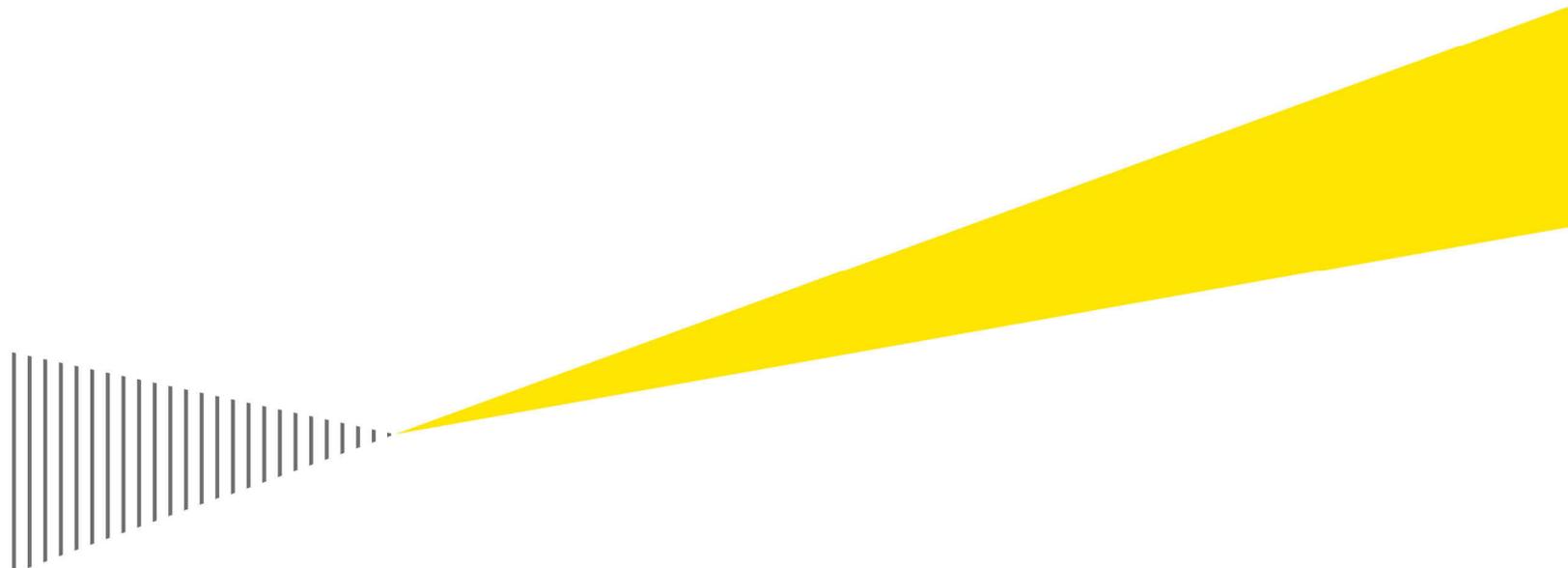


Compliance and Internal Control

**Department of Chamorro Affairs –
Non-Appropriated Funds**
(A Component Unit of the Government of Guam)

Year ended September 30, 2018



**Building a better
working world**

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Report on Compliance and Internal Control

Year ended September 30, 2018

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Report of Independent Auditors on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Management and the Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise DCANAF’s basic financial statements and have issued our report thereon dated January 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCANAF’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF’s internal control. Accordingly, we do not express an opinion on the effectiveness of the DCANAF’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-003, 2018-004 and 2018-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002.

DCANAF's Response to Findings

DCANAF's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. DCANAF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

January 24, 2020

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Schedule of Audit Findings and Responses

Finding No. 2018-001

Criteria or specific requirement:

Title 2 Guam Administrative Rules and Regulations (G.A.R.R.), Division 4, Chapter 2, §2110 *Centralization of Procurement Authority*, provides that all rights, powers, duties and authority relating to the procurement of supplies and services exercised by any governmental body are transferred to the Policy Office and the Chief Procurement Officer and the Director of Public Works, as provided in the Guam Procurement act §5120 of Title 5.

Condition:

DCANAF did not procure services through the General Services Agency or did not obtain delegation of Authority by the Chief Procurement Officer and the Director of Public works as required under 5 G.A.R.R. 4§2105.

Context:

Security, waste disposal and maintenance services were procured directly by the DCANAF.

Effect:

The procurement for the aforementioned services was not in compliance with the relevant regulations.

Cause:

DCANAF management believe that it is not required to be in compliance with the aforementioned administrative rules and regulations. DCANAF management asserts that under the guidance of Public Law 25-69 DCANAF is not required to be in compliance with the aforementioned administrative rules and regulations.

Recommendation:

DCANAF should obtain the appropriate Delegation of Authority prior to obtaining significant services.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Schedule of Audit Findings and Responses, continued

Finding No. 2018-002

Criteria or specific requirement:

2 G.A.R.R. 4§3109 requires that procurement that does not meet small purchases of less than \$24,999 be performed under a competitive sealed bidding process.

Condition:

DCANAF obtained security, waste disposal and maintenance services with total annual expenditures each greater than \$24,999 under the Small Purchases subsection of the G.A.R.R.

Context:

Security services of approximately \$37,000, waste management services of approximately \$60,000 and maintenance services of approximately \$94,000 were obtained under the Small Purchases subsection of the G.A.R.R.

Effect:

DCANAF did not comply with the relevant G.A.R.R. as to the procurement method of the aforementioned services.

Cause:

DCANAF management believes that obtaining these contracts on a month-to-month basis will facilitate a change of vendors should quality of services drop. Procurement for such month-to-month services amounting to less than \$24,999 were performed under the Small Purchases subsection of the G.A.R.R.

Recommendation:

DCANAF should ensure that all procurement is in compliance with the G.A.R.R. through procuring services and goods through the General Services Agency. In addition, DCANAF should ensure that any individual who may be responsible for procurement after obtaining a Delegation of Authority, be appropriately trained to perform such functions.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Schedule of Audit Findings and Responses, continued

Finding No. 2018-003

Criteria or specific requirement:

Government Accounting Standards Board (GASB) Codification 1600 – *Basis of Accounting* require revenues from exchange transactions should generally be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts.

Condition:

DCANAF did not recognize revenues and related receivables arising from the operations of the Guam Museum and Chamorro Educational Facility (the Project).

Context:

The Project started operations in November 2016 and was managed, operated and maintained by a contractor. Revenue generating activities of the project for the fiscal year ended September 30, 2018 included admissions, events, café and gift shop operations.

Effect:

DCANAF understated revenues and receivables related to the operations of the Project by a net amount of \$13,967. The amount represents gross revenues of \$60,657 and an allowance for doubtful accounts of \$46,690.

Cause:

DCANAF was unable to timely obtain records from the contractor to record the revenues prior to the close of the September 30, 2018 financial statements.

Recommendation:

DCANAF should consider implementing additional processes and procedures to ensure that records are obtained timely to support the amounts to be recorded in its financial statements.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Schedule of Audit Findings and Responses, continued

Finding No. 2018-004

Criteria or specific requirement:

Generally Accepted Accounting Principles require purchases and the corresponding payables be recorded upon receipt of purchased goods or services.

Condition:

Chamorro Village records vendor/supplier invoices into the general ledger when they have been approved for payment.

Context:

Unrecorded liabilities were identified during our subsequent cash disbursement and accrued liability testing. Our samples comprised of significant disbursements (53 samples) made subsequent to September 30, 2018.

Effect:

Five (5) invoices related to security, power, water and waste disposal services pertaining to the year ended September 30, 2018 were not recorded. As a result, DCANAF's liabilities and expenses were understated by \$16,824.

Cause:

There are no monitoring controls in place to ensure the proper cut-off of purchases.

Recommendation:

DCANAF should record an accrual for all purchases/expenses into the general ledger once the product or service purchased has been received and the liability incurred. Accounts payable subsidiary ledger balances should be reconciled monthly with vendors' statements, especially for all major and regular vendors. Any unusual items noted should be promptly investigated.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
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Schedule of Audit Findings and Responses, continued

Finding No. 2018-005

Criteria or specific requirement:

A physical inventory count should be periodically performed, especially at year end, to verify the balance of book inventory recorded in the financial statements.

Condition:

At September 30, 2018, the preliminary ending balance of inventory was negative \$361 which did not reflect the actual inventory on hand.

Context:

DCANAF did not perform a physical inventory count to support the balance of book inventory at year end. We also noted that prior year adjustments related to the allowance of inventory obsolescence was netted against the inventory balance.

Effect:

Inventory was understated by \$78,594.

Cause:

A timely physical inventory count was not performed.

Recommendation:

DCANAF should ensure that a physical inventory count is performed at year end to support the ending balance of book inventory. Additionally, allowance for inventory obsolescence should be tracked using a separate, contra-asset account to ensure that the gross balance of inventory is maintained in DCANAF's accounting system.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.