

March 31, 2021

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, 2020 (on which we have issued our report dated March 31, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated March 31, 2021, 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.

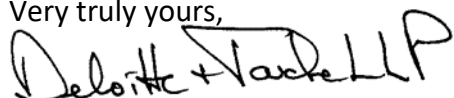
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2020 that we wish to bring to your attention:

1. Employer Share Life Insurance

Comment: Per policy, employees are eligible to receive life insurance benefits after six months of employment. Of thirteen employees tested, one (Emp #8469) 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.

2. Personnel Pay Rates

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

Two (or 13%) of fifteen payroll transactions tested were not paid the effective pay rate per the underlying personnel action:

<u>Employee Number</u>	<u>Pay rate effective date</u>	<u>Final approval date</u>	<u>Time lag</u>
8201	02/11/2020	08/15/2020	186 days
11082	02/10/2020	05/28/2020	108 days

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

3. Reconciliations

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

- a) Other liabilities and accruals include various accounts that have not been reconciled for in excess of four 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 \$1.5M.

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

- b) As of September 30, 2020, of the \$746K General Fund prepayments reported, approximately \$637K was overstated, of which \$491K pertained to expenditures already incurred or received and \$146K pertained to amounts not disbursed as of fiscal year end.
- c) Department-wide liabilities such as capital lease, sick leave, compensated absences, net pension, and OPEB liability were not adjusted for FY 2020. Audit adjustments were proposed to correct these balances.

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 identify accruals that are subsequently processed. Related transactions approximate 63% of total FY 2020 reported Federal Grants Assistance Fund expenditures.

SECTION I –DEFICIENCIES, CONTINUED

3. Reconciliations, Continued

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

Comment 3: As of September 30, 2020, approximately \$5.2M of receivables were due to GDOE for travel and payroll related expenditures from TPFA, of which \$650K remains uncollected five months after fiscal year end.

Comment 4: Amounts due to the GovGuam Retirement Fund and the primary government for withholding and fuel costs include delinquent amounts. Such are primarily due to an oversight in the timely release of checks in custody.

	GovGuam Retirement Fund	Treasurer of Guam Withholding	Department of Administration Fuel	Total
One year or greater	\$ 112,743	\$ -	\$635,017	\$ 747,760
PPE 07/04/2020-09/12/2020	1,018,176	461,053	-	1,479,229
PPE 09/26/2020	2,149,925	502,784	-	2,652,709
Oct 2019-Sept 2020	-	-	89,175	89,175
TOTAL	<u>\$3,280,844</u>	<u>\$963,837</u>	<u>\$724,192</u>	<u>\$ 4,968,873</u>

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

Receiving records should be timely loaded to Munis and prepayments recorded should be reviewed periodically to determine if such were incurred or received. Prepayments should also be reviewed at the end of the year to determine if such were disbursed and paid.

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 so reimbursements for payroll and travel expenditures are timely paid to GDOE.

Furthermore, we recommend GDOE process and timely release disbursements of payroll related liabilities to avoid recurring interest and penalties. GDOE should also endeavor to work with DOA to determine the disposition of fuel costs due.

4. Cash

Comment: Approximately \$5.2M of checks were dated and or released subsequent to fiscal year end but were recorded as reductions to cash as of 09/30/2020. A reclassification was proposed to correct reported cash and liabilities.

Recommendation: We recommend GDOE review bank reconciliations to determine if cash is correctly stated as of the reporting period. Checks in custody of GDOE or checks dated subsequent to the reporting period should be reclassified to cash and accounts payable.

SECTION I –DEFICIENCIES, CONTINUED

5. Travel

Comment 1: Procurement documents were not available to determine if travel expenditures were competitively procured:

<u>Travel Authorization</u>	<u>Type</u>	<u>Amount</u>
T20900122T	Travel tickets	\$123,511
T20900044A	Hotel Accommodations	\$2,318

Comment 2: Approximately \$93K of travel advances were not cleared as of year end. As of March 17, 2021, 49% of these advances remain uncleared. Per GDOE travel policy, travel advances should be cleared two weeks after traveler returns.

Recommendation: We recommend GDOE document compliance with the Government of Guam and the GDOE travel rules and regulations.

6. Non-Appropriated Funds

Comment: Fiscal year ending September 30, 2020 is the seventh 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 2019-2020:

- 1) Opening balances did not reconcile to prior year ending balances for 9 of 41 schools noting a total of \$14,831 of receipts and \$12,848 of disbursements were not reported in the correct period.
- 2) For 11 of 41 schools, bank reconciliations for the school year ended June 30, 2020, were not timely and accurately performed. Immaterial variances between bank reconciliations or bank statements and ending general ledger cash balances were noted.
 - a) Eight schools reported balances per Munis that were higher than reported balances on the bank reconciliation totaling \$32,013.
 - b) Three schools reported balances per Munis that were lower than reported balances on the bank reconciliation totaling \$3,739.
- 3) For four of five schools tested, bank statements identified fewer deposits than recorded NAF receipts by \$10,050. This indicates that cash collections were transferred between sub-accounts in MUNIS, and were not accurately reported.
- 4) Of 198 receipts tested aggregating \$111,310, certain transactions did not meet NAF documentation requirements:
 - a) 11 receipts aggregating \$3,071 were not supported with a cash count sheet, bank receipt, and or recorded in Munis.
 - b) 46 receipts aggregating \$37,901 did not have all required information on the cash count sheets or Munis entries.
 - c) 22 receipts aggregating \$9,874 were not timely deposited (exceeding two business days).

SECTION I – DEFICIENCIES, CONTINUED

6. Non-Appropriated Funds, Continued

- 5) Of 176 disbursements tested aggregating \$128,751, certain transactions did not meet NAF documentation requirements:
- a) 8 disbursements aggregating \$4,222, voucher forms were missing signatures and or meeting minutes.
 - b) 50 disbursements aggregating \$34,954, had missing price quotes.
 - c) 1 disbursement aggregating \$100 was not in line with the organization’s objectives, student benefits or school improvement.
 - d) 17 disbursements aggregating \$6,897, were not entered in Munis or were not available for examination.

Recommendation: Due to the increased monitoring performed by the Department’s Internal Auditors, it is expected that issues with NAF accounting will continue to be identified. There is a heightened risk of accounting errors, documentation deficiency, and weaknesses in cash management processes due to the lack of trained financial staff at the schools. As a result of the number of cash-related transactions, there will exist the opportunity for fraud and misappropriation. 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.