

MAYORS' COUNCIL OF GUAM

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

YEAR ENDED SEPTEMBER 30, 2013

INDEPENDENT AUDITORS' REPORT 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

The Executive Officers
Mayors' Council of Guam

We have audited, in accordance with the 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, the financial statements of the Mayors' Council of Guam as of and for the year ended September 30, 2013, which comprise the statement of cash deposits and disbursements and changes in cash for the year then ended and the related notes to the financial statements, and have issued our report thereon dated August 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mayors' Council of Guam'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 the Mayors' Council of Guam's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mayors' Council of Guam's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

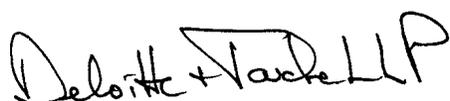
As part of obtaining reasonable assurance about whether the Mayors' Council of Guam's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 item 2013-2 and 2013-3.

Mayors' Council of Guam's Response to Finding

The Mayors' Council of Guam's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Mayors' Council of Guam's responses and, accordingly, we express no opinion on them.

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.

A handwritten signature in black ink that reads "Deloitte + Stach LLP". The signature is written in a cursive, stylized font.

August 8, 2014

MAYORS' COUNCIL OF GUAM

Schedule of Findings and Responses Year Ended September 30, 2013

Finding No.: 2013-1
Area: Accounting and Financial Reporting Policies and Procedures

Criteria: Accounting and financial reporting policies and procedures should be documented and be readily accessible by relevant personnel. The establishment and standardization of accounting and financial reporting policies and procedures can provide management with increased assurance that accounting and financial reporting policies and procedures are understood and consistently followed. Written financial reporting policies and procedures minimize disruption caused by turnover and also assist new employees in their job performance.

Condition: During fiscal year 2013, the Mayors' Council of Guam and the municipalities have demonstrated substantial progress on their accounting and financial reporting of non-appropriated funds specifically in the following areas: (a) classifying and summarizing receipts and disbursements transactions; (b) document filing; (c) record-retention, and (d) financial reporting.

While significant improvements have been evident, the Task Force established by the Mayors' Council of Guam to develop a non-appropriated fund policy is yet to complete a uniform accounting and financial reporting policies and procedures that will be adhered to and implemented by all nineteen districts. In addition, the timeliness of non-appropriated funds financial statements and reports continue to be a challenge.

Cause: The cause of the above condition is the absence of uniform and formal accounting and financial reporting policies and procedures governing non-appropriated funds.

Effect: The effect of the above condition is the potential negative perceptions associated with lack of accountability and transparency on non-appropriated funds.

Recommendation: We recommend the Mayors' Council of Guam: (a) continue with its initiative to develop formal accounting and financial reporting policies and procedures governing non-appropriated funds, (b) continue to serve as a resource center for municipalities on accounting and financial reporting non-appropriated fund related matters; and (c) establish a process to monitor and enforce timely completion and submission of non-appropriated fund reports and financial statements by all nineteen districts.

Prior Year Status: The absence of formal accounting and financial reporting policies and procedures was reported as a finding in the audits of the Fund for 2012, 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the recommendation as set forth by the auditors.

The Task Force that is in place comprised of Mayors and Vice Mayors continues to develop a Non-Appropriated Fund Policy and will be completed by September 30, 2014. This policy will include procedures relating to: a) cash receipts; b) cash disbursements; c) documents filing; d) records retention; and e) financial reporting, inclusive of website posting, among others. We will also continue to provide guidance and training to all municipalities that request assistance in these areas. We will also request the Task Force to concurrently establish a process to monitor and enforce timely completion and submission of non-appropriated funds reports by all nineteen districts.

Proposed Completion Date: September 30, 2014

MAYORS' COUNCIL OF GUAM

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No.: 2013-2
Area: Compliance with Applicable Procurement Regulations

Criteria: Procurement rules and regulations applicable to non-appropriated funds (NAF) should be clearly defined.

Condition: During fiscal year 2013, the Mayors' Council of Guam and the nineteen municipalities have demonstrated continued commitment to obtain comparative prices for their NAF disbursements. While substantial improvements were evident relative to procurement procedures, the Mayors' Council of Guam is yet to complete a uniform procurement policy.

Cause: The cause of the above condition is the absence of formal procurement rules and regulations governing NAF.

Effect: The effect of the above condition is that NAF purchases are not consistently subjected to procurement rules and regulations.

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to develop a procurement policy governing NAF that will consistently and uniformly be used by all NAF activities.

Prior Year Status: The absence of formal procurement rules and regulations governing NAF was reported as a finding in the audits of the Fund for 2012, 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the auditors' recommendation.

Notwithstanding the fact that we have established a Task Force to develop Procurement Rules and Regulations (among other things), we are now reviewing the NAF Rules and Regulations adopted by the Department of Education so that we may develop and finalize a policy that will be consistently and uniformly used by all 19 districts, absent any further passage of laws from the Guam Legislature.

Proposed Completion Date: September 30, 2014

MAYORS' COUNCIL OF GUAM

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No.: 2013-3
Area: Monitoring of Non-Profit Organizations and Senior Centers

Criteria: Policies and procedures should be in place to monitor non-profit organizations (NPO) or other entities utilizing the municipalities' facilities. These policies and procedures should be documented and be readily available to all districts for their guidance.

Condition: The Mayors' Council of Guam had developed policies and procedures (a) to verify validity of NPOs that utilize facilities under the jurisdiction of the Mayors' offices; and (b) to determine whether NPOs are in compliance with Department of Revenue and Taxation filings. However, such policies and procedures appear to have not been consistently provided to all nineteen districts.

Further, the Mayors' offices involvement relative to Senior Center operations and associated monitoring procedures are not clearly defined and documented. Formal accounting and financial reporting policies and procedures for the Senior Centers are currently not in place.

Cause: The existence of formal policies and procedures relative to monitoring of NPOs is not known to all districts. Also, the above condition is due to the absence of uniform and formal monitoring procedures for the Senior Centers.

Effect: The effect of the above condition is that associated risks and legal liabilities may not be minimized.

Recommendation: We recommend the Mayors' Council of Guam continue to work with the nineteen districts in promulgating policies and procedures to monitor NPOs. Further, we recommend that formal monitoring policies and procedures for Senior Centers' operations be established and be provided to appropriate districts for their guidance and consideration.

Prior Year Status: The absence of formal policies and procedures to monitor NPOs and other entities utilizing municipalities' facilities was reported as a finding in the audits of the Fund for 2012, 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the auditors' recommendation.

The Task Force that was established to develop policy for the Non-Appropriated Funds has already developed a policy and procedures dealing with Non-profit organizations that utilize facilities under the jurisdiction of the Mayor's Offices for their own programs and or events. The policy implemented a checklist of items that have to be met or completed by an organization requesting to use village facilities including liability coverage. We will ensure that all districts implement these policies and procedures involving the use of community facilities by non-profit organizations. We have also established communications with the Compliance branch of the Department of Revenue and Taxation to cross-check on the legal status of non-profit organizations seeking assistance from the Mayors' Council of Guam.

Proposed Completion Date: Immediately

MAYORS' COUNCIL OF GUAM

Unresolved Prior Year Findings
Year Ended September 30, 2013

Unresolved Prior Year Findings

As of September 30, 2013, the status of prior audit findings is as follows:

Finding No. 2012-1 – Partially corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2012-2 – Partially corrected. See corrective action plan to Finding No. 2013-2.

Finding No. 2012-3 – Partially corrected. See corrective action plan to Finding No. 2013-3.

Finding No. 2011-01 – Partially corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2011-02 – Partially corrected. See corrective action plan to Finding No. 2013-2.

Finding No. 2011-03 – Partially corrected. See corrective action plan to Finding No. 2013-3.

Finding No. 2010-01 – Partially corrected. See corrective action plan to Finding No. 2013-1.

Finding No. 2010-02 – Partially corrected. See corrective action plan to Finding No. 2013-2.

Finding No. 2010-03 – Partially corrected. See corrective action plan to Finding No. 2013-3.