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June 6, 2016

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, 2015 (on which we have issued our report dated June 6, 2016), 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, 2015 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated June 6, 2016, 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, 2015 that we wish to bring to your attention:

1. 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.

2. Budget

Comment: Finance and Budget Department should review and approve final budget balances based on available funding allotted by the Government of Guam’s Bureau of Budget and Management Research Office.

At the close of FY2015, \$555K of funds were available for obligation that were not allotted.

Recommendation: We recommend GDOE load funding when such is allotted.

3. Fixed Assets

Comment 1: The following fully depreciated items were identified as of September 30, 2015 to be beyond repair or which are obsolete and should be timely reported as disposals.

<u>ASSET TAG</u>	<u>DESCRIPTION</u>
10919	1993, RAM, VAN
11886	1994, MIRAGE, SEDAN
11837	1993 RIDING MOWER
11838	1993 RIDING MOWER

Comment 2: Construction in progress should be monitored to verify that project costs incurred are reported.

Construction of pre-kindergarten classrooms incurred \$85K of project design costs as of September 30, 2015 that were not reported.

Recommendation: We recommend GDOE implement controls to verify that disposals and construction in progress are timely reported.

4. Personnel Pay rates

Comment: Personnel increments or pay rate changes should be timely processed.

Three (or 8%) of thirty-seven personnel tested were not paid the effective pay rate per the underlying personnel actions

<u>Emp#</u>	<u>Pay rate effective date</u>	<u>Final approval date</u>	<u>Time lag</u>
12415	10/08/14	10/11/15	12 months
11059	01/26/14	07/01/14	5 months
10652	02/11/15	10/11/15	8 months

Recommendation: GDOE should evaluate existing policies and procedures to allow changes to personnel action forms to be processed in a timely manner.

5. General Ledger Reconciliations

Comment: General ledger balances should be timely reconciled to prior year ending balances, a subsidiary ledger or supporting details and should be reviewed for ongoing pertinence.

Reconciliation between the general ledger and the subsidiary ledgers should be timely performed with the opening net position, accounts payables, other liabilities and accruals, appropriations and capital leases.

Recommendation: GDOE continues to improve from the prior year in providing certain reconciliations; however, we continue to recommend that management strengthen controls and reconcile general ledger accounts with corresponding subsidiary ledgers.

6. Non-Appropriated Funds (Agency Funds)

Comment: Fiscal year ending September 30, 2015 is the second year for the full reporting of NAF on GDOE's financial management information system (FMIS or Munis). This allowed Internal Audit Office (IAO) access and monitoring capabilities on a daily basis resulting in the discovery of issues more timely. The following exceptions were identified by the IAO for the school year ended 2014-2015.

- 1) Opening balances did not reconcile to prior year ending balances for 7 of the 41 public schools. For the seven schools, receipts of \$12,348 and disbursements of \$11,033 were not reported in the correct period.

6. Non-Appropriated Funds (Agency Funds), Continued

Comment, Continued:

- 2) Bank reconciliations were not timely and accurately performed. Additionally, mistakes were made with bank reconciliations. Variances between bank reconciliations and ending cash balances for the following schools were noted:

<u>School</u>	<u>Book balance per school</u>	<u>Cash per bank</u>	<u>Variance</u>
L.P. Untalan Middle	\$ 28,187	\$ 16,778	\$ 11,409
Finegayan Elementary	11,433	2,763	10,830
Okkodo High	62,487	53,296	9,191
Merizo Elementary	13,094	4,536	8,559
Simon A. Sanchez High	103,891	102,560	1,352
Inarajan Elementary	6,231	7,046	331
H.B. Price Elementary	6,886	7,561	224
F.B. Leon Guerrero Middle	24,947	26,141	(174)
Tamuning Elementary	8,250	8,488	(238)
John F. Kennedy High	107,439	110,014	(579)
V.S.A Benavente Middle	3,561	4,407	(585)
Oceanview Middle	13,924	14,529	(605)
M.U Lujan Elementary	1,277	1,994	(717)
Agana Heights Elementary	9,452	10,483	(1,031)

- 3) Bank statements identified less in deposits than recorded NAF receipts; indicating that cash collections were not accurately reported in Munis or may not have been remitted to the bank.

<u>School</u>	<u>Total bank deposits</u>	<u>Total receipts reported</u>	<u>Collections not remitted to bank</u>
Merizo Martyrs Memorial School	\$16,967	\$25,888	\$8,921
Okkodo High School	136,177	141,864	5,688
L. P. Untalan Middle School	53,319	58,485	5,165
Finegayan Elementary School	46,482	50,352	3,870
V.S.A. Benavente Middle School	117,687	119,816	2,129
Upi Elementary School	19,067	19,242	175

- 4) Of 117 receipts aggregating \$74,150 tested, certain items did not meet NAF documentation requirements:
- a. 24 receipts aggregating \$19,813 were not supported by a cash count sheet and/or bank receipt.
  - b. 8 receipts aggregating \$6,461 did not have all required signatures or complete information on the cash count sheets.
  - c. 20 receipts aggregating \$12,908 were not timely deposited to the bank or recorded in Munis (exceeding two business days).

6. Non-Appropriated Funds (Agency Funds), Continued

Comment, Continued:

- 5) Of 103 disbursements aggregating \$80,039 tested, certain transactions did not appear to meet NAF documentation requirements:
  - a. 32 disbursements aggregating \$31,814 were not supported by voucher forms and/or payment receipt or invoice.
  - b. 27 disbursements aggregating \$22,690 did not have all required signatures or complete information on the voucher forms.
  - c. 1 disbursement totaling \$235 was not in line with the student organization's goals/objectives, students' benefit, or school improvement.

Recommendation: To continue the improvements noted during the year, we recommend that GDOE continually provide education relative to competitive procurement, adequacy of disbursement documentation, preparation of receipts, timely bank deposits and performance of periodic bank reconciliations.

**SECTION II – DEFINITION**

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**

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.