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April 29, 2015

Mr. Jon Fernandez
Superintendent
Guam Department of Education
Government of Guam
P.O. Box DE
Hagatna, Guam 96932

Dear Mr. Fernandez:

In planning and performing our audit of the financial statements of Guam Department of Education (GDOE) as of and for the year ended September 30, 2014 (on which we have issued our report dated April 29, 2015), 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, we considered the GDOE's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GDOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the GDOE's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated April 29, 2015, on our consideration of the GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Superintendent, management, others within the organization, 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.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the GDOE for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the GDOE's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. Leave Accrual

Comment: As of September 30, 2014, eleven and four employees, who have been separated from the department, retired, hourly employees converted from staff or teacher status or on leave without pay status, continued to accrue sick and annual leave, respectively.

Recommendation: Management should strengthen controls to verify that only eligible employees accrue leave.

2. Unrecorded Liabilities

Comment: As of September 30, 2014, \$1.4M of unrecorded liabilities were identified.

Recommendation: Management should strengthen controls to verify that all invoices are remitted to the business office at the end of each reporting period.

3. Prepayments

Comment: As of September 30, 2014, \$516K was expensed to process prepayment for a book order. However, as payment was not processed and released to the vendor as of year-end, expenditures and payables were overstated.

Recommendation: Management should implement controls to properly record and monitor prepayments.

4. Local Procurement

Comment: GDOE's local procurement policy (Section 3.9.4 – Bidding Time) specifies that a minimum of fifteen (15) working days shall be provided unless a shorter time is deemed necessary for a particular procurement as determined in writing by the Superintendent of Education. However, GDOE has been utilizing the Government of Guam's 2 GAR procurement regulations of fifteen (15) calendar days. As a result, GDOE's local procurement policy that allows a lesser time period was not implemented.

Recommendation: GDOE should resolve the difference between the two policies.

SECTION II – OTHER MATTERS

We identified, and have included below, another matter involving the GDOE's internal control over financial reporting as of September 30, 2014, we wish to bring to your attention.

1. Enhancement of Disaster Recovery Plan and Business Continuity Plan

Comment: The impact of a system disruption or failure in the business operation is critical because of the lack of comprehensive manual processes to substitute the automated process during a system disruption. Also, the current disaster recovery system indicates use of the Department of Administration's AS400 system, which is not compatible with GDOE's AS400 system.

SECTION II – OTHER MATTERS, CONTINUED

1. Enhancement of Disaster Recovery Plan and Business Continuity Plan, Continued

The operation of GDOE could be interrupted for a significant time period after the system disruption or failure because of the lack of comprehensive manual processes and the lack of a compatible disaster recovery system. It could also result in the delay of financial data processing and the loss of data integrity.

Recommendation: GDOE should establish a comprehensive manual process and a compatible disaster recovery system to minimize the impact of system disruption or failure.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The GDOE's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.