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June 26, 2014

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, 2013 (on which we have issued our report dated June 26, 2014), 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, 2013 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated June 26, 2014, 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,

Deloitte + Touche LLP

APPENDIX I

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the GDOE's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Stale-Dated Checks

   Comment: The bank reconciliation for the operation and payroll accounts included a total of $127,000 stale-dated checks.

   Recommendation: Management should review outstanding checks and consider reclassifying stale-dated checks as liabilities. Management should develop a stale-dated check policy.

2. Outstanding Liabilities

   Comment 1: Invoices, applicable receiving records or equivalent documentation to support the validity of the following liabilities were not available.

GL Account	Invoice or Ref	Amount
110-310100	25271345001	$100,000
110-310100	11265077001	92,842

   Comment 2: Accrual liquidations should be reflected as an offset against the liability.

   Recommendation: Management should periodically review subsidiary ledgers for ongoing pertinence. Additionally, payments of accrued expenses should be reflected against the liability.

3. Account Reconciliation

   Comment: General ledger details for several accounts indicated two different beginning of year (BOY) balances. Final balances of the affected accounts reflected either the first or the second BOY balance. The cause of this condition was not identified, and the issue has not been resolved.

   Recommendation: Management should continue to investigate and make corrections.

4. Unrecorded Liabilities

   Comment: As of September 30, 2013, our tests indicated $954,474 of unrecorded liabilities in the General Fund. An audit adjustment was proposed to correct this misstatement.

   Recommendation: GDOE should periodically reconcile vendor statements to recorded payables. Additionally, we recommend retention fees be accrued and be recorded in the period incurred.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving the GDOE's internal control over financial reporting as of September 30, 2013, we wish to bring to your attention.

1. Enhancement on Network Security

   Comment: There is a lack of control over network activities. Without control over network activities, there will be a higher chance of having data integrity and confidentiality issues.

   Recommendation: Network violation reports should be regularly reviewed. Also, network vulnerability testing and/or network penetration testing should be performed annually to identify weak network areas.

2. Enhancement of Disaster Recovery Plan and Business Continuity Plan

   Comment: The impact of a system disruption or failure in the business operation is critical because of the lack of comprehensive manual processes to substitute the automated process during a system disruption. Also, the current disaster recovery system indicates use of the Department of Administration's AS400 system, which is not compatible with GDOE's AS400 system.

   The operation of GDOE could be discontinued for a significant time period after the system disruption or failure because of the lack of comprehensive manual processes and the lack of a compatible disaster recovery system. It could also result in the delay of financial data processing and the loss of data integrity.

   Recommendation: GDOE should establish a comprehensive manual process and a compatible disaster recovery system to minimize the impact of system disruption or failure.

SECTION III – DEFINITIONS

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

The 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.