

May 14, 2019

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, 2018 (on which we have issued our report dated May 14, 2019), 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 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 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GDOE's internal control over financial reporting and other matters as of September 30, 2018 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated May 14, 2019, on our consideration of 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.

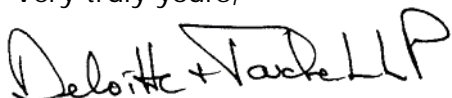
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 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 GDOE’s internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1. General Ledger Reconciliations

Comment: General ledger balances should be timely reconciled to subsidiary ledgers or supporting details which should be reviewed for ongoing pertinence.

- Other liabilities and accruals include various accounts that have not been reconciled for in excess of three years and may include items that have been paid or that are no longer valid. Identified misstatements have been included in the summary of uncorrected misstatements of approximately \$1.6M.

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

Recommendation: We recommend GDOE perform periodic reviews of dated items in the above stated liabilities.

2. Overtime Exemption Listing

Comment: An exemption listing dated August 1995, Governor’s Directive 95-029, is used to determine the eligibility of employees to accrue overtime. Positions not included in the list are eligible to accrue overtime.

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

Recommendation: We recommend GDOE revisit and update the exemption listing due to the changes that have occurred over the past twenty years to include the Competitive Wage Act that was implemented in 2014.

3. Reconciliation with Third Party Fiduciary Agent (TPFA) Records

Comment: TPFA records expenditures on a cash basis but does not process payroll, travel prepayments and accruals. Frequent and tedious reconciliations are required to determine amounts due to GDOE to reimburse the General Fund for advances of cash to fund federal payroll and travel expenditures and identify accruals that are subsequently processed. Related transactions approximate 69% of total FY 2018 reported expenditures.

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

Recommendation: We recommend GDOE consider requesting TPFA to report on an accrual basis.

4. Retro Payment

Comment: The following three of three retro payments tested were not correctly calculated and accrued:

| <u>Employee number</u> | <u>Retro pay due as of 09/30/18</u> | <u>Accrued as of 09/30/18</u> | <u>Variance</u> |
|------------------------|-------------------------------------|-------------------------------|-----------------|
| 13449 | \$ 4,793 | \$ 1,829 | \$ 2,964 |
| 8533 | \$ 2,814 | \$ 2,565 | \$ 249 |
| 13783 | \$ 4,633 | \$ 4,262 | \$ 371 |

Recommendation: We recommend GDOE review calculations to determine if such were accurately prepared, accrued and paid.

SECTION I –DEFICIENCIES, CONTINUED

5. Non-Appropriated Funds (NAF)

Comment: Fiscal year ending September 30, 2018 is the fifth 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 2017-2018:

- 1) Opening balances did not reconcile to prior year ending balances for 18 of 41 schools noting a total of \$37,362 of receipts and \$13,541 of disbursements that were not reported in the correct period.
- 2) Bank reconciliations were not timely and accurately performed. Variances between bank reconciliations or bank statements and ending Munis cash balances as of June 30, 2018 are as follows:

| <u>School</u> | <u>Per Munis</u> | <u>Per Bank</u> | <u>Variance</u> |
|-----------------------------------|------------------|-----------------|-----------------|
| Okkodo High School-SAF [a] | \$ 83,108 | \$ 67,688 | \$ 15,420 |
| Agueda Johnston Middle School [a] | \$ 14,369 | \$ 7,656 | \$ 6,713 |
| Simon A. Sanchez High School [a] | \$ 167,285 | \$ 170,419 | \$ (3,134) |

| <u>School</u> | <u>Per Munis</u> | <u>Per Bank Recon</u> | <u>Variance</u> |
|-----------------------------------|------------------|-----------------------|-----------------|
| L.P. Untalan Middle School | \$ 13,224 | \$ 12,524 | \$ 700 |
| Southern High School | \$ 35,412 | \$ 34,784 | \$ 628 |
| H.B. Price Elementary School | \$ 9,624 | \$ 9,200 | \$ 424 |
| Wettengel Elementary School | \$ 6,229 | \$ 6,429 | \$ (200) |
| Jose Rios Middle School | \$ 17,339 | \$ 17,564 | \$ (225) |
| Finegayan Elementary School | \$ 2,763 | \$ 2,688 | \$ 75 |
| John F. Kennedy High School | \$ 75,074 | \$ 75,018 | \$ 56 |
| George Washington High School | \$ 42,415 | \$ 42,467 | \$ (52) |
| F.B. Leon Guerrero Middle School | \$ 12,811 | \$ 12,780 | \$ 31 |
| B.P. Carbullido Elementary School | \$ 26,522 | \$ 26,511 | \$ 11 |
| H.S. Truman Elementary School | \$ 206 | \$ 201 | \$ 5 |
| Tamuning Elementary School | \$ 14,296 | \$ 14,293 | \$ 3 |
| Liguan Elementary School | \$ 3,689 | \$ 3,685 | \$ 4 |

[a] Bank reconciliations were not available for examination.

- 3) Bank statements identified fewer deposits than per recorded NAF receipts. This indicates that cash collections were transferred between sub-accounts in Munis, and were not accurately reported, or may not have been remitted to the bank.
- 4) Of six schools tested, bank statements did not match the recorded NAF receipts.
 - a.) Bank statements identified fewer deposits than per recorded NAF receipts. This indicates that cash collections were transferred between sub-accounts in MUNIS, and were not accurately reported, or may not have been remitted to the bank.

SECTION I –DEFICIENCIES, CONTINUED

5. Non-Appropriated Funds (NAF), Continued

| <u>School</u> | | <u>Deposits per bank</u> | | <u>Receipts reported</u> | | <u>Variance</u> |
|---------------------------------|----|------------------------------|----|------------------------------|----|-----------------|
| Finegayan Elementary School [b] | \$ | 4,726 | \$ | 6,034 | \$ | (1,308) |
| Price Elementary School | \$ | 27,276 | \$ | 29,391 | \$ | (2,115) |
| FB Leon Guerrero Middle School | \$ | 39,042 | \$ | 39,686 | \$ | (644) |
| Simon Sanchez High School | \$ | 130,521 | \$ | 131,770 | \$ | (1,249) |
| Tiyan High School | \$ | 104,268 | \$ | 105,803 | \$ | (1,535) |

[b] The bank statement for the June 2018 student activity fund was not available for examination.

- b.) Untalan Middle School's bank statements identified more deposits than per recorded NAF receipts by \$831. This indicates that cash collections were not reported in MUNIS.
- 5) Of 255 receipts tested aggregating \$136,675, certain items did not meet NAF documentation requirements:
- 9 receipts aggregating \$4,506 were not supported by a cash count sheet and/or a bank receipt.
 - 1 receipt aggregating \$124 did not have all required information on the cash count sheets or Munis entries.
 - 4 receipts aggregating \$3,777 were not timely deposited or recorded in Munis (exceeding two business days).
- 6) Of 224 disbursements tested aggregating \$169,329, certain transactions did not appear to meet NAF documentation requirements:
- 3 disbursements aggregating \$963 were not supported by a vendor payment receipt or invoice.
 - 1 disbursement of \$280 was not in line with the student organization's goals or objectives.

Recommendation: Due to the heightened monitoring performed by the Department's Internal Auditors, it is expected that issues with NAF accounting will continue to be identified. This is expected due to the lack of financial understanding and training present in the respective skills and due to the opportunity for fraud given the number of cash related transactions. We recommend GDOE continue to monitor these accounts and continually provide education relative to the adequacy of disbursement documentation, preparation of receipts, timely bank deposits and performance of periodic bank reconciliations.

SECTION I –DEFICIENCIES, CONTINUED

6. Budget

Comment: Fiscal year 2018 available budgets were loaded in excess of amounts collected by the Department of Administration.

| <u>Fund</u> | <u>Available Budget Load</u> | <u>Collected/ Paid on Behalf of GDOE</u> | <u>Available Unfunded Balance</u> |
|------------------------------------|----------------------------------|--|---|
| General Fund Operations (Fund 110) | \$ 233,325,465 | \$ 228,214,481 | \$ 5,110,984 |

Recommendation: This matter did not affect the 2018 financial statements but does create a possibility where over expenditures of available resources could result. We recommend that GDOE consider adjusting available budget balances to agree to actual whenever possible.

7. Procurement

Comment: General Fund (Fund 120) purchase order 20171912 was a subscription to a web based provider, vendor 80275, for online instruction and services on nonfiction reading and writing, tailored to student reading levels totaling \$155,275. Procurement records to support vendor selection were not available for examination.

Recommendation: GDOE should consider applying similar procedures described in GDOE’s SOP No. 200-018, such as performing procedures that require Supply Management buyers to research via internet or telephone on the sole source documentation as provided by the end user, and further verify that the supplies or services are reasonably limited to a single supplier. In addition, procurement files should demonstrate that sufficient price competition was obtained and that maximum practicable competition was performed. GDOE should enforce established procurement regulations consistently for all procurements and maximize full and open competition.

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.