

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, 2001

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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 of the Guam Department of Education (the Schedule) for the year ended September 30, 2001. 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, 2001, 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, 2001, 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, 2001, 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

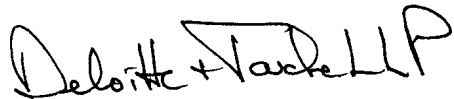
As part of obtaining reasonable assurance about whether DOE's Schedule of Expenditures of Federal Awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material 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 2001-07, 2001-11, 2001-15 and 2001-18.

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 2001-01, 2001-03, 2001-07, 2001-09, 2001-11, 2001-15, 2001-18 and 2001-21.

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 2001-07 and 2001-21 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

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, 2001. 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 39). 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 2001-02, 2001-05 through 2001-08, 2001-11, 2001-14, 2001-15, and 2001-18 in the accompanying Schedule of Findings and Questioned Costs, DOE did not comply with the requirements regarding eligibility, level of effort, period of availability, 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, 2001.

Internal Control Over Compliance

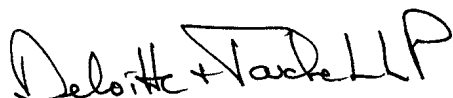
The management of DOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

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 2001-01 through 2001-20.

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 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 2001-03 and 2001-07 to be a 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.

A handwritten signature in black ink, appearing to read "Deloitte + Stach LLP", is written over a horizontal line.

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, 2001

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at September 30, 2000	FY 2001 Cash Receipts	Expenditures	Accrued (Deferred) Balance at September 30, 2001
U.S. DEPARTMENT OF AGRICULTURE:					
Pass-Through Guam Department of Administration:					
School Breakfast Program	10.553	\$ 341,077	\$ 1,256,347	\$ 1,069,535 *	\$ 154,265
National School Lunch Program	10.555	850,944	3,884,682	3,520,381 *	486,643
Child and Adult Care Food Program	10.558	(27,666)	43,472	-	(71,138)
State Administrative Expenses for Child Nutrition	10.560	392,116	391,359	201,918	202,675
Nutrition Education & Training Program (NET Program)	10.564	108,646	-	24,486	133,132
Commodity Supplemental Food Program	10.565	-	88,345	-	(88,345)
Total U.S. Department of Agriculture		\$ 1,665,117	\$ 5,664,205	\$ 4,816,320	\$ 817,232
U.S. DEPARTMENT OF DEFENSE:					
Pass-Through Guam Department of Administration:					
Planning Assistance to States	12.110	\$ 511,736	\$ -	\$ -	\$ 511,736
Total U.S. Department of Defense		\$ 511,736	\$ -	\$ -	\$ 511,736
U.S. DEPARTMENT OF LABOR					
Pass-Through Guam Department of Administration:					
Employment Services and Job Training-Pilot and Demonstration Programs	17.249	\$ 50,525	\$ 49,966	\$ 13,711	\$ 14,270
Total U.S. Department of Labor		\$ 50,525	\$ 49,966	\$ 13,711	\$ 14,270
FEDERAL EMERGENCY MANAGEMENT AGENCY:					
Pass-Through Guam Department of Administration:					
Public Assistance Grants	83.544	\$ 2,537,672	\$ 503,382	\$ -	\$ 2,034,290
Total Federal Emergency Management Agency		\$ 2,537,672	\$ 503,382	\$ -	\$ 2,034,290
U.S. DEPARTMENT OF EDUCATION:					
Pass-Through Guam Department of Administration:					
Multi State	84.025	\$ (176)	\$ -	\$ -	\$ (176)
Special Education-Grants to States	84.027	457,163	15,133,136	11,716,825 *	(2,959,148)
Special Education-Personnel Development and Parent Training (Training Personnel for the Education of Individuals with Disabilities)	84.029	(12,023)	-	-	(12,023)
Impact Aid	84.041	-	138,500	-	(138,500)
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	1,013,001	1,299,219	1,053,630 *	767,412
Byrd Honors Scholarships	84.185	112,500	109,500	60,000	63,000
Christa McAuliffe Fellowships (CMFP)	84.190	(14,473)	5,000	29,530	10,057
Bilingual Education Support Services	84.194Q	14,139	67,546	81,589	28,182
Education Grant Program for the Freely Associated States	84.256	(132,687)	-	81,694	(50,993)
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276A	91,872	175,272	160,423	77,023
Twenty-First Century Community Learning Centers	84.287	1,044	-	5,842	6,886
Technology Literacy Challenge Fund Grants	84.318	6,617	374,844	476,253	108,026
Class Size Reduction	84.340	112,837	1,111,843	1,042,683 *	43,677
Consolidated Grants	84.922A	1,033,274	10,265,809	8,245,654 *	(986,881)
Total U.S. Department of Education		\$ 2,651,838	\$ 28,680,669	\$ 22,954,123	\$ (3,074,708)
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Pass-Through Guam Department of Administration:					
Child Care and Development Block Grant	93.575	\$ (131,427)	\$ -	\$ -	\$ (131,427)
Promote the Survival and Continued Vitality of Native American Languages	93.587	82,257	-	-	82,257
Head Start	93.600	529,436	1,196,187	1,787,795 *	1,121,044
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	142,769	140,350	103,940	106,359
Total U.S. Department of Health and Human Service		\$ 623,035	\$ 1,336,537	\$ 1,891,735	\$ 1,178,233
Total Federal Awards		\$ 8,039,923	\$ 36,234,759	\$ 29,675,889	\$ 1,481,053

* 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, 2001

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.

Prior to May 2001, 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.

Starting in May 2001, DOE submitted reimbursement requests and drew down funds directly from U.S. DOE. However, DOA continued to draw down and pass through funds from other federal agencies, such as U.S. Department of Agriculture and U.S. Department of Health and Human Services.

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, and all cash received directly from U.S. DOE. 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, 2001

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

<u>Name of Federal Program</u>	<u>Federal/LSC CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education – Grants to States	84.027
Special Education: Grants for Infants and Families with Disabilities	84.181
Class Size Reduction	84.340
Consolidated Grants	84.922
Head Start	93.600

8. A threshold of \$ 890,277 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, 2001

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>
2001-01	Reporting	\$ -	Agriculture	Food Services
2001-03	Reporting	\$194,468	Agriculture	Food Services
2001-07	Period of Availability	\$ 77,426	Education	Special Ed.
2001-09	Segregation of Duties	\$ -	Education	Special Ed.
2001-11	Procurement	\$ 82,603	Education	Federal Programs
2001-15	Procurement	\$ 23,822	HHS	Head Start
2001-18	Special Tests and Provisions	\$ 19,231	HHS	Head Start
2001-21	General Leger	\$ -		
2001-22	Non-Appropriated Funds	\$ -		
2001-23	Cash	\$ -		
2001-24	Accruals	\$ -		
2001-25	Prepaid Expenses	\$ -		
2001-26	Interfund Transactions	\$ -		
2001-27	Payables	\$ -		
2001-28	Prepaid	\$ -		
2001-29	Payables	\$ -		
2001-30	General Ledger Immaterial			
	Balances	\$ -		
2001-31	Travel Advances	\$ -		

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>
2001-01	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
2001-02	10.553/10.555	Eligibility	\$ -	Agriculture	Food Services
2001-03	10.553/10.555	Reporting	\$194,468	Agriculture	Food Services
2001-04	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
2001-05	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
2001-06	10.553/10.555	Reporting	\$ -	Agriculture	Food Services
2001-07	84.027	Period of Availability	\$ 77,426	Education	Special Ed.
2001-08	84.027	Level of Effort	\$ -	Education	Special Ed.
2001-09	84.027	Segregation of Duties	\$ -	Education	Special Ed.
2001-10	84.340	Period of Availability	\$ -	Education	Business Office
2001-11	84.922	Procurement	\$ 82,603	Education	Federal Programs
2001-12	84.922	Period of Availability	\$ -	Education	Federal Programs
2001-13	84.922	Reporting	\$ -	Education	Federal Programs
2001-14	84.922	Subrecipient Monitoring	\$ -	Education	Federal Programs
2001-15	93.600	Procurement	\$ 23,822	HHS	Head Start
2001-16	93.600	Reporting	\$ -	HHS	Head Start
2001-17	93.600	Reporting	\$ -	HHS	Head Start
2001-18	93.600	Special Tests and Provisions	\$ 19,231	HHS	Head Start
2001-19	84.181	Period of Availability	\$ -	Education	Special Ed.
2001-20	84.922	Level of Effort	\$ -	Education	Federal Programs
Total Questioned Costs			<u>\$397,550</u>		

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-01
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 2001 differ as follows:

	<u>Per Claim</u>	<u>Per FSR</u>	<u>Over(Under)</u>
Breakfast			
1 st Qtr	\$ 159,252	\$ 159,925	\$ 673
2 nd Qtr	337,997	329,760	(8,237)
3 rd Qtr	275,536	275,536	0
4 th Qtr	<u>296,750</u>	<u>296,750</u>	<u>0</u>
	<u>\$1,069,535</u>	<u>\$1,061,971</u>	<u>\$ (7,564)</u>
Lunch			
1 st Qtr	\$ 821,810	\$ 684,407	(137,403)
2 nd Qtr	995,969	994,996	(973)
3 rd Qtr	813,249	813,249	0
4 th Qtr	<u>889,353</u>	<u>889,353</u>	<u>0</u>
	<u>\$3,520,381</u>	<u>\$3,382,005</u>	<u>\$(138,376)</u>
Total underreported:			<u>\$(145,940)</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 financial statements as a result of this condition. However, it appears that a total of \$145,940 has been underreported.

Prior Year Status:

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

Recommendation:

The grantee should establish and implement internal 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.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-01, 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, 2001

Finding No.: 2001-02
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. Student application and signed "Check List: Review Determination" for 3 out of 25 students selected for testing. Following is a listing of the school and the student:
 - a. John F. Kennedy High MA
 - b. Dept. of Youth Affairs NJD
 - c. George Washington High JA
2. Social security number of adult household member who signed the student application was missing for one student selected for testing from FQ Sanchez Elementary.

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.

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.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-02, Continued
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Eligibility
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. 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, 2001

Finding No.: 2001-03
CFDA No.: 10.553/10.555
Program Name: Child Nutrition Cluster
Area: Reporting
Questioned Costs: \$194,468

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 2001 differ as follows:

	<u>Per USDA</u>	<u>Per Claim</u>	<u>Difference</u>
Breakfast	\$1,199,066	\$1,069,535	\$129,531
Lunch	<u>3,585,318</u>	<u>3,520,381</u>	<u>64,937</u>
	<u>\$4,784,384</u>	<u>\$4,589,916</u>	<u>\$194,468</u>

Cause:

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

Effect:

A questioned cost of \$194,468 exists. It appears that the entity has drawn down funds in excess of its expenditures. It cannot be determined if the funds have been refunded or expended within the required timeframe.

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 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, 2001

Finding No.: 2001-04
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 total breakfast and lunch served for fiscal year 2001 differ as follows:

	<u>Per USDA</u>	<u>Per FNS-10</u>	<u>Difference</u>
Breakfast	1,089,630	1,089,616	(14)
Lunch	<u>2,485,549</u>	<u>2,597,934</u>	<u>112,385</u>
	<u>3,575,179</u>	<u>3,687,550</u>	<u>112,371</u>

Cause:

There appears to be a lack of 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 a total of 112,371 meals were underreported for fiscal year 2001.

Prior Year Status:

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

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, 2001

Finding No.: 2001-05
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>
10/01/00 – 12/31/00 (Quarterly)	01/31/01	8/13/01
01/01/01 – 03/31/01 (Quarterly)	04/30/01	8/13/01
04/01/01 – 06/30/01 (Quarterly)	07/31/01	Cannot be determined
10/01/00 – 09/30/01 (Final Report)	12/31/01	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.

Prior Year Status:

The above condition is reiterative of conditions identified in the 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.

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, 2001

Finding No.: 2001-06
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. 2000(90 day)	01/29/01	01/31/01
Nov. 2000(90 day)	02/28/01	04/17/01
Dec. 2000(90 day)	03/31/01	04/17/01
Feb. 2001(90 day)	05/29/01	05/30/01
Mar. 2001(90 day)	06/29/01	07/06/01
May 2001(90 day)	08/29/01	Cannot be determined
Jun. 2001(90 day)	09/28/01	Cannot be determined
Aug. 2001(90 day)	11/29/01	Cannot be determined
Sept. 2001(90 day)	12/29/01	01/08/02

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.

Prior Year Status:

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

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, 2001

Finding No.: 2001-06, 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. Beginning February 2003, Business Office will ensure that FNS-10s are submitted timely within the 30-days following the close of the report month.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-07
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Period of Availability
Questioned Costs: \$77,426

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 2001, unliquidated/unobligated balances remain after the fund's period of availability, as follows:

<u>Grant Year</u>	<u>End of Availability</u>	<u>Unliquidated/Unobligated Balance</u>
1997	1999	\$ 5,595
1998	2000	104,967
1999	2001	<u>45,676</u>
		<u>\$156,238</u>

Furthermore, in fiscal year 2001, expenditures amounting to \$77,426 were charged to the 1998 grant after the fund's period of availability.

Cause:

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

Effect:

The available balances for grant years 1997 through 1999 are misstated. If the balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with OMB Circular A-133 period of availability requirements. Furthermore, a questioned cost of \$77,426 exists.

Prior Year Status:

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

Recommendation:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-07, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Period of Availability
Questioned Costs: \$77,426

Auditee Response and Corrective Action Plan:

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

Attached is a copy of the email extending the liquidation period of the 1998 grant to July 2, 2001. The questioned costs in this finding were identified as encumbrances as of September 30, 2000 and liquidated in fiscal year 2001. 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.

Auditors' Response:

The email extended the liquidation period for grant H027B970004; therefore, no expenditures liquidated under the referenced grant are questioned. However, for grant H027A980069, \$77,426 in obligations were liquidated after the fund's period of availability.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-08
CFDA No.: 84.027
Program Name: Special Education – Grants to States
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 2000, total Special Education expenditures made from local funds amounted to \$4,175,730. In fiscal year 2001, these expenditures decreased to \$3,950,630.

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.

Prior Year Status:

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

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)

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2001

Finding No.: 2001-08, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Level of Effort
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

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 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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2001

Finding No.: 2001-08, Continued
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Level of Effort
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

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.

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, 2001

Finding No.: 2001-09
CFDA No.: 84.027
Program Name: Special Education – Grants to States
Requirement: Segregation of Duties
Questioned Costs: \$0

Criteria:

As part of effective controls, a proper segregation of duties should be in place.

Condition:

Based on tests of expenditures and interviews with the Administrative Officer of the special education programs, we noted that the Officer performs a wide range of duties that do not promote a proper segregation of duties. The Officer can initiate a requisition, make changes to a requisition, record a requisition, and sign off or confirm the receipt of the requisitioned goods.

Cause:

The Administrative Officer has responsibilities that do not conform to segregation of duties principles.

Effect:

Conflicting duties present a breakdown of controls that could lead to misappropriation of resources or assets.

Recommendation:

We recommend that the Administrative Officer's various functions be thoroughly reviewed. Any conflicting duties should be assigned to another Special Education personnel.

Auditee Response and Corrective Action Plan:

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

The Division has analyzed the preliminary auditor's finding and ensures that conflicting duties relevant to financial accounting practices will not exist by accomplishing the following tasks:

- Developing a policy guidance memorandum outlining the appropriate process for requisitions and purchases for dissemination to all Division coordinators by February 3, 2003.

Initiate recruitment efforts to fill the position of Program Coordinator II by March 2003. This position's primary responsibility will be to administer the Division's inventory program, to include the receiving and accounting of all the Division's fixed assets as well as reconciling end-of-year closeouts and other grant related projects as assigned. Although the position requires close interaction with the Administrative Officer, it will be Associate Superintendent of Special Education that will be directly supervising the functions of this position. This will ensure that no conflict of duties exists.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-10
CFDA No.: 84.340
Program Name: Class Size Reduction
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 \$82,286 from grant year 1999, whose period of availability ended on September 30, 2001.

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 1999 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.

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 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, 2001

Finding No.: 2001-11
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Procurement
Questioned Costs: \$ 82,603

Criteria:

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

Condition:

For one (or 14%) out of seven procurement transactions tested, a contract (#SFA00RC-2062) was entered into with vendor number 21748 without documentation of price comparisons with other vendors. Payments in the amount of \$ 82,603 were made under this contract during FY 2001.

Cause:

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

Effect:

The grantee is in noncompliance with OMB Circular A-133 procurement regulations. A questioned cost of \$82,603 exists.

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 is 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:

This procurement was intended to be a sole-source procurement. However, documentation for this transaction was not included in the file. By February 2003, the Business Office and Procurement Division will ensure that proper documentation for sole-source procurement is included in all future similar transactions.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-12
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 are unexpended balances from grant years 1997 through 1999, whose period of availability ended prior to the fiscal year ended September 30, 2001. The aggregate total of unexpended balances is \$606,626, as follows:

<u>Grant Year</u>	<u>Year Period of Availability Ended</u>	<u>Unexpended Balance at 09/30/01</u>
1997	1999	\$398,457
1998	2000	46,170
1999	2001	<u>161,999</u>
		<u>\$606,626</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:

Available balances for grant years 1997 through 1999 are misstated. If such 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, the responsible personnel should deappropriate/deencumber unexpended balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-12, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Period of Availability
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

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

We concur with the auditors' recommendation. Will ensure that in the future unexpended balances be deappropriated/deencumbered in a timely manner.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-13
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with OMB Circular A-133 reporting requirements, reported net outlays 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>
1998	\$ 0	\$ 51,986	\$ (51,986)
1999	\$ 0	\$2,009,709	\$ (2,009,709)
2000	\$6,089,899	\$6,184,002	\$ (94,103)

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. Furthermore, there appears to be weak internal controls over ensuring that expenditures per the SF 269 and financial management system reconcile.

Effect:

The grantee is in noncompliance with OMB Circular A-133 reporting requirements. The financial status report submitted for fiscal year 2001 is incomplete.

Prior Year Status:

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

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. Furthermore, prior to submitting the FSR 269, the responsible personnel should perform a reconciliation of reported amounts and accounting records. Any discrepancies should be immediately investigated and resolved.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-13, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

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

We concur with the auditors' recommendation. 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. The Accounting Supervisor from the Business Office will perform the reconciliation of the reported amounts and accounting records. Any discrepancies will be immediately investigated and resolved.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-14
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.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-14, Continued
CFDA No.: 84.922
Program Name: Consolidated Grants
Requirement: Subrecipient Monitoring
Questioned Costs: \$ 0

Auditee Response and Corrective Action Plan:

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

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 sub-recipients. 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, 2001

Finding No.: 2001-15
CFDA No.: 93.600
Program Name: Head Start Program
Area: Procurement
Questioned Costs: \$23,822

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. Furthermore, all procurement transactions will be conducted in a manner providing full and open competition. One situation considered to be restrictive of competition is specifying only a "brand name" product instead of allowing "an equal" product to be offered and describing the performance of other relevant requirements of the procurement.

Condition:

Out of six transactions, aggregating \$37,147 of \$1,787,795 in total Program expenditures, we noted the following:

- 1) For one (or 17%) (i.e., #200101235 PO01), there is no rationale on file for the selection of vendor number 21624 for the purchase of various health supplies amounting to \$6,868.
- 2) For one (or 17%) (i.e., #200140083 PT01), a price quotation was obtained from several travel agencies for the purchase of airfare in the amount of \$2,959. However the agency selected did not quote the lowest fare, and there was no written rationale for the vendor selection. The grantee indicates that this was due to the other travel agencies eventually declaimed the Department's purchase order.
- 3) For two (or 33%), the solicitation of price quotation specified a brand name, without the term "or equivalent" for the procurement of various computer equipment in the amount of \$13,995 (PO#200101059) and various health supplies in the amount of \$6,868 (PO#200101235).

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 of \$23,822 exists, as follows:

	<u>Reference Number</u>	<u>Amount</u>
Condition (1) and (3)	200101235 PO01	\$ 6,868
Condition (2)	200140083 PT01	2,959
Condition (3)	200101059	13,995
		<u>\$23,822</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-15, Continued
CFDA No.: 93.600
Program Name: Head Start Program
Area: Procurement
Questioned Costs: \$23,822

Prior Year Status:

The above condition is reiterative of conditions identified in our 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. For the second condition, we recommend the grantee to have procurement officer's certification on file shall the price quotation obtained from different travel agencies by the program staff becomes invalid due to non-acceptance of its purchase order.

Auditee Response and Corrective Action Plan dated January 31, 2003:

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

Conditions (1) and (2):

Management concurs with the auditor's recommendation. By February 2003, the Procurement Office will ensure tighter controls to ensure procurement documents are sufficient and in compliance with OMB Circular A-133 procurement requirements and the Common Rule. By March 2003, the Business Office in coordination with the Procurement Office will have in place a registered list of travel agents who will accept purchase orders with DOE. Validation of selected Travel Agents will be based on this list.

Condition (3):

Management concurs with auditor's recommendation. By February 2003, the Procurement Office will ensure that standards are followed in compliance with GSA and other regulations. Periodical testing will be incorporated in our Internal Review to ensure full compliance.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-16
CFDA No.: 93.600
Program Name: Head Start Program
Area: Reporting
Questioned Costs: \$0

Criteria:

Amounts reported in the Financial Status Reports should be supported by the general ledger balances.

Condition:

Total liquidated outlays for fiscal years 1998 through 2001 as reported in the Financial Status Reports differ from total expenditures recorded in the general ledger:

<u>Reporting Period</u>	<u>Per FSR</u>	<u>Per General Ledger</u>	<u>Difference</u>
Grant Year 97 (07/01/97 – 06/30/98)	\$ 1,329,830	\$ 1,222,737	\$ 107,093
Grant Year 98 (07/01/98 – 06/30/99)	1,737,988	1,737,988	0
Grant Year 99 (07/01/99 – 06/30/00)	1,598,444	1,602,591	4,147
Grant Year 00 (07/01/00 – 06/30/01)	1,708,259	1,707,578	681

Cause:

There appears to be a lack of internal controls over ensuring that the Financial Status Reports reconcile with the general ledger.

Effect:

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

Recommendation:

The grantee should perform a reconciliation of the two amounts and determine whether an amended report is needed.

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. By February 2003, Business Office will ensure that filing dates of future FSRs are properly documented in the file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-17
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>
07/01/00 – 12/31/00	01/31/01	02/08/01	Unknown
01/01/01 – 06/30/01	07/31/01	07/02/02	Unknown
07/01/00 – 06/30/01	09/30/01	10/16/01	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:

Management concurs with the auditor's recommendation. By March 2003, the Business Office will ensure that quarterly reconciliation process is done to ensure accuracy of reports, and that Financial Status Reports are submitted timely and copies be maintained through the audit process. Business Office will also document the date mailed to show compliance.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-18
CFDA No.: 93.600
Program Name: Head Start Program
Area: Special Tests and Provisions
Questioned Costs: \$19,231

Criteria:

In accordance with OMB Circular A-133 special tests and provision requirements, the grantee should comply with the specific requirements that are unique to each Federal program and that are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Item seven of the program award's Terms and Conditions states that the grantee shall liquidate all obligations incurred under the award no later than ninety days after the end of the budget period.

Condition:

During fiscal year 2001, a total of \$19,231 was expended and liquidated under the 1999 grant. However, the liquidation period for the 1999 grant expired on September 30, 2000.

Cause:

There appears to be a lack of internal controls over ensuring that liquidation occurs within the fund's period of availability.

Effect:

The grantee is in noncompliance with the Terms and Conditions, which results in questioned costs of \$19,231.

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 all obligations are liquidated within ninety days after the budget 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. By March 2003, the Business Office will review all reports to ensure that projected obligations will be liquidated within the ninety days after the budget period.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No.: 2001-19
CFDA No.: 84.181
Program Name: Special Education: Infants and Families with Disabilities
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 are unexpended balances from grant years 1997 through 1999, whose period of availability ended prior to the fiscal year ended September 30, 2001. The aggregate total of unexpended balances is \$11,045, as follows:

<u>Grant Year</u>	<u>Year Period of Availability Ended</u>	<u>Unexpended Balance at 09/30/01</u>
1997	1999	\$ 4,278
1998	2000	1,987
1999	2001	4,780
		\$ <u>11,045</u>

Cause:

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

Effect:

Available balances for grant years 1997 through 1999 are misstated. If such balances are not properly deappropriated/deencumbered, the grantee could potentially expend Federal funds in noncompliance with OMB Circular A-133 period of availability requirements.

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 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, 2001

Finding No.: 2001-20
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 years 2000 and 1999.

Effect:

Actual compliance with level of effort requirements cannot be determined.

Prior Year Status:

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

Recommendation:

The grantee should determine whether audits of its FY 2000 and FY 1999 general purpose financial statements are 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, 2001

Finding No.: 2001-21
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 four years ended September 30, 2001. 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, 2001

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, 1999, 2000 and 2001 were audited concurrently.