

**GUAM DEPARTMENT OF EDUCATION
(A LINE AGENCY OF THE GOVERNMENT OF
GUAM'S GENERAL FUND)**

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2010

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

Dr. Nerissa Bretania Underwood, Ph.D.
Superintendent of Education
Guam Department of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2010, which collectively comprise GDOE's basic financial statements and have issued our report thereon dated April 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 24) as items 10-2, 10-4, 10-5, 10-6 and 10-7 to be material weaknesses.

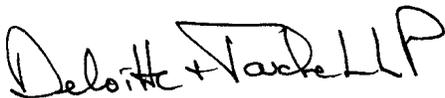
Compliance and Other Matters

As part of obtaining reasonable assurance about whether GDOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-2, 10-4, and 10-6.

We also noted certain matters that we reported to management of GDOE in a separate letter dated April 6, 2011.

GDOE's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GDOE's responses and, accordingly, we express no opinion on them.

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

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

April 6, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Dr. Nerissa Bretania Underwood, Ph.D.
Superintendent of Education
Guam Department of Education:

Compliance

We have audited the Guam Department of Education's (GDOE's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GDOE's major federal programs for the year ended September 30, 2010. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 24). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of GDOE's management. Our responsibility is to express an opinion on GDOE's compliance based on our audit.

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

As described in items 10-1 through 10-3 in the accompanying Schedule of Findings and Questioned Costs, GDOE did not comply with requirements regarding equipment and real property management and matching, level of effort, earmarking that are applicable to the Special Education Cluster (IDEA) and regarding procurement and suspension and debarment that are applicable to the Head Start Cluster. Compliance with such requirements is necessary, in our opinion, for GDOE to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, GDOE complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the Special Education Cluster (IDEA) and the Head Start Cluster. Also in our opinion, GDOE complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered GDOE's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

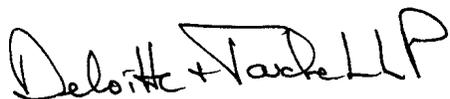
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 through 10-3 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2010, and have issued our report thereon dated April 6, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise GDOE's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of GDOE. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GDOE's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit GDOE's responses and, accordingly, we express no opinion on the responses.

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



April 6, 2011

GUAM DEPARTMENT OF EDUCATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

| Grantor/CFDA Grantor's Program Title | Federal CFDA Number | Expenditures |
|---|------------------------|----------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | |
| Direct: | | |
| National School Lunch Program | 10.555 | * \$ 8,406,094 |
| State Administrative Expenses for Child Nutrition | 10.560 | 279,256 |
| Commodity Supplemental Food Program | 10.565 | - |
| ARRA Emergency Food Assistance Program (Administrative Costs) | 10.568 | 15,240 |
| ARRA Child Nutrition Discretionary Grants Limited Availability | 10.579 | <u>195,594</u> |
| Total U.S. Department of Agriculture | | \$ <u>8,896,184</u> |
| U.S. DEPARTMENT OF DEFENSE: | | |
| Direct: | | |
| Army JROTC | 12.000 | \$ 365,631 |
| Air Force JROTC | 12.000 | 63,853 |
| Marine JROTC | 12.000 | <u>1,541</u> |
| Total U.S. Department of Defense | | \$ <u>431,025</u> |
| U.S. DEPARTMENT OF THE INTERIOR: | | |
| Pass-Through Guam Department of Administration: | | |
| Economic, Social, and Political Development of the Territories | 15.875 | \$ <u>7,100,000</u> |
| Total U.S. Department of the Interior | | \$ <u>7,100,000</u> |
| U.S. DEPARTMENT OF EDUCATION: | | |
| Direct: | | |
| Special Education-Grants to States | 84.027 | * \$ 12,628,756 |
| Impact Aid | 84.041 | 12,569 |
| Career and Technical Education-Basic Grants to States | 84.048B | 130,707 |
| Special Education: Grants for Infants and Families | 84.181 | 1,335,815 |
| Byrd Honors Scholarships | 84.185 | * 39,000 |
| Fund for the Improvement of Education | 84.215 | 732,973 |
| Freely Associated States-Education Grant Program | 84.256 | 394,190 |
| Teacher Quality Partnership Grants | 84.336 | 134,314 |
| Literacy through School Libraries | 84.364 | 13,407 |
| ARRA Special Education Grants to States, Recovery Act | 84.391 | * 184,321 |
| ARRA Consolidated Grants to the Outlying Areas, Recovery Act | 84.402A | * 468,200 |
| Consolidated Grant to the Outlying Areas | 84.403 | * <u>15,380,582</u> |
| Subtotal Direct Programs | | <u>31,454,834</u> |
| Pass-Through Office of the Governor of Guam: | | |
| ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394A | <u>288</u> |
| Total U.S. Department of Education | | \$ <u>31,455,122</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | |
| Direct: | | |
| Head Start | 93.600 | * \$ 2,175,995 |
| ARRA - Head Start | 93.708 | * \$ <u>157,901</u> |
| Subtotal Direct Programs | | <u>2,333,896</u> |
| Pass-Through Guam Department of Administration: | | |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | <u>81,416</u> |
| Total U.S. Department of Health and Human Services | | \$ <u>2,415,312</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY: | | |
| Pass-Through Guam Department of Administration: | | |
| Public Assistance Grants | 83.544 | \$ <u>-</u> |
| Total U.S. Department of Homeland Security | | \$ <u>-</u> |
| Total Federal Awards | | \$ <u>50,297,643</u> |

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

See notes to Schedule of Expenditures of Federal Awards.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

1. Scope of Audit:

The Guam Department of Education (GDOE) is a line agency of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the operations of the Guam 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 Single Audit.

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

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

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

b. Subgrants:

Certain program funds are passed through the Guam Department of Education to subrecipient organizations. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the Guam Department of Education's control utilized the funds. If the subrecipient expends more than \$500,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. High-Risk Grantee Status:

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

4. CFDA Number 10.555:

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

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

5. American Recovery and Reinvestment Act of 2009:

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2010, GDOE's expenditures and grant award notifications are as follows:

| <u>CFDA Number</u> | <u>Grant Amount</u> | <u>FY 2010 Expenditures</u> |
|--------------------|---------------------|-----------------------------|
| 10.568 | \$ 23,569 | \$ 15,240 |
| 10.579 | 215,764 | 195,594 |
| 84.391 | 510,352 | 184,321 |
| 84.393 | 52,064 | 0 |
| 84.394 | 75,742,784 | 288 |
| 84.402 | 12,206,153 | 468,200 |
| 93.708 | 517,295 | 157,901 |
| | <u>\$89,267,981</u> | <u>\$1,021,544</u> |

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to
Basic Financial Statements
Year Ended September 30, 2010

| | <u>Expenditures</u> |
|--|----------------------|
| Federal contributions, as reported in the 2010 financial statements: | |
| Federal Grants Assistance Fund expenditures | \$ <u>50,165,860</u> |
| <u>CFDA Program</u> | |
| 12.000 Army JROTC | 365,631 |
| 12.000 Air Force JROTC | 63,853 |
| 12.000 Marine JROTC | <u>1,541</u> |
| | <u>431,025</u> |
| DEED Program Income | <u>(299,242)</u> |
| Total Federal Expenditures Subject to Audit | \$ <u>50,297,643</u> |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|--|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | |
| Special Education Cluster (IDEA) | Qualified |
| Head Start Cluster | Qualified |
| All other major programs | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 10.555 | Child Nutrition Cluster: National School Lunch Program |
| 84.027 | Special Education Cluster (IDEA): Special Education – Grants to States |
| 84.391 | ARRA Special Education Grants to States, Recovery Act |
| 84.185 | Byrd Honors Scholarships |
| 84.402 | ARRA Consolidated Grants to the Outlying Areas, Recovery Act |
| 84.403 | Consolidated Grant to the Outlying Areas |
| | Head Start Cluster: |
| 93.600 | Head Start |
| 93.708 | ARRA - Head Start |

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$1,508,929 |
| 11. GDOE qualified as a low-risk auditee? | No |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Part II - Financial Statement Findings Section

| <u>Reference Number</u> | <u>Finding</u> |
|-----------------------------|------------------------|
| 10-2 | Equipment Management |
| 10-4 | Non-Appropriated Funds |
| 10-5 | Reconciliations |
| 10-6 | Local Procurement |
| 10-7 | Budget |

Part III - Federal Award Findings and Questioned Cost Section

| <u>Reference Number</u> | <u>CFDA Number</u> | <u>Finding</u> | <u>Questioned Costs</u> | <u>Federal Agency</u> |
|-----------------------------|------------------------|--|-----------------------------|---------------------------|
| 10-1 | 84.027/84.391 | Matching, Level of Effort, Earmarking | \$ 0 | U.S. ED |
| 10-2 | 84.027 | Equipment and Real Property Management | \$ 0 | U.S. ED |
| 10-3 | 93.600/93.708 | Procurement and Suspension and Debarment | \$ 0 | U.S. ED |
| Total Questioned Costs | | | \$ 0 | |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 10-1
CFDA Program: Special Education Cluster
Federal Agency: U.S. Department of Education
Grant Number: H027A080013, H027A090013, H391A090013
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria:

In accordance with 34 CFR 300.163(a), a State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.

Condition:

For purposes of the State requirement above, GDOE does not meet the definition of a State. Rather, GDOE is a public agency within the Government of Guam (the State) with an accounting system that is segregated from that of the State. As a result of such segregation, much of the data required to demonstrate compliance with the State requirement is not available within GDOE. Because GDOE does not have information available from the Government of Guam regarding the State's overall financial support for purposes of the State requirement, we are unable to determine Guam's overall compliance with 34 CFR 300.163(a).

Cause:

There is a lack of coordination between Government of Guam and Guam Department of Education for purposes of ensuring compliance with the State requirement.

Effect:

Guam's compliance cannot be determined until information external to GDOE is obtained. The State requirement goes beyond the operations of GDOE, and until such time that coordinated efforts are established, the condition above is likely to remain unresolved.

Recommendation:

GDOE should identify responsible parties within its Federal Programs Office, as well as within the Government of Guam, to liaise and determine the amount of overall State financial support for special education and related services for children with disabilities. Also, GDOE's coordination with the Government of Guam should be communicated in writing.

Auditee Response and Corrective Action Plan:

The GDOE cannot compel other units within the Government of Guam to maintain a certain level of financial support to fund special education and related services for children with disabilities or require that they report such financial support to GDOE. Only the Governor of Guam has jurisdiction over the various Government of Guam agencies. However, GDOE has put together procedures to attempt to capture this information.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 10-1, Continued
CFDA Program: Special Education Cluster
Federal Agency: U.S. Department of Education
Grant Number: H027A080013, H027A090013, H391A090013
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

The GDOE has identified the following agencies as those State-level agencies that provide funds for special education:

- The Department of Youth Affairs (DYA);
- The Department of Mental Health and Substance Abuse (DMHSA); and
- The Department of Integrated Services for Individuals with Disabilities/Division of Vocational Rehabilitation (DISID/DVR).

The GDOE has developed Standard Operating Procedures (SOP) that identifies the State-level agencies and describes the procedures for documenting maintenance of state financial support as required by 34 CFR Section 300.163(a). SOP No. 300-003 [effective March 15, 2011] delineates the responsibilities, due dates, and submission requirements for each of the identified agencies and for the GDOE Federal Programs Office.

PROCEDURES FOR DOCUMENTING MAINTENANCE OF STATE FINANCIAL SUPPORT

1. The reporting period for documenting maintenance of State financial support services made available for children with disabilities pursuant to their IEPs consistent with 34 CFR §300.34 and 34 CFR §300.43 from the SEA and each outside agency as required by 34 CFR §300.163(a) will be from October 1 through September 30 of each fiscal year. For the purposes of documenting State financial support, the term “local funds” is synonymous with “State funds” under 34 CFR §300.163. On Guam, the legislative appropriation provides “local funds” to each State agency.
2. The outside agencies identified to provide the information in order to complete the documentation and calculation of the overall State financial support services for Guam, the State, are the Department of Integrated Services for Individuals with Disabilities/Department of Vocational Rehabilitation (DISID/DVR), the Department of Youth Affairs (DYA), and the Department of Mental Health and Substance Abuse (DMH&SA).
3. By **July 1** of each year, the Guam Department of Education (DOE), Federal Programs Office shall facilitate a memo from the Superintendent of Education to each identified outside agency requesting the completion and submission of the Documentation of Maintenance of State Financial Support (Appendix A) on or before August 31 of the same year. The Documentation of Maintenance of State Financial Support (Appendix A) will be attached to the memo addressed to the outside agency.
4. The information required in the Documentation of Maintenance of State Financial Support (Appendix A) is as follows:
 - a. The name of the Agency;
 - b. The identified Fiscal Year (FY) that will reflect the reporting period of that FY;

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-1, Continued
CFDA Program: Special Education Cluster
Federal Agency: U.S. Department of Education
Grant Number: H027A080013, H027A090013, H391A090013
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

- c. The list of services made available by that Agency which is consistent with 34 CFR §300.34 and 34 CFR §300.43;
- d. The total amount of local funds calculated and made available for state financial support from **employee salaries**, if applicable, for the identified fiscal year;
- e. The total amount of local funds calculated and made available for state financial support from **service contract/s**, if applicable for the identified fiscal year;
- f. The total amount of local funds calculated and made available for state financial support from **other services**, if applicable, for the identified fiscal year;
- g. The grand total amount of local funds calculated and made available for state financial support identified by totaling the amount of employee salaries + service contract/s + other services, if applicable, for the identified fiscal year;
- h. A copy of the Agency's total local budget appropriated for the identified fiscal year; and
- i. The printed name and signature of the Agency Director.

Through the signature of the Agency Director and the submission of the Documentation of State Financial Support (Appendix A), along with a copy of the Agency's total local budget appropriated for the respective fiscal year, the Agency Director shall provide the assurance and certification that the respective agency has met the requirements of 34 CFR §300.163(a) for that fiscal year.

5. **On or before August 31** of each year, each identified outside agency (DISID/DVR, DYA, and DMH&SA) shall submit to the Guam DOE Federal Programs Office the completed Documentation of Maintenance of State Financial Support (Appendix A) that identifies the total local funding calculated and made available by the outside agency to children with disabilities for services made available pursuant to the IEP consistent with 34 CFR §300.34 and 34 CFR §300.43, and as required by 34 CFR §300.163(a).

Submission Requirements:

On or before August 31 of the respective fiscal year, the completed original Documentation of Maintenance of State Financial Support (Appendix A) and a copy of the local appropriated budget of that fiscal year shall be sent to:

Department of Education, Government of Guam
Federal Programs Division
P.O. BOX DE
Hagatna, Guam 96932
ATTN: Administrator, Federal Programs Division

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-1, Continued
CFDA Program: Special Education Cluster
Federal Agency: U.S. Department of Education
Grant Number: H027A080013, H027A090013, H391A090013
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Scanned copies of the Documentation of Maintenance of State Financial Support (Appendix A) and a copy of the local appropriated budget of that fiscal year may also be sent via e-mail to the following address: federal-programs@gdoe.net . The original copy of the Documentation of Maintenance of State Financial Support, however, must be filed with the Guam DOE Federal Programs Office.

6. **By September 30** of each year, the Guam DOE Federal Programs Office shall collect and record all Documentation of Maintenance of State Financial Support (Appendix A) forms submitted by the identified outside agency (DISID/DVR, DYA, and DMH&SA) and the copy of the local appropriated budget submitted by each outside agency for the respective fiscal year.
7. The Guam DOE Federal Programs Office shall be responsible for verifying and confirming the information submitted by each outside agency, to include any follow-up with the outside agency, should it be deemed necessary.
8. The Guam DOE Federal Programs Office shall maintain on an annual basis and hereinafter, all memos issued to the identified outside agency (DISID/DVR, DYA, and DMHSA) and all Documentation of Maintenance of State Financial Support (Appendix A) completed and submitted by the outside agency for each respective fiscal year, as well as all required documentation of the SEA's local budget made available for special education and related services.

The Guam DOE Federal Programs office shall also provide hard copies of the Documentation of Maintenance of State Financial Support (Appendix A) and the local appropriated budget for the respective fiscal year for each outside agency (DISID/DVR, DYA, DMH&SA) to the Division of Special Education Administrative Office for their records.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-2
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

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

Asset maintenance schedules should be prepared, updated, and monitored by management, and activity per the asset maintenance schedule should be reconciled to the asset maintenance history register regularly.

Property records of assets purchased with Federal funds should contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.

Condition:

1. Maintenance may not be consistently performed for all equipment.
2. Property records of prior year assets purchased with federal funds did not routinely include applicable acquisition costs.
3. Several vehicles and equipment exceeding \$50K were reported on the financial statements but were not on the inventory records and this condition also occurred in the reverse.
4. Generator acquisitions of approximately \$2.6M contributed from acquisitions performed by the Division of Accounts were not included as current year fixed asset additions. An audit adjustment was proposed to record the assets.

GDOE has developed a Comprehensive Corrective Action Plan (CCAP) to address deficiencies with its equipment management system; however, in a letter from the U.S. Department of Education, Office of Special Education and Rehabilitative Services, dated December 10, 2009, the Assistant Secretary states, “The GDOE failed to demonstrate that it has fully implemented adequate procedures for managing equipment purchased with program grant funds.”

Major programs with material equipment purchases over the past three years are as follows:

| | <u>FY 2010 Purchases</u> | <u>FY 2009 Purchases</u> | <u>FY 2008 Purchases</u> |
|--------------|--------------------------|--------------------------|--------------------------|
| CFDA #84.027 | \$0 | \$0 | \$506,730 |

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-2, Continued
CFDA Program: 84.027 Special Education – Grants to States
Federal Agency: U.S. Department of Education
Area: Equipment and Real Property Management
Questioned Costs: \$0

Cause:

There appears to be a lack of human resources and internal controls over ensuring compliance with applicable equipment management requirements in FY 2010.

Effect:

GDOE is in noncompliance with applicable equipment management requirements for FY 2010. Furthermore, the loss or theft of equipment could go undetected and fixed assets may be misstated.

Prior Year Status:

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

Recommendation:

GDOE should comply with the requirements of U.S. ED. In the letter described above, the Assistant Secretary “emphasized the need for the intervention of a third-party fiduciary and technical assistance provider” to help address the equipment management needs of GDOE. Areas of need highlighted by the Assistant Secretary include consistent application of a uniform definition of the term “fixed assets,” enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports.

Auditee Response and Corrective Action Plan:

The Special Conditions that apply to all grants received from the U.S. Department of Education have assigned the responsibility for tracking equipment and real property to the Third Party Fiduciary [TPF]. [The TPF] serving in this capacity has started the process of building an inventory of all such property. All purchase orders since 2006 have been reviewed and an inventory of all purchased items with a cost of \$500 or greater has been built. The next step will be the physical count inventory of each school and a reconciliation of that inventory. A new property tag has been procured to distinguish the inventory counted by the Third Party Fiduciary. It is anticipated that the physical count will be complete by early summer.

The CCAP is still under development. It has been through several revisions and is in the hands of the Superintendent of Education for additional steps of implementation prior to submission to the Guam Board of Education and subsequently, the U.S. Department of Education. Upon approval, GDOE will work closely with [the TPF] to review and monitor its progress under the CCAP and also in submitting quarterly reports.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-3
CFDA Program: 93.600 Head Start
Federal Agency: U.S. Department of Health and Human Services
Grant Number: 09CH8453/44
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria:

Local procurement regulations require that for small purchases of supplies or services between \$500 and \$15,000, no less than three positive written quotations from businesses shall be solicited, recorded and placed in the procurement file.

Condition:

For five transactions, the grantee solicited three or four vendors; however, a selection was made prior to receiving three positive quotes. In most instances, the grantee received only two positive quotes for the following:

| <u>PO Number</u> | <u>Vendor Number</u> | <u>Amount</u> |
|------------------|----------------------|------------------|
| 201080768 | 20353 | \$ 11,125 |
| 201000829 | 11760 | 5,880 |
| 201000842 | 10646 | 416 |
| 201000648 | 11636 | 116 |
| 201000761 | 10147 | 93 |
| | | \$ <u>17,630</u> |

Cause:

GDOE believes that the requirement is satisfied as long as three quotes are solicited, regardless of the response or non-response.

Effect:

GDOE is in noncompliance with applicable local procurement regulations. A total of \$17,630 in questioned costs exist; however, since GDOE's local expenditures for program activities exceeded the required local match by \$445,063, no questioned cost is presented at this finding.

Recommendation:

The GDOE Supply Management Administrator should re-examine its interpretation of the local procurement requirements regarding small purchases. The requirement also calls for no less than three positive written quotations to be recorded, and no less than three positive quotations to be placed in the procurement file.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-3, Continued
CFDA Program: 93.600 Head Start
Federal Agency: U.S. Department of Health and Human Services
Grant Number: 09CH8453/44
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

GDOE has received guidance from the Assistant Attorney General and continues to comply with the applicable local procurement regulation.

The Guam Department of Education Procurement Regulation (GDOEPR) Section 3.11.3, titled, Procedure, states, in part, "...no less than three (3) businesses shall be solicited to submit written quotations or oral quotations that are recorded and placed in the procurement file. Award shall be made to the business offering the lowest acceptable quotation." In an E-mail message from the Assistant Attorney General to the previous Supply Management Administrator dated June 11, 2010, the following guidance is provided: "Solicitation (n.) is defined as the act or an instance of requesting or seeking to obtain something; a request or petition. [the verb is solicit]. Simply note that the law and the regulation do not indicate that an agency must acquire three positive written (or oral) quotations, but rather must solicit three positive written (or oral) quotations."

The Supply Management Administrator will seek definitive opinions from the Office of the Attorney General and from the Office of Public Accountability regarding the applicable local procurement regulations.

The Third Party Fiduciary Agent (TPFA) is working with GDOE to develop procurement standard operating procedures (SOP) for GDOE requisitions funded in whole or in part with USDOE grant funds. Additionally, GDOE is in the process of hiring a consultant to assess and make recommendations to improve the existing procurement processes. The objective will be to update current SOPs for all procurement, locally and federally funded. Procurement checklists will be embedded in the SOP and regular training is also planned.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-4
Area: Non-Appropriated Funds (NAF)

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. GDOE classifies such agency funds as “Non-Appropriated Funds” (NAF).

Condition:

GDOE continued to evidence challenges in accounting for NAF funds during the year ended September 30, 2010. Supporting documents for NAF fund expenditures and bank reconciliations are lacking, indicating noncompliance with established NAF policies and with adequate documentation requirements. Detail expenditures were tested for 365 transactions approximating \$264,474. Of this sample, a substantial number of items did not appear to meet NAF or adequate documentation requirements. General problem areas noted are as follows:

- 80 samples, aggregating \$93,408, were not supported by invoices, receiving reports or other evidential matter to substantiate that goods or services were received or approved for disbursement.
- There appears to be an absence of evidence of competitive procurement considerations on file.
- Various schools have been designated for additional investigation due to the lack of support for expenses, the lack of reporting, and the lack of accountability; and various transactions have been referred to, or are considered for, referral for criminal investigation.
- Various internal audits have been issued that raise substantial concerns as to whether NAF collections are being deposited or whether misappropriation of those receipts is occurring.
- Records for Simon Sanchez High School were not available for examination.
- Opening balances did not reconcile to the prior year ending balances reported.

| | | Prior year <u>Ending</u> | | Current year <u>Beginning</u> | | <u>Variance</u> |
|------------|----|--------------------------------|----|-------------------------------------|----|-----------------|
| Elementary | \$ | 130,389 | \$ | 126,284 | \$ | 4,105 |
| Secondary | \$ | 328,311 | \$ | 346,323 | \$ | (18,012) |

Cause:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-4, Continued
Area: Non-Appropriated Funds (NAF)

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during fiscal year 2010 and this condition could facilitate fraudulent use of these funds for illegal purposes. Additionally, the continued inappropriate use of these funds exposes GDOE, and possibly the individual Guam Education Board members, to potential lawsuits and increases the Organization's financial exposure.

Prior Year Status:

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

Recommendation:

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

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

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

Auditee Response and Corrective Action Plan:

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

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-5
Area: Reconciliations

Criteria:

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

Condition:

Reconciliation of accounts payables, accounts receivable, deferred revenues and encumbrances occurred only after the year end.

Cause:

Timely reconciliations of general ledger balances did not occur.

Effect:

GDOE management administered funds in FY 2010 without full knowledge of the financial position of GDOE during the fiscal year.

Prior Year Status:

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

Recommendation:

GDOE Financial Affairs management should establish and implement controls to ensure that the general ledger for the accounts payables, accounts receivable, deferred revenues and encumbrances are reconciled to the subsidiary ledgers on a timely basis.

Auditee Response and Corrective Action Plan:

The GDOE comptroller has been working with the Department of Administration (DOA) since October 2009 on a monthly basis, to reconcile records between DOA and GDOE related to General Fund and Special Fund appropriations. However, due to limited staff, accounts payable, accounts receivable, deferred revenues and encumbrances were not reconciled regularly.

The Legislature has provided funding to hire additional staff this fiscal year. With the hiring of the additional staff, GDOE expects to be able to regularly reconcile the accounts payable, accounts receivable, deferred revenues and encumbrances at a minimum on a quarterly basis with a target for monthly reconciliations.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-6
Area: Local Procurement

Criteria:

- 1) Procurements shall provide full and open competition among vendors, and any allowable exceptions must be properly documented and approved in accordance with applicable Guam Department of Education procurement requirements and such approvals should be documented in the procurement file.
- 2) Travel extending to destinations where multiple airlines are available should be competitively procured.

Condition:

- 1) There were no procurement documents on file evidencing the procurement rationale for the following:

| <u>Reference</u> | <u>FY2010 Expenditures</u> | <u>Description</u> |
|--------------------------------|----------------------------|---|
| 201000128, 210, 711,1224, 1770 | \$818,388 | *Copier services for April 2010 thru September 2010 |
| 201090541 thru 545 | 259,437 | *Copier services for March 2010 |
| DE10-0415 thru 0420 | 133,037 | *Copier services for February 2010 |
| 201090122 thru 6 | 129,930 | *Copier services for January 2010 |
| 201000265 | <u>163,313</u> | Air conditioning preventive maintenance and repair |
| | <u>\$ 1,504,105</u> | |

*Contract expired on December 2009 and was extended for 90 days per Guam Administrative Rules Title 2 subsection 3102(b), Extension of Time on Indefinite Quantity Contracts. Subsequent to the extension period, services continued for the remaining six months of the fiscal year. Although such may be attributable to management turnovers in the procurement division and the heightened approval process for significant contracts, procurement was not settled during the nine month period.

- 2) We were unable to determine utilization of competitive procurement for the following travel:

| <u>Ref</u> | <u>Amount</u> |
|------------|---------------|
| DE10-0483 | 70,597 |

Cause:

The GDOE Supply Management Administrator did not document compliance with the criteria. GDOE management has implemented an additional policy to competitively procure travel; however, the policy was not effective during FY2010.

Effect:

Noncompliance results from this condition due to insufficient competitive procurement documentation.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-6, Continued
Area: Local Procurement

Recommendation:

We recommend that the Guam Department of Education continue to implement policies and strengthen internal controls over ensuring compliance with applicable procurement requirements. The Supply Management Administrator should not approve the selection of vendor unless the procurement file contains the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Furthermore, we recommend management begin the procurement process for existing contracts that will be continued, at least ninety days prior to the expiration date.

Auditee Response and Corrective Action Plan:

GDOE concurs with the finding that GDOE should continue to implement policies and strengthen internal controls over ensuring compliance with applicable procurement regulations. While the procurement of travel services are not under the direct control of the Office of Supply Management, the Supply Management Administrator will assist in the strengthening of controls to ensure compliance with procurement regulations. The Supply Management Administrator will review the processes used to select travel vendors and the required written rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

The Third Party Fiduciary Agent (TPFA) is working with GDOE to develop procurement standard operating procedures (SOP) for GDOE requisitions funded in whole or in part with USDOE grant funds. Additionally, GDOE is in the process of hiring a consultant to assess and make recommendations to improve the existing procurement processes. The objective will be to update current SOPs for all procurement, locally and federally funded. Procurement checklists will be embedded in the SOP and regular training is also planned. Additionally, GDOE has developed tools to better assist with procurement planning, eg, weekly procurement meeting with critical players, weekly report tracking critical procurement, master contract list.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 10-7
Area: Budget

Criteria:

Budgets should be prepared based on Ordinances and in accordance with public laws.

Guam Code Annotated Title 5, Chapter 4, subsection 4109(f) Fiscal Realignment Plan. Thirty (30) days after the close of each quarter of the fiscal year, the Directors of the Department of Administration, Department of Revenue and Taxation, and the Bureau of Budget and Management Research *shall* determine whether actual revenues collected for that quarter are consistent with the projected revenues for the fiscal year. *If* said Directors determine that projected fiscal year revenues, based on actual revenues collected, are three percent (3%) *or* more less than revenue projections adopted by the annual Budget Act, *I Maga'lahaen Guåhan shall* submit to the Speaker of *I Liheslaturan Guåhan* a Fiscal Realignment Plan that *shall* address the revenue disparity. Said Plan may include, but is *not limited to*, cost containment and austerity measures, governmental reorganization plans and other such actions. *I Maga'laha shall* submit to the Speaker of *I Liheslaturan Guåhan* proposed legislation, in a bill format, to implement the Fiscal Realignment Plan *if* legislative action is required.

Condition:

GDOE recorded the full amount of the legislative appropriation as a budgetary resource instead of the amount received through the allotment process.

Cause:

The reserve was a management oversight.

Effect:

Unfunded obligations may occur.

Recommendation:

We recommend management strengthen internal controls to ensure that budgets are prepared in accordance with budgetary public laws to avoid increasing deficits and unfunded liabilities.

Auditee Response and Corrective Action Plan:

GDOE recorded the full amount of the legislative appropriation as a budgetary resource instead of the amount received through the allotment process. Past legal advice has been that budget controls are at the appropriation not the allotment level. Current procedures have been established to record budgets at the allotment levels.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2010

Unresolved Prior Findings

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

| <u>CFDA #</u> | <u>Program Name</u> | <u>Federal Agency</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>Total</u> |
|---------------|-------------------------|-----------------------|-----------------|-------------------|-------------------|-------------------|
| 10.555 | Child Nutrition Cluster | USDA | \$ 3,856 | \$ - | \$ 113,055 | \$ 116,911 |
| 84.922 | Consolidated Grants | ED | - | <u>149,625</u> | <u>107,499</u> | <u>257,124</u> |
| | Totals | | <u>\$ 3,856</u> | <u>\$ 149,625</u> | <u>\$ 220,554</u> | <u>\$ 374,035</u> |