

GUAM DEPARTMENT OF EDUCATION

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2001



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Juan P. Flores
Superintendent of Education
Guam Department of Education:

We have audited the balance sheet of the Guam Department of Education (GDOE) as of September 30, 2001, and have issued our report thereon dated October 10, 2003, which report was qualified because of inadequacies in the system of internal control that precluded us from expressing an opinion on the statement of revenues, expenditures and changes in fund balances (deficit), because of the noninclusion of the General Fixed Assets Account Group, and due to the incomplete presentation of the agency fund. Except as discussed in the preceding sentence, we conducted our audit 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.

Compliance

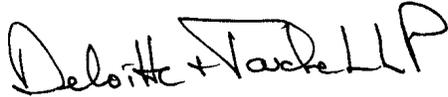
As part of obtaining reasonable assurance about whether GDOE's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which matters are described in a separate report dated September 5, 2003, on the audit of the schedule of expenditures of federal awards for the year ended September 30, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GDOE's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting, that, in our judgment, could adversely affect GDOE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying Schedule of Findings as findings 2001-01 through 2001-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider all findings to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of Guam Department of Education, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

October 10, 2003

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings
Year Ended September 30, 2001

Finding No.: 2001-01
Area: General Ledger

Criteria:

A functioning general ledger should be maintained, and general ledger balances should be periodically reconciled with subsidiary ledgers and with bank reconciliation balances.

Condition:

The Department of Education did not maintain accurate general ledger balances during the four years ended September 30, 2001. Reconciliations with subsidiary ledgers and with bank reconciliation balances were therefore not performable. While the Department did maintain subsidiary ledgers detailing expenditures by account or by federal program, no overall general ledger total was maintained and reconciled to the subsidiary ledgers. Therefore, it was not possible during these years to ensure that all expenditures were duly recorded in the subsidiary ledgers.

Cause:

The cause of this condition is that once the general ledger was not periodically reconciled with underlying subsidiary ledgers, the task became so enormous that it was postponed.

Effect:

The effect of this condition is that the general ledger balances were determined as of September 30, 2001. The Department of Education is now in the process of rolling forward such reconciliations through 2002 and 2003. The Department has recognized this requirement and has accordingly committed to a March 31, 2004, deadline for the September 30, 2002, fiscal-year-end audit and a June 30, 2004, deadline for the September 30, 2003, audit. Until the general ledger balances are rolled forward, it is not possible to perform current period reconciliations and therefore, this process is ongoing in conjunction with the aforementioned audits.

Recommendation:

The Department of Education must continue to commit necessary resources to complete the audits per the aforementioned timetables. Once such audits are completed, the Department should be in a position to carry forward the reconciliations and to be able to prepare timely, accurate interim financial statements.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-02
Area: Non-Appropriated Funds

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. The Department of Education classifies such agency funds as "Non-Appropriated Funds" (NAF).

Condition:

The majority of NAF funds held at the respective schools, including cash generated from such school-sponsored activities as plays and other productions at the Gifted and Talented Education (GATE) theater and University of Guam Fine Arts theater, were not properly accounted for during the four years ended September 30, 2001. While a determination of cash balances held as of September 30, 2001 occurred, a material variance with the underlying accounting records, per school, was noted. Additionally, it was not possible to prepare a statement depicting the additions to and the expenditures of these funds during fiscal year 2001.

Cause:

The cause of this condition is inadequate accounting and reporting for these NAF funds during the years in question. Although a requirement existed to prepare monthly reports of these funds, per school, and to submit these reports to the Business Office, such did not occur and was not enforced.

Effect:

The effect of this condition is that the NAF funds were subject to inadequate accounting controls during the specified years and that this condition could facilitate the fraudulent use of these funds for illegal purposes.

Recommendation:

These NAF funds should be subject to ongoing audits by the Department's Internal Audit Division. Additionally, all required reports should be timely submitted, or sanctions should occur that prevent further use of the funds until corrective action occurs.

Auditee Response and Corrective Action:

No specific response is required as such audits are currently on going, and the Department has ensured that these NAF funds are included in the scope of the 2002 and 2003 Single Audits.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-03
Area: Cash

Criteria:

Bank reconciliations should be prepared on a monthly basis.

Condition:

No bank reconciliations were prepared during fiscal year 2001.

Cause:

There appears to be a lack of internal controls over ensuring that bank reconciliations are prepared on a monthly basis.

Effect:

Cash could be misstated, and the loss or theft of cash will not be detected in a timely manner. However, during the audit process, GDOE reconciled bank accounts as of September 30, 2001.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over cash. GDOE management/Controller should designate a Business Office employee to be responsible for preparing bank reconciliations on a monthly basis. Upon receipt of the monthly bank statement, the responsible personnel should reconcile the cash bank balance with the cashbook balance. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-04
Area: Accruals

Criteria:

All payroll-related expenditures incurred and not yet paid as of September 30, 2001 should be accrued in the current year.

Condition:

Payroll-related expenditures incurred during the period from September 23, 2001, through September 30, 2001, for the pay period ended October 6, 2001, were not accrued at September 30, 2001. Furthermore, prior year's accruals were brought forward in the current year.

Cause:

There appears to be a lack of internal controls over ensuring that proper accruals are recorded.

Effect:

Payroll-related accruals are misstated. However, during the audit process, GDOE proposed adjustments to account for payroll-related accruals.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over accruals. During the period of closing the books, the responsible personnel should determine and accrue the amount of payroll-related expenditures incurred and not yet paid.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-05
Area: Prepaid Expenses

Criteria:

Payments to vendors in advance of receipt of goods/services should be accounted for as prepaid expenses in subsidiary ledgers, which should be reconciled with general ledger balances.

Condition:

Prepaid expenses totaling approximately \$1.2 million are not recorded in the general ledger.

Cause:

There appears to be a lack of internal controls over ensuring that prepaid expenses per the subsidiary and general ledgers are reconciled. Furthermore, the financial management system does not distinguish between open purchase orders for prepayments and for blanket purchases.

Effect:

Expenditures and prepaid expenses are misstated. However, during the audit process, GDOE proposed adjustments to correct the matter specified in the condition.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish internal controls over the reconciliation of prepaid expenses per the subsidiary and general ledgers. Furthermore, the responsible personnel should develop a referencing system within the financial management system to distinguish between open purchase orders for prepayments and for blanket purchases.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-06
Area: Interfund Transactions

Criteria:

A reconciliation of interfund transactions should be prepared on a monthly basis.

Condition:

No interfund reconciliations were prepared during fiscal year 2001.

Cause:

There appears to be a lack of internal controls over ensuring that interfund reconciliations are prepared on a monthly basis.

Effect:

Interfund transactions could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile interfund transactions.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over interfund transactions. GDOE management/Controller should designate a Business Office employee to be responsible for preparing interfund reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-07
Area: Payables

Criteria:

Accounts payable balances per the general ledger and subsidiary ledger should be reconciled.

Condition:

Accounts payable balances per the general ledger and subsidiary ledger are not reconciled.

Cause:

There appears to be a lack of internal controls over ensuring that accounts payable balances per the general ledger and subsidiary ledger are reconciled.

Effect:

Accounts payable could be misstated. However, during the audit process, GDOE proposed adjustments to reconcile accounts payable general ledger and subsidiary ledger balances.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over accounts payable reconciliations. GDOE management/Controller should designate a Business Office employee to be responsible for preparing accounts payable reconciliations on a monthly basis. Any discrepancies should be immediately investigated and resolved.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-08
Area: Payables

Criteria:

Supporting documents should be properly maintained and made available for review in a timely manner.

Condition:

For 5 out of 80, or 7%, of disbursements selected for testing, we were unable to review the supporting documentation for the following:

Check#

242309
233585
236903
237231
240429

Cause:

There appears to be a lack of internal controls over ensuring that supporting documents are being properly maintained and made available for review.

Effect:

Accounts payable could be misstated by an immaterial amount.

Recommendation:

GDOE should hire a qualified individual in the position of GDOE Controller to establish and implement internal controls over documentation maintenance. GDOE management/Controller should designate a Business Office employee to be responsible for properly maintaining supporting documentation.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-09
Area: General Ledger Immaterial Balances

Criteria:

Immaterial balances that cannot be substantiated should be written off.

Condition:

Various immaterial balances are recorded in the general ledger; however, there is no support for the following:

<u>Account</u>	<u>Balance</u>
Due to Government of Guam	\$ 313
Accounts Payable	\$ 380
Deferred Revenue	\$ 6,694

Cause:

During the four years ended September 30, 2001, the Guam Department of Education did not maintain accurate general ledger balances, and reconciliations with subsidiary ledgers were therefore not performable.

Effect:

The effect of this condition is that certain general ledger accounts are misstated by immaterial amounts.

Recommendation:

These immaterial balances should be investigated and written off if no support exists.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-10
Area: Travel Advances

Criteria:

Travel advances should be collected from the applicable employee in a timely manner.

Condition:

As of September 30, 2001, total travel advances approximate \$63,974.

Cause:

There appears to be a lack of internal controls over ensuring the timely collection of travel advances.

Effect:

The longer travel advances remain outstanding, the less likely they are to be collected.

Recommendation:

GDOE should strengthen internal controls to ensure that travel advances are collected from the traveller within ten days of the employee's return. If the employee does not reimburse the advance within ten days, garnishment of the employee's pay should occur.

Auditee Response and Corrective Action Plan:

No specific response is required from the auditee as the Department has already committed to the recommended corrective action described above.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No.: 2001-11
Area: Fixed Assets

Criteria:

A system of internal control should exist that accounts for and safeguards an entity's fixed assets.

Condition:

The Guam Department of Education (GDOE) did not maintain fixed asset accounting.

Cause:

The cause of this condition is that the Guam Division of Accounts (DOA) of the Department of Administration has historically performed this activity. However, the records maintained by that entity have not been sufficiently maintained and therefore, were not included and updated to allow for inclusion in the GDOE financial statements.

Effect:

The effect of this condition is that the report on the September 30, 2001 financial statements was qualified as a result of this matter.

Recommendation:

GDOE should work with DOA to ensure that a comprehensive accounting of GDOE fixed assets occurs.

Auditee Response and Corrective Action Plan:

No response or corrective action plan is required since the GDOE is addressing this matter in its 2002 Single Audit per the implementation of Government Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."

GUAM DEPARTMENT OF EDUCATION

Schedule of Prior Year Findings
Year Ended September 30, 2001

Unresolved Prior Year Comments

There are no unresolved prior year internal control findings.