Condition 4, GDOE concurs with the finding.

See full response in the Corrective Action Plan.

Auditor Response:

Condition 1: Given the advances in technology over the past 18 years since 1999 and given the existence of at least seven other structural engineering firms listed in the 2017 phone book, competition should have been solicited.

Condition 2: Written justification regarding the urgency for repair services was not documented in the procurement record at the time the procurement occurred. Such documentation was subsequently filed and provided after our initial examination. In addition, although GDOE solicited at least three quotations, GDOE did not obtain the required three positive quotations.

Conditions 3: The required written rationale to support the use of the indefinite quantity contract was not documented in the procurement record at the time the procurement occurred. Such documentation was filed and provided after our initial examination.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.181 Special Education-Grants for Infants and Families
Federal Award: H181A150008, H181A160008, H181A17008
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria:

In accordance with applicable level of effort – maintenance of effort requirements, the total amount of State and local funds budgeted for expenditure in the current fiscal year for early intervention services for children eligible under Part C and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available.

Condition:

GDOE does not meet the definition of a State. Rather, GDOE is a public agency within the Government of Guam (the State) with an accounting system that is segregated from that of the State. As a result of such segregation, much of the data required to demonstrate compliance with the requirement is not available within GDOE. Because GDOE does not have information available from the Government of Guam regarding the State's overall budget and actual expenditures, we are unable to determine Guam's overall compliance with 34 CFR 303.225(a)(2) and (b).

This condition is a repeat of prior audit finding 2016-001. Per the Program Determination Letter dated November 15, 2017, the grantor required GDOE to take corrective action as a result of finding 2016-001. GDOE received technical guidance from the grantor in formulating Standard Operating Procedure (SOP) 300-004 in October 2017. However, based on our examination of SOP 300-004, such did not take effect until February 2018.

Cause:

There is a lack of coordination between Government of Guam and Guam Department of Education for purposes of compliance with the applicable level of effort – maintenance of effort requirement.

GDOE did not have sufficient time to implement its corrective action plan during the remaining months of FY 2017 after the FY 2016 audit was issued in May 2017. However, in June 2018, U.S Department of Education issued a program determination letter stating that GDOE's Standard Operating Procedures sufficiently address the corrective actions required, and such procedures are designed towards meeting the level of effort - maintenance of effort requirements.

Effect:

Guam's compliance cannot be determined until information external to GDOE is obtained. The requirement goes beyond the operations of GDOE, and until such time that coordinated efforts are established, the condition above is likely to remain unresolved.

Identification as a Repeat Finding: Finding 2016-001

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.181 Special Education-Grants for Infants and Families
Federal Award: H181A150008, H181A160008, H181A17008
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Recommendation:

GDOE should enforce established standard operating procedures and demonstrate compliance with applicable level of effort – maintenance of effort requirements.

Views of Auditee and Planned Corrective Actions:

See full response described in the Corrective Action Plan.



JON J. P. FERNANDEZ
Superintendent of Education

**DEPARTMENT OF EDUCATION
INTERNAL AUDIT OFFICE**

500 Mariner Avenue, Barrigada, Guam 96913
Telephone: (671) 300-1336
Fax: (671) 472-5001
Email: iao@gdoe.net



**FRANKLIN
COOPER-NURSE**
Chief Internal Auditor

**GUAM DEPARTMENT OF EDUCATION
Corrective Action Plan
Year Ended September 30, 2017**

Finding No.: 2017-001
Federal Agency: U.S. Department of Agriculture
Area: Reporting
Questioned Costs: \$0

Views of Auditee and Corrective Actions:

The Guam Department of Education (GDOE) concurs with the finding and recommendation. The expenditures were more than five years old and were not timely cleared. However, current Standard Operating Procedures (SOPs) require timely reconciliations.

Corrective Action: SOP 200-044 Reporting of Federal Grants, updated in December 2017, requires monthly reconciliation between the expenditure report for each grant and the designated payment application system. Additionally, GDOE is in the process of updating SOP 200-007 Elapsed Time between Receipt of Cash and Disbursements for Federal Grants to reflect current practices.

Specifically, before draws prepared by the Child Nutrition Program are processed, the assigned accountant runs a grant expenditure report to ensure expenditures exist to support the draw. Month end procedures currently include reconciliation of grant expenditure reports to the Automated Standard Application for Payments (ASAP) system.

Plan to Monitor: The Comptroller will ensure that the reconciliation is completed no later than the 15th of each month for the previous month. The Comptroller is also responsible for ensuring the aforementioned SOPs are reviewed at least every two years and updated as needed.

Officials Responsible: GDOE Financial Affairs and Budget Office will work collaboratively to improve internal controls. The Accountant assigned to each grant will be responsible for the month-end reconciliations and the reconciliations of each draw. Updates to SOP 200-007 is currently assigned to a Management Analyst to ensure timely and proper draw down of federal funds.

Planned Completion Date: Reconciliations are currently in place. Updates to SOP 200-007 will be completed before the end of September 30, 2018.

GUAM DEPARTMENT OF EDUCATION

Corrective Action Plan

Year Ended September 30, 2017

Finding No.: 2017-002
Pass-Through Entity: Government of Guam – Bureau of Budget and Management Research
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: GUAM-CI-2014-6, GUAM-CIP-2015-2, GUAM-CIP-2017-1
Area: Procurement and Suspension and Debarment
Questioned Costs: \$32,260

Views of Auditee and Corrective Actions:

Condition 1: The Guam Department of Education (GDOE) disagrees with the finding.

An assessment of the project only identified visible structural deterioration, and did not consider underlying structural connections that may only be identified through as-built plans or deconstruction of the walkway. The plans for the metal covered walkways and other pertinent information of the walkway construction (from the 1990's) were no longer available. The deconstruction would result in extended analysis hours and would incur significant fees outside the design work. As such, the vendor was selected based on his qualifications and knowledge of the walkway's structural components.

GDOE complied with Title 5 of the Guam Code Annotated (GCA) §5214 and Title 2 of the Guam Administrative Rules and Regulations (GAR), Division 4, §3112. The process went through the proper procurement procedures for sole source (e.g. determination of need, rationale for sole source, request for utilization of sole source, and Supply Management Administrator's approval of sole source). Additionally, the contract was formulated with the Office of the Attorney General and the Office of the Governor approving the sole source to provide the scope of services.

Condition 2: GDOE disagrees with the finding.

GDOE fulfilled the requirement in accordance with 5 GCA §5213 and 2 GAR, Division 4, §3111(d). No quotes, aside from the selected vendor and as confirmed by the end user, evidences solicitation from competitive sources to maximize competition. Additionally, the law and regulations do not specify the number of days required for a small purchase solicitation.

Due to the urgent need for services to repair an underground drainage system, GDOE proceeded with the most efficient procurement process, while still providing broad-based competition. The damage to the drainage system in question could have resulted in school closure, harm to students or staff, and further damage to the facility. In this case, timelines were short due to the urgency to keep the school open and the understanding that vendors providing the service are generally open through the weekend.

Condition 3: GDOE disagrees with the finding.

GDOE complied with 2 GAR, Division 4, §3102(b). Although no written rationale was in the file, the Indefinite Quantity Bid (IQB) was extended to secure the competitive pricing offered by the

bid in time for summer school readiness projects. For example, a gallon of paint from the bid was \$28.78 while it is \$39.49 from another vendor.

Condition 4: GDOE concurs with the finding and recommendation.

An IQB was used in anticipation of multiple purchases of air conditioners throughout the year. With the amount purchased through Invitation for Bid 008-2013 (IQB), it was cost effective to use the prices in the IQB than to utilize another source selection. Bidders tend to provide better pricing knowing that more purchases may be done within the year. Procurement has already implemented the completion of the End User Memorandum, which requires the need for a rationale for using an IQB as opposed to another type of contract.

Corrective Action: The GDOE Office of Supply Management will: (a) ensure that further market research is conducted for a request to utilize sole source procurement; (b) require at least three working days for vendors to respond to a small purchase solicitation; and (c) complete a written rationale for extending or utilizing IQBs instead of other source selection methods and include it as part of the procurement file. An SOP will be created for Small Purchase Requisitions for Professional Services. Moreover, SOPs 200-027 Requisition Entry and 200-026 Competitive Sealed Bidding - Indefinite Quantity Bid will be updated to reflect such requirements.

Plan to Monitor: The Supply Management Administrator and designated Buyer Supervisor(s) are responsible for ensuring compliance to procurement procedures, law and regulations. The GDOE Internal Audit Office will also conduct reviews of procurement SOPs.

Officials Responsible: Supply Management Administrator and designated Buyer Supervisor(s)

Planned Completion Date: On or before November 30, 2018.

GUAM DEPARTMENT OF EDUCATION
Corrective Action Plan
Year Ended September 30, 2017

Finding No.: 2017-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.181 Special Education-Grants for Infants and Families
Federal Award No.: H181A150008, H181A160008, H181A170008
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Views of Auditee and Corrective Actions:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

As noted above, in October 2017, GDOE received technical guidance from the grantor agency in formulating Standard Operating Procedures (SOP) 300-004 Individuals with Disabilities Education Act Part C Maintenance of Effort. The SOP was signed by GDOE, Department of Public Health & Social Services, Guam Memorial Hospital Authority, and the University of Guam in February 2018. The Guam Behavioral Health & Wellness Center signed the SOP in May 2018. Due to the timing of this SOP's implementation, the documentation for the Fiscal Year 2017 maintenance of effort was not completed until May 2018.

Corrective Action: SOP 300-004 was established. As stated in the SOP, the relevant Government of Guam agencies will be contacted to confirm the amounts budgeted or expended towards early intervention efforts aimed at infants and toddlers and their families for the current fiscal year. On July 1, 2018, the Deputy Superintendent for Assessment and Accountability has facilitated a memorandum from the Superintendent of Education to the aforementioned agencies.

Plan to Monitor: The Compliance and Monitoring Office will be responsible for ensuring that documents are requested and received.

Officials Responsible: Deputy Superintendent for Assessment and Accountability, Assistant Superintendent of Special Education (SPED), and designated Program Coordinator/SPED Fiscal Compliance.

Planned Completion Date: Procedures were established and will be followed on an annual basis.



JON J. P. FERNANDEZ
Superintendent of Education

**DEPARTMENT OF EDUCATION
INTERNAL AUDIT OFFICE**

500 Mariner Avenue, Barrigada, Guam 96913
Telephone: (671) 300-1336
Fax: (671) 472-5001
Email: iao@gdoe.net



**FRANKLIN
COOPER-NURSE**
Chief Internal Auditor

GUAM DEPARTMENT OF EDUCATION
Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2017

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Requirement</u>	<u>Questioned Cost</u>	<u>FY 2017 Status</u>
2016-001	84.181	Matching, Level of Effort, Earmarking	\$ -	Finding was resolved. Refer to ED's June 5, 2018 Response Letter.
2016-002	84.403	Procurement and Suspension and Debarment	\$ -	Finding was resolved. Refer to ED's December 29, 2017 Program Determination Letter.
2015-001	84.403	Procurement and Suspension and Debarment	\$ -	Refer to status for Finding 2016-002.
2015-002	93.092	Procurement and Suspension and Debarment	\$ -	Pending response from the U.S. Department of Health and Human Services.