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June 29, 2013

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 (the GDOE) as of and for the year ended September 30, 2012 (on which we have issued our report dated June 29, 2013), 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, 2012 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated June 29, 2013, 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,

## SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the GDOE's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

### 1. Unfunded Liabilities

Comment: Expenditures of \$101,881 for CIP projects were incurred as of September 30, 2012; however, they were not recorded or encumbered. An audit adjustment was proposed to record this amount.

Recommendation: We recommend that encumbrances nearing expiration be timely reviewed to determine if extensions or adjustments are necessary.

### 2. Account Reconciliation

Comment: GDOE has identified an issue with system account reconciliation during FY2012, which resulted in a number of accounts to reflect significant variances comparing with the preliminary general ledger balances. Upon further investigation by the system administrator, it was noted that a system error has cause journal entries effective dates to be erroneous. As such, transactions were being posted in the incorrect periods, causing accounts to be out-of-balance. The cause for such system error has not been determined and as such, the issue has yet to be completely resolved.

Recommendation: We recommend that the root cause of the system error be determined and the matter be corrected.

### 3. Liabilities

Comment: The following items were noted from our tests of liabilities:

- 1) A \$100,000 balance is not supported with an invoice or other documents supporting its validity.
- 2) \$102,370 due to vendor #20626 for invoice #11265077001 was not supported by a receiving report.

Recommendation: While we are aware of the impact of the major system implementation that occurred during the period, we recommend that management strengthen controls over the review of subsidiary ledgers.

## SECTION II – OTHER MATTERS

We noted no other matters involving the GDOE's internal control over financial reporting as of September 30, 2012, that we wish to bring to your attention.

## SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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.