



Department of Chamorro Affairs Non-Appropriated Funds FY 2017 Financial Highlights

October 19, 2018

Independent auditors Ernst & Young, LLP expressed an unmodified (clean) opinion on the financial statements for the Fiscal Year (FY) 2017 Department of Chamorro Affairs (DCA) Non-Appropriated Funds. DCA reported an \$88 thousand (K) increase in net position compared to the prior year's increase of \$420K. The auditors proposed 15 adjustments which cumulatively increased net position by \$103K. The audit was delayed due to technical issues with DCA's QuickBooks software, untimely inventory count, and untimely information from the Guam Museum.

This audit only included the Non-Appropriated Funds of (1) Chamorro Village; (2) Guam Museum Fund; (3) Percent for the Arts; (4) Council on the Arts and Humanities Agency (CAHA); (5) Festival of the Pacific Arts (FESTPAC); (6) the President's Office; and (7) Research, Publication, & Training (RPT).

Guam Museum

Since its opening in November 2016, the Guam Museum has been managed, operated, and maintained by a contractor who was paid a total of \$2.6 million as of FY 2017 from various appropriations, such as the Tourist Attraction Fund. The contractor is required to deposit all fees, endowments, donations, contributions, grants, appropriations and other museum revenue streams to a separate DCA account which was established in June 2017.

The contractor has not deposited all FY 2017 revenues despite DCA's repeated attempts to collect the amounts due. As a result, of the \$95K in gross museum revenues, \$66K was deemed uncollectable and reserved in the allowance for doubtful accounts. DCA plans to obtain an expected payment date from the contractor, as well as an AG opinion to possibly offset the amounts owed with contractor payments. The late recording of the related revenue and receivable resulted in a material weakness in DCA's Schedule of Findings.

In addition, the contractor has not provided DCA with required audit reports because the contractors' FY 2016 and FY 2017 audits are still ongoing. Complete monthly visitor reports have also not been submitted.

Percent for the Arts

Construction, remodeling, or renovation costs of public buildings subsidized by federal or local government funds exceeding \$100K must include local artwork or set aside 1% of the total cost to the Percent for the Arts Program fund. No revenues or expenses were reported in FY 2017. However, a \$600K prior-period audit adjustment was recorded for the understatement of income and receivables relative to an agreement reached with a recipient of a Qualifying Certificate (QC) in FY 2016. The recipient was allowed to pay the QC assessment over a period of time as a

condition for receiving clearance for a full occupancy permit. The understatement resulted in a material weakness.

Chamorro Village

Chamorro Village reported \$566K in revenues, compared to \$529K in FY 2016. FY 2017 expenses were \$481K, a decrease of \$100K, compared to \$581K in FY 2016 due to tenants paying for water services directly to the Guam Waterworks Authority. Chamorro Village reported a gain of \$84K.

Research, Publication, and Training

RPT conducts, researches, publishes and produces multi-media and print materials relating to the Guam Heritage. RPT revenues decreased from \$3K in FY 2016 to \$2K in FY 2017. RPT reported an increase of approximately \$30K in expenses, going from \$4K in FY 2016 to \$34K in FY 2017, due to a \$34K valuation allowance for inventory obsolescence for slow moving book inventory.

Council on the Arts and Humanities

Although zero donations were received in FY 2017, CAHA reported an increase of approximately \$8K in revenues due to a \$13K audit adjustment to the beginning balance of net position. In addition, CAHA reported a decrease of \$16K in expenses, resulting in a net gain of \$20K.

Festival of the Pacific Arts

From May 22, 2016 to June 4, 2016, Guam hosted the 12th FESTPAC, in which the Governor of Guam appointed CAHA as the lead agency. In FY 2017, a retention balance of \$219K had yet to be paid to a contractor as CAHA was awaiting the Attorney General's clearance. This balance was paid in November 2017.

President's Office

The President's Office reported revenues of \$3K from donations and other income, and \$31K from an appropriation from the Chamorro Village. Total expenses were \$12K in FY 2017 compared to \$8K in FY 2016, mainly due to increases in miscellaneous, office and travel expenses. Overall, a gain of \$21K was reported in FY 2017.

Compliance Report and Management Letter

As noted above, the independent auditors found two material weaknesses: (1) Percent of the Arts revenues and receivables were not recorded in the proper period and (2) Guam Museum revenues and receivables were not recorded at the time of the transaction. In addition, three significant deficiencies were noted: (1) purchases and the corresponding payables were not recorded when received; (2) deposits in transit included in the bank reconciliations did not reflect actual deposits; and (3) inventory counts were not timely performed at year-end.

In a separate management letter, three findings were identified involving: (1) the financial statement close process, (2) inventory and cost of sales, and (3) segregation of duties.

As a matter of full disclosure, the Public Auditor is compadres with the DCA President, as well as good friends with the museum contractor. For a more detailed discussion on DCA's operations, refer to the Management's Discussion and Analysis or view the reports in their entirety at our website at www.opaguam.org.