

May 2, 2017

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, 2016 (on which we have issued our report dated May 2, 2017), 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, 2016 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated May 2, 2017, 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.

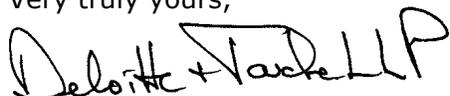
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2016 that we wish to bring to your attention:

1. General Ledger Reconciliations

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

Reconciliations between the general ledger and the subsidiary ledgers should be timely performed and these reconciliations should include the opening net position, accounts payable, other liabilities and accruals, appropriations, net pension liability and capital leases.

This comment is a reiteration of a comment from the prior year audit.

Recommendation: We recommend management strengthen internal controls and periodically reconcile general ledger accounts with corresponding subsidiary ledgers.

2. Non-Appropriated Funds

Comment: Fiscal year ending September 30, 2016 is the third year for the full reporting of NAF on GDOE’s financial management information system (FMIS or Munis). This allowed the Internal Audit Office (IAO) access and monitoring capabilities on a daily basis resulting in timely discovery of exceptions. The following exceptions were identified by the IAO for the school year 2015-2016:

- 1) Opening balances did not reconcile to prior year ending balances for 12 of 41 schools. For the 12, receipts of \$3,448 and disbursements of \$30,674 were not reported in the correct period.
- 2) Bank reconciliations were not timely and accurately performed. Additionally, errors in bank transactions were noted. Variances between bank reconciliations and ending cash balances are as follows:

<u>School</u>	<u>Book balance per school</u>	<u>Cash per bank</u>	<u>Difference</u>
Oceanview Middle School	\$ 24,188	\$ 19,190	\$ 4,998
Finegayan Elementary School	\$ 3,889	\$ 957	\$ 2,932
H.B. Price Elementary School	\$ 3,073	\$ 835	\$ 2,238
Inajaran Elementary School	\$ 8,227	\$ 6,201	\$ 2,026
Tamuning Elementary School	\$ 12,719	\$ 11,415	\$ 1,304
Chief Brodie Elementary School	\$ 3,090	\$ 2,281	\$ 809
B.P. Carbullido Elementary School	\$ 20,518	\$ 20,359	\$ 159
L.P. Untalan Middle School	\$ 20,632	\$ 20,840	\$ (208)
M.A. Ulloa Elementary School	\$ 511	\$ 727	\$ (216)
George Washington High School	\$ 53,019	\$ 53,239	\$ (220)
Jose Rios Middle School	\$ 32,612	\$ 33,178	\$ (566)
F.B. Leon Guerrero Middle School	\$ 19,522	\$ 20,910	\$ (1,388)
Inajaran Middle School	\$ 3,838	\$ 5,488	\$ (1,650)
Tiyan High School	\$ 32,388	\$ 35,132	\$ (2,744)
Astumbo Middle School	\$ 13,962	\$ 18,642	\$ (4,680)
Simon Sanchez High School	\$ 92,416	\$ 107,606	\$ (15,190)

2. Non-Appropriated Funds, Continued

- 3) Bank statements identified fewer deposits than per recorded NAF receipts. This indicates that cash collections were transferred between sub-accounts in Munis, 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 reported receipts</u>	<u>Difference</u>
Simon Sanchez High School	\$155,153	\$185,217	\$ 30,064
F.B.L.G. Middle School	\$ 50,850	\$ 59,011	\$ 8,161
Chief Brodie Elementary School	\$ 3,806	\$ 6,434	\$ 2,628
Inarajan Middle School	\$ 30,495	\$ 32,146	\$ 1,651
D. L. Perez Elementary School	\$ 2,157	\$ 3,471	\$ 1,314
Inarajan Elementary School	\$ 3,853	\$ 4,101	\$ 248

- 4) Of 158 receipts tested aggregating \$86,955, certain items did not meet NAF documentation requirements:
- a. 20 receipts aggregating \$6,689 were not supported by a cash count sheet and/or a bank receipt.
 - b. 48 receipts aggregating \$45,279 did not have all required information on the cash count sheets or Munis entries.
 - c. 3 receipts aggregating \$506 were not timely deposited or recorded in Munis (exceeding two business days).
- 5) Of 153 disbursements tested aggregating \$116,163, certain transactions did not appear to meet NAF documentation requirements:
- a. 14 disbursements aggregating \$7,464 were not supported by a vendor payment receipt or invoice.
 - b. 39 disbursements aggregating \$23,954 did not reflect all required signatures or contained incomplete information on the voucher forms.

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

3. Employer Share Health Rates

Comment: The system was not updated to reflect the current year approved employer share portion for employees covered under TAKECARE HAS2000 CL1 MED. Correction did not occur until September 2016, 11 months after rates were approved. The related over payment to the insurance company is less than \$5,000.

Recommendation: We recommend management strengthen internal controls to ascertain that employee benefits are paid at the approved rates.

4. Employer Share Life Insurance

Comment: Per policy, employees are eligible to receive life insurance benefits after six months of employment. Of eleven employees tested, one did not contribute to the employee's life insurance benefit after 18 months of employment.

Recommendation: We recommend that GDOE comply with policy and timely provide allotted benefits.

5. Budget

Comment: GDOE's 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 (BBMR), which are to be further documented as to collectability by the Department of Administration (DOA).

In fiscal year 2016, budgets were loaded for \$4.5M in excess of amounts that were identified to be unpaid by DOA five months after the fiscal year end.

This comment is a reiteration of a comment from the prior year audit.

Recommendation: We recommend GDOE monitor budgets and only record funding that has been allotted by BBMR and that is designated as being collectible from DOA.

6. Unrecorded Liabilities

Comment: Invoices should be timely submitted for processing. In addition, reconciliations should be performed with significant vendors to identify if unrecorded liabilities exist.

As of fiscal year end, \$813K of expenses were not accrued or reported. The misstatement was included in the Summary of Uncorrected Misstatements.

Recommendation: We recommend GDOE implement internal controls to perform year end reconciliations with significant vendors and strengthen controls over divisions and schools to verify that all invoices are timely submitted for processing.

7. Capital Lease Collateral Equipment

Comment: Accountability of collateral equipment related to capital leases requires clarification between the Primary government and the GDOE.

As of September 30, 2016, documentation was not available to determine the detail of collateral equipment in the amount of \$7,499,090 received from the Tiyan Lease dated November 2014, Section 10 a.

Recommendation: We recommend that the Primary Government and GDOE clarify the responsible party that will be accountable for collateral equipment that arises from capital lease agreements.

8. Deferred Revenues

Comment: Deferred revenues should be revisited for ongoing pertinence.

Deferred revenues of approximately \$474K were dated over four years. An audit adjustment was proposed in the Summary of Uncorrected Misstatements to write off these balances.

Recommendation: We recommend GDOE perform timely reviews of deferred revenues for ongoing pertinence.

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.