

GUAM DEPARTMENT OF EDUCATION

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2003

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

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

We have audited the financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2003, and have issued our report thereon dated May 21, 2004, which report was qualified due to the incomplete presentation of fixed assets and the agency fund. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

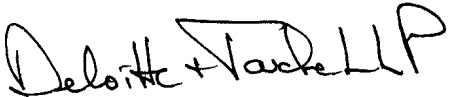
As part of obtaining reasonable assurance about whether GDOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 46) as findings 03-02 to 03-04, 03-06, 03-08, 03-10 to 03-12, 03-21, and 03-22.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GDOE's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect GDOE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 03-02 to 03-25.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 03-02 to 03-04, 03-05 to 03-11, and 03-13 to 03-23 to be material weaknesses.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Department of Education, 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.

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

May 21, 2004

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Compliance

We have audited the compliance of Guam Department of Education (GDOE) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 46). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GDOE's management. Our responsibility is to express an opinion on GDOE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GDOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GDOE's compliance with those requirements.

As described in findings 03-01, 03-04, 03-06, 03-11 and 03-21 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding allowable costs/cost principles, eligibility, equipment and real property management, and procurement and suspension and debarment that are applicable to its major federal programs described in the accompanying summary of auditors' results section (page 7) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for GDOE to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GDOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 03-02, 03-03, 03-08, 03-10 and 03-12.

Internal Control Over Compliance

The management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GDOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

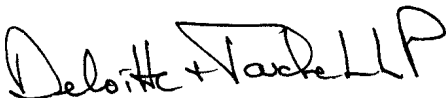
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GDOE's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 03-01 to 03-12, 03-21, 03-24, and 03-25.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 03-01, 03-04, 03-06, 03-11 and 03-21 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2003, and have issued our report thereon dated May 21, 2004, which report was qualified due to the incomplete presentation of fixed assets and the agency fund. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GDOE. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Guam Education Policy Board and the management of Guam Department of Education, 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.



May 21, 2004

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Award:
Year Ended September 30, 2003

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2002	FY 2003 Cash Receipts	FY 2003 Expenditures	Accrued (Deferred) Balance at September 30, 2003
U.S. DEPARTMENT OF AGRICULTURE:					
Direct:					
School Breakfast Program	10.553	\$ 381,036	\$ 1,204,228	\$ 1,001,087 *	\$ 177,895
National School Lunch Program	10.555	1,071,484	4,491,785	3,700,068 *	279,767
Child and Adult Care Food Program	10.558	(71,138)	-	-	(71,138)
State Administrative Expenses for Child Nutrition	10.560	58,589	218,750	235,837	75,676
Commodity Supplemental Food Program	10.565	(88,345)	-	-	(88,345)
Total U.S. Department of Agriculture		<u>\$ 1,351,626</u>	<u>\$ 5,914,763</u>	<u>\$ 4,936,992</u>	<u>\$ 373,855</u>
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration					
Employment and Training Administration Pilots, Demonstration and Research Project	17.261	\$ (101,847)	\$ -	\$ -	\$ (101,847)
Total U.S. Department of Labor		<u>\$ (101,847)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (101,847)</u>
U.S. DEPARTMENT OF EDUCATION:					
Direct:					
Multi State	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to State	84.027	(577,908)	13,573,584	14,003,924 *	(147,568)
Special Education-Personnel Development and Personnel Training (Training Personnel for the Education of Individuals with Disabilities)	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	(33,881)	60,978	159,736	64,877
Vocational Education: Basic Grants to State	84.048	(36,068)	97,201	134,655	1,386
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grant	84.173A	(27,795)	-	-	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	851,610	1,172,585	1,152,666	831,691
Byrd Honors Scholarship	84.185	63,000	63,000	6,000	6,000
Christa McAuliffe Fellowships (CMFP)	84.190	-	-	-	-
Bilingual Education Support Service	84.194Q	9,167	17,741	49,766	41,192
Fund for the Improvement of Education (FIE)	84.215	3,270	-	-	3,270
Education Grant Program for the Freely Associated States	84.256	(50,993)	-	-	(50,993)
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276A	242,212	281,518	39,306	-
Twenty-First Century Community Learning Centers	84.287	117,772	501,086	459,515	76,201
Technology Literacy Challenge Fund Grant	84.318	124,739	383,851	295,522	36,410
Advanced Placement Program	84.330	5,193	13,876	22,227	13,544
Class Size Reduction	84.340	2,606	-	31,352	33,958
School Renovation Grant	84.352	63,235	210,456	202,869	55,648
Literacy through School Libraries	84.364	-	-	449	449
Consolidated Grants:	84.922A	736,198	13,450,043	14,575,621 *	1,861,776
Total U.S. Department of Education		<u>\$ 1,476,703</u>	<u>\$ 29,825,919</u>	<u>\$ 31,133,608</u>	<u>\$ 2,784,392</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Pass-Through Guam Department of Administration					
Child Care and Development Block Grant	93.575	\$ (131,427)	\$ -	\$ -	\$ (131,427)
Promote the Survival and Continued Vitality of Native American Languages	93.587	-	-	100	100
Head Start	93.600	451,078	2,094,043	2,119,237 *	476,272
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	57,246	98,473	123,349	82,122
Total U.S. Department of Health and Human Services		<u>\$ 376,897</u>	<u>\$ 2,192,516</u>	<u>\$ 2,242,686</u>	<u>\$ 427,067</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Pass-Through Guam Department of Administration					
Public Assistance Grant	97.036	\$ 684,493	\$ 3,441,502	\$ 3,035,651 *	\$ 278,642
Total Federal Emergency Management Agency		<u>\$ 684,493</u>	<u>\$ 3,441,502</u>	<u>\$ 3,035,651</u>	<u>\$ 278,642</u>
Total Federal Award:		<u>\$ 3,787,872</u>	<u>\$ 41,374,700</u>	<u>\$ 41,348,937</u>	<u>\$ 3,762,109</u>

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

See notes to Schedule of Expenditures of Federal Award

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

1. Scope of Audit

The Guam Department of Education is a line agency of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the Federal expenditures of the Guam Department of Education (GDOE) 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 compliance 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 expenses 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 \$300,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. Change in CFDA Numbers

In 2003, the catalog of federal domestic assistance (CFDA) number for one of GDOE's major programs changed. The CFDA # for the Public Assistance Grants program changed from 84.544 in 2002 to 97.036 in 2003.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Part I - Summary of Auditors' Results

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

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education – Grants to States	84.027
Consolidated Grants	84.922
Head Start	93.600
Public Assistance Grants	97.036

8. A threshold of \$ 1,240,468 was used to distinguish between Type A and Type B programs.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Part II - Financial Statement Findings Section

Reference Number	CFDA #	Finding	Questioned Costs	Federal Agency	Guam DOE Division
03-02	84.027/84.173	Period of Availability	\$ 39,166	DOE	Business Office, Special Ed.
03-03	84.027/84.173	Procurement	\$ 2,798	DOE	Supply Management
03-04	84.027/84.173	Allowable Costs/Cost Principles	\$ 330,580	DOE	Business Office, Special Ed.
03-05	84.181	Period of Availability	\$ -	DOE	Business Office, Special Ed.
03-06	84.181	Procurement	\$ 21,738	DOE	Supply Management
03-07	84.922	Period of Availability	\$ -	DOE	Business Office, Federal Prog.
03-08	84.922	Procurement	\$ -	DOE	Supply Management
03-09	93.600	Period of Availability	\$ -	HHS	Business Office, Head Start
03-10	93.600	Procurement	\$ 6,494	HHS	Supply Management
03-11	97.036	Procurement	\$ 304,047	DHS	Supply Management
03-12	97.036	Activities Allowed or Unallowed	\$ -	DHS	Business Office, RCO
03-13		Cash	\$ -		Business Office
03-14		General Ledger	\$ -		Business Office
03-15		Prepaid Expenses	\$ -		Business Office
03-16		Interfund Transactions	\$ -		Business Office
03-17		Receivables	\$ -		Business Office
03-18		Payables	\$ -		Business Office
03-19		Accruals	\$ -		Business Office
03-20		Non-Appropriated Funds	\$ -		Business Office
03-21		Fixed Assets	\$ -		All
03-22		Procurement	\$ -		Supply Management
03-23		Expenditures	\$ -		Business Office
03-24	84.922	Reporting	\$ -		NAF
03-25	93.600	Earmarking	\$ -		Headstart

Part III - Federal Award Findings and Questioned Cost Section

Reference Number	CFDA #	Finding	Questioned Costs	Federal Agency	Guam DOE Division
03-01	10.553/10.555	Eligibility	\$ 596	Agriculture	Food Services
03-02	84.027/84.173	Period of Availability	\$ 39,166	DOE	Business Office, Special Ed.
03-03	84.027/84.173	Procurement	\$ 2,798	DOE	Supply Management
03-04	84.027/84.173	Allowable Costs/Cost Principles	\$ 330,580	DOE	Business Office, Special Ed.
03-05	84.181	Period of Availability	\$ -	DOE	Business Office, Special Ed.
03-06	84.181	Procurement	\$ 21,738	DOE	Supply Management
03-07	84.922	Period of Availability	\$ -	DOE	Business Office, Federal Prog.
03-08	84.922	Procurement	\$ -	DOE	Supply Management
03-09	93.600	Period of Availability	\$ -	HHS	Business Office, Head Start
03-10	93.600	Procurement	\$ 6,494	HHS	Supply Management
03-11	97.036	Procurement	\$ 304,047	DHS	Supply Management
03-12	97.036	Activities Allowed or Unallowed	\$ -	DHS	Business Office, RCO
03-21	All	Equipment Management	\$ -	All	All
03-24	84.922	Reporting	\$ -	DOE	NAF
03-25	93.600	Earmarking	\$ -	HHS	Headstart
Total Questioned Costs			\$ <u>705,419</u>		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-01
 CFDA No.: 10.553/10.555
 Program Name: Child Nutrition Cluster
 Area: Eligibility
 Questioned Cost: \$596

Criteria:

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

Condition:

- For 1 (or 3%) out of 31 schools, no listing of children receiving free or reduced-price meals was provided for the following:

M.S. (Agat) Elementary

- For 9 (or 8%) of the 75 sample selections, no application or complete application was submitted for testing.

<u>School</u>	<u>Student</u>
Agana Heights Elementary	T.P.
Chief Brodie Elementary	J.G.G.
F.B. Leon Guerrero Middle	O.C.A.
J.Q. San Miguel Elementary	A.P.M.
M.U. Lujan Elementary	J.J.T.
Merizo Elementary	K.E.

- For 2 (or 3%) of the 75 case files tested, the student did not meet income eligibility guidelines, but received meal benefits, as follows:

Student	Daily Amount of Meals Overpaid	School Days	Total overpayment
KMSNS	\$0.70	180	\$ 126
KMH	2.61	180	<u>470</u>
			<u>\$ 596</u>

Cause:

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

Effect:

GDOE is in noncompliance with applicable eligibility requirements. A questioned cost of \$596 exists. Although the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-01, Continued
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Eligibility
Questioned Cost: \$596

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

Management concurs with the recommendation. In addition, GDOE will review and update the current guidelines regarding record keeping and implement any changes prior to the start of School Year 2004-2005. Some key issues that have already been addressed include the Food Services Division of GDOE maintaining a master listing of all Free and Reduced-Price Meal participants beginning in School Year 2004-2005 and the GDOE federal examiners conducting random testing of eligibility.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-02
 CFDA No.: 84.027/84.173
 Program Name: Special Education Cluster
 Requirement: Period of Availability
 Questioned Costs: \$39,166

Criteria:

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

Condition:

At the end of fiscal year 2003, unliquidated/unobligated balances remain after the fund's period of availability. Furthermore, expenditures were charged to expired grants, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>	<u>2003 Expenditures</u>
1997	1999	\$ 5,595	\$ 0
1998	2000	102,225	3,222
1999	2001	12,363	33
2000	2002	<u>32,637</u>	<u>26,764</u>
		\$ <u>152,820</u>	\$ <u>30,019</u>

Moreover, a total of \$7,321,493 was charged to grant year 2001, which is \$9,147 in excess of the 2003 appropriation of \$7,312,346.

Cause:

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

Effect:

The available balances for grant years 1997 through 2000 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with applicable period of availability requirements. A questioned cost of \$39,166 exists.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-02, Continued
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Period of Availability
Questioned Costs: \$39,166

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. Budget Journal Entries will be posted and all open encumbrances will be closed to de-appropriate/de-encumber all unexpended balances by June 30, 2004. In an effort to strengthen and enforce the internal controls the GDOE hired a Comptroller on June 1, 2004. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-03
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Procurement
Questioned Costs: \$2,798

Criteria:

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

Condition:

For 1 (or 10%) out of 10 transactions, aggregating \$568,409 of \$1,953,209 in total Program non-payroll expenditures, there are no procurement records for the following.

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
0240520	3/28/03	575210211	T31900056	\$ 2,798	Travel

Cause:

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

Effect:

The grantee is in noncompliance with applicable procurement requirements. Therefore, a questioned cost of \$2,798 exists. Although the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response. We concur with the auditor's recommendation. The department currently acquires travel services by issuing travel authorizations to various commercial travel agencies without a contractual instrument (contract). The GDOE will competitively solicit offers for commercial travel services with a planned award date of October 1, 2004. In addition, the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-04
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$330,580

Criteria:

34 CFR 80.22(b) states, "For each kind of organization, there is a set of Federal principles for determining allowable costs. For the costs of a State, local, or Indian tribal government, the Secretary applies the cost principles in OMB Circular A-87, as amended on June 9, 1987." Furthermore, according to OMB Circular A-87, attachment B, section 19.3.C, capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value of useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. Federal awarding agencies are authorized at their option to waive or delegate this approval requirement.

Condition:

For 1 (or 10%) out of 10 transactions tested, aggregating \$568,409 of \$1,953,209 in total Program non-payroll expenditures, no prior grantor approval document is maintained on file for the following transaction to purchase five twenty-two-passenger buses:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
243377	8/26/03	10563	200300214	\$330,580

Cause:

There appears to be weak internal controls over ensuring that written prior grantor approval is obtained and maintained on file for capital expenditures.

Effect:

The grantee is in noncompliance with 34 CFR 80.22 and OMB Circular A-87 allowable costs/cost principles. A questioned cost of \$330,580 exists.

Prior Year Status:

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

Recommendation:

The grantee should strengthen internal controls to ensure that the responsible personnel obtain written grantor approval prior to the purchase of capital assets and maintain such written approval on file to substantiate capital expenditures in accordance with OMB Circular A-87.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-04, Continued
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$330,580

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

We concur with the auditor's recommendation. By June 30, 2004, the Superintendent of Education will officially inform all federal grant administrators to obtain written grantor approval prior to the purchase of capital assets and to maintain such written approval on file. With regard to this finding and a similar finding in the GDOE Single Audit for Fiscal Year 2002 (Finding No. 02-04); the following events occurred. During the week of May 17 – 21, 2004 officials from the USDOE met with various GDOE personnel, the Guam Public Auditor and representatives from Deloitte Touche Tohmatsu. The various meetings addressed the USDOE's recent declaration of the GDOE as a high-risk grantee and some of the more notable findings of the Fiscal Year 1998 – 2002 Single Audits. As a result of these discussions, the GDOE will provide the USDOE with all the documentation relative to the procurement and acquisition of the buses in question for FY 2002 and FY 2003. After reviewing this documentation, USDOE will determine how the findings will be resolved. The procurement records will be sent to USDOE by July 15, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-05
CFDA No.: 84.181
Program Name: Grants for Grants for Infants and Toddlers with Disabilities
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

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

Condition:

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

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1997	1999	\$ 4,278
1998	2000	1,987
1999	2001	4,780
		\$ <u>11,045</u>

Cause:

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

Effect:

The available balances for grant years 1997 through 1999 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with applicable period of availability requirements.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-05, Continued
CFDA No.: 84.181
Program Name: Grants for Grants for Infants and Toddlers with Disabilities
Requirement: Period of Availability
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. Budget Journal Entries will be posted and all open encumbrances will be closed to de-appropriate/de-encumber all unexpended balances by June 30, 2004. In an effort to strengthen and enforce the internal controls the GDOE hired a Comptroller on June 1, 2004. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-06
CFDA No.: 84.181
Program Name: Grants for Infants and Toddlers with Disabilities
Requirement: Procurement
Questioned Costs: \$21,738

Criteria:

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

Condition:

Out of 6 transactions, aggregating \$73,417 of \$159,280 in total Program non-payroll expenditures, we noted the following:

- (1) For 1 (or 16%), potential bidders were not provided the locally required minimum of fifteen working days to prepare bids. The bid was awarded as follows:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
239632	05/05/03	10903	200202069	\$ 18,995	Vehicle

- (2) For 1 (or 16%), there are no procurement records for the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
0242868	10/31/02	10485	T3190018	\$ 2,743	Travel

Cause:

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

Effect:

The grantee is in noncompliance with applicable procurement requirements. A questioned cost of \$21,738 exists.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-06, Continued
CFDA No.: 84.181
Program Name: Grants for Infants and Toddlers with Disabilities
Requirement: Procurement
Questioned Costs: \$21,738

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

Management concurs with the auditor's recommendation. In addition, we propose the following corrective actions:

- (1) Effective immediately, all procurement of contracts for goods or services requiring the use of a formal bid will be reviewed closely to ensure that the department adheres to all procurement regulations.
- (2) The department currently acquires travel services by issuing travel authorizations to various commercial travel agencies without a contractual instrument (contract). The GDOE will competitively solicit offers for commercial travel services with a planned award date of October 1, 2004.

In an effort to strengthen and enforce the internal controls the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-07
 CFDA No.: 84.922A
 Program Name: Consolidated Grants
 Requirement: Period of Availability
 Questioned Costs: \$0

Criteria:

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

Condition:

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

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated Balance</u>	<u>Unobligated Balance</u>
1995	1997	\$ -	\$ (2,427,156)
1997	1999	2,475	395,982
1998	2000	-	45,116
1999	2001	-	7,332
2000	2002	656	47,719
2001	2003	<u>84,472</u>	<u>(343,204)</u>
	TOTAL	\$ <u>87,603</u>	\$ <u>(2,274,211)</u>

Cause:

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

Effect:

The available balances for grant years 1994 through 2001 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with applicable period of availability requirements.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-07, Continued
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Period of Availability
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. Budget Journal Entries will be posted and all open encumbrances will be closed to de-appropriate/de-encumber all unexpended balances by June 30, 2004. In an effort to strengthen and enforce the internal controls the GDOE hired a Comptroller on June 1, 2004. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-08
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$0

Criteria:

In accordance with applicable procurement requirements and the Common Rule, a State will follow the same policies and procedures it uses for procurement from its non-Federal funds. In accordance with Guam DOE Procurement Regulations, all contracts shall be procured through competitive sealed bidding, with exceptions for such methods as small purchases, sole source procurement, and emergency procurement, among other exceptions.

Condition:

For one (or 4%) out of 23 transactions tested, aggregating \$1,315,486 of \$4,489,802 in total Program non-payroll expenditures, formal bidding procedures were not used in procuring the venue for the Direct Instruction Pre-Service Institute workshop. Instead, informal solicitations of quotations were obtained. Costs paid to the selected hotel under purchase order 200300978 totaled \$87,040, which exceeds the \$15,000 maximum locally mandated threshold for small purchase procurement.

Cause:

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

Effect:

The grantee is in noncompliance with applicable local procurement regulations. As evidence of open competition exists, there are no questioned costs.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a letter dated June 22, 2004, GDOE provided the following response.

Management concurs with the auditor's recommendation. Effective immediately, all procurement of contracts for goods or services requiring the use of formal bid will be reviewed closely to ensure that the department adheres to all procurement regulations.

In an effort to strengthen and enforce the internal controls the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-09
CFDA No.: 93.600
Program Name: Head Start
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

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

Condition:

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

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1999	2000	\$ 12,250
2000	2001	117,499
2001	2002	640,915
2002	2003	<u>111,331</u>
		\$ <u>881,995</u>

Cause:

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

Effect:

The available balances for grant years 1999 through 2002 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with applicable period of availability requirements.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-09, Continued
CFDA No.: 93.600
Program Name: Head Start
Requirement: Period of Availability
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

As in the prior year audit we concur with the auditors' recommendation. We will ensure that future unexpended balances are deappropriated/deencumbered in a timely manner. Budget Journal Entries will be posted and all open encumbrances will be closed to de-appropriate/de-encumber all unexpended balances by June 30, 2004. In an effort to strengthen and enforce the internal controls the GDOE hired a Comptroller on June 1, 2004. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-10
CFDA No.: 93.600
Program Name: Head Start
Requirement: Procurement
Questioned Costs: \$6,494

Criteria:

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

Condition:

Out of 6 transactions tested, aggregating \$46,411 of \$277,939 in total Program non-payroll expenditures, we noted the following:

1. For one (or 17%), there is no written rationale for the selection of the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
242895	11/18/02	10485	Unknown	\$ 6,494	Travel

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

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
Unknown	Unknown	Unknown	AJE 801	\$ 1,122	Supplies
Unknown	Unknown	Unknown	AJE 841	2,390	Supplies

Cause:

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

Effect:

The grantee is in noncompliance with applicable procurement requirements. A questioned cost of \$6,494 exists for condition 1 above. Although the actual questioned cost is less than \$10,000, this finding is reportable because the total projected questioned cost exceeds the threshold. No questioned costs are required for condition 2 above as the supplies were acquired from the Government of Guam General Services Agency (GSA). However, a recent audit by the Government of Guam Public Auditor has indicated that this source does not carry the lowest prices and does not necessarily maximize open competition when it obtains supplies for resale.

Prior Year Status:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-10, Continued
CFDA No.: 93.600
Program Name: Head Start
Requirement: Procurement
Questioned Costs: \$6,494

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

- (1) We concur with the auditor's recommendation. The department currently acquires travel services by issuing travel authorizations to various commercial travel agencies without a contractual instrument (contract). The GDOE will competitively solicit offers for commercial travel services with a planned award date of October 1, 2004. In addition, the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action.
- (2) Management does not concur with finding. The department is not required to seek vendor quotes or secure price competition when it places orders at the Government of Guam General Services Agency (GSA). Per inquiry with the Chief Procurement Officer of GSA, an Executive Order issued by the Governor of Guam directs that all Government of Guam agencies and departments acquire supplies and materials from GSA without going through competitive procurement procedures. Orders against the GSA is Non-mandatory on DOE, however, when opts to acquire supplies or materials from the GSA competition requirement are waived.

Auditors' response:

While we understand the Department's response, we believe that the Government of Guam's GSA should be viewed as a vendor and GDOE should still conduct competitive procurement procedures, pending resolution of the abovementioned audit issues.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-11
 CFDA No.: 97.036
 Program Name: Public Assistance Grants
 Requirement: Procurement
 Questioned Costs: \$304,047

Criteria:

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

Condition:

Out of 25 transactions tested, aggregating \$1,178,502 of \$1,716,993 in total Program non-payroll expenditures, we noted the following:

1. For 7 (or 28%), there are no procurement records for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
0240521	03/28/03	10578	DE03-0695	\$ 35,650	Air conditioning materials
0240136	06/04/03	11428	200300187	40,324	Classroom cleaning/sanitizing
0243919	09/30/03	11428	200300187	84,944	Gym cleaning/sanitizing
0238578	03/17/03	11475	200300179	60,417	Roof repair
0238578	03/17/03	11475	200300179	28,000	Roof repair
0238893	03/01/03	10058	DE03-0376	7,893	Milk
0238586	03/17/03	11451	200300139	<u>19,000</u>	Aluminum container
				<u>\$ 276,228</u>	

2. For 2 (or 8%), the proper procurement procedure was not applied. The procurement authority cited is Executive Order 2002-24, which allowed emergency procurement procedures. However, the allowable time frame had lapsed.

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
0238330	02/17/03	10425	200390145	\$ 13,180	Hinged-lid trays
0238480	02/28/03	10727	200390138	<u>4,500</u>	Hinged-lid trays
				<u>\$ 17,680</u>	

3. For 3 (or 12%), the period between the request for bids and the opening date was less than the required 15 days for the following transactions:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
0238330	02/17/03	10425	200390145	\$ 13,180	Hinged-lid trays
0238480	02/28/03	10727	200390138	4,500	Hinged-lid trays
0239957	05/29/03	10757	200300163	<u>10,139</u>	Vinyl tiles
				<u>\$ 27,819</u>	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-11, Continued
CFDA No.: 97.036
Program Name: Public Assistance Grants
Requirement: Procurement
Questioned Costs: \$304,047

Condition, Continued:

As reference 200390145 and 200390138 are already questioned at condition 2 above, only \$10,139 is questioned at this condition.

Cause:

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

Effect:

The grantee is in noncompliance with applicable procurement requirements. Therefore, a questioned cost of \$304,047 exists.

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

Management concurs with the auditor's recommendation. Effective immediately, all emergency procurement actions will be processed in accordance with GDOE Procurement Regulation Section 3.13. The Supply Administrator will review all emergency procurement requests and determine the appropriate action. Additionally, the administrator will have positive control over the emergency procurement process to ensure regulatory compliance and that competition is sought to the practical extent possible and to document such actions. In addition, the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-12
 CFDA No.: 97.036
 Program Name: Public Assistance Grant
 Requirement: Activities Allowed or Unallowed
 Questioned Costs: \$0

Criteria:

In accordance with applicable requirements for activities allowed or unallowed, the allowed activities for the Public Assistance program are for the approved project as described on the project worksheet (PW) and supporting documentation.

Condition:

For one (or 2%) out of 47 transactions tested, aggregating \$1,367,222 of \$3,035,651 in total Program expenditures, no PW was provided to substantiate the allowability of the following:

<u>Check Number</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>
0240521	03/28/03	10578	DE03-0695	\$ 35,650

Cause:

There appears to be weak internal controls over ensuring that the program is charged only for costs of approved projects as described on the PW.

Effect:

The grantee is in noncompliance with applicable requirements for activities allowed or unallowed. Therefore, a questioned cost exists, as follows:

Total costs questionable	\$ 35,650
Less costs already questioned at 03-11 above	(35,650)
Total questioned costs presented at this finding	<u><u>\$ 0</u></u>

Recommendation:

The grantee should strengthen internal controls to ensure that the program is charged only for costs of approved projects as described on the PW and that all PWs are maintained on file to substantiate allowable costs.

Auditee Response and Corrective Action Plan:

In a letter dated June 22, 2004, GDOE provided the following response.

Management concurs with the auditor's recommendation. Effective immediately, all procurement of contracts for goods or services requiring the use of formal bid will be reviewed closely to ensure that the department adheres to all procurement regulations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-12, Continued
CFDA No.: 97.036
Program Name: Public Assistance Grant
Requirement: Activities Allowed or Unallowed
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

In an effort to strengthen and enforce the internal controls the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No: 03-13
Area: Cash

Criteria:

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

Condition:

1. No electronic transfers between GDOE's bank accounts (i.e., operations and payroll) are recorded in the cash account.
2. No bank reconciliations were prepared during fiscal year 2003.
3. The Business Office does not have a comprehensive list of all bank accounts opened by GDOE schools.
4. Payroll cash disbursements paid in October 2003 for the pay period ended October 4, 2003, are recorded as cash disbursements as of September 30, 2003.

Cause:

There appears to be a lack of internal controls over ensuring that electronic transfers between bank accounts are recorded in the cash account and that bank reconciliations are prepared on a monthly basis. Furthermore, certain banks with accounts opened by GDOE schools do not recognize the Superintendent as an authorized employee for purposes of requesting account balance confirmations.

Effect:

Cash could be misstated, and the loss or theft of cash will not be detected in a timely manner. However, during the audit process, GDOE reconciled bank accounts as of September 30, 2003.

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over cash. GDOE management/Controller should designate a Business Office employee to be responsible for ensuring that electronic transfers between bank accounts are recorded in the cash account and for preparing bank reconciliations on a monthly basis. Upon receipt of the monthly bank statement, the responsible personnel should reconcile the cash bank balance with the cash book balance. Any discrepancies should be immediately investigated and resolved. Furthermore, GDOE should establish and implement internal controls over ensuring that the Superintendent or Business Office designee is either included as a signatory, or non-signing authorized representative, for all bank accounts opened by GDOE schools.

Auditee Response and Corrective Action Plan:

In a memo dated June 11, 2004, GDOE provided the following response.

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No: 03-14
Area: General Ledger

Criteria:

A functioning general ledger should be maintained, and general ledger balances should be periodically reconciled with subsidiary ledgers and with bank balances.

Condition:

The Guam Department of Education did not maintain accurate general ledger balances during the year ended September 30, 2003. The prior year audit adjustments were only partially keyed into the system. Reconciliations with subsidiary ledgers and with bank balances were therefore not performable during the year. While the Department did maintain subsidiary ledgers detailing expenditures by account or by federal program, no overall general ledger total was maintained and reconciled to subsidiary ledgers.

Cause:

GDOE lacks an adequate number of qualified accountants to post audit adjustments and perform necessary reconciliations.

Effect:

General ledger balances do not reflect prior year audited beginning balances. However, during the audit process, GDOE posted the prior year audit adjustments.

Recommendation:

The Guam Department of Education should commit necessary resources to maintain accurate general ledger balances.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-15
Area: Prepaid Expenses

Criteria:

Payments to vendors in advance of receipt of goods/services should be accounted for as prepaid expenses in subsidiary ledgers, which should be reconciled with general ledger balances.

Condition:

Prepaid expenses are not recorded in the general ledger.

Cause:

There appears to be a lack of internal controls over ensuring that prepaid expenses per the subsidiary and general ledgers are reconciled. Furthermore, the financial management system does not distinguish between open purchase orders for prepayments and for blanket purchases.

Effect:

Expenditures and prepaid expenses are misstated. However, during the audit process, GDOE proposed adjustments to correct the matter specified in the condition.

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over the reconciliation of prepaid expenses per the subsidiary and general ledgers. Furthermore, the responsible personnel should develop a referencing system within the financial management system to distinguish between open purchase orders for prepayments and for blanket purchases.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-16
Area: Interfund Transactions

Criteria:

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

Condition:

No interfund reconciliations were prepared during fiscal year 2003.

Cause:

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

Effect:

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

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over interfund transactions. GDOE management/Controller should designate a Business Office employee to be responsible for preparing interfund reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-17
Area: Receivables

Criteria:

All amounts receivable at year end should be recorded in the current year.

Condition:

Amounts receivable from Guam Department of Administration and Federal agencies are not recorded at September 30, 2003.

Cause:

There appears to be a lack of internal controls over ensuring that proper accruals are recorded.

Effect:

Receivables are misstated. However, during the audit process, GDOE proposed adjustments to account for receivable balances.

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over accruals. During the period of closing the books, the responsible personnel should determine and accrue the amount of receivables.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-18
Area: Payables

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over accounts payable reconciliations. GDOE management/Controller should designate a Business Office employee to be responsible for preparing accounts payable reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-19
Area: Accruals

Criteria:

Payroll-related expenditures incurred during the subsequent fiscal year should not be accrued in the current year.

Condition:

Payroll-related expenditures incurred during the subsequent period from October 1, 2003, through October 4, 2003, for the pay period ended October 4, 2003, were accrued at September 30, 2003.

Cause:

There appears to be a lack of internal controls over ensuring that proper accruals are recorded.

Effect:

Payroll-related accruals are misstated. However, during the audit process, GDOE proposed adjustments to account for payroll-related accruals.

Prior Year Status:

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

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over accruals. During the period of closing the books, the responsible personnel should determine and accrue the amount of payroll-related expenditures incurred and not yet paid.

Auditee Response and Corrective Action Plan:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-20
Area: Non-Appropriated Funds

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. The Guam Department of Education classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

The majority of NAF funds held at the respective schools, including cash generated from school sponsored plays and other productions, were not properly accounted for during the year ended September 30, 2003. While a determination of ending cash balances was made in certain instances, in others, no bank reconciliations were prepared to support book cash balances. As a result, the opinion on the September 30, 2003 financial statements was qualified. Additionally, the quality of the accounting records at the schools did not improve over fiscal year 2002. For example, out of 209 expenditure transactions tested aggregating \$311,740, the following items were noted:

- . Six instances of donations aggregating \$2,640 came to our attention. NAF rules prohibit the use of funds for donations.
- . Thirty-six specific instances where appropriate approvals were not obtained prior to making the disbursement.
- . One hundred thirty-two instances involving inadequate documentation aggregating \$191,781 (61% of the sample tested). These instances include checks made to individuals instead of to the applicable vendor, checks made to individuals for reimbursements of travel or supply acquisitions without any supporting invoices or evidence of the use of the funds, or the expense did not appear to have a relationship to the funding program.

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

Cause:

The cause of this condition is inadequate accounting and reporting for NAF funds during the year in question. Although a requirement existed to prepare monthly reports of these funds, per school, and to submit these reports to the Business Office, such did not occur and was not enforced.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2003 and that this condition could facilitate the fraudulent use of these funds for illegal purposes.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-20, Continued
Area: Non-Appropriated Funds

Prior Year Status:

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

Recommendation:

We understand that subsequent efforts have been taken to ensure that NAF funds are subject to adequate monitoring and controls. However, it is evident that during fiscal year 2003, the controls in place over these funds were virtually nonexistent.

These NAF funds should be subject to ongoing audits by the Department's Internal Audit Division. Additionally, all required reports should be timely submitted, or sanctions should occur that prevent further use of the funds until corrective action occurs.

Auditee Response and Corrective Action:

Management concurs with the auditor's recommendation. The Department of Education's Internal Audit Section is addressing the recommendation and aggressively taking corrective actions to improve all the schools' internal controls. Schools have improved tremendously in providing standard operating procedures and as per PL 26-26, the schools are submitting monthly financial reports. GDOE-IAS has provided training to all DOE individuals with the NAF program twice a year and will continue to do so. As stated in the prior response, GDOE-IAS is consistently conducting audits each year and every year at all schools.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-21
Area: Fixed Assets

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

Condition:

The required property management system is not in place.

Cause:

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

Effect:

No fixed assets are recorded in the financial management system.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action:

We concur with the auditor's recommendation. In addition, GDOE has begun to address this issue. In January 2004, the Financial Student and Administrative Information Systems (FSAIS) office installed the Fixed Asset Management (FAM) software module into the Financial Management System program. On March 23, 2004, the Superintendent of Education established a Fixed Asset Inventory Action Team (FAIAT) to lead the physical inventory of assets in GDOE's schools and divisions. Following is the plan of action prepared by the FAIAT.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

TASK REQUIREMENTS/DUE DATES				
TASK(S)	TASK DESCRIPTION	ACTIONEE	TARGET COMPLETE DATE	STATUS
Establishment of the Fixed Asset Inventory Action Team (FAIAT)	To create the Action Team that would coordinate the Physical Inventory of Fixed Assets throughout DOE Schools and Divisions.	Superintendent of Education	3/23/04	Completed
Kick-Off Meeting	Introduced the FAIAT Team to all schools' and divisions' coordinators assigned to conduct physical inventory and provide guidance/instructions in compliance with GASB and local procedures.	FAIAT/Coordinators	4/02/04	Completed
Brief DOE Superintendent US DOE POA&M	Briefed the DOE Superintendent and US DOE Officials of the current Procurement Process & Proposed Fixed Assets Action Plan.	FAIAT Coordinator, DOE Procurement Officer, Buyer Supervisor, FSAIS Administrator	5/18/04	Completed
Conduct Initial Physical Inventory	Count all Fixed Assets throughout the Schools/Divisions	School/Division Coordinators	5/30/04	71%
Fixed Asset Inventory System – Module (AS400)	Review and assess the implementation and usage of the Fixed Asset Inventory System's module within the Comprehensive Information Management for Schools (CIMS) Software.	FAIAT/FSAIS Administrator	June 30, 2004	60%
Review Initial Count	Review first count of physical inventory to identify material discrepancies (when applicable). May return back to originator for corrective action and finalization.	FAIAT/Coordinators	7/30/04	40%
Capture all Fixed Assets valued at \$5,000 or greater for Book Purposes.	Compile all Fixed Assets valued at \$5,000 or greater from all Schools/Divisions Physical Inventory reports for possible inclusion to DOE financial in accordance with GASB.	FAIAT/Business Office	SEP/2004	
Capture all Fixed Assets valued at \$4,999 and lower for official records and risk assessments.	Compile all Fixed Assets valued at \$4,999 and lower, conduct risk assessments to determine asset vulnerability. Identify potential weaknesses of internal control.	FAIAT/BUSINESS OFFICE	3/2005	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

TASK REQUIREMENTS/DUE DATES				
TASK(S)	TASK DESCRIPTION	ACTIONEE	TARGET COMPLETE DATE	STATUS
Review Current System identify process improvements	Conduct review of current system to identify and implement process improvements for proper receiving, tagging and maintenance of existing and newly acquired fixed assets. This also includes the review of the AS400 Fixed Assets Module for installation and implementation.	FAIAT/Business Office/Procurement Office/Warehouse Receiving/School and Division Coordinators	JULY/2005	
Review current instructions/policy	Review and update current instructions to comply with GASB Pronouncement 34.	FAIAT/Business Office/Procurement Office/Warehouse Receiving/School and Division Coordinators	SEPT/2005	
Provide Training	To provide training and guidance to all School/Division Coordinators in charged with the responsibilities of accounting and maintaining of fixed assets.	Warehouse Personnel	On-Going	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-22
Area: Procurement

Criteria:

Vendors should be selected in accordance with applicable procurement regulations.

Condition:

For one (or 6%) out of 16 locally funded transactions tested, there is no procurement documentation on file for the following:

<u>Check #</u>	<u>Check Date</u>	<u>Vendor #</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
247927	06/16/2003	21707	247927	\$169,454	Food supplies

Furthermore, there is no purchase order or contract for this vendor.

Cause:

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

Effect:

There is no known effect on the financial statements as a result of this condition; however, GDOE is in noncompliance with applicable procurement regulations.

Recommendation:

GDOE should strengthen internal controls to ensure that all vendors are selected in accordance with applicable procurement regulations and that such procurement history is documented.

Auditee Response and Corrective Action Plan:

In a letter dated June 23, 2004, GDOE provided the following response.

Management concurs with the auditor's recommendation. Effective immediately, all procurement of contracts for goods or services requiring the use of formal bid will be reviewed closely to ensure that the department adheres to all procurement regulations.

In an effort to strengthen and enforce the internal controls the GDOE hired an administrator for the Procurement and Supply Management division in May 2004 to follow through with this corrective plan of action. In addition, a team of employees of the Financial Affairs division is currently reviewing and revising the policies and procedures manual that directs the operations of the Financial Affairs division in order to address this and other audit findings. The targeted date for the completion and implementation of these revisions is December 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-23
Area: Expenditures

Criteria:

All expenditures should be supported by such documents as check copies, vendor invoices, receiving reports, and personnel action forms.

Condition:

For 10 (or 12%) out of 80 locally funded transactions tested, we noted the following:

1. For 7 (or 9%), no personnel action forms were provided for the following transactions:

<u>Check Date</u>	<u>Check #</u>	<u>PPE</u>	<u>Employee Initials</u>	<u>Amount</u>	<u>Description</u>
10/10/02	659893	10/05/02	EQSN	18,206	ALPMT, ADM
10/11/02	663732	10/19/02	MAM	7,722	ALPMT
04/25/02	714862	04/19/03	GPBT	9,225	ALPMT, CUST
06/27/03	734662	06/28/03	MPM	5,995	TCHPMT
07/18/03	740321	07/12/03	PJT	1,530	TEACH
07/18/03	741023	07/12/03	JTB	15,217	ALPMT, ADM
07/18/03	741556	07/26/03	JMP	14,519	ALPMT, ADM

2. For 2 (or 3%), no check disbursement files were provided for the following transactions:

<u>Check Date</u>	<u>Check #</u>	<u>Vendor</u>	<u>Amount</u>	<u>Description</u>
02/21/03	Unknown	70242	36,887	FAILURE TO DEPOSIT PENALTY
02/21/03	Unknown	70242	11,199	INTEREST FOR ABOVE
030/9/03	Unknown	586808381	8,219	CANCELLATION ON DEDUCTIONS

Cause:

There appear to be weak recordkeeping controls.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the validity of expenditures cited above cannot be substantiated.

Recommendation:

GDOE should strengthen internal record keeping controls to ensure that such supporting documents as check copies, vendor invoices, receiving reports, and personnel action forms are maintained on file to substantiate expenditures.

Auditee Response and Corrective Action Plan:

In a letter dated June 23, 2004, GDOE provided the following response:

GDOE concurs with the auditor's recommendation. On January 14, 2004 a job announcement for the recruitment of a Comptroller was posted and on June 1, 2004 the new Comptroller began employment. In addition, on March 22, 2004 job announcements were posted for the recruitment of accountants for the department and closed on April 5, 2004. On June 22, 2004 the GDOE will interview all qualified applicants certified by the personnel division. We anticipate that the positions will be filled within the month after the interviews. The recruitment for these professional positions will provide the needed resources to correct the deficiencies cited in the current and past audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-24
CFDA No.: 84.922A
Program Name: Consolidated Grants
Requirement: Reporting
Questioned Costs: \$0

Criteria:

Potential program income should be discussed with the grantor agency to ensure that if applicable, the program income is duly accounted for and reported to the federal agency.

Condition:

The Guam Department of Education (GDOE) administers an after-hours program entitled "DEED". The Consolidated Grant funds the salaries of DEED teachers. DEED charges each student \$75 for the program. These funds are deposited in to the applicable elementary school NAF and are used to defray various repairs and maintenance and other costs pursuant to guidelines established by GDOE. It is estimated that approximately \$127,200 in fees were generated from this program during the year ended September 30, 2003. We were not able to locate evidence of an official grantor determination that specifies whether the charges constitute program income.

Cause:

The cause of this condition appears to be that no official determination has been requested from the grantor agency.

Effect:

The effect of this condition is that an official determination of whether these program charges constitute program income has not been made.

Recommendation:

During the audit process, this matter was discovered and the auditors requested a ruling from applicable U. S. Department of Education program officials. That determination has yet to be made. We recommend that GDOE officials correspond with the applicable program officials and ensure that an official ruling is obtained. If applicable, prior submitted federal financial reports will have to be amended and resubmitted.

Auditee Response and Corrective Action Plan:

In a letter dated June 29, 2004, GDOE provided the following response:

GDOE, at the request of the auditors, contacted Valerie Rogers at the U.S. Department of Education on June 23, 2004 regarding whether the fees collected for the DEED program should be reported as federal grant income. GDOE faxed to Ms. Rogers background information on previous USDE determinations regarding program income. No response has been received from USDE as of June 29, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 03-25
CFDA No.: 93.600
Program Name: Head Start
Requirement: Earmarking
Questioned Costs: \$0

Criteria:

In accordance with applicable earmarking requirements, the costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs, unless a waiver has been granted by ACF.

Condition:

Total costs of developing and administering a Head Start program for fiscal year 2003 were not provided. Therefore, compliance with earmarking requirements could not be determined.

Cause:

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

Effect:

GDOE may be in noncompliance with earmarking requirements.

Recommendation:

GDOE should strengthen internal controls to ensure that costs of developing and administering a Head Start program are accounted for and charged to the program in accordance with applicable earmarking requirements.

Auditee Response and Corrective Action Plan

In a letter dated June 30, 2004, GDOE provided the following response.

Management does not concur with the finding. All personnel tasked with the organization-wide development and administration of the Head Start program and their related operational expenses are directly charged to the grant. These employees and their related expenses are 100% dedicated to the Head Start program. In addition, no expenditures for accounting, procurement, warehousing, maintenance or other indirect costs have been allocated to this grant. By the start of Fiscal Year 2005, GDOE will develop and implement a method of capturing the cost of developing and administering the Head Start program.

Auditors' Response:

Expenditure schedules of development and administration costs were not provided to the auditors for testing. Furthermore, the program's "GABI – Grant Detail Report" presents a budget for earmarking administrative costs. Therefore, the finding remains.

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Findings
Year Ended September 30, 2003

Unresolved Prior Year Comments

As the prior findings were issued subsequent to the year ended September 30, 2003, prior findings remain unresolved and are reiterated in current findings. A summary of unresolved questioned costs is as follows:

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal Agency</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>Total</u>
10.551/ 10.553	Child Nutrition Cluster	Agriculture	\$ 596	-	194,468	66,125	132,034	-	\$ 393,223
12.110	State Planning Assistance	Defense	-	-	-	-	-	205,357	205,357
83.544/ 97.036	Public Assistance Grants	FEMA	304,047	-	-	1,649,112	3,130,222	1,276,537	6,359,918
84.027	Special Education – Grants to States	Education	372,544	417,916	77,426	59,481	-	-	927,367
84.181	Special Education – Infants and Families with Disabilities	Education	21,738	13,364	-	14,917	-	58,204	108,223
84.992 93.600	Consolidated Grants Head Start	Education HHS	- <u>6,494</u>	281,811 <u>181,337</u>	82,603 <u>43,053</u>	115,926 <u>101,913</u>	206,553 <u>-</u>	134,033 <u>18,797</u>	820,926 <u>351,594</u>
	Totals		<u>\$ 705,419</u>	<u>894,428</u>	<u>397,550</u>	<u>2,007,474</u>	<u>3,468,809</u>	<u>1,692,928</u>	\$ <u>9,166,608</u>