

April 6, 2011

Dr. Nerissa Bretania-Underwood, Ph.D.  
Superintendent of Education  
Guam Department of Education  
Government of Guam  
P.O. Box DE  
Hagatna, Guam 96932

Dear Dr. Bretania-Underwood:

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, 2010 (on which we have issued our report dated April 6, 2011), 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated April 6, 2011, 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.

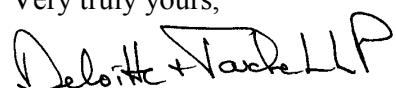
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the GDOE's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

### 1. Cash

#### Comment:

1. Disbursements are recorded in the period in which they are issued.

Bank disbursements of \$5.4M were included in the fiscal year 2010 bank reconciliations and represent fiscal year 2011 transactions. GDOE subsequently corrected \$4.1M of the total and an audit reclassification was proposed for the remaining balance.

2. Checks are sequentially prenumbered; the sequence of checks processed is accounted for. Spoiled checks are voided to minimize opportunities for reuse and are then filed.

Spoiled and unreleased checks of \$167K were included in the September 30, 2010 bank reconciliations. A proposed reclassification was offered to classify the overdraft account as accounts payable.

Recommendation: We recommend management strengthen controls to ensure that payments are recorded in the correct period. Spoiled checks should be voided and reclassified to accounts payable and be periodically inspected for validity. Additionally, unreleased checks should be reclassified to accounts payable at the end of the reporting period.

### 2. Encumbrances

Comment: All encumbrances and amendments should be supported by underlying purchase orders, travel authorizations, contracts or other authoritative documentation to track the entry and to facilitate review.

Purchase order 200901666 for \$810,000 was cancelled. An audit reclassification was proposed to adjust fund balance reserves.

Recommendation: GDOE should strengthen controls to ensure that encumbrances are supported by approved purchase orders or equivalent documentation that is periodically validated. Furthermore, we recommend the Department strengthen controls over maintenance and storage of relevant financial documentation.

### 3. Data Processing Environment

Comment: Backup data should be stored offsite. Backup data was not stored offsite.

Recommendation: Backup data should be stored offsite to minimize potential loss of historical data after natural disasters (e.g. fire, flooding).

## APPENDIX I, CONTINUED

### 4. Data Processing Environment

Comment: GDOE should establish written information security policies and procedures. No written information security policies and procedures appear to have been established.

Recommendation: Policies should be established by senior management and procedures should be established by department and user management. After written information security policies and procedures are established, the FSAIS management should be responsible for increasing related user awareness. For example, when a new employee is hired, he/she should sign an agreement that indicates that compliance with the stated policies and procedures will occur. The FSAIS department could also periodically email users reminding them of important policies and procedures.

### 5. Data Processing Environment

Comment: GDOE should strengthen its network security. There is a lack of control over network activities.

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

### 6. Data Processing Environment

Comment: GDOE should implement controls minimizing GDOE server/workstation exposure to computer viruses.

Some user workstations were adversely impacted by a virus infection known as TrojonHorseGeneric2\_c.BXXF. The virus was deleted upon discovery and there was no further spread of the virus.

Recommendation: We recommended that controls be established such as minimizing the use of flash drives, frequently updating anti-virus programs, and reviewing virus inflection logs generated from the anti-virus program to minimize the chance of virus infections and to minimize adverse impact of the virus.

## SECTION II – OTHER MATTERS

We noted no other matters involving the GDOE's internal control over financial reporting as of September 30, 2010, 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.