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June 30, 2020

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, 2019 (on which we have issued our report dated June 30, 2020), 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated June 30, 2020, 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,

Deloitte + Touche LLP

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving GDOE's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. General Ledger Reconciliations

   Comment: 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 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 $1.4M.

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

   b) The net pension liability and other post-employment retirement benefits liability should be reconciled annually upon availability of information from the actuary. Audit adjustments have been proposed to correct misstatements identified with a net effect to the Statement of Activities change in net position of $1.1M with $2M included in the summary of uncorrected misstatements as judgmental.

   c) Capital lease obligations should be reconciled annually to the payment schedule supporting the lease agreements and as confirmed by the Department of Administration. Audit adjustments have been proposed to correct misstatements identified with a net effect to the Statement of Activities change in net position of $2.3M.

   d) Sick and compensated absences payable should be updated and reconciled annually. Audit adjustments have been proposed to correct misstatements identified with a net effect to the Statement of Activities change in net position of $176K.

   Recommendation: We recommend GDOE perform periodic reviews of dated items in the above stated liabilities.

2. Third Party Fiduciary Agent (TPFA)

   Comment 1: 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 69% of total FY 2019 reported expenditures.

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

   Comment 2: As of September 30, 2019, approximately $4M of receivables were due to GDOE for travel and payroll related expenditures. $434K or 11% remain uncollected seven months after fiscal year end.

   Recommendation: 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 paid to GDOE timely.

SECTION I –DEFICIENCIES, CONTINUED

3. Budget

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

Although budgets are loaded based on appropriations, such were not timely monitored to consider the realization of funding resources. Funding was still available in excess of amounts collected by the Department of Administration four months after fiscal year end. A budget run as of February 13, 2020 for FY2019 appropriation budget accounts indicated the unfunded balances noted below were still available for encumbrance. Unfunded liabilities and encumbrances may be incurred.

Fund	Available Budget Load	Collected/ Paid on Behalf of GDOE	Balance Unfunded
General Fund Operations (Fund 110)	$ 218,290,292	$ 217,019,173	$ 1,271,119
General Fund Operations (Fund 130)	$ 26,029,535	$ 23,940,357	$ 1,941,107

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

4. Non-Appropriated Funds

Comment: Fiscal year ending September 30, 2019 is the sixth 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 2018-2019:

1) Opening balances did not reconcile to prior year ending balances for 11 of 41 schools noting a total of $15,807 of receipts and $3,862 of disbursements were not reported in the correct period.

2) For 11 of 41 schools, bank reconciliations for the school year ended June 30, 2019, were not timely and accurately performed. Variances between bank reconciliations or bank statements and ending general ledger cash balances were noted.

    - Five schools reported balances per Munis that were higher than reported balances on the bank reconciliation totaling $7,943.
    - Six schools reported balances per Munis that were lower than reported balances on the bank reconciliation totaling $839.

3) For 4 of 41 schools, bank reconciliations for the school year ended June 30, 2019, were not available for examination.
    - Three schools reported balances per Munis that were higher than the balances per bank statement totaling $38,608.
    - One school reported a balance per Munis that was lower than the bank statement balance by $1,566.

4) For seven of seven schools tested, bank statements throughout the school year 2018-2019, did not match the recorded NAF receipts. Bank statements identified fewer deposits than recorded NAF receipts by $5,619. This indicates that cash collections were transferred between sub-accounts in MUNIS, and were not accurately reported, or may not have been remitted to the bank.

SECTION I –DEFICIENCIES, CONTINUED

4. Non-Appropriated Funds, Continued

5) Of 242 receipts tested aggregating $203,819, certain transactions did not meet NAF documentation requirements:

   a. 2 receipts aggregating $733 were not supported with a cash count sheet.
   b. 8 receipts aggregating $6,821 cash count sheets did not have documented evidence that cash was counted and verified by two different individuals.
   c. 28 receipts aggregating $24,435 were not timely deposited (exceeding two business days).

6) Of 250 disbursements tested aggregating $204,064, certain transactions did not meet NAF documentation requirements:

   a. 5 disbursements aggregating $4,451, voucher forms were missing, not complete and/or not approved.
   b. 8 disbursements aggregating $7,602, did not have supporting invoices or a vendor receipt.
   c. 1 disbursement of $672 was not in line with the fund's purpose or objectives.

Recommendation: Due to the heightened monitoring performed by the Department's Internal Auditors, it is expected that issues with NAF accounting will continue to be identified. This is expected due to the lack of financial understanding and training present in the respective skills and due to the opportunity for fraud given the number of cash related transactions. 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.