

## **EXECUTIVE SUMMARY**

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### **Southern High School's Non-Appropriated Funds Audit July 1, 1999 through June 30, 2001**

This report presents the results of the audit initiated by The Office of the Public Auditor (OPA) of Southern High School's Non-Appropriated Funds (NAF) from July 1, 1999 to June 30, 2001.

Although the non-appropriated funds are not derived from government appropriations, they are considered by the Department of Education to be public funds subject to oversight by the agency.

Southern High is one of four public high schools among the 37 public schools that manage non-appropriated funds. For school years 1999-2000 and 2000-2001, there were \$327,140.61 and \$378,375.56 in receipts, respectively, and \$304,756.83 and \$338,803.30 in check disbursements, respectively, from the various Southern High student organizations. Taken as a whole, non-appropriated fund activity within the Department of Education is substantial.

The objective of our audit was to determine if the non-appropriated funds of Southern High were managed in compliance with governing laws and the Department of Education (DOE) and Southern High School (SHS) Non-Appropriated Student Activity Fund Handbooks.

Our audit findings indicate that Southern High School did not consistently comply with the Department of Education and the Southern High School Non-Appropriated Student Activity Fund Handbooks for the two-year period. The handbooks serve as a means of internal control by outlining the policies and procedures designed for organizations to achieve their various goals. However, the handbooks lack sufficient internal control measures with regard to inventory, cash disbursements, and monitoring.

As required by law, each student activities fund shall be audited annually by the Bureau of Budget and Management Research (BBMR). The BBMR issued their last report on the student funds of FB Leon Guerrero Middle School in April 1999. The last audit report issued on all student funds was in February 2000 by this Office covering the period April 1998 to January 1999.

During our audit, we noted several questionable activities among student organization advisors and the questionable use of student funds:

- Student activity funds were loaned to a student advisor, then subsequently repaid.
- Student and government funds amounting to \$3,876.00 financed the cost of a class trip for an advisor's spouse, who is not a DOE employee.
- A requested accountability report of the Girls Basketball Team for school year 1999-2000 has not been prepared or provided to the requesting parents group.
- Amounts due from students and others related to their share of trip costs remain uncollected.
- The SHS treasurer is not bonded as required by law.
- No inventory listing of items purchased with non-appropriated funds could be located.
- 89% of checks made payable to "cash" and 84% of checks made payable to individuals did not substantially comply with the DOE NAF Handbook.

- 90% of receipts reviewed were not deposited by the next banking day as required by law.
- 56% of the disbursements tested lacked the required approval and over \$102,000 of disbursements lacked the necessary supporting documentation.
- No segregation of duties exists among those individuals that handle non-appropriated funds.
- Competitive food sales are not monitored and may compromise reimbursement from the National School Lunch Program.

There have been two prior audit reports issued regarding non-appropriated funds and in the course of our audit, we found that previously reported conditions have not been substantially resolved.

Our recommendations detailed in this report include:

- The DOE, as required by law, should coordinate with the BBMR to ensure that the annual audits are performed of all student activities funds at all schools.
- SHS should conform to the DOE off-island field trip policy that permits the student activities fund to subsidize the travel expenses only of DOE employees who accompany the students.
- The SHS and/or DOE should take immediate action to recover the amount of student funds used for non-student purposes and collect the amounts due from alumnae and others.
- DOE should amend its policies and procedures to explicitly prohibit persons from borrowing money from a student fund for any purpose.
- DOE should require club treasurers and advisors of organizations to produce accountability reports following any fundraising activity within 30 days.
- The accountability report of the Girls Basketball Team for the school year 1999-2000, requested by the parents should be prepared and submitted to them immediately. Organizations should produce appropriate documentation when requested to do so.
- DOE should adopt a policy in the NAF Handbook to prohibit disbursements made payable to "cash" and state that payees be directly responsible for the submission of appropriate documentation for expenditures.

In a letter dated February 26, 2002, the Superintendent of Education concurred with the response of the Administration of Southern High School to the draft audit report.

Southern High School has generally concurred with the findings and recommendations of the OPA.

The BBMR also concurred with the finding and recommendation to coordinate with DOE to ensure that all student activity funds at all schools are annually audited.

This report was prepared in accordance with the Government Auditing Standards.

The Southern High School Principal, staff, teachers, students and alumnae, BBMR and DOE NAF personnel contributed information that materially assisted the OPA in completing its work. The cooperation of these individuals and agencies is gratefully acknowledged.

Doris Flores Brooks, CPA  
Public Auditor

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## **Introduction**

On July 25, 2001, the Office of the Public Auditor (OPA) initiated a surprise/unannounced audit of Southern High School's (SHS) Non-Appropriated Funds (NAF). Due to the factors that led to the initiation of the audit, the OPA determined the objectives of the audit could best be met if the school was not notified in advance of the work.

On July 26, 2001, our office was notified that the Non-Appropriated Funds were currently the subject of an audit being performed by the Department of Education's (DOE) Internal Audit section. After correspondence between the Director of the Department of Education and the OPA, it was agreed that the internal audit staff would suspend its review and grant our auditors immediate access to Southern High's NAF records.

## **Jurisdiction to Audit**

The Public Auditor is required to annually audit "all transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the government of Guam."<sup>1</sup> The Public Auditor has the authority to conduct surprise/unannounced audits "of any government of Guam agency at the Public Auditor's discretion, and all agencies shall surrender such records as are determined necessary for the conduct of the surprise/unannounced audits."<sup>2</sup>

Although non-appropriated funds are not derived from government appropriations, they are considered by the Department of Education to be public funds subject to oversight by the Department.

## **Background Information**

The Southern High School, which is located in the village of Santa Rita, opened in 1997. It currently has a student population of approximately 2,000 in grades 9 through 12. The school provides many opportunities for students to participate in extra-curricular

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<sup>1</sup> 1 GCA §1908

<sup>2</sup> 1 GCA §1919

activities. Among these activities are the 56 student organizations such as the Wrestling club, the Spanish club, and the Future Nurses of Guam.

In order to carry out the missions and objectives of the various organizations, some type of fund-raising activity is usually required. The funds raised and disbursed by the various organizations are classified as *non-appropriated funds*. As shown in **Tables 1 and 2 of Appendix A**, for school years 1999-2000 and 2000-2001, there were \$327,140.61 and \$378,375.56 in receipts, respectively, and \$304,756.83 and \$338,803.30 in check disbursements, respectively, from these various student organizations. Southern High is one of four public high schools among the 37 public schools that manage non-appropriated funds. Taken as a whole, non-appropriated fund activity within the Department of Education is substantial.

In order to monitor and control the collection and disbursement of these funds, the Department established the "Department of Education, Non-Appropriated Student Activities Fund Handbook" dated July 1990. The policies and procedures set forth in the Handbook expand upon the requirements set forth in Chapter 6 of Title 17 of Guam Code Annotated. DOE updated the Handbook June 12, 2000, however, Southern High was unaware of the current version until late July 2001 when DOE internal auditors issued it to the school for use in the 2001-2002 school year. Therefore, the updated version was not incorporated into our audit.

Additionally, Southern High has adopted its own Standard Operating Procedures, or "Southern High School (SHS), Non-Appropriated Funds Handbook", based on the policies of DOE's Handbook, specifically tailored to the individuality of the school. Every school year, the SHS NAF Handbook is updated and issued to the organizations of Southern High as a tool to guide them through the rules and regulations of handling non-appropriated funds and student activities. The SHS NAF Handbook is acknowledged and required as the school's Standard Operating Procedures by the Department of Education.

The law requires that money raised by the efforts of students in connection with any activities of student organizations be authorized or approved by each District Board.<sup>3</sup> However, with the termination of the District Board system, the approval was returned to the individual schools.

The law also requires that "each Student Activities Fund shall be audited as often as required at least annually by the Bureau of Budget and Management Research."<sup>4</sup>

A Student Activities Money Committee is established within each school and its purpose is to oversee the receipts and expenditures of the student activities money and give final approval of all expenditures in excess of one hundred dollars (\$100.00) from the Student Activities Fund. The Committee is comprised of the principal, one (1) faculty member designated by the school faculty, and the student body president, student body

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<sup>3</sup> 17 GCA §6113

<sup>4</sup> 17 GCA §6116(d)

treasurer, or a student body member designated by the school faculty.<sup>5</sup> The Committee is required to open a checking or savings account for its student activities money which shall be designated as the School Student Activities Fund.<sup>6</sup>

The student activities treasurer appointed by the Student Activities Money Committee is required to be bonded in accordance with standard government of Guam procedures.<sup>7</sup> The treasurer is tasked with establishing the student accounts and maintaining accurate records of all deposits and expenditures from the Student Activities Fund. Monthly financial reports are required to be prepared and submitted to the Director of Education, the school principal, and the student activities sponsor.<sup>8</sup>

Student organizations are required to promptly submit the money raised to the treasurer and obtain a receipt. The treasurer, in turn, must deposit this money into the School Student Activities Fund. Disbursements are made from the fund only for purposes for which the fund was established or for other purposes which the student organization raising the funds may determine. These disbursements must be for the enhancement of student educational or social welfare as approved by regulations of the student organization and the Board of Education. Withdrawals from the Student Activities Fund are to be signed by both the student activities treasurer and school principal and must be supported by a written disbursement request signed by the student organization treasurer and advisor.<sup>9</sup>

The Principal is required to ensure that the Student Activity Fund is being maintained in a proper manner.<sup>10</sup>

## **Objective**

The objective of our audit was to determine if the non-appropriated funds of Southern High were managed in compliance with the Department of Education Non-Appropriated Student Activity Fund Handbook, the Southern High School Non-Appropriated Funds Handbook, and applicable Guam laws.

Our audit also included procedures to obtain an understanding of internal controls and tests of those controls to enable us to make a judgment about their effectiveness in conjunction with the objective of our audit.

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<sup>5</sup> 17 GCA §6114

<sup>6</sup> 17GCA §6115

<sup>7</sup> 17 GCA §6116(a)

<sup>8</sup> 17 GCA §6116(c)

<sup>9</sup> 17 GCA §6116(b)

<sup>10</sup> Department of Education Non-Appropriated Student Activity Fund Handbook, July 1990, page 7

## **Scope and Methodology**

The scope of our audit was the period of July 1, 1999 through June 30, 2001, which covers School Years 1999-2000 and 2000-2001 for all of the Non-Appropriated Funds of Southern High School.

We reviewed the Department of Education's Non-Appropriated Student Activity Fund Handbook, containing the policies and procedures applicable to the non-appropriated funds, as well as the regulations and public laws related to the NAF and evaluated compliance of NAF activity to these policies and regulations. We reviewed the Southern High School Non-Appropriated Funds Handbook. We reviewed the documents of the NAF files at the Southern High School and interviewed the School Treasurer, various advisors, and the DOE NAF Coordinator. We obtained a listing of all established funds within Southern High and tested selected disbursements, receipts, account folders, ledgers, bank statements, monthly and annual reports, and inactive accounts.

We obtained an understanding of and documented management controls over NAF receipts, disbursements, and inventory items and evaluated existing controls with established criteria.

Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

## **Overall Conclusion**

Southern High School did not consistently comply with the Department of Education and the Southern High School Non-Appropriated Student Activity Fund Handbooks for the two-year period. The handbooks serve as a means of internal control by outlining the policies and procedures designed for organizations to achieve their various goals. However, the DOE and SHS NAF Handbooks lack sufficient internal control measures with regards to inventory, cash disbursements, and monitoring. These control weaknesses should be immediately addressed.

## **Prior Audit Findings**

The Office of the Public Auditor issued an audit report on the Department of Education's Non-Appropriated Funds, Interscholastic Sports Funds & Lost Textbook Funds dated February 16, 2000.<sup>11</sup> This audit covered the entire school system for the period April

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<sup>11</sup> Report No. OPA-03-99

1998 to January 1999 and encompassed 25 elementary schools, seven middle schools, and four high schools.

As to Southern High School, the audit stated:

- Regarding the Student Activities Money Committee, Southern High was listed as one of fourteen (14) schools where the Committees did not review receipts and expenditures of any NAF transactions. The Committee was also inconsistent in evaluating expenditures in excess of one hundred dollars (\$100.00) from the Student Activities Fund.
- According to the DOE Deputy Comptroller, the procedure of bonding the school treasurer has not been a standard practice.
- Southern High was one of ten schools that failed to consistently deliver money raised to the student activities treasurer and obtain receipts and also failed to consistently reconcile its bank statements.
- Southern High was one of four schools that failed to submit copies of the monthly NAF report to the Department of Education and reconcile NAF records.

In addition, the Office of the Inspector General (OIG) issued an audit report on the Department of Education Extended Day (DEED) Program dated May 1999<sup>12</sup>. The DEED Program is funded by the federal government, however, the fees collected every quarter per child were considered non-appropriated funds by DOE and were managed pursuant to the DOE Non-Appropriated Student Activity Handbook.

With regards to the non-appropriated funds, the OIG audit stated:

- The Department of Education did not adequately control income generated by the Extended Day Program. Specifically, 1) Program income was not properly collected and deposited, and 2) Program income was expended for purposes that did not always relate directly to the Program.

In the course of our audit, we determined that many of these conditions have not been satisfactorily addressed.

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<sup>12</sup> OIG Report No. 99-I-455



## **Specific Findings and Conclusions**

### **Finding #1: *Annual Audit by BBMR***

#### **Criteria**

Title 17 GCA §6116(d) states: "Each Student Activities Fund shall be audited as often as required at least annually by the Bureau of Budget Management Research in cooperation with each School District organization's fiscal office, and a copy of the audit shall be filed with the Student Activities Money Committee and each District Board."

#### **Condition**

Each Student Activities Fund is not audited annually. The last audit performed on the student funds was issued in February 2000 by the Office of the Public Auditor which covered the period of April 1998 to January 1999. (See Prior Audit Findings). Southern High was included in the scope of the audit.

In fiscal year 1999, the BBMR issued two student activity fund audits, one for FB Leon Guerrero Middle School and one for Agana Heights Elementary School. For fiscal year 1998, one audit of a student activities fund for MU Lujan Elementary School was conducted. The BBMR is aware of the requirement to annually audit the student activities funds.

#### **Cause**

The Department of Education and the Bureau of Budget and Management Research has not complied with the requirement by law to conduct an annual audit of all student activities funds.

The BBMR has stated that the downsizing of personnel at their Internal Audit Division from seven auditors to three in the last four years has made it difficult to perform annual audits.

#### **Effect**

Inconsistent performance of audits of all student activities funds increases the risk that the non-appropriated funds may not be managed in accordance with policy and regulations.

#### **Recommendation**

The Department of Education should coordinate with the BBMR to ensure that annual audits are performed on all student activities funds as required by law.

#### **Response**

In a letter dated March 7, 2002, the BBMR has concurred with this finding and will coordinate and work with the Department of Education officials to meet the intent of

Public Law 14-130 to audit the student activities funds annually. There has been no audit of student activities funds in previous years as BBMR internal auditors were prioritized to other financial tasks by the previous director who took into consideration that DOE added an internal audit division to review the non-appropriated student activities funds.

## **Finding #2: *Questioned Use of Funds***

### **Criteria**

The Department of Education's Non-Appropriated Student Activity Fund Handbook does not permit loans to be made from non-appropriated funds. Disbursements from the Student Activities Fund are to be made only for the enhancement of student educational or social welfare as approved by regulations of the student organization and approved by the Board.<sup>13</sup>

Furthermore, the constitution of Close-Up, a student organization, states in Article II that one of two purposes of the Close-Up organization is to raise funds and send Southern High School students (members of the program) and advisors to Washington, D.C., Philadelphia, and New York in order to experience American politics and history "close up." Although SHS Close-Up Organization funds may be used to pay for the cost of the trip, if funds are inadequate, the parents/guardians assume responsibility for the remaining balance.

DOE Board Policy, "Fieldtrips and Excursions," Descriptor Code 363 states, "an off-island field trip is a trip taken by students of a school or schools while accompanied by one or more employees of the Department of Education to a point outside of Guam."

Each student activity or club which generates non-appropriated funds shall have a faculty sponsor and a student treasurer who shall be responsible for the management of the fund.<sup>14</sup>

### **Condition**

We noted the following questionable activities with the Close-Up program for the 1999-2000 school year:

- In the Close-Up file for school year 1999-2000, we found a spreadsheet dated September 30, 2000, which tracked the funds raised by each student and advisor, the total costs of the Close-Up trip, the amount of federal grants applied, the amount of a general fund contribution paid by the Governor's Office to supplement the fundraising requirements of the students, and any remaining balance for the participant.

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<sup>13</sup> 17 GCA §6116(b)

<sup>14</sup> Department of Education Non-Appropriated Student Activity Fund Handbook, July 1990, page 10

When we reviewed the listing with the SHS Administrative Officer, we learned that one of the persons listed was the husband of the faculty advisor in charge of the Close-Up program. The cost of the husband's trip was \$3,876.00. Of this cost, \$2,800.00 of Close-Up funds (\$1,300.00 of fund raising revenues and \$1,500.00 of the Governor's office contribution) was allocated to him, leaving a balance of \$1,076.00.

We asked the Principal if he was aware of this situation and he responded that he had known the spouse would accompany the advisor and assumed that the advisor and her husband would be responsible for all costs of his trip. The Principal was not aware that \$2,800.00 of Close-Up funds were applied to the husband's trip. We noted a handwritten letter dated November 13, 2000, in the file signed by the advisor indicating that she would pay the balance of \$1,076.00 as soon as she returned to island. The Close-Up Foundation statement as of April 18, 2001 showed a reduced balance of \$576.00. We were not provided with documentation of a \$500.00 payment.

The faculty advisor has left island, no longer works at the Southern High School and has not left a forwarding phone number or address. It is contrary to the DOE's off island field trip policy to use General Fund contributions and student activity funds to subsidize the travel expense of the advisor's spouse, who is not a DOE employee.

The Principal informed us that the advisor contacted him via long distance telephone. The advisor assured the Principal that she had made a payment to the Close-Up Foundation in Virginia. However, the Principal was notified by the Close-Up Foundation that no such payment had been made on the advisor's husband's behalf. The Principal indicated to us his intention of forwarding this matter to DOE legal counsel.

- In another instance, we noted that a student (Alumna 1) was reflected on the schedule as owing \$2,076.00 for her share of the program costs. We noted a handwritten letter in the file signed by the advisor indicating the student would pay the remaining amount. Our receipts testing indicated that a \$1,000.00 payment was made on March 16, 2001. The student has an outstanding balance of \$1,076.00 and has since graduated from the school. Subsequently on January 28, 2002 the student paid \$100.00 towards the amount owed. Discussions with the Principal on January 29, 2002, indicated that the student was willing to execute a promissory note for the remaining balance of \$976.00.
- We noted that another student (Alumna 2) owed \$429.08 for her portion of the trip. Southern High has made no attempts to collect this debt.

We asked the Principal if he was aware of these outstanding debts of this Close-Up trip of Spring 2000. He indicated he was not aware of the \$429.08 and the \$1,076.00 owed by the students. He assured the OPA that collection efforts will be made.

We also noted the following for school year 2000-2001:

- In the file of Class of 2001 fund, we found a handwritten promissory note in the amount of \$1,000.00 dated July 27, 2000, and signed by the faculty advisor of the fund. We also noted a series of receipts which indicated that the full amount of the loan was repaid by the advisor. Our discussions with the Principal and Administrative Officer indicated the loan had been approved by class members. However, when the Principal became aware of the loan, the faculty member was forced to resign from his position as advisor and pay the promissory note.

The former advisor is still employed as a teacher at Southern High but does not serve in any advisory capacity.

- We noted a memorandum dated March 19, 2001, in the file of the Girls Basketball team documenting a request by a group of parents for a full accounting of the funds raised by and spent for the team. There is no indication that any financial records were produced by the Athletic Director or the club treasurer.

The Principal acknowledged his awareness of the situation and that a report will be produced. The Athletic Director still serves in his capacity at Southern High School.

### **Cause**

It appears that the effective monitoring and follow-up by the Principal or his designee of the Close-Up program, the Class of 2001 fund, and the Girls Basketball club activities were not performed.

### **Effect**

The school maintains an outstanding balance of \$2,081.08 payable to the National Close-Up Foundation. This amount consists of:

1. \$576.00, the balance owed by the advisor's husband;
2. \$1,076.00, the balance owed by Alumna 1; and
3. \$429.08, the balance owed by Alumna 2.

Non-payment of this amount may jeopardize future participation of students in the program.

Allowing loans to be made from the student fund does not serve the purpose of the establishment of the fund and presents opportunity for abuse.

When organizations and clubs do not regularly produce accountability reports, the student funds are more susceptible to misuse.

### **Recommendations**

- We recommend that Southern High discontinue its policy of allowing students and faculty to participate in the Close-Up program without full program payment in advance, to avoid debts by the school to the National Close-Up Foundation. The school should immediately take steps to collect funds owed by former students and faculty. Concurrently, the school should negotiate arrangements with the National Close-Up program to pay past due amounts.
- SHS should conform to the DOE off-island field trip policy that permits the student activities fund to subsidize the travel expenses only of DOE employees who accompany the students.
- The School or DOE should take action to recover from the SY 1999-2000 Close-Up Advisor the \$3,876.00 for her husband's cost of the trip. Other balances due should be promptly collected.
- We recommend that the Department of Education require club treasurers and advisors of organizations to produce accountability reports following any fundraising activity within 30 days and attach a copy to the deposit for submission to the School Treasurer. Accounts should be regularly reconciled with the business office.
- The accountability report requested by the parents of the Girls Basketball team should be prepared and submitted to them immediately. Organizations should produce appropriate documentation when requested to do so.
- We commend the Principal for taking appropriate actions after learning of the advisor's loan from the student fund. We recommend that the Department of Education amend its policies and procedures to explicitly prohibit persons from borrowing money from a student fund for any purposes.

### **Response**

Southern High has taken steps to collect the overdue amounts discussed in this report.

- Alumna 2, owing \$429.08, has produced a receipt dated March 3, 2000 for \$1,831.00 signed by the Close-Up advisor indicating that her account was "paid in full." In light of this, the Close Up Foundation has charged the \$429.08 to the former advisor's husband's account. His account now stands at \$1,005.08.
- A field trip form submitted to DOE lists the husband as an accompanying adult, which would justify the \$2,800.00 of school funds used to pay a portion of his costs of the trip. However, we disagree that the \$2,800.00 is a justified allocation of student funds because the spouse is not an employee of DOE as required in DOE policy for off-island field trips. Therefore, the advisor and her husband are liable for the entire amount of \$3,876.00. SHS and/or DOE should pursue collection.

- A promissory note was signed by Alumna 1 for \$976.00 on February 7, 2002. The OPA cautions, however, no student should be allowed to sign a promissory note as a minor.

OPA recommended that only organization members be allowed use of their funds. However, according to the SHS Standard Operating Procedures (SOP) adopted on March 5, 2002, members decide how to spend their money and there may be situations where members agree to cover expenses of another party. Therefore, use of the student funds is at the discretion of the Vice Principal and the student organization committee. We disagree with this response as DOE Descriptor Code 363 only allows authorized DOE personnel and organization members to travel.

The Girls Basketball financial report for school year 1999 – 2000 requested by parents has been produced.

### **Finding #3: *Control over Inventory and Cash***

#### **Criteria**

Guam law requires that each student activities treasurer be bonded in accordance with standard government of Guam procedures.<sup>15</sup>

Guam Procurement Regulations state “the Chief Procurement Officer shall have general supervision of all inventories of supplies, whether warehoused or in use belonging to the government or any of its agencies. This responsibility shall not relieve any agency of accountability for tangible personal property and other supplies under its control. All warehouses and similar storage areas shall be inventoried at least annually.”<sup>16</sup>

A standard feature of an effective internal control system is a prohibition against checks written as payable to “cash.” A check payable to cash is a negotiable instrument that is almost as easily transferred from one party to another as currency. Allowing such practices to exist provides an opportunity for the commission of fraudulent activities.

#### **Condition**

We were unable to obtain evidence of bonding of the student activities treasurer. However, the DOE Financial Controller indicated that he is addressing the issue and a bid is out for the bonding of the treasurers.

We noted instances in which a lawnmower and a bush cutter were purchased with funds from the Facilities account (2503-03) – a non-appropriated fund account. We were not able to trace the items to a listing of inventory-type assets, however, we were able to locate the items on campus. We were also unable to obtain a listing of inventory items that had been purchased previously with non-appropriated funds.

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<sup>15</sup> 17 GCA §6116 as amended by PL 24-142:11

<sup>16</sup> GSA Procurement Regulations Section 8-201.03

Of 18 checks made payable to “cash” totaling \$6,375.00, 16 of these, or (89%), totaling \$5,475.00 did not substantially comply with the DOE Non-Appropriated Student Activity Fund Handbook. Examples of non-compliance are (1) absence of approval by the Student Activities Committee and/or the Principal for the disbursement, (2) lack of all or partial documentation to support disbursements such as receipt, invoices, etc., (3) absence of required documentation to approve disbursement such as voucher form and organization meeting form, and (4) approval of voucher forms by unauthorized Student Activities Money Committee.

Of 138 checks made payable to individuals totaling \$50,150.68, 116 of these or (84%), totaling \$45,590.42, did not substantially comply as well. Refer to examples of non-compliance above.

### **Cause**

The Department of Education did not comply with the bonding requirement.

There is a weakness in internal control design because control activities related to inventory and checks made payable to “cash” or individual payees are not addressed in the DOE Non-Appropriated Student Activity Fund Handbook.

### **Effect**

The safekeeping of cash and accounts is compromised because bonding is an internal control activity that serves as a deterrent to fraud and embezzlement and protects funds in cases of defalcation.

Without appropriate procedures for inventory and cash, the risk of mishandling assets runs high. The ultimate control objective of the non-appropriated funds should be that the funds are being used in the most efficient manner possible to give students the most for their hard-earned money. This objective cannot be achieved if additional control procedures are not implemented for cash and inventory.

It is possible that disbursements were made for unintended purposes.

### **Recommendations**

- Pursuant to law, we recommend that the Director of the Department of Education ensure that each student activities treasurer is bonded.
- We recommend the DOE incorporate written procedures in the NAF Handbook for the control of inventory items purchased with the non-appropriated funds. Such policy should require an annual inventory of assets maintained by the schools and verification by the Principal or his designee. Such inventory listing should be provided to the DOE NAF Coordinator annually.
- We recommend the DOE incorporate policy in the NAF Handbook to prohibit disbursements made payable to “cash” and state that payees be directly responsible for the submission of appropriate documentation for expenditures.

## **Response**

SHS has indicated that DOE management continues to address the bonding issue. Bid Invitation No. FBE-003-2002 for Insurance, Fidelity Bonding, was issued on October 26, 2001. There were two invitation packages issued, however, no bid offers were made. Therefore price solicitations from three prospective vendors are necessitated pursuant to Department of Education Procurement Regulations Section 3.13.4.2. As of March 7, 2002, the DOE Controller indicated there has been no vendor selected to provide the bonding.

## **Finding #4: *Handling Cash Receipts***

### **Criteria**

The Department of Education's Non-Appropriated Student Activity Fund Handbook requires that a cash count sheet be completed before monies are turned over to the school treasurer. All cash collections shall be documented in the Money Receipt Book and issued in triplicate.

The first receipt copy is given to the person turning in the money, the second copy is placed in the activity account folder, and the third copy is to remain intact in the Money Receipt Book, which shall serve as the Cash Journal.

Monies are to be deposited in a commercial bank at the close of each day when possible but in any event no later than the next day in which the bank is open.

Funds may be transferred from one fund to another by using a Transfer of Funds form.<sup>17</sup>

### **Condition**

During testing of 1,312 receipts of the student and administrative funds of school years 1999-2001, we found:

- 1,185 receipts, or 90%, were not deposited by the next banking day as required by the DOE Handbook. 79 deposits were as late as three weeks or more. A majority of the deposits (420 or 32%) were made within 8 and 14 days.
- 165 receipts did not have cash count sheets in the file.
- Four Transfer of Funds forms did not include approving signature(s).

### **Cause**

The Administrative Officer indicated that the staff has been reduced in recent years and manpower is no longer available to make daily deposits to the bank. Additionally, the cash count sheets, vouchers, and Transfer of Funds forms are not sufficiently monitored and scrutinized.

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<sup>17</sup> DOE NAF Handbook, July 1990 Pages 1,2,4,11



### **Effect**

When cash is not deposited on a timely basis and cash transactions are not properly controlled and supervised, the risk of loss due to fraud, theft, or burglary is increased.

When cash count sheets are not properly completed, the system of internal controls is compromised. This could result in theft due to skimming or other types of fraudulent activities. Due to the lapse in internal controls we were unable to determine if the above noted variances were due to error or if they were intentional.

### **Recommendations**

- The School Principal should ensure that the administrative staff make deposits on a daily basis. If lack of manpower is an issue, the school should consider the use of an armored car service.
- The treasurer should not accept any deposits from organizations without a completed cash count sheet. Both the treasurer and the individual making the deposit should verify its accuracy by initialing the cash count sheet.
- The treasurer should not transfer any funds between organizations unless all required signatures indicate approval for the transfer of funds.

### **Response**

SHS has employed an armored car service since January 22, 2002, for daily deposits.

## **Finding #5: *Disbursements from Funds of Student Organizations***

### **Criteria**

The DOE Non-Appropriated Funds Handbook requires that the following procedures be used by student organizations in disbursing funds:

1. A majority of the members must vote to approve the expenditures.
2. A copy of the minutes of the meeting must be given to the school treasurer.
3. A voucher must be obtained from the school treasurer, filled out completely and returned to the school treasurer. Expenditures in excess of one hundred dollars must be approved by the Student Activities Money Committee.
4. The school treasurer will issue a check.
5. The person making the purchase must attach to the voucher an itemized invoice or purchase slip from the vendor. In cases where payments are made for services, a receipt must be obtained from the person receiving the check and attached to the voucher.<sup>18</sup>

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<sup>18</sup> DOE NAF Handbook, July 1990, page 2

Additionally, all disbursements of non-appropriated funds shall be by check and signatures of the school principal and the school treasurer are required to be on every check.<sup>19</sup>

### **Condition**

During testing of 970 disbursements of the student and administrative funds of school years 1999-2001, we found:

- 548 (56%) disbursements lacked approval from the Student Activities Money Committee. The School's administrative staff advised us that Southern High did not establish a Money Committee until late in the 1999-2000 school year. However, for school year 2000–2001, 55% of disbursements still did not comply with the approval requirement after the establishment of the Money Committee.
- 157 disbursements totaling \$98,749.45 had “No” supporting documentation. Additionally, we noted 47 instances wherein the disbursements were partially supported. The net amount of the shortfall was \$3,288.49.

We also noted the following documentation discrepancies with disbursements:

- 597 instances in which there was no student organization meeting form included.
- 20 instances in which the student organization form was included but incomplete.
- 57 instances in which there was no voucher form attached to the disbursement documentation.
- 36 instances in which the voucher form was attached, but incomplete.
- 18 checks totaling \$10,663.84 were written with only a single signatory. The signatory card provided to us from the bank and the school indicates that any funds deposited to its credit in the account specified may be withdrawn by any two of the following: Principal, Administrative Officer, or Assistant Principal.

### **Cause**

The check signers do not appear to be adequately reviewing documentation and vouchers for clearance prior to affixing their signatures on the checks. It also appears there is no adequate control over the check signing process at the school. Additionally, the bank did not appear to perform its due diligence in the processing of checks with only one signature.

### **Effect**

Expenditures of approximately \$102,037.94 were improperly disbursed during the two years under audit. Expenditures of cash may have been made for unauthorized

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<sup>19</sup> DOE NAF Handbook, July 1990, page 11

purchases. The practice of allowing checks to be disbursed with only a single signature increases the risk of fraud and abuse.

### **Recommendations**

- We recommend the Principal not approve vouchers or sign checks unless organization meeting minutes explaining the purpose of the expenditure are submitted and the proper authorization of the Money Committee, as applicable, is obtained.
- No money from any Non-Appropriated Fund should be disbursed without a properly completed voucher. We recommend that Southern High follow the disbursement procedures in the latest version of the DOE Non-Appropriated Student Activity Fund Handbook requiring an invoice or receipt before a check is issued by the treasurer.
- While preparing the monthly bank reconciliation, the Assistant School Treasurer should inspect processed checks for both the Treasurer's and the Principal's signature and report any noncompliance immediately to the Principal and bank.

### **Response**

The recommendations of this finding have been incorporated into the SHS SOP adopted on March 5, 2002,

## **Finding #6: *Duties and Responsibilities of Individuals Handling the Student Activity Fund***

### **Criteria**

The duties and responsibilities of the individuals handling the Student Activity Fund are described in the DOE Non-Appropriated Student Activity Fund Handbook.

The treasurer is responsible for:

1. Maintaining the journals.
2. Handling cash collections and issuing receipts.
3. Preparing deposit slips, checks, monthly reports of each activity (due on the fifteenth of every month) and annual reports of all non-appropriated funds<sup>20</sup> (due July 15<sup>th</sup>).
4. Approving vouchers and checks.
5. Maintaining accounts showing the balances due respective organizations.
6. Maintaining an accurate record of all deposits and expenditures. This includes closing accounts that are inactive for more than one year and allocating any

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<sup>20</sup> DOE NAF Handbook, July 1990, page 11

balance to other accounts as determined by the Money Committee. Individual account folders should contain a listing of persons responsible for the account.<sup>21</sup>

An individual other than the school treasurer is responsible for maintaining the general and subsidiary ledgers and preparing/reconciling the bank reconciliation report.

Additionally, in order for bank reconciliations to serve as a control mechanism to prevent or detect any theft of cash, they must be performed timely, no later than 30 days after the bank statement date.

The principal, or his designee (other than the school treasurer) is responsible for making the deposits.<sup>22</sup>

A fundamental element of an internal control system is the segregation of incompatible duties. Persons whose responsibilities include physical control of assets should not also have control of the financial records related to those systems.<sup>23</sup>

### **Condition**

We did not find the administrative funds reported to DOE along with the student activity reports. The following table represents the unreported administrative funds:

<b><i>School Year</i></b>	<b><i>1999 – 2000</i></b>	<b><i>2000 – 2001</i></b>	<b><i>TOTALS</i></b>
Receipts	\$18,106.46	\$29,030.04	<b>\$47,136.50</b>
Disbursements	\$15,189.79	\$29,506.53	<b>\$44,696.32</b>

The Treasurer was not aware that these funds are required to be reported with the Student Funds. According to the DOE NAF Coordinator, he does not require the reporting of administrative funds to prevent the funds from commingling with the student funds. The administrative funds are under the purview of the DOE internal auditors.

The annual reports for school years 2000-2001 and 1999-2000 were submitted to the DOE NAF Coordinator (who has been delegated the responsibility of handling the reports by the Director of Education) on July 30, 2001 and September 7, 2000, respectively.

Based on discussions with the Treasurer of the school, observations, and documentation provided by the school, we noted that the Treasurer collects cash from student organizations, prepares deposit slips, deposits the cash to the bank, maintains general and subsidiary ledgers for the organizations, and prepares bank reconciliations for the organizations. Thus, the responsibilities and duties related to the receipt of cash and maintenance of records reside with a single individual.

<sup>21</sup> DOE NAF Handbook, July 1990, page 4, 5, & 7. See also 17 GCA §6116(c) as amended by PL 24-142:11

<sup>22</sup> DOE NAF Handbook, July 1990, page 7

<sup>23</sup> GAO Standards for Internal Control in the Federal Government, Nov. 1999, page 14

Further, we noted that bank reconciliations were prepared an average of 59 days after the bank statement date.

We found account folders without a listing of persons responsible and six accounts have been inactive for over one year with balances totaling \$5,973.10.

The following are the exceptions noted during receipts testing that would affect accuracy of accounts and journals:

- 12 instances in which there was no documentation of receipt.
- 29 instances of receipt recording discrepancies.
- 13 instances of discrepancies in the recording of the date on the receipt.
- 1 instance in which the copy of the receipt in the receipt book was blank.
- 5 instances in which receipts of cash were not recorded in the cash receipts journal.
- 3 instances in which deposits were recorded without the issuance of a receipt.

### **Cause**

The DOE NAF Coordinator is not enforcing reporting requirements and filing deadlines.

There appears to be insufficient trained personnel to ensure the required segregation of incompatible duties over the non-appropriated funds. The Administrative Officer is required to perform the activities of the treasurer for the non-appropriated funds in addition to other assigned responsibilities. The situation is exacerbated by the fact that the transactions are voluminous and all of the records are maintained in a manual system.

### **Effect**

The reliability of the financial reports submitted to the Department of Education is undermined because they are not timely and do not report the entire activity of Southern High's non-appropriated funds.

The segregation of incompatible duties and responsibilities ensures that individuals are not in a position to both perpetrate and conceal errors and irregularities. These duties include receiving cash, recording the cash receipts, depositing the receipts, and issuing checks. The current situation increases the risk that fraud could be perpetrated with regard to the non-appropriated funds and not be detected on a timely basis. With undetected and uncorrected accounting errors or irregularities, reported fund balances could be inaccurate.

### **Recommendations**

- As required by the DOE NAF Handbook, the administrative funds must be included with the monthly and annual reports submitted to DOE. The annual report must be submitted to DOE by July 15 of the school year.

- The tasks of preparing the daily deposits, maintaining the ledgers and preparing the bank reconciliation within 30 days after the bank statement date should be performed by separate individuals to ensure adequate segregation of duties. The treasurer should be the only individual allowed to collect cash from organizations.
- The inactive accounts should be closed and remaining amounts allocated to other accounts as determined by the Student Activities Money Committee. All account folders should have a listing of persons responsible for the account, such as class officers and advisor(s).
- The Southern High School should consider computerizing the system for tracking receipts and disbursements of non-appropriated funds. An inexpensive software package could save time and, more importantly, improve accuracy and reporting.

### **Response**

Administrative funds are now being reported along with student funds to the DOE as stated in the Southern High SOP adopted on March 5, 2002.

The SHS SOP separates cash handling responsibilities among the Clerk, Clerk Typist III, the Administrative Officer (school treasurer), and the Vice Principal. Separation of duties exists as clerk receives the deposits, and armored car service routinely picks up the deposits. However, the school treasurer collects the cash in the event the clerks are not able to, maintains the ledgers and prepares the bank reconciliation.

The bank reconciliation should not be prepared by someone who collects cash, deposits cash or maintains the ledgers. These duties must be performed by different individuals to ensure segregation of duties so that no one person can control or adjust the records.

We disagree with Southern High's response that budget constraints and inconsistent manpower make computerizing the system for tracking receipts and disbursements unfeasible at the time. A variety of simple accounting software, such as Quickbooks, is available for less than \$100.00. This cost could be defrayed with a minimal fee of \$3.00 to \$4.00 charged to each of the clubs. An option to not purchasing an accounting software is to utilize a spreadsheet to account for all receipts and disbursements.

## **Finding #7: Monitoring Fund Raising Activities**

### **Criteria**

The SHS Non-Appropriated Funds Handbook states that the Student Body Association (SBA) Advisor/Activity Coordinator “works in a supervisory capacity to ensure school-sponsored organizations are complying with all rules, regulations, and policies.”<sup>24</sup>

Stores whose proceeds benefit the school or student organizations approved by the school, may sell food items of minimal nutritional value only after the end of the last lunch period until the end of the school day.<sup>25</sup> Please refer to **Table 3 of Appendix A** for a listing of Categories of Foods of Minimal Nutritional Value.

The Southern High School NAF Handbook states that food sales are limited to break time, thirty minutes after the start of the lunch period, and after school.<sup>26</sup> However, we noticed that federal and DOE policies do not prohibit the sale of competitive foods (other than foods of minimal nutritional value) at any time during the lunch period.

### **Condition**

During our audit, we did not observe any monitoring activities being undertaken by the school administration or the SBA advisor/activities coordinator related to alternative food sales at the school.

Our auditors observed competitive food sales occurring at the beginning of the lunch period. We also noted that foods of minimal nutritional value were being sold in the marketing school store at the start of the lunch period.

We also noted a memo, dated March 27, 1998, from the DOE Food Services Coordinator that Southern High’s Cafeteria operation was averaging 14% participation by students and did not meet Federal requirements for reimbursement of reduced meals of the National School Lunch Program.

### **Cause**

School management does not appear to be carrying out the necessary steps to ensure that monitoring of club activities and compliance with DOE requirements are taking place.

### **Effect**

Non-compliance of DOE policy may be justification for the termination of food sales at Southern High, a fund-raising resource for clubs and organizations.

A reduction in cafeteria sales caused by competitive food sales can jeopardize federal school lunch reimbursement.

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<sup>24</sup> SHS NAF Handbook, page 6

<sup>25</sup> DOE Policy 610

<sup>26</sup> SHS NAF Handbook, page 18

### **Recommendations**

- We recommend the Principal of Southern High School assign a staff member to monitor the food sales practices of the school and ensure the school is in compliance with DOE regulations regarding the sale of food with minimal nutritional value. Limiting these sales to a certain designated area within the school may ease the monitoring burden placed on the staff.
- The Principal of Southern High should reevaluate the school's policy to limit the sales of competitive foods other than those classified as foods of minimal nutritional value. The policy of allowing food sales 30 minutes after the start of the lunch period is not required by DOE and has caused frustration among Southern High's club advisors in their efforts to fundraise during a limited lunch period.
- The Principal should also ensure that all student organizations involved in the sale of food are made aware of the federal requirements for alternative food sales prior to authorizing such activities.

### **Response**

SHS has responded that the OPA recommendation to designate a food sales location for ease of monitoring will pose a safety hazard (e.g. school fight) for the crowd of students packed into one area. However, the Assistant Principal is monitoring food sales activities during lunch to comply with the DOE regulations.

All other recommendations of this finding have been incorporated into the SHS SOP adopted on March 5, 2002.

## **Responses and Comments**

Draft copies of our report were provided to Southern High School, the Department of Education, the Office of the Attorney General, and the Bureau of Budget and Management Research. The responses and comments by Southern High, the DOE, and the BBMR to the draft report were incorporated, as necessary, in this report.

### **Southern High and the Department of Education**

In a letter dated February 26, 2002, the Superintendent of Education concurred with the response of the Administration of Southern High School to the draft audit report.

Southern High responded on February 26, 2002 and has generally concurred with the findings and recommendations of the OPA. Southern High has developed the *Southern High School Non-Appropriated Funds Standard Operating Procedure* (SOP), which was adopted on March 5, 2002. The SOP is used in conjunction with the *Southern High School Non-Appropriated Funds Handbook* for the current school year.



The OPA will follow up with Southern High School to ensure the recommendations incorporated in the SHS SOP are carried out in a consistent manner.

### **Bureau of Budget Management Research**

The BBMR Director's response on March 7, 2002 indicated concurrence with the OPA recommendation and will coordinate with the Department of Education officials to meet the intent of Public Law 14-130 to audit the student activity funds annually.

Copies of the responses and comments by the Department of Education, Southern High School, and the Bureau of Budget Management are found in **Appendix B** of this report.

### **Limitations of Report**

The period covered by our report was the 24-month period from July 1, 1999 through June 30, 2001. Our work was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

This report has been released to the Governor of Guam, the Speaker and Members of the Guam Legislature, the Director of the Department of Education, the Principal of Southern High School, the Director of the Bureau of Budget and Management Research, and the Attorney General of Guam. This report is a matter of public record and its distribution is not limited.

The Southern High School Principal, staff, teachers, students and alumni as well as DOE and BBMR personnel contributed information that materially assisted the OPA in completing its work. The cooperation of these individuals and agencies is gratefully acknowledged.

### **OFFICE OF THE PUBLIC AUDITOR**

DORIS FLORES BROOKS, CPA  
Public Auditor

OPA Report No. 02-01  
March 2002

## **Appendix A: Tables**

**Table 1: Receipt and Disbursement Activity, School Year 1999 - 2000**

	Account #	Organization	School Year 1999 - 2000	
STUDENT ORGANIZATIONS			Receipts	Disbursements
1	2481-01	Student Body Association	9,361.65	10,115.73
2	2481-02	Class of 1998	-	-
3	2481-03	Class of 1999	100.00	2,035.00
4	2481-04	Class of 2000	17,512.30	21,222.62
5	2481-05	National Honor Society	2,214.95	2,158.85
6	2481-06	JROTC	17,438.57	15,463.51
7	2481-07	Close-Up	26,105.15	26,465.00
8	2481-08	Interscholastic	19,425.28	16,942.40
9	2481-09	DECA	500.00	296.00
10	2481-10	Marketing Student Store	111,253.34	104,586.06
11	2481-11	Law Studies	170.00	-
12	2481-12	Science	1,554.00	2,346.96
13	2481-13	Future Nurses of Guam	116.38	150.00
14	2481-14	Academic Challenge Bowl	-	-
15	2481-15	Select Choir	5,256.26	5,330.24
16	2481-16	Driver's Education	-	880.00
17	2481-17	Class of 2001	2,617.50	77.00
18	2481-18	Pacific Wave Sch. Tourism & Hospitality	-	-
19	2481-19	Youth for Youth	45.00	-
20	2481-20	National Forensic League	150.00	190.00
21	2481-21	Athletic Club	457.00	150.00
22	2481-22	Yearbook	23,613.85	19,229.20
23	2481-23	Wrestling Club	-	-
24	2481-24	Boys Basketball	7,527.83	8,682.73
25	2481-25	Cross Country	-	-
26	2481-26	Business Professional of America	131.20	592.81
27	2481-27	Physical Education	636.00	974.08
28	2481-28	Drama	-	-
29	2481-29	Future Educators of America	1,239.95	1,075.00
30	2481-30	Band/Vocal Club	2,119.40	2,230.20
31	2481-31	Japanese Club	28,424.41	26,997.19
32	2481-32	Spanish Club	3,603.68	300.00
33	2481-33	Cinema Society	3,024.13	3,357.55
34	2481-34	Girls Soccer/Basketball	-	-
35	2481-35	Art Club	389.04	235.38
36	2481-36	Cheerleading	1,499.00	1,925.92
37	2481-37	Boys Soccer	307.00	522.00
38	2481-38	SHOUT	-	-
39	2481-39	Jr/Sr Prom Committee	-	-
40	2481-40	Excel	-	-
41	2481-41	Class of 2002	4,764.54	2,077.50

	Account #	Organization	School Year 1999 - 2000	
			Receipts	Disbursements
42	2481-42	Marketing Scholarship Fund	2,146.71	-
43	2481-43	STW Club	-	-
44	2481-44	Class of 2003	5,062.62	3,083.70
45	2481-45	LaBelle Moda	-	-
46	2481-46	Tennis Club	-	-
47	2481-47	Salvation of SHS	-	-
48	2481-48	Y2K (Summer Trip)	9,724.41	9,724.41
49	2481-49	Leo Club (Lions)	-	-
50	2481-50	Carpentry	543.00	150.00
51	2481-51	Home Economics	-	-
52	2481-52	Future Farmers of America	-	-
53	2481-53	Girls Soccer Club	-	-
54	2481-54	Class of 2004	-	-
55	2481-55	Microbizz.net	-	-
56	2481-56	United Filipino Student Association	-	-
<b>Total</b>			<b>309,034.15</b>	<b>289,567.04</b>
<b>ADMINISTRATIVE ACCOUNTS</b>				
1	2503-01	School Aides	140.00	350.00
2	2503-02	Administration	1,389.04	1,655.17
3	2503-03	Facilities	4,303.87	6,770.16
4	2503-04	Social Committee	336.79	31.12
5	2503-05	AP Exams	1,066.00	945.00
6	2503-06	Library	895.39	-
7	2503-07	National Science – Math	7,500.12	3,619.15
8	2503-08	Fine Arts Academy	2,475.25	1,819.19
9	2503-09	Counseling	-	-
<b>Total</b>			<b>18,106.46</b>	<b>15,189.79</b>
<b>Total Receipts and Disbursements for Administrative and Student Funds, SY 1999 - 2000</b>			<b>\$ 327,140.61</b>	<b>\$ 304,756.83</b>

**Table 2: Receipt and Disbursement Activity, School Year 2000 - 2001**

	<b>Account #</b>	<b>Organization</b>	<b>School Year 2000 - 2001</b>	
<b>STUDENT ORGANIZATIONS</b>			<b>Receipts</b>	<b>Disbursements</b>
<b>1</b>	2481-01	Student Body Association	11,347.18	8,831.63
<b>2</b>	2481-02	Class of 1998	-	-
<b>3</b>	2481-03	Class of 1999	-	-
<b>4</b>	2481-04	Class of 2000	4,529.15	5,680.34
<b>5</b>	2481-05	National Honor Society	2,868.96	1,931.60
<b>6</b>	2481-06	JROTC	12,430.25	4,332.50
<b>7</b>	2481-07	Close-Up	12,978.96	13,138.57
<b>8</b>	2481-08	Interscholastic	1,698.45	4,868.00
<b>9</b>	2481-09	DECA	2,428.65	2,414.83
<b>10</b>	2481-10	Marketing Student Store	146,291.13	134,116.07
<b>11</b>	2481-11	Law Studies	-	300.00
<b>12</b>	2481-12	Science	2,917.00	1,578.03
<b>13</b>	2481-13	Future Nurses of Guam	433.82	486.04
<b>14</b>	2481-14	Academic Challenge Bowl	-	-
<b>15</b>	2481-15	Select Choir	5,017.80	2,955.29
<b>16</b>	2481-16	Driver's Education	-	-
<b>17</b>	2481-17	Class of 2001	9,691.40	9,950.00
<b>18</b>	2481-18	Pacific Wave Sch. Tourism & Hospitality	209.79	132.50
<b>19</b>	2481-19	Youth for Youth	2,801.88	2,472.26
<b>20</b>	2481-20	National Forensic League	78.00	-
<b>21</b>	2481-21	Athletic Club	5,989.00	5,582.70
<b>22</b>	2481-22	Yearbook	63,887.16	62,638.50
<b>23</b>	2481-23	Wrestling Club	-	-
<b>24</b>	2481-24	Boys Basketball	768.00	1,250.00
<b>25</b>	2481-25	Cross Country	738.67	344.35
<b>26</b>	2481-26	Business Professional of America	1,712.94	907.48
<b>27</b>	2481-27	Physical Education	225.00	911.88
<b>28</b>	2481-28	Drama	614.00	-
<b>29</b>	2481-29	Future Educators of America	1,318.31	1,505.00
<b>30</b>	2481-30	Band/Vocal Club	-	-
<b>31</b>	2481-31	Japanese Club	3,103.37	303.24
<b>32</b>	2481-32	Spanish Club	7,498.04	10,950.36
<b>33</b>	2481-33	Cinema Society	375.00	146.00
<b>34</b>	2481-34	Girls Soccer/Basketball	8,191.50	8,274.00
<b>35</b>	2481-35	Art Club	834.50	141.52
<b>36</b>	2481-36	Cheerleading	-	-
<b>37</b>	2481-37	Boys Soccer	1,810.00	1,550.00
<b>38</b>	2481-38	SHOUT	-	-
<b>39</b>	2481-39	Jr/Sr Prom Committee	-	-
<b>40</b>	2481-40	Excel	-	-
<b>41</b>	2481-41	Class of 2002	13,329.36	7,081.50

	Account #	Organization	School Year 2000 - 2001	
			Receipts	Disbursements
42	2481-42	Marketing Scholarship Fund	3,592.76	-
43	2481-43	STW Club	210.00	-
44	2481-44	Class of 2003	9,146.22	5,885.07
45	2481-45	LaBelle Moda	-	-
46	2481-46	Tennis Club	-	-
47	2481-47	Salvation of SHS	-	-
48	2481-48	Y2K (Summer Trip)	-	-
49	2481-49	Leo Club (Lions)	50.00	-
50	2481-50	Carpentry	259.37	500.00
51	2481-51	Home Economics	175.00	105.00
52	2481-52	Future Farmers of America	360.00	50.00
53	2481-53	Girls Soccer Club	6,059.03	5,702.51
54	2481-54	Class of 2004	1,750.35	990.00
55	2481-55	Microbizz.net	1,397.70	1,290.00
56	2481-56	United Filipino Student Association	227.82	-
		<b>Total</b>	<b>349,345.52</b>	<b>309,296.77</b>
<b>ADMINISTRATIVE ACCOUNTS</b>				
1	2503-01	School Aides	0.96	5.96
2	2503-02	Administration	1,171.30	1,903.52
3	2503-03	Facilities	14,089.50	11,926.34
4	2503-04	Social Committee	2,800.08	2,333.35
5	2503-05	AP Exams	947.00	906.00
6	2503-06	Library	1,155.95	1,558.95
7	2503-07	National Science – Math	-	3,880.97
8	2503-08	Fine Arts Academy	8,863.25	6,991.44
9	2503-09	Counseling	2.00	
		<b>Total</b>	<b>29,030.04</b>	<b>29,506.53</b>
<b>Total Receipts and Disbursements for Administrative and Student Funds, SY 2000 - 2001</b>			<b>\$ 378,375.56</b>	<b>\$ 338,803.30</b>

**Table 3: Title 7 Code of Federal Regulations, Part 210, Appendix B**  
*Categories of Foods of Minimal Nutritional Value*

1. Soda Water
2. Water Ices
3. Chewing Gum
4. Certain Candies
  - i. Hard Candy
  - ii. Jellies and Gums
  - iii. Marshmallow Candies
  - iv. Fondant
  - v. Licorice
  - vi. Spun Candy
  - vii. Candy Coated Popcorn

## **Appendix B: Responses**



OFFICE OF THE PUBLIC AUDITOR

February 8, 2002

Ms. Rosie R. Tainatongo  
Director of Education  
P.O. Box DE  
Hagatna, Guam 96932



Dear Ms. Tainatongo:

*Hafa Adai!*

Transmitted herewith is a draft copy of OPA Report No. 02-01, Southern High School's Non-Appropriated Funds Audit, for the period July 1, 1999 through June 30, 2001. Please review the report and provide us a copy of your response to the findings within 10 calendar days of receipt of the report (or February 19). Additionally, response to the audit findings should be printed on Department letterhead outlining the specific corrective procedure to be done by the responsible personnel and the implementation date.

Our office would like to take this opportunity to thank you and your staff members for the assistance during our audit. Should you have any questions or concerns concerning the report, please call 475-0393.

*Senseramente,*

  
DORIS FLORES BROOKS  
Public Auditor

RECEIPT ACKNOWLEDGED:

By:   
\_\_\_\_\_  
(Print Name and Signature)

Date: 2/8/02





# DEPARTMENT OF EDUCATION

P.O. Box DE  
Agana, Guam 96932  
Tel: (671) 475-0457  
Fax: (671) 472-5003



**ROSIE R. TAINATONGO**  
Superintendent of Education

February 26, 2002

Doris Flores Brooks  
Public Auditor  
1208 East Sunset Boulevard  
Tiyon, Barrigada, Guam 96913

Received by Office of the  
Public Auditor

*Janine 4:28P 2/26/02*

**Re: Response to Draft Audit Report on Southern High School's Non-Appropriated Funds Audit - OPA Report No. 02-01**

Dear Mrs. Brooks:

The Superintendent of Education concurs with the Administration of Southern High School's response to the above audit report.

Please see the attached documents. If you have any questions, please feel free to contact me at 475-0462. Thank you.

Sincerely,

*R. Tainatongo*  
Rosie R. Tainatongo

Superintendent of Education

## Attachments

cc: SHS Business Office  
Al Erguiza, DOE Internal Auditor  
FILE

COMMONWEALTH NOW!





**Benjamin Borja**  
Facilities Manager

**Government of Guam  
Department of Education**

**Responses to Audit Findings & Recommendations  
Southern High School**

Prior Audit Findings – Reference to report No. OPA – 03-99

**Finding #1. Student Activities Money Committee**

**Response:** Concurred. Established Money Committee will review expenditures in excess of \$100.00 in a fairly consistent manner.

**Finding #2. Bonding.**

**Response:** This has been an ongoing issue. Both public auditors and DOE internal auditors have requested this implementation. However, DOE management is still addressing this concern. No particular time frame was mentioned.

**Finding #3. Reconciliation**

**Response:** Concurred. School treasurer has been current in updating and preparing financial reports due to adequate manpower.

**Finding #4. Submission of report**

**Response:** Concurred. Currently, the school has been submitting monthly reports to DOE business office.

Specific Findings and Conclusions – OPA Report No. 02-01

**Finding #1. Annual Audit by BBMR**

**A. Recommendation**

The Department of Education should coordinate with the BBMR to ensure that annual audits are performed on all student activities funds as required by law.

**Response:** Agree to the finding. However, we defer this question to BBMR. Reason is that BBMR have changed their management policies.

## **Finding #2. Questionable Use of Funds**

### **A. Recommendation**

We recommend that Southern High discontinue its policy of allowing students and faculty to participate in the Close-Up program without full program payment in advance, thus causing indebtedness by the school to the National Close-Up Foundation. The school should immediately take steps to collect funds owed by former students and faculty. Concurrently, the school should negotiate arrangements with the National Close-Up program to pay past due amounts.

**Response:** Concurred. School has taken the necessary steps to collect said funds by (1) reconciling school records against the requested updated Financial Obligation break down National Close-Up Foundation; and (2) take necessary actions in collecting monies from the past due amounts.

### **B. Recommendation**

Only members of the organization should be allowed use of any part of the organization's funds. There should never be any payment made by the fund to cover any expenses that are the responsibility of another party.

**Response:** Concurred.

### **C. Recommendation**

The School or DOE should take action to recover from the SY 1999-2000 Close-up Advisor the \$3,876.00 for her husband's cost of the trip. Other balances due should be promptly collected.

**Response:** Concurred. A promissory note was obtained from the Close-Up participant on February 7, 2002 who owed the Close-Up Foundation \$1,076.00. Person agreed to make \$100.00 every 10<sup>th</sup> and 25<sup>th</sup> day of the month until debt is paid in full. All transactions are all accounted in the school ledgers. Currently, two \$100.00 payments were made with reference to Receipt #6769 and 8041 which was mailed to Close-Up on February 24, 2002. As for the outstanding debt of \$429.08, it was paid in full with reference to Receipt #042. The remaining balance will be addressed pending upon the issuance of the latest financial statement from the Close-Up Foundation in which will be used to reconcile the accounts and disclose the true financial picture. As for the outstanding obligations for individual Lizama-James, this matter will be forwarded to DOE Legal Counsel for advisement and implementation of its legal actions.

An updated financial statement has been received. Evidence disclosed that the Close-Up Foundation made an erroneous error on their part in regards to the \$1,700.00 returned check. After revisiting their file it was found that no checks were ever returned for the amount of \$1,700.00.

**D. Recommendation**

We recommend that the Department of Education require club treasurers and advisors of organizations to produce accountability reports following any fundraising activity and attach a copy to the deposit for submission to the School Treasurer. Accounts should be regularly reconciled with the business office.

**Response:** Concurred. All financial reports are submitted to DOE Business Office. OPA said "to produce accountability report as requested." As per Public law 14-130, said reports are clarified as monthly and annual reports to be produced by advisors and club treasurer.

**E. Recommendation**

The accountability report requested by the parents of the Girls Basketball team should be prepared and submitted to them immediately. Organizations should produce appropriate documentation when requested to do so.

**Response:** The new DOE policy states that all advisors are to prepare status reports to parents on all fundraising activities and are available upon request.

**F. Recommendation**

We commend the Principal for taking appropriate action after learning of the advisor's loan from the student fund. We recommend that the Department of Education amend its policies and procedures to explicitly prohibit persons to borrow money from a student fund for any purposes.

**Response:** No loans are allowed. It is stated in the SHS NAF Standard Operating Procedure as a standard DOE Policy.

**Finding #3. Control over Inventory and Cash**

**A. Recommendation**

Pursuant to law, we recommend that the Director of the Department of Education ensure that each student activities treasurer is bonded.

**Response:** Please refer to Prior audit findings response No. 2 for bonding issue.

**B. Recommendation**

We recommend the DOE incorporate written procedures in NAF Handbook for the control of inventory items purchased with the non-appropriated funds. Such policy should require an annual inventory of assets maintained by the schools and verification by the Principal. Such inventory listing should be provided to the DOE NAF Coordinator annually.

**Response:** Agreed. All clubs and organizations will be required to submit an inventory listing of all equipment purchased with the clubs funds. At the end of the year, the advisors are required to turn in all equipment purchased in order to receive clearance from the NAF Funds. This procedure is stipulated in the NAF Handbook and the SHS-NAF Standard Operating Procedures.

**C. Recommendation**

We recommend the DOE incorporate policy in the NAF Handbook to prohibit disbursements made payable to "cash" and state that payees be directly responsible for the submission of appropriate documentation for expenditures.

**Response:** Concurred. No checks will be made payable to cash. However, based on the material impact of its question cost and its uniqueness of its condition, the school has establish a new procedure. If any advance purchases are transacted, school individual requesting for a check to be made in their name are given two (2) days to submit an invoice or receipt. If check is received on a Friday, the invoice or receipt must be submitted on Monday. Any club who fails to comply with the timeline will be penalized \$25.00 for late submission of receipts. This new procedures both addresses the needs of accountability of all payments and the needs on materials for both instructors and advisors.

**Finding #4. Handling Cash Receipts**

**A. Recommendation**

The School Principal should ensure that the administrative staff makes deposits on a daily basis. If lack of manpower is an issue, the school should consider the use of an armored car service, or amend the current policy to allow deposits to be made by the second banking day.

**Response:** Concurred. Armor car service is in place, which was effective January 22, 2002.

**B. Recommendation**

The treasurer should not accept any deposits from organizations without completed cash count sheet. Both the treasurer and the individuals making the deposit should verify its accuracy by initialing the cash count sheet.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

**C. Recommendation**

The treasurer should not transfer any funds between organizations unless all required signatures indicate approval for the transfer of funds.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

## **Finding #5. Disbursements from Funds of Student Organizations**

### **A. Recommendation**

We recommend the Principal not approve vouchers or sign checks unless organization meeting minutes explaining the purpose of the expenditure are submitted and the proper authorization of the Money Committee, as applicable, is obtained.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

### **B. Recommendation**

No money from any Non-Appropriated Fund should be disbursed without a properly completed voucher. We recommend that Southern High follow the disbursement procedures in the latest version of the DOE Non-Appropriated student Activity Fund Handbook requiring an invoice or receipt before a check is issued by the treasurer.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

### **C. Recommendation**

While preparing the monthly bank reconciliation, the Assistant School Treasurer should inspect processed checks for both the Treasurer's and the Principal's signature and report any noncompliance immediately to the Principal and bank.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

## **Finding #6. Duties and responsibilities of Individuals Handling the Student Activity Fund**

### **A. Recommendation**

As required by the DOE NAF Handbook, the administrative funds must be included with the monthly and annual reports submitted to DOE. The annual report must be submitted to DOE by July 15 of the school year.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

### **B. Recommendation**

A designate, other than the treasurer, should make the daily deposits, maintain the ledgers and prepare the bank reconciliation 30 days after the bank statement date. The treasurer should be the only individual allowed to collect cash from organization.

**Response:** Concurred. It is stated in the SHS NAF Standard Operating Procedures.

**C. Recommendation**

The Southern High School should consider computerizing the system for tracking receipts and disbursements of non-appropriated funds. An inexpensive software package could save time and, more importantly, improve accuracy and reporting.

**Response:** We agreed with the idea, however, because of budget constraints and inconsistent manpower, it would be unwise to purchase one currently. In the near future perhaps if all factors are stable.

**Finding #7. Monitoring Fund Raising Activities**

**A. Recommendation**

We recommend the Principal of Southern High School assign a staff member to monitor the food sales practices of the school and ensure the school is in compliance with DOE regulations regarding the sale of food with minimal nutritional value. Limiting these sales to a certain designated area within the school may ease the monitoring burden placed on the staff.

**Response:** Concurred. As per 7 CFR Ch.11, Section 210.11, Competitive Food Services, assigning a designated location for food sales may pose as a potential safety problem due to a large amount of students being congested in one location.

**B. Recommendation**

The Principal of Southern High should reevaluate the school's policy to limit the sales of competitive foods other than those classified as foods of minimal nutritional value. The policy of allowing food sales 30 minutes after the start of the lunch period is not required by DOE and has caused frustration among Southern High's club advisors in their efforts to fundraise during a limited lunch period.

**Response:** In the above recommendation, it is the discretion of the administration to establish its time constraints because in actuality, there is no said policy for time limitation.

**C. Recommendation**

The Principal should also ensure that all student organizations involved in the sale of food are made aware of the federal requirement for alternative food sales prior to authorizing such activities.

**Response:** Concurred.





# **BUREAU OF BUDGET & MANAGEMENT RESEARCH**

OFFICE OF THE GOVERNOR

Post Office Box 2950, Hagåtña Guam 96932

**CARL T.C. GUTIERREZ**  
GOVERNOR

**PAUL D. LEON GUERRERO**  
DIRECTOR

**MADELEINE Z. BORDALLO**  
LIEUTENANT GOVERNOR

March 8, 2002

Randall V. Wiegand  
Audit Manager  
Office of the Public Auditor  
1208 East Sunset Boulevard  
Tiyan Barrigada, Guam 96913

Dear Mr. Wiegand:

Attached is the Bureau's response to Finding no. 1: Annual Audit by BBMR, page 5-6 of the draft report.

Thank you for the opportunity to respond to this finding. If you should have any questions, please contact Mr. Matthew Quinata, Chief Internal Auditor at 475-9412.



PAUL D. LEON GUERRERO

Attachment(s)

## **AUDIT RESPONSE:**

### **Finding# 1 Annual Audit by BBMR**

The Bureau of Budget and Management Research (BBMR) concurs with your finding. We are aware of Public Law 14-130 which requires the Bureau to audit the student activity fund on an annual basis.

In spite of the requirement of Public Law 14-130, the Bureau's Internal Audit Division is unable to meet the requirements of the law. The Department of Education consists of over thirty (30) schools, each with a student activity fund. The audit section has to consider the requests of the various Executive Branch agencies for audit reviews.

The Bureau had noted in prior correspondences with the Education Director that individuals responsible for handling the Non-Appropriated Student Activities Fund needed training to perform their duties. The experience with these audit reviews showed that accounts were neglected because of the lack of training and supervision. On occasion, the internal audit staff would find unauditable books and would have to create ledgers to provide for an account balance.

It was the decision of the previous Director to assign the three (3) remaining internal auditors to other financial tasks within the Bureau. The internal auditors were placed priority in addressing audits dealing with the Federal government such as the annual preparation of the Cost Allocation and Indirect Cost Rate Proposal, the annual review and follow-up on the single audit report, and DOI internal audit reports. Also, the decision was also based on Department of Education adding an internal audit division to its staff. I believe one of the department's intent for this section was to ensure that audit reviews were made on the non-appropriated student activity funds.

The Budget Office will coordinate and work with the Department of Education officials to meet the intent of Public Law 14-130 to audit the student activity funds annually.