

May 5, 2022

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, 2021 (on which we have issued our report dated May 5, 2022), 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated May 5, 2022, 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.

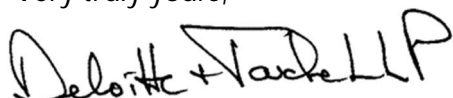
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2021 that we wish to bring to your attention:

1 Reconciliation

Comment 1: General ledger balances should be timely reconciled to subsidiary ledgers or supporting details which should be reviewed for ongoing pertinence.

- a) Other liabilities and accruals include various accounts that have not been reconciled for in excess of five years and may include items that have been paid or that are no longer valid. Identified misstatements of approximately \$1.5 million have been included in the summary of uncorrected misstatements.

The above comment is a reiteration of a comment from the prior year audit.

- b) Department wide liabilities such as capital leases, sick leave, compensated absences, net pension, and OPEB liability were not adjusted for FY2021. Audit adjustments were proposed to correct these balances

The above comment is a reiteration of a comment from the prior year audit.

Comment 2: 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 to identify accruals that are subsequently processed. Related transactions approximate 76% of the total FY 2021 reported Federal Grants Assistance Fund expenditures.

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

Comment 3: As of September 30, 2021, approximately \$16.2M of receivables were due to GDOE for travel and payroll related expenditures from TPFA. \$954K (or 6%) remain uncollected six months after fiscal year end. An adjustment to transfer the uncollected balance to the General Fund is included in the Summary of Uncorrected Misstatements.

Recommendation: We recommend GDOE perform quarterly reviews of dated items in the above stated account balances in comment 1a.

We recommend GDOE consider requesting TPFA to report on an accrual basis. Additionally, we recommend management work with TPFA to determine a more efficient process to allow for timely reimbursements.

## SECTION I –DEFICIENCIES, CONTINUED

2 Budget

Comment: Available balances should be released based on collectability to minimize the opportunity for creating unfunded liabilities and encumbrances.

In fiscal year 2021, 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>Balance Unfunded</u>
Sports Fund (121)	\$ 535,801	\$ 301,951	\$ 233,850
Territorial Educational Facilities Fund (130)	\$ 27,753,653	\$ 26,148,360	\$ 1,605,293
Library Resource Fund (160)	\$ 915,082	\$ 601,173	\$ 313,909

This comment is a reiteration of a comment from the 2019 and 2018 audit.

Recommendation: We recommend GDOE monitor budget availability at least on a monthly basis and release funds based on collectability to avoid further incurring unfunded liabilities and encumbrances.

3 Accounts Payable and Accruals

Comment: Liabilities include a judgmental understatement of \$453K due to vendor 70378 based on vendor statement. Reconciliations are still ongoing as of April 19, 2022.

Recommendation: We recommend reconciliation with significant vendors be performed on an at least an annual basis.

4 Student Activity Funds

Comment: Fiscal year ending September 30, 2021 is the eighth year for the full reporting of School Activities Funds (formerly presented as Non-Appropriated Funds Agency Fund (NAF)) on GDOE's financial management information system (Munis system). This allowed the Internal Audit Office (IAO) access and monitoring capabilities for a more timely discovery of exceptions. It is expected that issues with administering NAF will continue to be identified due to the inherent risk of cash-related transactions and the level of expertise required for handling of funds.

The following exceptions were identified by the IAO for the school year 2020-2021:

- 1) Opening balances did not reconcile to prior year ending balances for 19 of 41 schools noting a total of \$6,282 of receipts and \$28,079 of disbursements were not reported in the correct period.
- 2) For two of seven schools tested, bank statements identified fewer deposits than recorded receipts by \$7,996. This indicates that cash collections were not posted in the correct period and accurately entered in the system.
- 3) Of 56 receipts tested aggregating \$26,870 certain transactions did not meet NAF documentation requirements:
  - a) 14 receipts aggregating \$5,019 were not timely deposited (exceeding two business days).
  - b) 1 receipt for \$105 did not have all required information on the cash count sheets or Munis entries.

## SECTION I – DEFICIENCIES, CONTINUED

4 Student Activity Funds, Continued

- 4) Of 124 disbursements tested aggregating \$60,668, certain transactions did not meet NAF documentation requirements:
- a) 23 disbursements aggregating \$8,535, had missing price quotes.
  - b) 12 disbursements aggregating \$6,116, voucher forms were missing signatures and or meeting minutes.
  - c) 3 disbursements aggregating \$1,273 had missing price quotes and or payment receipts.
  - d) 3 disbursements aggregating \$733 were not in line with the organization's objectives, student benefits or school improvement.
  - e) 1 disbursement for \$124 had a missing price quote and was not in line with the organization's objectives, student benefits or school improvement.

Recommendation: 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 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.