

GUAM PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2007

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

Wilfred G. Aflague
Interim Superintendent of Education
Guam Public School System:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Public School System (GPSS) as of and for the year ended September 30, 2007, which collectively comprise GPSS's basic financial statements and have issued our report thereon dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GPSS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPSS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPSS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 07-15 through 07-19 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

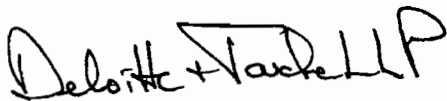
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above as findings 07-15 through 07-19 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GPSS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 45) as finding 07-15.

GPSS's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit GPSS's response and, accordingly, we express no opinion on it.

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



June 27, 2008

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

Wilfred G. Aflague
Interim Superintendent of Education
Guam Public School System:

Compliance

We have audited the compliance of Guam Public School System (GPSS) 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, 2007. GPSS's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 45). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GPSS's management. Our responsibility is to express an opinion on GPSS'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 GPSS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of GPSS's compliance with those requirements.

As described in findings 07-05, 07-06, 07-08, 07-09, 07-10, 07-12, 07-14, and 07-15 in the accompanying Schedule of Findings and Questioned Costs, GPSS did not comply with requirements regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, earmarking; procurement and suspension and debarment; and program income that are applicable to its major federal programs as described in the accompanying federal award findings and questioned cost section (page 8) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for GPSS to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GPSS 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, 2007. 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 07-01 through 07-04, 07-07, 07-11, and 07-13.

Internal Control Over Compliance

The management of GPSS 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 GPSS's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GPSS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 07-01 through 07-15 to be significant deficiencies.

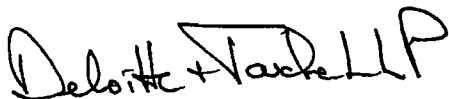
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 07-05, 07-06, 07-08, 07-09, 07-10, 07-12, 07-14, and 07-15 to be material weaknesses.

GPSS's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit GPSS's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Public School System (GPSS) as of and for the year ended September 30, 2007, and have issued our report thereon dated June 27, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise GPSS's basic financial statements. 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 GPSS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 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 Public School System, the Office of the Public Auditor of Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



June 27, 2008

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2006	FY 2007 Cash Receipts and Adjustments	FY 2007 Expenditures	Accrued (Deferred) Balance at September 30, 2007
U.S. DEPARTMENT OF AGRICULTURE:					
Direct:					
National School Lunch Program	10.555	1,117,178	7,659,880 *	7,684,173	1,141,471
State Administrative Expenses for Child Nutrition	10.560	60,085	228,300	314,606	146,391
Commodity Supplemental Food Program	10.565	(88,345)	642,998	642,998	(88,345)
Emergency Food Assistance Program (Administrative Costs)	10.568	(101,618)	15,568	-	(117,186)
Community Facilities Loans and Grants	10.766	(15,422)	-	-	(15,422)
Total U.S. Department of Agriculture		\$ 971,878	\$ 8,546,746	\$ 8,641,777	\$ 1,066,909
U.S. DEPARTMENT OF THE INTERIOR					
Pass-Through Guam Department of Administration:					
Economic, Social, and Political Development of the Territories	15.875	\$ -	\$ -	\$ -	\$ -
Total U.S. Department of the Interior		\$ -	\$ -	\$ -	\$ -
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration:					
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	\$ (101,574)	\$ -	\$ -	\$ (101,574)
Total U.S. Department of Labor		\$ (101,574)	\$ -	\$ -	\$ (101,574)
U.S. DEPARTMENT OF EDUCATION:					
Direct:					
Services for Children with Deaf-Blindness	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	(200,368)	13,920,648 *	14,572,474	451,458
Special Education-Personnel Development and Parent Training	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	-	51,365	3,665	(47,700)
Vocational Education: Basic Grants to States	84.048B	(205,883)	200,702	221,836	(184,749)
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grants	84.173A	(27,795)	-	-	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	828,832	1,209,600	1,259,391	878,623
Byrd Honors Scholarships	84.185	-	2,500	61,000	58,500
Bilingual Education Support Services	84.194Q	-	-	-	-
Fund for the Improvement of Education (FIE)	84.215	3,270	44,061	63,701	22,910
Freely Associated States-Education Grant Program	84.256	(38,605)	211,195	210,002	(39,798)
Twenty-First Century Community Learning Centers	84.287	12,972	-	-	12,972
Advanced Placement Program	84.330	(4,743)	-	-	(4,743)
Teacher Quality Enhancement Grants	84.336	126,811	2,551,328 *	2,683,733	259,216
Class Size Reduction	84.340	-	-	-	-
School Renovation Grants	84.352	(8,808)	-	-	(8,808)
Literacy through School Libraries	84.364	-	41,501	41,501	-
Mathematics and Science Partnerships	84.366	1,925	-	-	1,925
Consolidated Grants	84.922A	1,173,431	19,878,632 *	19,925,249	1,220,048
Total U.S. Department of Education		\$ 1,645,385	\$ 38,111,532	\$ 39,042,552	\$ 2,576,405
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)
Head Start	93.600	(384,027)	2,642,626 *	2,524,787	(501,866)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	67,763	184,049	144,805	28,519
Total U.S. Department of Health and Human Services		\$ (447,691)	\$ 2,826,675	\$ 2,669,592	\$ (604,774)
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:					
Direct:					
Learn and Serve America School and Community Based Programs	94.004	\$ (11,071)	\$ 65,216	\$ 72,557	\$ (3,730)
Total Corporation for National and Community Service		\$ (11,071)	\$ 65,216	\$ 72,557	\$ (3,730)
U.S. DEPARTMENT OF HOMELAND SECURITY:					
Pass-Through Guam Department of Administration:					
Public Assistance Grants	83.544	\$ (1,703,114)	\$ 397,511	\$ 851,452	\$ (1,249,173)
Total U.S. Department of Homeland Security		\$ (1,703,114)	\$ 397,511	\$ 851,452	\$ (1,249,173)
Total Federal Awards		\$ 353,813	\$ 49,947,680	\$ 51,277,930	\$ 1,684,063

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

See notes to Schedule of Expenditures of Federal Awards.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

1. Scope of Audit:

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

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

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

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

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

b. Subgrants:

Certain program funds are passed through the Guam Public School System 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 Public School System's control utilized the funds. If the subrecipient expends more than \$500,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. High-Risk Grantee Status:

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

4. CFDA Number 10.555:

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

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2007

	Fiscal Year 2007 <u>Expenditures</u>
Federal contributions, as reported in the 2007 financial statements:	
Federal grants assistance fund, expenditures, transfers, and other uses	\$ 49,399,017
<u>CFDA Program</u>	
10.555 National School Lunch Program	1,235,915
10.565 Commodity Supplemental Food Program	<u>642,998</u>
Total Federal Expenditures Subject to Audit	\$ <u>51,277,930</u>

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified, all of which were considered to be material weaknesses.
3. An instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Significant deficiencies 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:	
National School Lunch Program	10.555
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Teacher Quality Enhancement Grants	84.336
Consolidated Grants	84.922
Head Start	93.600

8. A threshold of \$1,538,338 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 PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>
07-15	Equipment Management
07-16	General Ledger
07-17	Cash
07-18	Reconciliations
07-19	Non-Appropriated Funds

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>
07-01	10.555	Special Tests and Provision and Subrecipient Monitoring	\$ 0	USDA
07-02	84.027	Period of Availability	\$ 15,170	ED
07-03	84.027	Procurement	\$ 0	ED
07-04	84.027	Cash Management	\$ 0	ED
07-05	84.027	Allowable Costs/Cost Principles	\$ 48,843	ED
07-06	84.336	Procurement	\$ 34,142	ED
07-07	84.336	Cash Management	\$ 0	ED
07-08	84.336	Matching	\$ 262,170	ED
07-09	84.922	Program Income	\$ 0	ED
07-10	84.922	Procurement	\$ 149,625	ED
07-11	84.922	Cash Management	\$ 0	ED
07-12	84.922	Allowable Costs/Cost Principles	\$ 0	ED
07-13	84.922	Special Tests and Provisions	\$ 0	ED
07-14	93.600	Allowable Costs/Cost Principles	\$ 0	HHS
07-15	All major	Equipment Management	\$ 0	All above
Total Questioned Costs			\$ <u>509,950</u>	

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-01
CFDA Program: 10.555 National School Lunch Program
Federal Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Special Tests and Provision and Subrecipient Monitoring
Questioned Cost: \$0

Criteria:

In accordance with applicable special tests and provisions requirements, by December 15 of each school year, the school food authority (SFA) (or State in certain cases) must verify the current eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. Furthermore, in accordance with applicable subrecipient monitoring requirements each State shall require that SFAs comply with applicable provisions.

Condition:

In FY 2007, the SFA did not perform verifications of current free and reduced price eligibility from a sample of applications at the Department of Defense Education Activities (DODEA) schools, to which it passed through \$64,101 in Program funds.

Cause:

There appears to be a lack of internal controls over ensuring compliance with special tests and provisions and subrecipient monitoring requirements relative to the verification of eligibility of applications by the State SFA at the subrecipient SFA.

Effect:

GPSS is in noncompliance with applicable special tests and provisions requirements and subrecipient monitoring requirements. No questioned cost is presented at this finding as we have examined grantor correspondence relative to this condition, and the grantor's recommended corrective action does not specify a questioned cost.

Prior Year Status:

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

Recommendation:

The Program Administrator should establish and implement internal controls to ensure compliance with special tests and provisions requirements relative to verifications of eligibility. Furthermore, in an email dated April 12, 2007, to the Program Administrator, the grantor stated, "Therefore, as the State agency administering Child Nutrition Programs in GU, you have to make the verification sample in DOD schools a corrective action for school year 2007-2008."

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel:

Federal Programs Administrator	Ignacio C. Santos
State Program Officer	Dina Lorenzo
Program Coordinator IV (LEA)	Vincent Martinez

The State Agency concurs with the findings.

The Program Administrator has established and implemented internal controls for training and technical assistance on preparing the verification process of applications as instructed by USDA FNS Policy Memo SP 34-2006.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-01, Continued
CFDA Program: 10.553/10.555 Child Nutrition Cluster
Federal Agency: U.S. Department of Agriculture
Grant Number: 7GU300GUB
Area: Special Tests and Provision
Questioned Cost: \$0

Auditee Response and Corrective Action Plan, Continued:

Although the Domestic Dependent Elementary/Secondary Schools (DDESS)-Guam School District does a 100% verification of applications at the beginning of the school year (2006-2007), they are not exempt from completing the Verification Summary Report. Therefore, as the State Agency administering the Child Nutrition Programs in Guam, DDESS-DoDEA was provided training and technical assistance on verification samples for DoDEA schools and a corrective action for School Year 2007-2008.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-02
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A030069, H027A050002, H027A050004A
Area: Period of Availability
Questioned Costs: \$15,170

Criteria:

In accordance with applicable period of availability requirements, any funds that are not obligated at the end of the federal funding period shall remain available for obligation for an additional period of 12 months.

Condition:

At September 30, 2007, there are expenditures and available balances recorded in the financial management system for expired grants, as follows:

<u>Grant Year</u>	<u>Availability Expiration</u>	<u>FY 2007 Expenditures</u>	<u>Available Balance</u>	<u>Grant Award #</u>
2003	09/30/05	\$ 0	\$ 6	H027A030069
2004	09/30/06	\$ 15,170	\$ 1,564	H027A050002

Furthermore, the 2005 grant award (H027A050004A) was over-encumbered by \$3,777.

Cause:

GPSS management did not enforce internal controls over ensuring that expired grants are de-encumbered and/or de-appropriated in a timely manner.

Effect:

Outstanding encumbrances and/or available balances for grant years 2003 and 2004 are overstated. If such balances are not de-encumbered or de-appropriated, the Government of Guam could potentially expend Federal funds in noncompliance with applicable period of availability requirements. For costs incurred against expired grants, a questioned cost of \$15,170 exists.

Recommendation:

GPSS management should develop more specific internal control procedures over monitoring a fund during the period of availability and de-appropriating expired funds. On a periodic basis, the responsible program personnel should monitor funds for unliquidated obligations and should follow up with the responsible Financial Affairs personnel to ensure that the liquidations occur before the funds expire. Furthermore, the responsible Financial Affairs personnel should ensure that expired grants are de-appropriated in a timely manner, that outstanding encumbrances do not exceed available funding, and that any unliquidated obligations for expired grants are charged to the General Fund.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-02, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A030069, H027A050002, H027A050004A
Area: Period of Availability
Questioned Costs: \$15,170

Auditee Response and Corrective Action Plan:

Management disputes the finding.

Adjusting Journal Entry (AJE) 1201 \$15,169.88 Expenditures were transferred from 22.05.50.00.21.0111.9520 to 22.04.50.00.21.0111.9520 Payroll run 69450.

Expenditures posted within the 90 liquidation; December 12, 2006.

The “legally relevant question is when the obligation arose, not in what accounts such obligation may have been legally recorded. “Appeal of the State of California, Docket NO. 12 (122) 83 at (Decision of the Secretary of Education, May 6, 1986). 4-84.000-19

Name and job title of responsible personnel:

Comptroller	Frances Danieli
Administrator Federal Program	Ignacio C. Santos
Program Manager:	Katrina Celes Pieper

Specific corrective procedures to be performed:

The Guam Public School System has established internal controls to ensure compliance. The Comprehensive Corrective Action Plan was created on October 2007.

Internal Control: SOP 900-015 De-appropriation of Unexpended Federal Grant Awards subsequent to the Period of Availability. Dated Oct 15, 2007

SOP 900-008 Liquidation of Federal Grant Awards within the Period of Availability of within or within Ninety (90) Days after the Period of Availability. Dated October 15, 2007.

Date for performance of corrective action: SOP’s dated October 15, 2007

Auditor Response:

We do not dispute the fact that GPSS has a 90-day liquidation period that expires on December 31, 2006. However, the expenditures listed in AJE 1201 are for payroll costs that were already liquidated in FY 2006. Therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-03
 CFDA Program: 84.027 Special Education – Grants to States
 Federal Agency: U.S. Department of Education
 Grant Number: H027A050004, H027A050004A
 Area: Procurement
 Questioned Costs: \$0

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of compliance with applicable procurement requirements. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

Of 14 transactions tested, we noted noncompliance with applicable procurement requirements, as follows:

- For 1 (or 7%), the procurement authority was incorrectly applied. The transaction was determined to be sole source; however, based on examination of the procurement file, the transaction should have been determined to fall under purchased goods or services between \$5,000 and \$15,000 and competitive procurement procedures should have been applied. Based on scrutiny of the procurement file, three quotations were solicited on island and three quotations were solicited off-island. However, the quote from the selected off-island vendor was equal to the quotes of the the other two off-island vendors, and there is no written rationale for the vendor selection. No questioned cost will be cited for this condition as it appears that an adequate number of vendors were solicited.

<u>Reference</u>	<u>Transaction Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award #</u>
PO200603943	12/18/06	\$ 6,265	\$ 7,205	H027A050004

- For 1 (or 7%), no procurement documents were provided to substantiate the application of open competition in selecting UOG CEDDARS to provide consultative services relative to the implementation of IDEA (2004). No questioned cost will be cited for this condition as the vendor is the major institution of higher education in the Western Pacific.

<u>Reference</u>	<u>Transaction Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award #</u>
PO200603086	05/04/07	\$24,820	\$54,855	H027A050004A

Cause:

There appears to be weak internal controls over ensuring compliance with applicable procurement requirements. No questioned costs are cited, as indicated at the respective conditions above.

Effect:

The Guam Public School System is in noncompliance with applicable procurement requirements.

Prior Year Status:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-03, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A050004, H027A050004A
Area: Procurement
Questioned Costs: \$0

Recommendation:

The Guam Public School System should strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, for the procurement of training services from educational institutions, the Supply Administrator should consider specifying a multi-year service period.

Auditee Response and Corrective Action Plan:

Condition 1: Management disputes the finding. The finding should be removed. The Division of Special Education purchased 7 softwares at \$895 a piece, totaling \$6,265. The Division of Special Education posted the requisition under equipment (object 250), although the items should have been posted under supplies (240). The reason for this particular posting is due to the Division wanted to safeguard those purchases because of its value and continuous usage in various schools. However, in the future, all computer software will be identified as supplies (240).

The finding also stated that the Division of Special Education did not solicit off-island quotes. According to the District’s procurement regulations (Chapter 3.3.11.3), no less than three (3) businesses shall be solicited. It does not specify it had to be off-island or on-island solicitations. The Division of Special Education had provided the Office of Supply Management 3 quotes from an off-island vendor.

Condition 2: Management concurs with the finding.

University of Guam, CEDDERS was established to provide consultative services to government agencies and private organization relative to the effective of IDEA (2004), because of CEDDERS’ noted expertise, specified special education consultative need and Executive Order 2000-25.

Name and job title of responsible personnel:

Supply Administrator: Roque Alcantara
Administrator Federal Program : Ike C. Santos
Program Manager: Katrina Celes Pieper

Specific corrective procedures to be performed:

In order to be in compliance, the Division of Special Education will submit a request for proposal (RFP). Procurement will proceed with a (RFP) for required services for all future awards. The Guam Public School System has internal controls to ensure compliance; The Comprehensive Corrective Action Plan was created on October 2007. State Program and Financial Officers must validate all documents before the issuance of purchase order.

Internal Controls: **SOP 900-018 Requisition/Purchase Order Procedure**

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-03, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A050004, H027A050004A
Area: Procurement
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Date for performance of corrective action: SOP's dated October 10, 2007

Auditors' Response:

Condition 1: We do not take issue with the object code used to account for the transaction. However, in addition to the three solicitations from Guam vendors, GPSS provided two additional quotes from off-Guam vendors who provided the same quotes as the selected vendor. As there was no written rationale for the vendor selection from among three equivalent quotations, the finding remains. Also, as the documented procurement method is sole source, there is an indication that the Administrator Supply Management might not have considered the other quotations in making the vendor selection. Therefore, the finding remains.

Condition 2: We do not dispute the qualifications of the selected vendor. The issue is that the procurement files contain no documents to indicate why no other vendor was given an opportunity to participate in the procurement process. Therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-04
 CFDA Program: 84.027 Special Education – Grants to States
 Federal Agency: U.S. Department of Education
 Grant Number: H027A050004
 Area: Cash Management
 Questioned Costs: \$0
 Interest Liability: \$291

Criteria:

In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks should be minimized. Furthermore, any amount of interest from advances over \$100 should be returned to the Federal Government.

Conditions:

For 6 (or 43%) of 14 transactions tested, the time elapsed between the receipt of the Federal Funds and the date the check cleared the bank was greater than the allowable 7 days. Furthermore, the Guam Public School System had interest from advances of \$391 of which \$291 should be returned to the Federal Government.

<u>Check No.</u>	<u>Transaction Amount</u>	<u>Check Date</u>	<u>Check Clearing Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed Past Allowable 7 Days</u>
270238	\$ 29,200	01/10/07	02/09/07	12/20/06	42
270230	\$ 4,800	01/10/07	02/14/07	12/20/06	47
270230	\$ 4,359	01/10/07	02/14/07	01/02/07	35
270281	\$ 18,208	01/10/07	02/13/07	01/02/07	34
270225	\$ 10,000	01/10/07	02/19/07	01/02/07	40
270248	\$ 6,265	01/10/07	02/13/07	01/02/07	34
124770	\$ 13,431	07/12/07	07/13/07	07/03/07	3
106678	\$ 7,520	07/12/07	07/13/07	07/03/07	3
106678	\$ 7,130	07/12/07	07/13/07	07/03/07	3

Cause:

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

Effect:

The Guam Public School System is in noncompliance with cash management requirements. An interest liability of \$391 exists of which \$291 should be returned to the Federal Government. No questioned cost exists because the projected interest liability does not exceed \$10,000. Although no questioned cost is associated with this finding, the interest earned exceeds \$100; therefore, this finding is considered reportable.

Prior Year Status:

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

Recommendation:

The Guam Public School System should ensure that a minimal amount of time exists between the reimbursement date and the actual check clearing date. Also, GPSS should consider working with the Treasurer of Guam in its development of clearance patterns applicable to the Government of Guam, should obtain from the Treasurer of Guam a copy of the annual Government of Guam CMLA (Cash Management Improvement Act) Treasury-State Agreement, and adhere to the approved clearance patterns.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-04, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A050004
Area: Cash Management
Questioned Costs: \$0
Interest Liability: \$291

Auditee Response and Corrective Action Plan:

Management disputes this finding.

Name and job title of responsible personnel:

Comptroller	Frances Danieli
Administrator Federal Program	Ignacio Santos

Specific corrective procedures to be performed:

In general our first rule is to refer to the Expenditure Reports to determine draw down amounts which is inclusive of paid invoices and unpaid invoices that require immediate payment. Federal funds draw down for immediate payments are disbursed upon notification of credit to the designated depository bank. We do not have control over when these disbursed checks are presented for payment at the designated bank. We implemented the Automated Clearing House. SOP 900-005 Elapsed Time between Receipts of Cash Disbursements for Federal Grants, Dated October 15, 2007

Date for performance of correction action: October 15, 2007

Auditor Response:

We understand that GPSS does not have control as to when checks are deposited by vendors. However, as shown in the condition above, it appears GPSS delayed more than the approved seven days (i.e., from eight days in some instances to 21 days in other instances) between receiving Federal funds and writing the checks. Therefore, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-05
 CFDA Program: 84.027 Special Education – Grants to States
 Federal Agency: U.S. Department of Education
 Grant Number: H027A060004
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$48,843

Criteria:

In accordance with applicable allowable costs/cost principles, payroll expenditures should be supported by employee personnel action forms, supporting timesheets and other underlying documentation validating the expenditure. Furthermore, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition:

1. For 2 (or 1%) of 225 transactions tested, we noted an overpayment of retirement fund contributions (RET01B), as follows:

<u>Employee</u>	<u>Gross Pay per Labor Cost</u>	<u>RET01B Contribution per Labor Cost</u>	<u>RET01B Contribution Rate</u>	<u>RET01B per DTT</u>	<u>Overcharge</u>
J.A.C.D.G.	\$1,197	\$10,988	17.94%	\$215	\$10,773
J.A.C.D.G.	\$2,646	\$24,289	17.94%	\$475	\$23,814

Based on our examination of the labor cost reports, the total contribution for this employee in FY 2007 should have been \$1,332; however, the actual total contribution during FY 2007 was \$50,175, resulting in a total overcharge in FY 2007 of \$48,843.

2. Of ten program employees interviewed, we noted the following:
 - a. For 5 (or 50%), who are program coordinators, teachers, and a school aide, the employee verbally affirmed that he or she worked solely on program activities during FY 2007, but has no recollection of signing the required certifications for FY 2007.
 - b. For the other 5 (or 50%), who are school aides and an administrative assistant, the employee verbally affirmed that he or she worked mostly on program activities during FY 2007 and that time is allocated through a Time Distribution Report (TDR) form. However, the TDR has codes for all program activities, but not local activities. Based on the interviews, it appears that some of the other activities that are occasionally performed include assisting in the school office or other parts of the campus, clerical work, and custodial activities, which would benefit local operations, as well. Based on our examination of the detailed labor cost reports for FY 2007 for these employees, we noted that the employees were paid solely with federal funds during FY 2007.

Cause:

There appears to be weak internal controls over ensuring compliance with applicable allowable costs/cost principles requirements.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-05, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Grant Number: H027A060004
Area: Allowable Costs/Cost Principles
Questioned Costs: \$48,843

Effect:

The Guam Public School System (GPSS) is in noncompliance with applicable allowable costs/cost principles requirements. A questioned cost of \$48,843 exists for Condition 1. For Condition 2, we are unable to quantify the associated questioned costs, if any.

Recommendation:

The Guam Public School System (GPSS) should strengthen internal controls to ensure compliance with applicable allowable costs/cost principles requirements. The responsible personnel should ensure that the time distribution reports include codes for documenting local activities and that such activities are locally funded.

Auditee Response and Corrective Action Plan:

Condition 1: Management concurs with the finding.

Name and job title of responsible personnel:

Chief Payroll Officer	Rosie Duenas
Comptroller	Frances Danieli
Federal Program Administrator	Ignacio C. Santos

Specific corrective procedures to be performed:

On January 11, 2008, the Financial Affairs Office sent a memorandum to the Guam Retirement Fund requesting reimbursement. In addition, the Financial Affairs Office implemented SOP #900-06 (Personal Cost/Overpayment) for accountability.

A query name RET01ACRa and RET01ACRb was created since October, 2007 to identify any employee not being deducted the correct percentage amount as required by the Government of Guam Retirement Fund. The query is only processed by the Chief Payroll Office or the Payroll Supervisor prior to any Actual Payroll Run to make necessary corrections as needed.

Date for performance of corrective action: SOP Dated OCT 15, 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-06
 CFDA Program: 84.336 Teacher Quality Enhancement Grants
 Federal Agency: U.S. Department of Education
 Grant Number: P336A050004
 Area: Procurement
 Questioned Costs: \$34,142

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of compliance with applicable procurement requirements. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

Of 44 transactions tested, we noted noncompliance with applicable procurement requirements, as follows:

- For 1 (or 2%), we noted that the procurement authority was incorrectly applied. The transaction was determined to be sole source; however, based on examination of the expenditure file, the transaction should have been determined to fall under purchases of goods or services between \$5,000 and \$15,000, and competitive procurement procedures should have been applied. GPSS did provide copies of four requests for quotations. However, all requests specified a brand name, and the requests to the three other vendors asked for a TI-84 Plus SE Overhead Kit, whereas the item purchased was a different product – TI84 Teacher’s Pack.

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
200603818	11/22/06	22310	\$ 11,069	\$ 13,332

- For 3 (or 7%), no evidence was provided to indicate that competitive procurement procedures were applied in the selection of the selected vendor. However, we were provided the approved grant proposal which specifically states the vendor that will be used; therefore, no questioned cost will be presented for this condition.

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
200610016	12/11/06	10560	\$ 256,813	\$ 256,813
200700289	02/06/07	10560	\$ 481,251	721,876
200700289	05/03/07	10560	\$ 240,625	
				<u>\$ 978,689</u>

- For 2 (or 4%), no evidence was provided to indicate that competitive procurement procedures were applied in the selection of teachers for professional development for the following:

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
200710352	04/25/07	41383	\$ 457	\$ 457
200710605	07/18/07	41527	\$ 586	586
				<u>\$ 1,043</u>

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-06, Continued
 CFDA Program: 84.336 Teacher Quality Enhancement Grants
 Federal Agency: U.S. Department of Education
 Grant Number: P336A050004
 Area: Procurement
 Questioned Costs: \$34,142

Condition, Continued:

4. For 6 (or 14%), informal quotations were solicited from two local vendors and a non-Guam vendor's website, as each purchase order was within the \$15,000 threshold for a small purchase. However, within the short span of approximately two weeks, GPSS procured the exact same item (classroom response system packages), aggregating at least \$39,582. As GPSS should have known that its need for the product would exceed the small purchase threshold, formal, competitive bidding procedures should have been applied in order to ensure that open competition is not limited.

<u>Reference</u>	<u>PO Date</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
200701321		08/30/07	21664	\$ 13,194	\$ 13,458
200701322		08/30/07	21664	\$ 8,796	8,972
200701254		08/31/07	21664	\$ 6,597	6,729
200701252	07/17/07	09/05/07	21664	\$ 8,796	9,294
200701061		09/12/07	21664	\$ 2,199	3,333
200701438		09/30/07	21664	\$ 8,796	<u>10,717</u>
					<u>\$ 52,503</u>

5. For 1 (or 2%), based on scrutiny of the procurement file, two quotations were solicited locally, and one quotation was obtained from an off-Guam vendor's website. When one of the local vendors did not provide a positive quote, GPSS made its selection from the two quotes received. As the requisitioned software does not appear to be exclusive to a single vendor, and GPSS had already visited one vendor website, GPSS should have obtained prices from other vendor websites at which the software is sold in order to ensure open competition is not limited.

<u>Reference</u>	<u>Transaction Date</u>	<u>Vendor #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>
200603850	11/09/06	22309	\$ 792	\$ 1,406

Cause:

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

Effect:

The Guam Public School System (GPSS) is in noncompliance with applicable procurement requirements. No questioned cost exists for Condition 2 as indicated above. For the other conditions, a questioned cost of \$34,142 (\$68,284 x 50% Federal share) exists.

Recommendation:

The Guam Public School System should strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, for the procurement of training services from educational institutions, the Supply Administrator should consider specifying a multi-year service period.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 07-06, Continued
CFDA Program: 84.336 Teacher Quality Enhancement Grants
Federal Agency: U.S. Department of Education
Grant Number: P336A050004
Area: Procurement
Questioned Costs: \$34,142

Auditee Response and Corrective Action Plan:

Condition 1: Management concurs with the finding. In order to be in compliance, the Division of Federal Programs will submit a request for proposal (RFP) for required services for all future contracts.

Condition 2: This is in response to the questioned costs regarding the selection of the University of Guam as the vendor for the administration of the Teacher Quality Enhancement (TQE) Grant.

First of all, all federal grant applications include sections where the applicant must document that it has sufficient available project support and resources. This includes administration implementation. In addition, it is required to submit a management plan that is designed to achieve project goals, objectives, and activities. As a result of its proposal, the grant is reviewed, rated, and awarded based on its ability to provide evidence that it has both of these.

Secondly, based on the grant application, the award was made to the Guam Public School System (GPSS) based on the proposal that the grant would be administered by GPSS and implemented in partnership with the University of Guam Center on Developmental Disabilities Education, Research, and Service (CEDDARS). This collaborative effort was described in the application of the grant would not have been funded had GPSS not demonstrated, through identification of a collaborative partner, that it had sufficient resources to support the implementation. Due to the fact that it was a grant application and not actual funds available, it was impossible to request a price quotation or conduct a request for proposal (RFP) prior to submission of the grant since the funds had not been awarded.

In addition, the priorities for the grant involved teacher quality and preservice training, revisions of teacher certification policies, administrators' training, etc. and the University of Guam is the only higher education entity that graduates individuals with Bachelor's and Master's degrees on island. The University of Guam prepares the majority of the teaching force. It is the only state-approved teacher preparation program on island. In addition, P.L. 27-96 was enacted as an amendment to the Yamashita Education Corps (YEC) to include a Fifth Year Induction Corps Scholarship and Financial Assistance Program for first year teachers through mentoring to address the retention of teachers in the classroom. The '07 fiscal year identified UOG as the administration of the YEC program. The development of a Mentor Program is one of the major activities of the TQE grant. Therefore, it is incumbent that the UOG is selected as the entity to develop and implement the program.

Lastly, Executive Order No. 2000-25, "Relative to Obtaining On-Island Professional Consulting, Education, and Training Services Before Off-Island Professional Consulting, Education, and Training Services, states:

1. **Government savings.** In order to put government savings into effect, and to maximize the use of already-existing and publicly-supported resources, professional consulting, education, and training programs needed by government employees for such various reasons as professional certifications or re-certifications, to meet federal requirements, to upgrade current skills, to obtain needed skills, and so forth, shall be obtained on-island.
2. **First preference for education or training programs.** Whenever professional consulting, education, or training programs can be obtained through the current instructional resources of the University of Guam or the Guam Community College, all governmental departments and agencies shall obtain these services through the University of Guam or the Guam Community College.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-06
CFDA Program: 84.336 Teacher Quality Enhancement Grants
Federal Agency: U.S. Department of Education
Grant Number: P336A050004
Area: Procurement
Questioned Costs: \$34,142

Auditee Response and Corrective Action Plan:

Since the University of Guam is the only comprehensive four-year degree granting university in the Western Pacific and on island, it was selected based on the Executive Order as well as its proven ability to provide training and technical assistance in education throughout the region.

Name and job title of responsible personnel:

Administrator of Federal Programs: Ignacio C. Santos
Program Manager: Dr. Nieves Flores

Specific corrective procedures to be performed:

For accountability, the Financial Affairs Office has implemented SOP 900-017 (Sole Source Procurement Procedures), SOP 900-013 (Procurement Records), and SOP 06-010 (Records Room) under the CCAP (Comprehensive Corrective Action Plan).

Date for performance of corrective action: October 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-07
 CFDA Program: 84.336 Teacher Quality Enhancement Grants
 Federal Agency: U.S. Department of Education
 Grant Number: P336A050004
 Area: Cash Management
 Questioned Costs: \$0
 Interest Liability: \$38

Criteria:

In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the clearing of the applicable check should be minimized. Any amount of interest from advancements over \$100 should be returned to the federal government.

Condition:

For 6 (or 14%) of 44 samples tested, we noted the time elapsed between the receipt of the Federal Funds and the date the check cleared the bank was greater than the allowable 7 days.

Check #	Transaction Amt	Check Date	Check Clearing Date	Reimbursement Date	Days Lapsed
					Passed Allowable 7 days
135337	\$ 4,995	02/26/07	02/28/07	02/12/07	10
271779	457	04/26/07	06/07/07	05/10/07	19
273477	13,194	09/07/07	10/01/07	09/03/07	20
273477	8,796	09/07/07	10/01/07	09/03/07	20
273477	6,597	09/07/07	10/01/07	09/03/07	20
269845	792	12/21/06	01/09/07	12/22/06	11

Cause:

There appears to be a lack of internal controls over cash management.

Effect:

The Guam Public School System is in noncompliance with cash management requirements. An interest liability of \$138 exists of which \$38 should be returned to the Federal Government. No questioned cost exists because the projected interest liability does not exceed \$10,000. Although no questioned cost is associated with this finding, the interest earned exceeds \$100; therefore, this finding is considered reportable.

Recommendation:

The Guam Public School System should ensure that a minimal amount of time exists between the reimbursement date and the actual check clearing date. Also, GPSS should consider working with the Treasurer of Guam in its development of clearance patterns applicable to the Government of Guam, should obtain from the Treasurer of Guam a copy of the annual Government of Guam CMIA (Cash Management Improvement Act) Treasury-State Agreement, and adhere to the approved clearance patterns.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-07, Continued
CFDA Program: 84.336 Teacher Quality Enhancement Grants
Federal Agency: U.S. Department of Education
Grant Number: P336A050004
Area: Cash Management
Questioned Costs: \$0
Interest Liability: \$38

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel:

Comptroller: Frances Danieli
Administrator of Federal Programs: Ignacio C. Santos
Program Manager: Dr. Nieves Flores

Specific corrective procedures to be performed:

In general our first rule is to refer to the Expenditure Reports to determine draw down amounts which is inclusive of paid invoices and unpaid invoices that require immediate payment. Federal funds draw down for immediate payments are disbursed upon notification of credit to the designated depository bank. We do not have control over when these disbursed checks are presented for payment at the designated bank. We implemented the Automated Clearing House. SOP 900-005 Elapsed Time between Receipts of Cash Disbursements for Federal Grants, Dated October 15, 2007

Date for performance of correction action: October 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-08
 CFDA Program: 84.336 Teacher Quality Enhancement Grants
 Federal Agency: U.S. Department of Education
 Grant Number: P336A050004
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$262,170

Criteria:

In accordance with applicable matching requirements, the grantee must match 50% of the grant.

Condition:

The grantee has not provided documentation to show that it has expended local funds for the program, as follows:

	<u>Grant 2007</u>	<u>Grant 2006</u>	<u>Net Deficiency</u>
Total FY 2006 expenditures	\$ 0	\$1,165,981	
Total FY 2007 expenditures	<u>1,209,114</u>	<u>1,433,505</u>	
	1,209,114	2,599,486	
Local share	<u>50%</u>	<u>50%</u>	
	604,557	1,299,743	
Local match waiver	<u>(200,000)</u>	<u>(200,000)</u>	
Required local match	404,557	1,099,743	
Actual local match	<u>644,150</u>	<u>597,980</u>	
(Excess)/Deficient Local Match	\$(<u>239,593</u>)	\$ <u>501,763</u>	\$ <u>262,170</u>

Cause:

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

Effect:

The Guam Public School System (GPSS) is in noncompliance with applicable matching requirements. A questioned cost of \$262,170 exists.

Recommendation:

GPSS should establish and implement internal controls to ensure compliance with applicable matching requirements. The Program Administrator should provide a schedule of locally funded program costs to effect resolution of this finding.

Auditee Response and Corrective Action Plan:

The Guam Public School System does not concur with this finding. In 2001, the Guam Public School System (GPSS) applied for the Teacher Quality Enhancement Grant (Project Hatsa) with the U.S. Department of Education, within the Application, the University of Guam Yamashita Educators Corps (YEC) was identified as a means for meeting the 50% matching requirements.

In 2005, the GPSS was awarded the Teacher Quality Enhancement Grant (Project Hatsa) in the amount of \$3,067,716 for the 1st year.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-08, Continued
CFDA Program: 84.336 Teacher Quality Enhancement Grants
Federal Agency: U.S. Department of Education
Grant Number: P336A050004
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$262,170

Auditee Response and Corrective Action Plan, Continued:

Based on the grant application and grant award, the YEC is an allowable matching/level of effort requirement.

Name and job title of responsible personnel:

Administrator of Federal Programs : Ignacio C. Santos
Comptroller: Frances Danieli
Program Manager: Dr. Nieves Flores

Date for performance of corrective action: October 2005

Auditor Response:

We do not dispute the use of YEC as an allowable non-Federal source for meeting the matching requirement. In fact, we have accepted the actual local match of \$644,150 and \$597,980 above, which represent expenditures paid by YEC for such activities as stipends and teacher training. The finding remains because GPSS did not provide sufficient documentation to substantiate additional local match amounts in excess of \$262,170. GPSS did provide spreadsheets with such headings as "Yamashita Educational Corp, Computation of Fund Balance Fund 94 From Inception," "University of Guam, Yamashita Educators Corps, Analysis of Changes in Fund Balance, Period: Oct. 2005 – Sept. 30, 2006," and "University of Guam, Yamashita Educators Corps, Analysis of Changes in Fund Balance, Period: Oct. 2006 – Sept. 30, 2007." However, we determined the information to be insufficient for the following reasons: (1) GPSS did not indicate which amounts should be applied towards the local match, (2) the information was not provided on University of Guam letterhead or YEC letterhead, (3) there was no indication that the YEC data had been independently reviewed or audited and (4) there was no indication of specific monitoring activity or examination performed by GPSS upon the subject match.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-09
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A060002
Area: Program Income
Questioned Costs: \$0

Criteria:

In accordance with applicable program income requirements, income generated by a grant-supported activity should be duly accounted for and be reported to the federal agency.

Condition:

The Guam Public School System (GPSS) administers an after-hours program entitled "DEED". The Consolidated Grants funds the salaries of DEED teachers. DEED charges each student \$75 for the program. These funds are to be remitted to the GPSS Business Office for deposit into the GPSS bank account. While the GPSS Business Office started tracking cash receipts received related to the DEED program from January 2007 through September 2007, we were not provided the subsidiary ledger for cash receipts from October 2006 through December 2006. Also, we were not provided schedules governing the amount of receivables due the program or the status of collection efforts to ensure that the program income is collected. For the period from January 2007 through September 2007, GPSS has DEED receipts aggregating \$357,640, averaging \$39,738 per month. Therefore, we estimate unrecorded program income for the period from October 2006 through December 2006 to be \$119,214.

Cause:

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

Effect:

The Guam Public School System (GPSS) appears to be in potential noncompliance with applicable program income requirements. We are unable to quantify the known questioned cost associated with this finding.

Recommendation:

The Guam Public School System (GPSS) should strengthen internal controls to ensure compliance with applicable program income requirements.

Auditee Response and Corrective Action Plan:

GPSS concurs that strengthening the internal controls to ensure compliance is needed.

Name and job title of responsible personnel:

Comptroller	Frances Danieli
Federal Programs Administrator	Ignacio C. Santos
State Program Officer	Joseph E. Montague II

Specific corrective procedures to be performed:

To address this concern, GPSS is in the process of finalizing an SOP that requires parents to directly pay at the Business Office. This requires the Business Office to track and record the payments properly, and it requires the Federal Programs Office to monitor the collection of program fees.

Date for performance of corrective action: Effective date is the 4th quarter of SY 2007 – 2008.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-10
 CFDA Program: 84.922 Consolidated Grants
 Federal Agency: U.S. Department of Education
 Grant Number: S922A040002, S922A050002
 Area: Procurement
 Questioned Costs: \$149,625

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of compliance with applicable procurement requirements. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

Of 96 transactions tested, we noted noncompliance with applicable procurement requirements, as follows:

- For 7 (or 7%), we were provided an oral explanation as to the curriculum committee's determination of the purchase of textbooks, however, the underlying documented evidence in support of the curriculum committee's determination was not provided for examination. This condition does not result in a questioned cost as the purchase appears to be in accordance with the curriculum committee's selection of textbooks.

<u>Transaction Reference</u>	<u>Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award</u>
200507296	12/12/06	\$ 3,013	\$ 40,624	S922A040002
200507296	12/12/06	\$ 1,884		S922A040002
200700517	07/05/07	\$ 5,000	145,559	S922A060002
200700044	08/22/07	\$ 9,481	2,153,995	S922A060002
200700044	09/12/07	\$ 1,149		S922A060002
200700044	09/06/07	\$ 2,686		S922A060002
200700044	09/12/07	\$ 1,505		S922A060002
			<u>\$ 2,340,178</u>	

- For 1 (or 1%), we noted that the procurement authority was incorrectly applied. The transaction was determined to be sole source; however, based on the expenditure file, the transaction should have been determined to fall under the purchased formal contracts and competitive procurement procedures should have been applied. Additionally, we were provided an oral explanation as to the curriculum committee's determination of the purchase of textbooks; however, the underlying documentary evidence was not provided. This condition does not result in a questioned cost as the purchase appears to be in accordance with the curriculum committee's selection of text books.

<u>Transaction Reference</u>	<u>Date</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award</u>
DE07-0165	06/27/07	\$17,789	\$ 17,789	S922A050002

- For 1 (or 1%), no supporting documentary evidence was provided for the selection of a Guam College entity for the technical educational programs in the Guam Public School System public schools.

<u>Transaction Reference</u>	<u>Invoice #</u>	<u>Check #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award</u>
200680317	507607	195600	\$15,897	\$163,956	S922A050002

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-10, Continued
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A040002, S922A050002
Area: Procurement
Questioned Costs: \$149,625

Condition, Continued:

- 4. For 1 (or 1%), quotations were informally solicited to procure required bussing services that exceeded the small purchase threshold of \$15,000. Furthermore, the vendors contacted by GPSS were given only five days to provide a response, whereas they would have been allowed 15 days if GPSS had followed its local procurement regulations. Therefore, it appears that open competition was limited.

<u>Transaction Reference</u>	<u>Invoice #</u>	<u>Check #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award</u>
200750003	BO 07-038	273743	\$9,600	\$149,625	S922A060002

Cause:

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

Effect:

The Guam Public School System (GPSS) is in noncompliance with applicable procurement requirements. No questioned cost exists for Conditions 1 and 2 as the purchases appear to be in accordance with the curriculum committee’s selection of text books. Furthermore, no questioned cost exists for Condition 3 as the vendor is currently the only known provider of the service. For the remaining Condition 4, a questioned cost of \$149,625 exists.

Recommendation:

The Guam Public School System should strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Administrator should not approve the selection of a vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, for the procurement of training services from educational institutions, the Supply Administrator should consider specifying a multi-year service period.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel:

Administrator of Federal Programs	Ignacio C. Santos
Program Manager, Associate of Elementary	Corina Y. Paulino
Associate of Secondary	Kenneth Chargualaf

Specific corrective procedures to be performed:

The Guam Public School System concurs however, notwithstanding that Department of Public Works (DPW) is the only agency that can provide the specific buses required by Department of Transportation. GPSS has solicited quotations and provided documents of the Executive Order stating that GPSS may enter into a contract with another government entity for services as a unique vendor and the opinion from the Office of the Attorney General that “if the government can itself provide the services needed, it need not obtain those services elsewhere”.

Date for performance of corrective action: May 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-11
 CFDA Program: 84.922 Consolidated Grants
 Federal Agency: U.S. Department of Education
 Grant Number: S922A050002
 Area: Cash Management
 Questioned Costs: \$0
 Interest Liability: \$331

Criteria:

In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks should be minimized. Furthermore, any amount of interest from advances over \$100 should be returned to the Federal Government.

Condition:

For 4 (or 4%) of 96 transactions tested, we noted the time elapsed between the receipt of the Federal Funds and the date the check cleared the bank was greater than the allowable 7 days.

<u>Check No.</u>	<u>Transaction Amount</u>	<u>Check Date</u>	<u>Check Clearing Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed</u>		<u>Grant Award</u>
					<u>Past</u>	<u>7 Days</u>	
269880	\$ 3,013	12/21/06	03/09/07	01/02/07		60	S922A040002
269880	\$ 1,884	12/21/06	03/09/07	01/02/07		60	S922A040002
ACH 057-146889	\$ 240,000	02/26/06	02/28/07	02/12/07		11	S922A050002
272823	\$ 17,789	07/12/07	07/26/07	07/03/07		16	S922A050002

Cause:

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

Effect:

The Guam Public School System is in noncompliance with cash management requirements. An interest liability of \$431 exists of which \$331 should be returned to the Federal Government. No questioned cost exists because the projected interest liability does not exceed \$10,000. Although no questioned cost is associated with this finding, the interest earned exceeds \$100; therefore, this finding is considered reportable.

Recommendation:

The Guam Public School System should ensure that a minimal amount of time exists between the reimbursement date and the actual check clearing date. Also, GPSS should consider working with the Treasurer of Guam in its development of clearance patterns applicable to the Government of Guam, should obtain from the Treasurer of Guam a copy of the annual Government of Guam CMIA (Cash Management Improvement Act) Treasury-State Agreement, and adhere to the approved clearance patterns.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-11, Continued
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A050002
Area: Cash Management
Questioned Costs: \$0
Interest Liability: \$331

Auditee Response and Corrective Action Plan:

In general our first rule is to refer to the Expenditure Reports to determine draw down amounts which is inclusive of paid invoices and unpaid invoices that require immediate payment. Federal funds draw down for immediate payments are disbursed upon notification of credit to the designated depository bank. We do not have control over when these disbursed checks are presented for payment at the designated bank. We implemented the Automated Clearing House.
SOP 900-005 Elapsed Time between Receipt of Cash Disbursements for Federal Grants, Dated October 15, 2007

Name and job title of responsible personnel:

Comptroller: Frances Danieli
Administrator of Federal Programs: Ignacio C. Santos
Program Manager: Associate of Elementary, Corina Y. Paulino

Date for performance of corrective action: October 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-12
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A060002
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

In accordance with applicable allowable costs/cost principles, such financial records as check copies, cancelled checks, payment requests, receiving reports, vendor invoices, purchase orders, contracts, and journal vouchers should be maintained on file for at least three years to substantiate expenditures. Furthermore, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Conditions:

1. For 1 (or 1%) of 96 transactions tested, the Department of Public Works (DPW) was hired to provide bussing services to school children enrolled in the GPSS summer school program. However, DPW is a line agency of the Government of Guam and already receives an annual budget from the local government to provide such services to Guam's students throughout the year.

<u>Transaction Reference</u>	<u>Invoice #</u>	<u>Check #</u>	<u>Amount Tested</u>	<u>Total Expenditures</u>	<u>Grant Award</u>
200750003	BO 07-038	273743	\$9,600	\$149,625	S922A060002

2. Of ten program employees interviewed, we noted the following:
 - a. For 8 (or 80%), who are teachers, a social worker, program aide, and administrative assistants, the employee verbally affirmed that he or she worked solely on program activities during FY 2007, but has no recollection of signing the required certifications for FY 2007.
 - b. For 1 (or 10%), who is a school aide, the employee verbally affirmed that he or she worked mostly on program activities during FY 2007 and that time is allocated through a Time Distribution Report (TDR) form. However, the TDR has codes for all program activities, but not local activities. Based on the interview, it appears that some of the other activities that are occasionally performed include assisting in the school office and clerical work, which would benefit local operations, as well. Based on our examination of the detailed labor cost reports for FY 2007 for these employees, we noted that the employee was paid solely with federal funds during FY 2007.

Cause:

There appears to be weak internal controls over ensuring compliance with applicable allowable costs/cost principles requirements.

Effect:

GPSS is in noncompliance with applicable allowable costs/cost principles requirements. The questioned cost associated with Condition 1 is already presented at Finding 07-10, and therefore, is not repeated at this finding. For Condition 2, we are unable to quantify the associated questioned costs, if any.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-12, Continued
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A060002
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Recommendation:

The Guam Public School System (GPSS) should strengthen internal controls to ensure compliance with applicable allowable costs/cost principles requirements. The responsible personnel should ensure that the time distribution reports include codes for documenting local activities and that such activities are locally funded.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel:

Administrator of Federal Programs:	Ignacio C.. Santos
Program Manager:	Associate of Elementary Corina Y Paulino
Associate of Secondary:	Kenneth Chargualaf

Specific corrective procedures to be performed:

The Guam Public School System concurs however, notwithstanding that Department of Public Works (DPW) is the only agency that can provide the specific buses required by Department of Transportation. GPSS has solicited quotations and provided documents of the Executive Order stating that GPSS may enter into a contract with another government entity or services as a unique vendor and the opinion from the Office of the Attorney General that "if the government can itself provide the services needed, it need not obtain those services elsewhere".

Date for performance of corrective action: May 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-13
CFDA Program: 84.922 Consolidated Grants
Federal Agency: U.S. Department of Education
Grant Number: S922A060002
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

In accordance with applicable quarterly monitoring requirements, Guam Public School System (GPSS) shall produce quarterly financial statements. Furthermore, the financial statements should agree with underlying accounting details.

Condition:

Based on examination of the quarterly financial statements and the general ledger details for the quarter ended June 30, 2007, there exists a variance, as follows:

<u>Grant Award No.</u>	<u>Amount per Financial Statements</u>	<u>Amount per Details</u>	<u>Variance</u>
S922A060002	\$4,940,056	\$5,022,416	\$82,360

Cause:

There appears to be weak internal controls over ensuring the quarterly financial statements agree with the underlying accounting details.

Effect:

The Guam Public School System (GPSS) is in noncompliance with the quarterly monitoring requirements. No questioned cost exists as the program expenditures in the annual financial statements and in the annual general ledger details are reconciled.

Recommendation:

The Guam Public School System (GPSS) should strengthen internal controls to ensure compliance with applicable quarterly monitoring requirements.

Auditee Response and Corrective Action Plan:

Management disputes this finding. There are internal controls in place.

Name and job title of responsible personnel:

Administrator of Federal Programs: Ignacio C. Santos
Comptroller Frances Danieli

Specific corrective procedures to be performed: See internal control procedures.

Auditor Response:

As the variance was not detected and corrected through the existing internal control procedures, the finding remains.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 07-14
CFDA Program: 93.600 Head Start
Federal Agency: U.S. Department of Health and Human Services
Grant Number:
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

In accordance with applicable allowable costs/cost principles, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition:

Of ten program employees interviewed, we noted the following:

1. For 8 (or 80%), who are teachers, a social worker, and program aides, the employee verbally affirmed that he or she worked solely on program activities during FY 2007, but has no recollection of signing the required certifications for FY 2007.
2. For the other 2 (or 00%), who are a supervisor and administrative assistant, the employee verbally affirmed that he or she worked mostly on program activities during FY 2007 and that time is allocated through a Time Distribution Report (TDR) form. However, the TDR has codes for all program activities, but not local activities. Based on the interview, it appears that some of the other activities that are occasionally performed include attending Board meetings and policy counseling, which would benefit local operations, as well. Based on our examination of the detailed labor cost reports for FY 2007 for these employees, we noted that the employee was paid solely with federal funds during FY 2007.

Cause:

There appears to be weak internal controls over ensuring compliance with applicable allowable costs/cost principles requirements.

Effect:

GPSS is in noncompliance with applicable allowable costs/cost principles requirements. We are unable to quantify the associated questioned costs, if any.

Recommendation:

The Guam Public School System (GPSS) should strengthen internal controls to ensure compliance with applicable allowable costs/cost principles requirements. The responsible personnel should ensure that the time distribution reports include codes for documenting local activities and that such activities are locally funded.

Auditee Response and Corrective Action Plan:

Management concurs with this finding.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-14, Continued
CFDA Program: 93.600 Head Start
Federal Agency: U.S. Department of Health and Human Services
Grant Number:
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Name and job title of responsible personnel:

Administrator of Federal Programs: Ignacio C.. Santos
Program Manager: Associate of Elementary Corina Y Paulino
Project Director: Cathy Schroeder

Specific corrective procedures to be performed:

The Guam Public School System has internal controls to ensure compliance. The Comprehensive Corrective Action Plan was created on October 2007.

Internal Control: SOP 900-009 Time Distribution (TDR) Procedures dated October 15, 2007

Date for performance of corrective action: October 15, 2007

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-15
CFDA Program: All major programs
Area: Equipment Management
Questioned Costs: \$0

Criteria:

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

Condition:

Fixed assets registers were provided; however, such records were not comprehensive. Required information, such as acquisition date, acquisition cost, supporting purchase order, and/or depreciation calculations were lacking for various items.

Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with equipment management requirements in FY 2007.

Effect:

GPSS is in noncompliance with applicable equipment management requirements for FY 2007. Furthermore, the loss or theft of equipment could go undetected.

Prior Year Status:

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

Recommendation:

The responsible personnel should develop a property management system that complies with equipment and real property management requirements.

Auditee Corrective Action Plan:

Our office disagrees with this finding. Between March-April 2006, we provided an electronic comprehensive physical inventory listing to the Auditors.

Improvements were initiated during the latter part of FY 2006.

1. SOP 900-010 Fixed Assets, dated October 15, 2007
2. Training was conducted April 10 thru 17, 2006 at each school site.
3. A permanent Inventory Management Officer was selected. Three (3) additional Property Control Officers were hired.
4. Designation of Primary Property Control Officers and Alternates were in place.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-15, Continued
CFDA Program: All major programs
Area: Equipment Management
Questioned Costs: \$0

Auditee Corrective Action Plan, Continued:

5. In compliance with the updated SOP, there were numerous trainings conducted in November 2006 for all schools and divisions designated Primary and Alternate property liaison. Follow up school site visits were initiated to distribute and load up the approved SOP into each of the school property liaisons computers, and to clarify any questions that were raised.
6. We are currently, updating the SOP again to capture not only Fixed Assets, but also to pick up Controlled Fixed Assets (assets below \$5,000.00).
7. In October-November, 2007, United Technology Solutions conducted training on the AS400/SIMS, with the receiving warehouse staff, FSAIS, Federal Programs, as well as the property management staff.
8. Training was conducted on the hand held scanners, and the bar code labels.
9. The automation of the fixed assets system with the AS400 is also on-going. The scanning and bar coding of the northern and southern regions of our schools fixed assets has already been completed. We are completing the central region at this time. Estimated completed date August 2008.
10. The keying into the AS400 system is on-going.

Maintaining property records, disposition of unserviceable property, transfer of property, receipt of property, are all an ongoing task of the Property Management Office throughout the year.

The training also included the incorporation of the fixed assets into the FMS so that the Business Office can address items that require depreciation. In FY 2008 an Accountant III was identified to perform the calculation of depreciation using the straight line method.

Personnel Responsible:

Equipment or Property Officer: George B. Mendiola
Comptroller Frances Danieli

Date for performance of corrective action:

Corrective actions are continuing.

Auditor Response:

We do not dispute that a physical inventory listing was provided to us. The issue is that the listing lacked the required data for some items and for some locations, and does not appear to have been reconciled to the financial statements. Although training might have occurred during FY 2007, we noted no significant improvements in the data provided to us, which were stand-alone spreadsheets, as opposed to AS400-generated fixed asset reports. We note that the auditee response includes corrective action taken in fiscal year 2008, which has not yet been subjected to audit.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-16
Area: General Ledger

Criteria:

Prior year audited ending balances should be reflected in the current year general ledger in a timely manner. Furthermore, the general ledger accounts should be closed in a timely manner.

Condition:

The fiscal year 2006 audited ending balances were not reflected in the fiscal year 2007 general ledger until November 2007, subsequent to the year ended September 30, 2007. Furthermore, the general ledger accounts for FY 2007 were not closed in a timely manner after the end of the fiscal year.

Cause:

There appears to be a lack of internal controls over ensuring that approved audit adjustments are recorded in the general ledger and that the general ledger accounts are properly closed in a timely manner.

Effect:

GPSS management administered funds in FY 2007 without full knowledge of the financial position of GPSS during the fiscal year.

Prior Year Status:

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

Recommendation:

The Chief Financial Officer should establish and implement internal controls to ensure that approved audit adjustments are recorded in the general ledger and that the general ledger accounts are properly closed in a timely manner

Auditee Corrective Action Plan:

Name and job title of responsible personnel:

Comptroller: Frances Danieli

Specific corrective procedures to be performed:

GPSS concurs with the finding. The Comptroller will record the approved audit adjustments within 30 days of receipt from the auditor.

Date for performance of corrective action: FY 2008

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No: 07-17
Area: Cash

Criteria:

Complete bank reconciliations should be prepared on a monthly basis for all bank accounts.

Condition:

Monthly bank reconciliations were not prepared timely in FY 2007.

Cause:

GPSS management has not enforced internal controls over ensuring that monthly bank reconciliations are prepared timely and completely.

Effect:

The loss, theft, or misrecording of cash would not be detected in a timely manner.

Prior Year Status:

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

Recommendation:

GPSS should strengthen internal controls to ensure that monthly bank reconciliations are prepared timely and completely. The Chief Financial Officer should designate a well-trained employee in the Financial Affairs Division to be responsible for preparing monthly bank reconciliations timely and completely. Upon receipt of the monthly bank statement, the responsible personnel should reconcile the bank cash balance with the book cash balance. Any discrepancies should be immediately investigated and resolved.

Auditee Corrective Action Plan:

Name and job title of responsible personnel:

Comptroller: Frances Danieli

Specific corrective procedures to be performed:

GPSS concurs. The Accountants and Accounting Technicians are required to reconcile their bank statements to the general ledger monthly. The reconciliation is then submitted to the Comptroller for review and approval.

Date for performance of corrective action: Fiscal Year 2008.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-18
Area: Reconciliations

Criteria:

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

Condition:

Reconciliations of balance sheet accounts were not performed until after February 2008.

Cause:

There appears to be a lack of internal controls over ensuring that the general ledger is reconciled to the subsidiary ledger on a timely basis.

Effect:

GPSS management administered funds in FY 2007 without full knowledge of the financial position of GPSS during the fiscal year.

Prior Year Status:

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

Recommendation:

The Chief Financial Officer should establish and implement internal controls to ensure that the subsidiary ledger is reconciled to the general ledger on a timely basis.

Auditee Corrective Action Plan:

Name and job title of responsible personnel:

Comptroller: Frances Danieli

Specific corrective procedures to be performed:

GPSS concurs. The Comptroller will require the Accountant and Accounting Technicians to reconcile their sub-ledgers with the General Ledger.

Date for performance of corrective action: FY 2008

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

Finding No.: 07-19
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 Public School System classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

The Guam Public School System continues to evidence issues in accounting for NAF funds in the year ended September 30, 2007. Supporting documents for NAF fund expenditures and bank reconciliations are lacking, indicating noncompliance with established NAF policies and with adequate documentation requirements. Detail expenditures were tested for 273 transactions approximating \$271,874. Of this sample, a substantial number of items did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- Support, such as invoices, is frequently not on file. Additionally, checks are sometimes paid to teachers/administrators who are responsible for paying vendors. However, there is no evidence that the vendors were paid or that the services were actually received.
- Payments for entertainment do not always indicate the persons in attendance and the reasons the entertainment occurred. It is noted that in certain instances, the primary beneficiaries of the entertainment appear to be teachers and administrators and not the students for whom the funds were raised.
- There appears to be an absence of evidence of competitive procurement considerations on file.
- Various schools have been designated for additional investigation due to the lack of support for expenses, the lack of reporting, and the lack of accountability; and various transactions have been referred to, or are considered for, referral for criminal investigation.

Cause:

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

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2007 and this condition could facilitate fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes Guam Public School System, and possibly the individual Guam Education Policy Board members, to potential lawsuits and increases the Organization's financial exposure.

Prior Year Status:

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

Recommendation:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 07-19, Continued
Area: Non-Appropriated Fund

Recommendation, Continued:

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

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

Auditee Response and Corrective Action:

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

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Prior Findings
Year Ended September 30, 2007

Unresolved Prior Findings

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

CFDA #	Program Name	Federal Agency	2007	2006	2005	2004	2003	2002	2001	2000	1999 and 1998	Total
10.553/10.555	Child Nutrition Cluster	USDA	\$ -	\$ 113,055	\$ 383,533	\$ 126	\$ 596	\$ -	\$ 194,468	\$ 66,125	\$ 132,034	\$ 889,937
12.110	State Planning Assistance	DOD	-	-	-	-	-	-	-	-	205,357	205,357
15.875	DOI	DOI	-	-	24,978	-	-	-	-	-	-	24,978
83.544	Public Assistance	FEMA	-	-	386,857	-	304,047	-	-	1,649,112	4,406,759	6,746,775
84.027	Grants Special Education - Grants to States	ED	64,013	681	-	217,778	372,544	417,916	77,426	59,481	-	1,209,839
84.181	Special Education - Infants and Families with Disabilities	ED	-	-	-	-	21,738	13,364	-	14,917	58,204	108,223
84.336	Teacher Quality Enhancement Grant	ED	296,312	-	-	-	-	-	-	-	-	296,312
84.922	Consolidated Grants	ED	149,625	131,948	-	11,936	-	-	-	-	-	293,509
93.600	Head Start	HHS	-	-	424,288	134,640	6,494	181,337	43,053	101,913	18,797	910,522
Totals			\$ 509,950	\$ 245,684	\$ 1,219,656	\$ 364,480	\$ 705,419	\$ 612,617	\$ 314,947	\$ 1,891,548	\$ 4,821,151	\$ 10,685,452