

GUAM DEPARTMENT OF EDUCATION

**INDEPENDENT AUDITORS' REPORTS ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND ON INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 1999

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying Schedule of Expenditures of Federal Awards (the Schedule) of the Guam Department of Education for the year ended September 30, 1999. This Schedule is the responsibility of Guam Department of Education's management. Our responsibility is to express an opinion on this Schedule based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

During the year ended September 30, 1999, the Department of Education did not maintain a general ledger and did not maintain an adequate system of internal control. The Department of Education did maintain subsidiary ledgers to account for expenditures per federal program. We did not audit the general purpose financial statements of the Department of Education as a whole. Rather, our audit encompassed only the subsidiary ledgers in which federal program transactions were recorded. Had we audited the general purpose financial statements as a whole, other matters impacting the accompanying Schedule of Expenditures of Federal Awards may have come to our attention and been duly reported. Therefore, we cannot determine whether additional matters exist that should be incorporated in the accompanying Schedule.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we audited the general purpose financial statements as a whole, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Guam Department of Education for the year ended September 30, 1999, in conformity with accounting principles generally accepted in the United States of America.

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September 5, 2003 (except for note 3, as to which
the date is September 17, 2003)



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the Schedule of Expenditures of Federal Awards (the Schedule) of the Guam Department of Education (DOE) as of and for the year ended September 30, 1999, and have issued our report thereon dated September 5, 2003, which report was qualified due to the scope of our engagement encompassing only the subsidiary ledgers for federal program transactions and not the general purpose financial statements of DOE as a whole. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

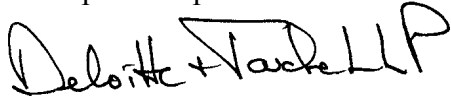
As part of obtaining reasonable assurance about whether DOE's Schedule of Expenditures of Federal Awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as findings 1999-07, 1999-08, 1999-11, 1999-15, 1999-16.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DOE's internal control over financial reporting of the Schedule in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting of the Schedule and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting of the Schedule, that, in our judgment, could adversely affect DOE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 1999-01, 1999-03, 1999-07, 1999-08, 1999-11, 1999-15, 1999-16 and 1999-20.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting of the Schedule would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 1999-07, 1999-08, and 1999-20 to be material weaknesses.

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

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September 5, 2003 (except for note 3, as to which
the date is September 17, 2003)



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

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

Compliance

We have audited the compliance of Guam Department of Education (DOE) 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, 1999. DOE'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 38). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of DOE's management. Our responsibility is to express an opinion on DOE'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 DOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on DOE's compliance with those requirements.

As described in findings 1999-05 through 1999-08, 1999-10, 1999-11, and 1999-14 through 1999-17 in the accompanying Schedule of Findings and Questioned Costs, DOE did not comply with the requirements regarding allowable costs/cost principles, eligibility, level of effort, procurement, reporting, subrecipient monitoring, and special tests and provisions that are applicable to its major federal programs described in the accompanying summary of auditors' results section (page 8) of the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for DOE to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, DOE 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, 1999.

Internal Control Over Compliance

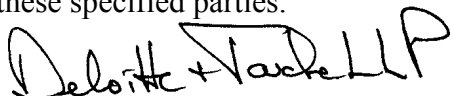
The management of DOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect DOE's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 1999-01 through 1999-19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. However, of the reportable conditions described above, we consider findings 1999-03, 1999-07, 1999-08, and 1999-11 to be material weaknesses.

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

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September 5, 2003 (except for note 3, as to which
the date is September 17, 2003)

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at September 30, 1998	FY 1999 Cash Receipts	Expenditures	Accrued (Deferred) Balance at September 30, 1999
U.S. DEPARTMENT OF AGRICULTURE:					
Pass-Through Guam Department of Administration:					
School Breakfast Program	10.553	\$ -	\$ 1,007,206	\$ 1,007,206 *	\$ -
National School Lunch Program (NSLP)	10.555	-	3,064,864	3,064,864 *	-
State Administrative Expenses for Child Nutrition	10.560	144,776	154,677	240,074	230,173
Nutrition Education & Training Program (NET Program)	10.564	55,542	-	51,965	107,507
Total U.S. Department of Agriculture		<u>\$ 200,318</u>	<u>\$ 4,226,747</u>	<u>\$ 4,364,109</u>	<u>\$ 337,680</u>
U.S. DEPARTMENT OF DEFENSE:					
Pass-Through Guam Department of Administration:					
Planning Assistance to States	12.110	\$ 470,833	\$ 880,753	\$ 724,535	\$ 314,615
Total U.S. Department of Defense		<u>\$ 470,833</u>	<u>\$ 880,753</u>	<u>\$ 724,535</u>	<u>\$ 314,615</u>
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration:					
Employment Services and Job Training-Pilot and Demonstration Programs	17.249	\$ 177,913	\$ 264,775	\$ 198,857	\$ 111,995
Total U.S. Department of Labor		<u>\$ 177,913</u>	<u>\$ 264,775</u>	<u>\$ 198,857</u>	<u>\$ 111,995</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:					
Pass-Through Guam Department of Administration:					
Public Assistance Grants	83.544	\$ (754,546)	\$ 2,556,391	\$ 4,581,195 *	\$ 1,270,258
Total Federal Emergency Management Agency		<u>\$ (754,546)</u>	<u>\$ 2,556,391</u>	<u>\$ 4,581,195</u>	<u>\$ 1,270,258</u>
U.S. DEPARTMENT OF EDUCATION:					
Pass-Through Guam Department of Administration:					
Multi State	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	(915,541)	8,612,757	9,202,603 *	(325,695)
Special Education-Personnel Development and Parent Training (Training Personnel for the Education of Individuals with Disabilities)	84.029	(15,723)	82,950	82,589	(16,084)
National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
Special Education-Preschool Grants	84.173A	(2,284)	44,539	19,028 *	(27,795)
Special Education: Grants for Infants and Families With Disabilities	84.181	317,817	1,974,547	2,411,290 *	754,560
Byrd Honors Scholarships	84.185	57,000	-	55,500	112,500
Christa McAuliffe Fellowships (CMFP)	84.190	(10,486)	33,864	31,206	(13,144)
Bilingual Education Support Services	84.194Q	59,112	101,360	71,640	29,392
Education Grant Program for the Freely Associated States	84.256	9,301	308,060	152,655	(146,104)
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276A	(7,803)	114,668	160,777	38,306
Bilingual Education: Program Enhancement Grants	84.289	9,300	26,287	24,315	7,328
Technology Literacy Challenge Fund Grants	84.318	9,092	-	254,876	263,968
Class Size Reduction	84.340	-	-	66,071	66,071
Consolidated Grants	84.922A	2,445,569	11,594,341	9,916,146 *	767,374
Total U.S. Department of Education		<u>\$ 1,951,723</u>	<u>\$ 22,893,373</u>	<u>\$ 22,448,696</u>	<u>\$ 1,507,046</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Pass-Through Guam Department of Administration:					
Child Care and Development Block Grant	93.575	\$ 46,094	\$ 89,774	\$ 1,072	\$ (42,608)
Promote the Survival and Continued Vitality of Native American Languages	93.587	47,640	26,258	64,670	86,052
Head Start	93.600	299,924	1,816,438	1,690,409 *	173,895
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	20,953	38,012	76,398	59,339
Total U.S. Department of Health and Human Service		<u>\$ 414,611</u>	<u>\$ 1,970,482</u>	<u>\$ 1,832,549</u>	<u>\$ 276,678</u>
Total Federal Awards		<u>\$ 2,460,852</u>	<u>\$ 32,792,521</u>	<u>\$ 34,149,941</u>	<u>\$ 3,818,272</u>

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

See notes to Schedule of Expenditures of Federal Awards.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 1999

1. Scope of Audit:

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

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

DOE is named as the grant recipient on grant awards and is responsible for maintaining the accounting records for federal expenditures. Although DOE did not maintain a general ledger during this period, DOE did account for direct charges to each program within the Catalog of Federal Domestic Assistance in detailed subsidiary ledgers. The federal programs were not charged allocated costs or indirect costs. Therefore, all costs charged were direct.

During the year ended September 30, 1999, on a periodic basis, DOE provided its subsidiary schedules to the Government of Guam Department of Administration (DOA), which then submitted reimbursement requests to grantor agencies and drew down federal funds based on the subsidiary totals. DOA established a separate account for federal cash receipts and transferred the federal funds to DOE. DOE maintained a subsidiary ledger to account for all cash deposits from DOA.

For the purposes of this report, cash receipts relate to all cash derived from the federal agencies, as passed through DOA during the year for each federal program. Cash receipts do not include matching funds from DOE.

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

b. Subgrants:

Certain program funds are passed through the Guam Department of Education to subrecipient organizations. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the Guam Department of Education's control utilized the funds. If the subrecipient expends more than \$300,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. Subsequent Event

Effective September 17, 2003, the U.S. Department of Education designated Guam Department of Education a "high-risk grantee," making it subject to special conditions in all of the Federal education programs it administers.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Part I - Summary of Auditors' Results

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

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Public Assistance Grants	83.544
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Special Education: Grants for Infants and Families with Disabilities	84.181
Consolidated Grants	84.922
Head Start	93.600

8. A threshold of \$1,024,498 was used to distinguish between Type A and Type B programs.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>	<u>Guam DOE Division</u>
1999-01	Reporting	\$ -	Agriculture	Food Services
1999-03	Reporting	\$ 132,034	Agriculture	Food Services
1999-07	Procurement	\$3,130,222	FEMA	Business Office
1999-08	Allowable Costs/Cost Principles	\$ -	FEMA	Business Office
1999-11	Allowable Costs/Cost Principles	\$ 203,748	FEMA	Business Office
1999-15	Procurement	\$ 2,805	Education	Federal Programs
1999-16	Procurement	\$ -	HHS	Headstart
1999-20	General Ledger	\$ -		

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>	<u>Guam DOE Division</u>
1999-01	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
1999-02	10.553/10.555	Eligibility	\$ -	Agriculture	Food Services
1999-03	10.553/10.555	Reporting	\$ 132,034	Agriculture	Food Services
1999-04	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
1999-05	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
1999-06	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
1999-07	83.544	Procurement	\$3,130,222	FEMA	Business Office
1999-08	83.544	Allowable Costs/Cost Principles	\$ -	FEMA	Business Office
1999-09	84.027/84.173	Period of Availability	\$ -	Education	Special Ed.
1999-10	84.027/84.173	Level of Effort	\$ -	Education	Special Ed.
1999-11	84.922	Allowable Costs/Cost Principles	\$ 203,748	Education	Federal Programs
1999-12	84.922	Reporting	\$ -	Education	Federal Programs
1999-13	84.922	Period of Availability	\$ -	Education	Federal Programs
1999-14	84.922	Subrecipient Monitoring	\$ -	Education	Federal Programs
1999-15	84.922	Procurement	\$ 2,805	Education	Federal Programs
1999-16	93.600	Procurement	\$ -	HHS	Head Start
1999-17	93.600	Eligibility	\$ -	HHS	Head Start
1999-18	93.600	Reporting	\$ -	HHS	Head Start
1999-19	84.922	Level of Effort	\$ -	Education	Federal Programs
Total Questioned Costs			<u>\$3,468,809</u>		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-01
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$0

Criteria:

Expenditures reported to the Federal Government on the Financial Status Report should agree with the Reimbursement Claim.

Condition:

The FSR and the Reimbursement Claim for fiscal year 1999 differ as follows:

	Per Reimbursement Claim	Per FSR	Over (Under) 2 nd Qtr
Breakfast	\$ 306,167	\$ 332,794	\$26,627
Lunch	945,355	943,303	(2,052)
	<u>\$1,251,522</u>	<u>\$1,276,097</u>	<u>\$24,575</u>

Cause:

There appears to be a lack of controls over ensuring that the FSR and the Reimbursement Claim are reconciled.

Effect:

There is no known effect on the Schedule of Expenditures of Federal Awards as a result of this condition. However, it appears that a total of \$24,575 has been over reported.

Recommendation:

The grantee should establish and implement internal controls to ensure that the responsible person reconciles the Financial Status Reports and the Reimbursement Claims at the end of the quarter prior to submission to the Federal Government.

Prior Year Status:

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

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. On October 1, 2002, the Business Office established the process to reconcile at the end of each quarter and prior to Federal draw-down request.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-02
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Eligibility
Questioned Costs: \$0

Criteria:

In accordance with 7 CFR part 3015, all financial and programmatic records, such as student listings, applications, and review determinations, should be documented on file for at least three years to substantiate Program transactions.

Condition:

Requested documents evidencing student listings and eligibility were not provided as of the last date of fieldwork, specifically:

1. List of students under the programs at Southern High School and the student applications of students selected for testing.
2. Student application and signed "Check List: Review Determination" for 7 of 25 students selected for testing. Following is a listing of the school and the student initials:

a. JP Torres Elementary	CG
b. MA Ulloa Elementary	SMA
c. Oceanview Middle	NRB
d. MU Lujan Elementary	BJT
e. Dept of Youth Affairs	JSA
f. Agueda Johnston Middle	JG
g. George Washington High	RMC
3. The student application was incomplete for 1 of 25 students selected for testing from Juan M. Guerrero Elementary.
4. Social security number of adult household member who signed the student application was missing for one student selected for testing from Jose L.G. Rios Middle School.

Cause:

There appears to be a lack of controls over ensuring that documents are maintained on file for at least three years.

Effect:

There is no known effect on the Schedule of Expenditures of Federal Awards as a result of this condition. However, eligibility of the above students cannot be supported, which could be interpreted as noncompliance with eligibility requirements and improper use of Federal Financial Assistance.

Prior Year Status:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-02, Continued
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Eligibility
Questioned Costs: \$0

Recommendation:

The grantee should establish and implement internal record keeping controls to ensure that documents are maintained on file for at least three years in accordance with 7 CFR part 3015.

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. By March 31, 2003, the Food Service Division will ensure that all schools maintain records of students under the Free and Reduced Program.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-03
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$132,034

Criteria:

The expenditures reported on the reimbursement claim should agree to cash payments made by USDA.

Condition:

The cash drawdowns reported by USDA and the Reimbursement Claim for fiscal year 1999 differ as follows:

	<u>Per USDA</u>	<u>Per Claim</u>	<u>Difference</u>
Breakfast	\$1,044,778	\$1,007,206	\$ 37,572
Lunch	<u>3,159,326</u>	<u>3,064,864</u>	<u>94,462</u>
	<u>\$4,204,104</u>	<u>\$4,072,070</u>	<u>\$132,034</u>

Cause:

There appears to be a lack of controls over ensuring that the reimbursement claim and the cash drawdowns are reconciled.

Effect:

A questioned cost of \$132,034 exists. It appears that the grantee has drawn down funds in excess of its expenditures. It cannot be determined whether the funds have been refunded or expended within the required timeframe.

Recommendation:

The grantee should establish and implement internal controls to ensure that the responsible person reconciles the Financial Status Reports and the cash drawdowns at the end of the quarter prior to submission to the Federal Government.

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. On October 1, 2002, the Business Office established the process to reconcile at the end of each quarter and prior to Federal draw-down request.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-04
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$0

Criteria:

The number of breakfast and lunch meals served, as reported to the Federal Government on form FNS-10, should agree to total count as reported to USDA.

Condition:

The FNS-10 and the USDA count totals for breakfast and lunch served for fiscal year 1999 differ as follows:

	<u>Per USDA</u>	<u>Per FNS-10</u>	<u>Difference</u>
Breakfast	1,095,643	1,446,426	(350,783)
Lunch	<u>2,864,870</u>	<u>2,212,186</u>	<u>652,684</u>
	<u>3,960,513</u>	<u>3,658,612</u>	<u>301,901</u>

Cause:

There appears to be a lack of internal controls over ensuring that the information provided on the FNS-10 and the actual counts of meals served are reconciled.

Effect:

There is no known effect on the Schedule of Expenditures of Federal Awards as a result of this condition. However, it appears that \$301,901 in meals were underreported for fiscal year 1999.

Recommendation:

The grantee should establish and implement internal controls to ensure that the responsible person reconciles the FNS-10 and the meal counts at the end of the month prior to submission to the Federal Government.

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. By April 1, 2003, the Business Office will ensure that FNS-10s are reconciled prior to the submission to the Federal Government.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-05
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$0

Criteria:

The Quarterly Financial Status Report (Form 269) is due 30 days after each quarter. Also, a final annual report is due 30 days after the liquidation period (90 days after year-end).

Condition:

The following Financial Status Reports are either filed late or not provided for review:

<u>Reporting Period</u>	<u>Date Due</u>	<u>Date Submitted</u>
10/1/98 – 12/31/98 (Quarterly)	01/31/99	03/22/00
01/1/99 – 03/31/99 (Quarterly)	04/30/99	03/22/00
04/1/99 – 06/30/99 (Quarterly)	07/31/99	03/22/00
07/1/99 – 09/30/99 (Quarterly)	10/31/99	02/21/00
10/1/98 – 09/30/99 (Final Report)	10/31/99	Report cannot be located

Cause:

There appears to be a lack of controls over ensuring the timely submission of financial status reports.

Effect:

The grantee is in noncompliance with OMB Circular A-133 reporting requirements.

Recommendation:

The grantee should ensure that Financial Status Reports are submitted timely and copies should be maintained through the audit process.

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. Beginning April 2003, Business Office will ensure that all quarterly and year-end reports are submitted timely.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-06
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$0

Criteria:

An initial monthly report (FNS 10) is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. Also, a final annual report is due 30 days after the liquidation period (90 days after year-end).

Condition:

The following FNS-10 are either filed late or not provided for review:

<u>Reporting Period</u>	<u>Date Due</u>	<u>Date Submitted</u>
Oct. 1998(90 day)	01/29/99	02/01/99
Nov. 1998(90 day)	02/28/99	03/02/99
Dec. 1998(90 day)	03/31/99	04/01/99
Jan. 1999(90 day)	05/01/99	05/04/99
Feb. 1999(90 day)	05/29/99	06/09/99
Mar. 1999(90 day)	06/29/99	07/08/99
Apr. 1999(90 day)	07/29/99	07/27/99
May 1999(90 day)	08/29/99	09/02/99
Jun. 1999(90 day)	09/28/99	Cannot be determined
Jul. 1999(90 day)	10/29/99	Cannot be determined
Aug. 1999(90 day)	11/29/99	Cannot be determined
Sept. 1999(90 day)	12/29/99	01/03/00

Cause:

There appears to be a lack of controls over ensuring the timely submission of financial status reports.

Effect:

The grantee is in noncompliance with OMB Circular A-133 reporting requirements.

Recommendation:

The grantee should ensure that FNS-10 is submitted timely and signed copies should be maintained through the audit process.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-06, Continued
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with the recommendation. On October 1, 2002, the Business Office established the process to reconcile at the end of each quarter and prior to Federal draw-down request.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-07
CFDA No.: 83.544
Program Name: Public Assistance Grants
Area: Procurement
Questioned Costs: \$3,130,222

Criteria:

In accordance with OMB Circular A-133 procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 35 (or 97%) out of 36 transactions, aggregating \$3,510,851 of \$ 4,581,195 in total Program expenditures, there is no significant history of the procurement on file for the following transactions:

	<u>Date</u>	<u>Vendor Number</u>	<u>Reference Number</u>	<u>Purchase Order</u>	<u>Amount</u>
1.	01/05/1999	1061	REISSUED210740		\$ 478,075
2.	02/12/1999	10276	D91901076	C9906U0120	79,681
3.	02/12/1999	10276	D91901076	C9906U0120	41,511
4.	02/12/1999	10276	D91901057	C9906U0050	44,500
5.	02/12/1999	10276	D91901076	C9906U0120	41,511
6.	02/12/1999	10276	D91901057	C9906U0050	38,548
7.	07/09/1999	10276	D91902783	C9906U0050	57,936
8.	02/05/1999	10289	D91901051		72,011
9.	02/05/1999	10289	D91901051		58,638
10.	02/05/1999	10289	D91901051		55,119
11.	02/05/1999	10289	D91901051		126,477
12.	02/05/1999	10289	D91901051		63,118
13.	02/05/1999	10289	D91901051		42,575
14.	02/05/1999	10289	D91901051		37,090
15.	02/22/1999	10289	D91901317	C9906U0150	64,174
16.	02/22/1999	10289	D91901317	C9906U0150	96,262
17.	02/22/1999	10289	D91901317	C9906U0150	96,262
18.	02/22/1999	10289	D91901317	C9906U0150	64,174
19.	02/24/1999	10289	D91901328	C9906U0030	66,210
20.	02/24/1999	10289	D91901328	C9906U0030	57,715
21.	02/24/1999	10289	D91901328	C9906U0030	49,219
22.	04/30/1999	10289	D91902002	C9906U0150	34,538
23.	05/21/1999	10289	D91902015	C9906U0150	50,232
24.	05/21/1999	10289	D91902015	C9906U0150	42,824
25.	03/03/1999	10345	D91901364	C9906U0010	50,000
26.	08/03/1999	10482	D91903046	C990640040	58,055
27.	08/26/1999	10482	D91903218		31,044
28.	07/09/1999	10828	PMT EST NO. 01	99100045; C9906U0260	243,532
29.	08/24/1999	10828	PMT. EST.NO.02	99100045; C9906U0260	590,797
30.	09/24/1999	10828	PMT EST NO. #0	99100045; C9906U0260	342,602
31.	01/05/1999	11374	0022-A	98000559	36,978
32.	02/26/1999	11500	D91901332	C9906U0060	49,436
33.	02/26/1999	11500	D91901332	C9906U0060	45,716
34.	02/26/1999	11500	D91901332	C9906U0060	115,801
35.	02/26/1999	11500	D91901332	C9906U0060	55,663
					<u>\$ 3,478,024</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1999

Finding No.: 1999-07, Continued
CFDA No.: 83.544
Program Name: Public Assistance Grants
Area: Procurement
Questioned Costs: \$3,130,222

Cause:

There appears to be a lack of internal control policies and procedures over ensuring compliance with OMB Circular A-133 procurement requirements and the Common Rule.

Effect:

The Program is in noncompliance with OMB Circular A-133 procurement requirements and the Common Rule. A questioned cost exists, as follows:

Total costs questionable	\$3,478,024
X Federal share	90%
Total questioned costs	<u>\$3,130,222</u>

Prior Year Status:

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

Recommendation:

The procurement supervisor should establish and implement internal control procedures to ensure that all procurements are documented in sufficient detail in compliance with OMB Circular A-133 procurement requirements and the Common Rule. The procurement officer should not approve purchase orders to procure goods/services from a particular vendor unless such procurement documents as solicitation ads, bid abstracts, or other written memoranda are documented on file to detail the significant history of the procurement.

Auditee Response and Corrective Action Plan dated November 24, 2003:

The Government of Guam Department of Public Works (DPW) procured all contracts for major repairs and replacements of the Guam Department of Education (GDOE) facilities and equipment damaged or destroyed by Typhoon Paka on December 16, 1997. Copies of the contracts were forwarded to the GDOE for payment purposes, however all procurement documentation remained at DPW. The GDOE is currently in communication with DPW to obtain access to the files or to determine what federal agency is in possession of the documents. The GDOE anticipates that the examination or determination of the location of the documents should be completed by January 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-08
CFDA No.: 83.544
Program Name: Public Assistance Grants
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 allowable costs/cost principles requirements and the Common Rule, all financial records, such as check copies, payment requests, vendor invoices, receiving reports, purchase orders, damage survey reports, and other attendant support, should be retained to substantiate expenditures.

Condition:

Out of 36 transactions, aggregating \$3,510,851 of \$ 4,581,195 in total Program expenditures, we noted the following:

- (1) For 1 (or 3%), no supporting documents, such as check copies, payment requests, vendor invoices, receiving reports, purchase orders, and damage survey reports, were provided for the following transactions:

<u>Date</u>	<u>Vendor Number</u>	<u>Reference Number</u>	<u>Purchase Order</u>	<u>Amount</u>
01/05/1999	1061	REISSUED210740	0	\$ 478,075

- (2) For 28 (or 78%), no damage survey report was provided for the following transactions:

	<u>Date</u>	<u>Vendor Number</u>	<u>Reference Number</u>	<u>Purchase Order</u>	<u>Amount</u>
1.	02/12/1999	10276	D91901076		\$ 41,511
2.	02/12/1999	10276	D91901076		41,511
3.	07/09/1999	10276	D91902783	C9906U0050	57,936
4.	02/05/1999	10289	D91901051		72,011
5.	02/05/1999	10289	D91901051		58,638
6.	02/05/1999	10289	D91901051		55,119
7.	02/05/1999	10289	D91901051		126,477
8.	02/05/1999	10289	D91901051		63,118
9.	02/05/1999	10289	D91901051		42,575
10.	02/05/1999	10289	D91901051		37,090
11.	02/22/1999	10289	D91901317	C9906U0150	64,174
12.	02/22/1999	10289	D91901317	C9906U0150	96,262
13.	02/22/1999	10289	D91901317	C9906U0150	96,262
14.	02/22/1999	10289	D91901317	C9906U0150	64,174
15.	02/24/1999	10289	D91901328	C9906U0030	66,210
16.	02/24/1999	10289	D91901328	C9906U0030	57,715
17.	02/24/1999	10289	D91901328	C9906U0030	49,220
18.	04/30/1999	10289	D91902002	C9906U0150	34,538
19.	05/21/1999	10289	D91902015	C9906U0150	50,232
20.	05/21/1999	10289	D91902015	C9906U0150	42,824
21.	03/03/1999	10345	D91901364	C9906U0010	50,000

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-08, Continued
CFDA No.: 83.544
Program Name: Public Assistance Grants
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Condition, Continued:

	<u>Date</u>	<u>Vendor Number</u>	<u>Reference Number</u>	<u>Purchase Order</u>	<u>Amount</u>
22.	08/03/1999	10482	D91903046	C990640040	58,055
23.	08/26/1999	10482	D91903218		31,044
24.	02/26/1999	11500	D91901332	C9906U0060	49,436
25.	02/26/1999	11500	D91901332	C9906U0060	45,716
26.	02/26/1999	11500	D91901332	C9906U0060	115,801
27.	02/26/1999	11500	D91901332	C9906U0060	55,663
28.	01/05/1999	11374	0022-A	98000559	36,978
					<u>\$ 1,660,290</u>

Cause:

There appears to be a lack of internal control policies and procedures over ensuring compliance with OMB Circular A-133 allowable costs/cost principles requirements and the Common Rule.

Effect:

The Program is in noncompliance with OMB Circular A-133 procurement requirements and the Common Rule. A questioned cost exists, as follows:

Total costs questionable	\$ 2,138,365
X Federal share	<u>90%</u>
	1,924,528
Less costs already questioned at a previous finding (See 1999-07)	<u>(1,924,528)</u>
Total questioned costs presented at this finding:	<u>\$ 0</u>

Prior Year Status:

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

Recommendation:

The grantee should establish and implement internal controls over record keeping in accordance with OMB Circular A-133 allowable costs/cost principles and the Common Rule. Also, the grantee should locate and provide the requested documents to effect resolution of this finding.

Auditee Response and Corrective Action Plan dated November 24, 2003:

The Government of Guam Department of Public Works (DPW) procured all contracts for major repairs and replacements of the Guam Department of Education (GDOE) facilities and equipment damaged or destroyed by Typhoon Paka on December 16, 1997. Copies of the contracts were forwarded to the GDOE for payment purposes, however all procurement documentation remained at DPW. The GDOE is currently in communication with DPW to obtain access to the files or to determine what federal agency is in possession of the documents. The GDOE anticipates that the examination or determination of the location of the documents should be completed by January 31, 2004.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-09
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

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

Condition:

At the end of fiscal year 1999, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1996	1998	\$10,316
1997	1999	<u>11,330</u>
		<u>\$21,646</u>

Cause:

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

Effect:

The available balances for grant years 1996 and 1997 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with OMB Circular A-133 period of availability requirements.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

Management concurs with recommendation. Budget Journal Entries will be made in FY 2001 books in order to de-appropriate the balances showing in the financial statements. Will ensure that the fiscal year-end closing procedures include the de-appropriation of any unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1999

Finding No.: 1999-10
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Level of Effort
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 level of effort requirements, Guam DOE should not use federal funds received to reduce current year expenditures made from local funds below the level of those expenditures of the preceding fiscal year. Current year expenditures made from local funds should therefore be higher than or at least equal to prior year expenditures made from local funds.

Condition:

In fiscal year 1998, total Special Education expenditures made from local funds amounted to \$4,553,802. In fiscal year 1999, these expenditures decreased to \$4,288,695.

Cause:

Funds appropriated by the Government of Guam for Special Education appear to be decreasing.

Effect:

The grantee is in noncompliance with OMB Circular A-133 level of effort requirements. The grantor agency could possibly halt federal funding for Special Education if the level of effort requirement is not met.

Recommendation:

The grantee should work with the Legislature to ensure compliance with the level of effort requirements.

Auditee Response and Corrective Action Plan:

In a letter dated January 30, 2003, the grantee provided the following response:

There is a concern being raised by the auditor that the Division of Special Education's local budget, as approved by the Legislature, has been reduced over the past several years, which by itself is proof that "Level of Effort" rules under OMB A-133 have been violated.

In 1998, 1999, 2000, and 2001 the Division of Special Education's budgets were approved as follows:

1998: \$4,553,802
1999: \$4,288,695 (\$265,107 less from 1998, or 6% less from the previous year)
2000: \$4,175,730 (\$112,965 less from 1999, or 3% less from the previous year)
2001: \$3,950,630 (\$225,100 less from 2000, or 5% less from the previous year)

This dollar amount represents only a portion of the total amount spent for Special Education services for the entire Guam Department of Education. The Division of Special Education, under local law and Board of Education policies, is charged with the (local) responsibility to provide direct, support, and

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1999

Finding No.: 1999-10, Continued
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Level of Effort
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

administrative services for three groups of students: students with disabilities, students who are gifted and/or talented, and incarcerated students. Thus, when the auditor is looking solely at our division's budget, he is in fact looking at our budget for gifted and talented, incarcerated and special education direct, support and administrative services.

For the IDEA grant requirements, all "state" costs for educating students with disabilities, to include district level costs and local school (also known as local educational agency) level costs, are to be used for comparison purposes to determine if "Level of Effort" has been maintained or violated. Therefore, the first step in reviewing our "Level of Effort" responsibility would be to determine how much of our division's budget is allocated just for the direct, support and administrative services for students with disabilities. These costs can be categorized as state and district level funding support for the overall budget for providing direct, support and administrative funding for special education for the entire Guam Department of Education.

In addition to the "state and district" funds appropriated to our division, we need to determine the LEA (local educational agency) costs budgeted by each school, in order to add this dollar amount to the state and district level costs, if we are to develop a formula for identifying the total costs for special education in Guam.

Each school (LEA) has its own budget that is submitted for approval by the Guam Board of Education and the Guam Legislature. Within each school's budget, there are personnel FTEs allocated for resource room teachers (special education teachers), basic supplies for all students (including students in the resource rooms), and the utility and maintenance costs for the entire school, to include resource rooms (and special program rooms at selected schools).

From year to year, the names of the special education teachers may change due to resignations, retirements, or transfers. The special education teachers on each school's staffing patterns and school budget submissions (as approved by the Legislature) are not given any type of code to allow us to readily extract their salaries from each school's staffing pattern in order to compute a school's special education salary costs over the years. In addition, we would have to calculate the number of special education students at each school, because each student (including special education students) generates a dollar amount for instructional supplies, custodial supplies, nursing supplies, library supplies, special education teacher supplies and administrative supplies that is used for budgeting purposes. Our utility and maintenance costs would be dependent on the square footage of the total resource rooms, special program classrooms and Consulting Resource Teacher rooms that are used exclusively for those purposes. We would have to take the total amount budgeted (or spent) for each school and divide it by the total square footage being used exclusively for special education purposes.

Once the LEA costs can be segregated from the overall school budget (or actual expenditures), then we can add this to the disaggregated costs from the Division of Special Education budget that is earmarked just for students with disabilities. Then and only then, can we come up with a figure that can be used for comparison purposes from year to year to determine if our "Level of Effort" has been maintained or violated.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-10, Continued
CFDA No.: 84.027/84.173
Program Name: Special Education Cluster
Requirement: Level of Effort
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

To compound this issue, our federal grant has been increasing, approximately \$300,000 per year over the last three fiscal years, while our overall DOE budget has seen cuts over the past three fiscal years.

So what efforts has the Division of Special Education taken to try to maintain the requirements to use federal funds to supplement and not supplant local efforts for special education? Let me provide two examples of how we are diligently holding the line when it comes to requests for funding that we deem inappropriate, due to concerns about supplanting versus supplementing.

When school principals ask us to fund resource room teacher FTEs, we first review the history of the number of resource room FTEs that have been locally funded at that particular school. For instance, if they've always locally funded two teachers and due to an increase in the number of special education students find that they are in need of a third resource room teacher in the middle of a fiscal year, we will fund the third FTE, because we are assured that this would be a clear case of using our federal funds to supplement the prior level of two teachers.

If however, we discover that two fiscal years ago, the school had two FTEs for resource room teachers and for whatever reason, had only one for the last fiscal year and are now asking us to restore them back to two FTEs by using federal funds to hire the second FTE, we would not approve such a request.

Recently, we received a request from a school principal to emergency fund the replacement of the entire contents of a totally destroyed resource room, to include all instructional materials, textbooks, desks, etc. We have disapproved such a request, because this would normally be submitted for FEMA reimbursement and there are funds appropriated by the Guam Legislature for the local matching requirement.

As you can see just by these two examples, the management of special education is cognizant of its responsibility relative to the concern of using federal funds to supplant local "Level of Effort" requirements enumerated in the IDEA regulations.

Auditors' Response:

The grantee has not provided any financial data to indicate compliance with level of effort requirements. Therefore, the finding remains.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-11
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$203,748

Criteria:

In accordance with OMB Circular A-133 allowable costs/cost principles requirements,

- (1) All financial records should be maintained on file to substantiate expenditures.
- (2) All expenditures should be properly authorized.
- (3) Personnel documentation should be maintained on file.

Condition:

- (1) For the expenditures indicated below, payment documents, invoices, or receiving reports were not maintained on file:

	<u>Vendor Name</u>	<u>Transaction Amount</u>	<u>Reference Number</u>	<u>Questioned Costs</u>
a.	Center for Innovation in Education Unlocated: Invoice	\$ 4,913	99001894	\$ 4,913
b.	Harcourt Brace Int'l Unlocated: Invoice & receiving report for goods in the amount of \$61,106	\$ 62,382	99000345	\$ 61,106
c.	GSA Unlocated: Document indicating date & amount paid, invoices, and receiving reports	\$ 84,373	AJE 817	\$ 84,373
d.	Brodhead Garrett Unlocated: Receiving report	\$ 53,356	97001206	\$ 53,356

- (2) Adjusting journal entries were made without an authorizing signature.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>	<u>Questioned Costs</u>
AJE 970	Accrual of Salaries & Benefits	\$ 102,056.46	\$ 0
AJE 817	Accrual for GSA Supplies Requisitions	\$ 84,373.14	\$ 0

- (3) For 2 out of 42 (or 5%) of employees' personnel action forms reviewed, there was no indication that the employee's salaries are charged to the Consolidated Grants program.

<u>Employee Name</u>	<u>SSN</u>	<u>Payroll Date</u>	<u>PAF Effective Date</u>	<u>Questioned Costs</u>
Bonifacio Caraang	586928060	2/19/99	8/20/97	\$ 0
Agnes Rivera	586071823	5/13/99	8/24/97	\$ 0

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-11, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$203,748

Cause:

- (1) There appears to be weak record keeping controls over ensuring that financial records are maintained to substantiate expenditures.
- (2) There appears to be weak record keeping controls over ensuring that approval of adjusting journal entries is documented and maintained on file.
- (3) There appears to be weak controls over ensuring that employees' personnel action forms properly reflect the account number to which salaries are charged.

Effect:

- (1) The grantee may be in noncompliance with OMB Circular A-133 allowable costs/cost principles requirements.
- (2) The grantee may be in noncompliance with OMB Circular A-133 allowable costs/cost principles requirements. A total of \$84,373 has been included as a questioned cost in Condition (1). In addition, the entry to accrue \$102,056 of salaries and benefits was reversed in the following fiscal year. Therefore, no questioned costs result from this condition.
- (3) The grantee may be in noncompliance with OMB Circular A-133 allowable costs/cost principles requirements.

Prior Year Status:

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

Recommendation:

- (1) The grantee should maintain all necessary documentation to substantiate all expenditures.
- (2) The grantee should ensure that all adjusting journal entries are authorized. Adjusting journal entries should be reviewed and signed "approved" by the financial controller or other appropriate individual prior to being entered in the financial management system.
- (3) The grantee should ensure that personnel action forms for employees whose salaries are charged to the Consolidated Grants program indicate the account number/description for the program.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-11, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$203,748

Auditee Response and Corrective Action Plan:

In a letter dated January 28, 2003, the grantee provided the following response:

- (1) Concurred.
 - a. Unable to locate invoice. Will ensure that future prepayments made are followed up for receiving reports and invoices.
 - b. Same as above.
 - c. Same as above.
 - d. Same as above.
- (2) Adjusting journal entries #970, Accrual of Salaries and Benefits, and #817, Accrual for GSA Supplies, are recurring journal entries. The adjustments were made without an authorizing signature merely to expedite the accounting process. Will ensure that future journal entries are properly authorized before entered into the financial management system.
- (3) Concurred. By February 2003, the Business Office will ensure that proper employee assignment account will be included in all personnel actions.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-12
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 reporting requirements, financial status reports should be supported by accounting records.

Condition:

The financial status report is incomplete, as follows:

<u>Grant Year</u>	<u>Expenditures Per FSR 269</u>	<u>Expenditures Per Financial Management System</u>	<u>Over (Under) Reported</u>
1997	\$ 0	\$1,975,212	\$(1,975,212)

Cause:

It is the grantee's understanding that one financial status report be prepared only for the grant award whose funding period ends during the fiscal year, and the grantor agency has not corrected such incomplete procedure.

Effect:

The financial status report submitted for fiscal year 1999 is incomplete.

Recommendation:

The grantee should establish internal control procedures to ensure that all Federal expenditures recorded in the financial management system are reported in financial status reports, regardless of the grant year, in accordance with OMB Circular A-133 reporting requirements.

Auditee Response and Corrective Action Plan:

In a letter dated January 28, 2003, the grantee provided the following response:

We concur with the auditors' recommendations. Beginning FY 2003, the Budget Analyst within the Federal Programs Division will ensure that the reporting of the Consolidated Grant expenditures are recorded in the financial management system and in agreement with the yearly financial status reports.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-13
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Period of Availability
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 period of availability requirements, funds appropriated in July of a fiscal year remain available for obligation during the succeeding 27 months.

Condition:

There is an unexpended balance of \$359,456 from grant year 1997, whose period of availability ended prior to the fiscal year ended September 30, 1999.

Cause:

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

Effect:

The available balance for grant year 1997 is misstated. If such balance is not properly deappropriated, the grantee could potentially expend Federal funds in noncompliance with OMB Circular A-133 period of availability requirements.

Prior Year Status:

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

Recommendation:

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

Auditee Response and Corrective Action Plan:

In a letter dated January 28, 2003, the grantee provided the following response:

We concur with the auditors' recommendations. We will ensure that future unexpended balances will be de-appropriated in a timely manner.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-14
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Subrecipient Monitoring
Questioned Costs: \$ 0

Criteria:

In accordance with OMB Circular A-133 subrecipient monitoring requirements,

- (1) The grantee shall identify to the subrecipient the Federal award information.
- (2) The grantee shall document monitoring activities performed to ensure that the subrecipient used funds for authorized purposes.

Condition:

- (1) Agreements between grantee and Guam Community College (subrecipient) for the: Driver's Education, Integrating Science and Allied Health, Work Experience, and Technology Education programs did not specify CFDA title and number, award name, name of Federal agency, or compliance requirements applicable to such award.
- (2) The grantee did not maintain documentation of monitoring activities performed.

Cause:

There appears to be weak controls over ensuring that subrecipient monitoring activities are properly documented.

Effect:

The grantee may be in noncompliance with OMB Circular A-133 subrecipient monitoring requirements.

Prior Year Status:

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

Recommendation:

- (1) The grantee should ensure that subrecipient agreements specify CFDA title and number, award name, name of Federal agency, and compliance requirements applicable to such award.
- (2) The grantee should maintain documentation of all monitoring activities performed.

Auditee Response and Corrective Action Plan:

In a letter dated January 28, 2003, the grantee provided the following response:

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-14, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Subrecipient Monitoring
Questioned Costs: \$ 0

Auditee Response and Corrective Action Plan, Continued:

Management concurs and will ensure the following:

- (1) By no later than April 1, 2003, the Administrator, Federal Programs will append to the Guam Community College sub-grant the CFDA title and number, award name, name of Federal agency, and compliance requirements for subrecipients. A copy will be forwarded to GCC.
- (2) By no later than April 1, 2003, the Administrator, Federal Programs shall develop an on-site monitoring plan and schedule for all GCC programs. The Administrator, Federal programs or designee shall conduct on-site monitoring reviews, report the findings, and maintain records of all monitoring activities.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-15
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$2,805

Criteria:

In accordance with OMB Circular A-133 procurement requirements, procurements shall provide full and open competition among vendors.

Condition:

- (1) School supplies in the amount of \$84,373 were requisitioned from the Government of Guam General Services Agency without having performed price comparisons with other vendors.
- (2) Check # 214907 in the amount of \$2,805 was paid to the University of San Diego for continuing education training, however there was no written documentation of price comparisons with other vendors.

Cause:

There appears to be weak controls over ensuring that price comparisons among vendors are documented.

Effect:

- (1) The grantee may be in noncompliance with OMB Circular A-133 procurement regulations. As questioned costs for the above are already included in Finding No. 1999-11, no further questioned costs result from this condition.
- (2) The grantee may be in noncompliance with OMB Circular A-133 procurement regulations. A questioned cost of \$2,805 is presented at this finding.

Prior Year Status:

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

Recommendation:

The grantee should perform price comparisons with other vendors and maintain documentation of such price comparisons to substantiate that the lowest priced vendor was selected. If the lowest priced vendor was not selected, documentation of the rationale for the selection of the vendor should be maintained on file.

Auditee Response and Corrective Action Plan:

In a letter dated January 28, 2003, the grantee provided the following response:

- (1) All schools and divisions of the Department are instructed to request for supplies, first through GSA and then through outside sources. The rationale behind this is that GSA has already gone through the process of getting the best prices on the island for items stocked at the warehouse. In the event the items are "not in stock" then the selection for price comparisons are made to select the vendor.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-15, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$2,805

Auditee Response and Corrective Action Plan, Continued:

(2) Concur, will ensure that this situation is not a repeated action.

Auditor's Response:

No documentation of cost comparisons between GSA and other vendors was maintained to substantiate that the prices of supplies requisitioned through GSA were the lowest available. Therefore, the finding remains.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-16
CFDA No.: 93.600
Program Name: Head Start Program
Area: Procurement
Questioned Costs: \$0

Criteria:

In accordance with DOE procurement regulations, requests for proposal (RFP) or requests for bid should be available for at least fifteen days prior to the specified opening date for the evaluation process.

Condition:

For one (or 8%) out of twelve procurement transactions tested (i.e., 99500014 PW99, amounting to \$10,768), the invitation to bid was published on June 23, 1999, with an opening day of June 29, 1999, resulting in only seven days for potential bidders to respond.

Cause:

The cause of this condition appears to result from an effort to reduce bidding time so that funds could be obligated for the grant award period ended June 30, 1999.

Effect:

The grantee is in noncompliance with DOE procurement regulations. In addition, lower bids from responsive bidders could have been received had bidders been given the required fifteen days to respond.

Recommendation:

The procurement supervisor should adhere to the department's internal control procedures to ensure that invitations to bid are available for at least fifteen days in compliance with procurement regulations. The Department should also plan ahead so that all funds authorized for the budget period is obligated at the end of the grant period.

Auditee Response and Corrective Action Plan:

In a letter dated January 31, 2003, the grantee provided the following response:

Management concurs with the auditor's recommendation. Beginning February 2003, the Procurement Office will ensure that the full fifteen days notice is made available. Periodical testing will be incorporated in our internal review plan to ensure full compliance.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-17
CFDA No.: 93.600
Program Name: Head Start Program
Area: Eligibility
Questioned Costs: \$0

Criteria:

Enrollment of the Head Start Program is to consist of children between the age of three and the age of compulsory school attendance. Therefore, the Agency must perform Date-of-Birth (DOB) verifications, where applicable, and maintain documentation of the validated efforts. Furthermore, according to Guam Head Start Policy and Procedures, children with disabilities and those who are over the income guidelines can only be enrolled if they provide documentation certifying the child's disability (such as doctor's certification or Special Education issued Eligibility Determination).

Condition:

For one (or 4%) out of twenty-five student registration files, the file for registration number 621 was not provided.

Cause:

The file could not be located. There appears to be weak record keeping controls.

Effect:

We were unable to verify the eligibility of the student enrolled. It appears the grantee is in noncompliance with OMB Circular A-133 eligibility requirements.

Recommendation:

The grantee should maintain a copy of all applicable documents through the audit process.

Auditee Response and Corrective Action Plan:

In a letter dated January 31, 2003, the grantee provided the following response:

Management concurs with the auditor's recommendation. Federal Program guidelines require that the age of the applicant be verified – they do NOT require that copies of these documents be kept on file. Currently, the procedure is that Program staff review appropriate documents to ensure eligibility. A portion of the registration form provides an area for the staff to initial that they have reviewed said documents. Commencing April 2003, the Head Start Office will make copies of appropriate documents for verification of age eligibility.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-18
CFDA No.: 93.600
Program Name: Head Start Program
Area: Reporting
Questioned Costs: \$0

Criteria:

Semi-annual cumulative Financial Status Reports (SF 269) are to be submitted within 30 days after the end of the second and fourth quarter of each budget period. A final SF 269 is due within 90 days after the end of each budget period. This is a total of three cumulative SF 269s for each budget period.

Condition:

We could not determine when the following reports were submitted to the grantor agency due to the lack of mailing receipts or facsimile transmittals:

<u>Reporting Period</u>	<u>Date Due</u>	<u>Date of the Report</u>	<u>Date Submitted</u>
7/1/98 – 12/31/98	1/31/99	4/1/99	Unknown
1/1/98 – 6/30/99	7/31/99	Not provided	Unknown
7/1/98 – 6/30/99	9/30/99	10/14/99	Unknown

Cause:

There appears to be weak record keeping controls.

Effect:

The grantee is in noncompliance with OMB Circular A-133 reporting requirements.

Prior Year Status:

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

Recommendation:

The grantee should ensure that Financial Status Reports are submitted timely and copies should be maintained through the audit process. Additionally, we recommend that the grantee indicate date mailed to evidence compliance.

Auditee Response and Corrective Action Plan:

In a letter dated January 31, 2003, the grantee provided the following response:

Filing dates for Form SF 269, Financial Status Reports for the due dates 01/31/00, 07/31/00 and 09/30/00 could not be determined. Beginning February 2003, the Business Office will ensure that filing dates of future FSRs are submitted timely and properly documented in the file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-19
CFDA No.: 84.922
Program Name: Consolidated Grants
Area: Level of Effort
Questioned Costs: \$0

Criteria:

In accordance with the General Provisions of the Elementary & Secondary Education Act, the combined fiscal effort per child or the aggregate expenditures for the preceding year must be at least 90% of the combined fiscal year effort per child or aggregate expenditures for the second preceding fiscal year.

Condition:

The grantee appears to be in compliance with level of effort requirements; however, such determination is based on unaudited schedules of local expenditures.

Cause:

The grantee's general purpose financial statements were not audited for fiscal year 1998.

Effect:

Actual compliance with level of effort requirements cannot be determined.

Recommendation:

The grantee should determine whether an audit of its FY 1998 general purpose financial statements is required to meet this requirement.

Auditor Response:

A response and corrective action plan from the auditee is not considered necessary since the grantee appears to be in compliance with level of effort requirements.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Finding No.: 1999-20
Area: General Ledger

Criteria:

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

Condition:

The Department of Education did not maintain accurate general ledger balances during the two years ended September 30, 1999. Reconciliations with subsidiary ledgers and with bank reconciliation balances were therefore not performable. While the Department did maintain subsidiary ledgers detailing expenditures by account or by federal program, no overall general ledger total was maintained and reconciled to the subsidiary ledgers. Therefore, it was not possible during these years to ensure that all expenditures were duly recorded in the subsidiary ledgers.

Cause:

The cause of this condition is that once the general ledger was not periodically reconciled with underlying subsidiary ledgers, the task became so enormous that it was postponed.

Effect:

The effect of this condition is that the general ledger balances were determined as of September 30, 2001. The Department of Education is now in the process of rolling forward such reconciliations through 2002 and 2003. The Department has recognized this requirement and has accordingly committed to a March 31, 2004 deadline for the September 30, 2002 fiscal year end audit and a June 30, 2004 deadline for the September 30, 2003 audit. Until the general ledger balances are rolled forward, it is not possible to perform current period reconciliations and therefore, this process is ongoing in conjunction with the aforementioned audits.

Recommendation:

The Department of Education must continue to commit necessary resources to complete the audits per the aforementioned timetables. Once such audits are completed, the Department should be in a position to carry forward the reconciliations and to be able to prepare timely, accurate interim financial statements.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 1999

Unresolved Prior Year Comments

There are no unresolved prior year internal control findings from fiscal year 1997 and prior years. The Schedule of Expenditures of Federal Awards for the years ended September 30, 1998 and 1999 were audited concurrently.