

**12th Festival of Pacific Arts
(FESTPAC)**

**Follow-Up Audit
October 1, 2009 through February 28, 2017**

**OPA Report No. 17-06
December 2017**



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Table of Contents

	Page
Executive Summary	1
Introduction	3
Background	3
Results of Audit	5
Accounting for FESTPAC Funds	5
FESTPAC Overtime Expenses	9
FESTPAC Raffle and Other Fundraising Funds Accounted For.....	9
Non-Compliance with Procurement Law and Regulations	10
\$4.4M in Purchases Through GVB and CAHA Events Management Services Contractors Not Subject to GovGuam Procurement Law and Regulations	13
Lack of Internal Controls	14
Conclusion	16
Classification of Monetary Impact	17
Management Response and OPA Reply	18
Appendices	
1. Objectives, Scope, and Audit Methodology	19
2. Prior Audit Coverage	20
3. Additional FESTPAC Background.....	23
4. FESTPAC Committee Budget as of February 2017	24
5. CAHA and GVB Reimbursement Processes	25
6. Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category	26
7. COSO Internal Control Framework.....	39
8. Status of OPA Report No. 16-02 Recommendations.....	40
9. Official FESTPAC Committee Response.....	41



EXECUTIVE SUMMARY

12th Festival of Pacific Arts (FESTPAC) Follow-Up Audit OPA Report No. 17-06, December 2017

Guam successfully hosted the 12th FESTPAC, the two-week cultural event that showcased 27 island countries and territories from the Pacific and drew thousands of spectators daily from May 22, 2016 to June 4, 2016. In our second FESTPAC audit, we found that three agencies, the Council on the Arts and Humanities Agency (CAHA), Guam Visitors Bureau (GVB), and Department of Administration (DOA), accounted for portions of FESTPAC funds, but no agency was assigned to account for FESTPAC funds overall. As a result, we compiled data from the three agencies to determine the overall revenues and expenses related to FESTPAC. Based on our compilation:

- \$8.5 million (M) in cash was received, of which \$8.1M came from government appropriations and federal funds, and \$436 thousand (K) from donations, sponsorships, fundraising events, and vendor fees;
- \$8.3M in cash was spent on the following:
 - \$4.4M paid to CAHA and GVB events managements services contractors;
 - \$2.2M for 34 festival village huts;
 - \$1.1M for FESTPAC-related overtime expenses for Guam Police Department (GPD), Guam Fire Department (GFD), and Department of Public Works (DPW);
 - \$293K for the Chamorro Village traffic light controlled crosswalk;
 - \$164K for reimbursement of FESTPAC-related Department of Education (GDOE) public schools' expenses; and
 - \$135K for Programming expenses paid by CAHA.
- FESTPAC raffle and other fundraising activities of \$103K were accounted for.

Overall, we identified \$89K in questioned costs, including:

- \$53K in FESTPAC-related goods and services purchased did not comply with Guam procurement law and regulations; and
- Of the \$4.4M purchased through CAHA and GVB events management services contractors, we identified \$36K in questioned costs as follows:
 - \$20K in supplies expenses for payments processed using vendor quotes instead of invoices for coconut fronds and various supplies;
 - \$10K in printing expenses due to payments processed using vendor quotes instead of invoices for \$9,630 for 172 foam boards, as well as \$299 for print media without supporting documentation;
 - \$6K in contractual services expenses for production fees paid using a vendor quote instead of an invoice; and
 - \$320 in meals expenses, of which \$298 was unclear what items were purchased. In addition, a \$22 reimbursement for coconut oil was paid with food stamps, which is in violation of the U.S. Supplemental Nutrition Assistance Program and is considered fraud. A person may be found guilty in a court of law of a misdemeanor as the amount

falls below \$100.¹ Although the individual subsequently paid back the reimbursement after we brought this to the FESTPAC Committee’s attention, this finding remains since it should not have been reimbursed in the first place.

Unlike the other expenditures that had several vendors, we found that \$411K, or 44% of the \$942K in contractual services expenses, was paid to one vendor for janitorial services.

Prior to April 2016, procurements totaling \$3.1M were made through CAHA, with the largest being the construction of the festival huts at \$2.2M, followed by events management contract at \$800K, and \$135K for various Programming Committee requests. This \$3.1M spent by CAHA must comply with Guam procurement law and regulations. Of the remaining \$135K spent by CAHA, we found that \$53K in FESTPAC-related goods and services purchased did not follow Guam procurement law and regulations.

Upon realizing that CAHA’s events management services contract was limited to \$800K, the Committee sought approval from the Attorney General to use GVB’s existing events management services contract to support FESTPAC. According to the Attorney General, the GVB and CAHA events management services contractors were not required to follow GovGuam procurement laws and regulations.

Conclusion

The Committee delivered a FESTPAC that Guam can be proud of. However, we found several deficiencies in the handling of FESTPAC funds. While we recognize that Guam’s opportunity to host FESTPAC is a rare event, future Committees of island-wide events should learn lessons from this experience to ensure that controls are in place for a successful event, both culturally and financially.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Image: Evening performance during FESTPAC. Photo courtesy of FESTPAC Committee.

¹ <https://www.fns.usda.gov/fraud/what-snap-fraud> and <https://app.leg.wa.gov/rcw/default.aspx?cite=9.91.142>



Introduction

This report presents the results of our second audit of the 12th Festival of the Pacific Arts (FESTPAC) from October 01, 2009 to February 28, 2017. The audit was conducted as part of the Office of Public Accountability (OPA)'s annual work plan and as a follow-up to our audit of Guam's Readiness for the 12th Festival of Pacific Arts (OPA Report No. 16-02) issued in April 2016.

The audit objectives were to determine:

1. The total cost of FESTPAC and the amounts appropriated by the Government of Guam;
2. Whether the FESTPAC funds were accounted for;
3. Whether the FESTPAC raffle and fundraising activities were accounted for; and
4. Whether goods and services related to FESTPAC were procured in accordance with Government of Guam (GovGuam) Procurement law and regulations, where applicable.

The objectives, scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

Guam hosted the 12th FESTPAC from May 22, 2016 to June 04, 2016. FESTPAC is a two-week event held every four years in various Pacific island locations since 1972. FESTPAC is recognized as a major regional event and is the largest gathering of Pacific people to enhance their respect and appreciation for one another. Twenty-seven Pacific island countries and territories participated in the 12th FESTPAC. They are listed in Appendix 3.

The key entities that organized and produced the 12th FESTPAC for Guam are briefly described below. Appendix 3 contains additional information about these organizations.

Guam Council on the Arts and Humanities Agency (CAHA)

The Governor of Guam appointed CAHA as the lead agency of the 12th FESTPAC. CAHA is designated by Public Law (P.L.) 16-122 as the state arts agency for Guam.

Guam Visitors Bureau (GVB)

Due to the \$800,000 limitation on CAHA's events management services contract, the FESTPAC Committee approved the transfer of all funds from the CAHA FESTPAC checking account back to GVB in April 2016. The Committee also approved GVB to handle the contracting and payment of FESTPAC goods and services through its events management contractor in April 2016.

12th FESTPAC Coordinating Committee (Committee)

P.L. 30-83, Section 4 authorized the Committee to elect its Chairperson, Vice Chairperson, Secretary, and Treasurer, and assign such duties to each office as deemed necessary. In March 2015, a little over a year prior to FESTPAC, the Committee elected the following officers: (1)

Festival Director – Governor’s Deputy Chief of Staff; (2) Chairperson – GVB General Manager; (3) Vice Chairperson – GEDA Special Assistant; (4) Treasurer – DCA President; and (5) Secretary – CAHA Board Chairperson. As of September 2016, two of the elected Committee officers resigned.

FESTPAC Account and Appropriations

In September 2011, P.L. 31-77, Chapter X, Section 10 created the Guam FESTPAC & Folklife Festival Trust Account (GVB FESTPAC Trust Account), with the requirements that the funds in the trust account:

1. Not be commingled with other funds and are maintained by GVB in a separate bank account;
2. To be invested in interest bearing instruments that are readily convertible to cash; and
3. Not subject to any transfer authority.

From 2011 to 2015, the Guam Legislature made appropriations, primarily from the Tourist Attraction Fund (TAF) to the GVB FESTPAC Trust Account. As of September 2016, approximately \$5M has been appropriated from the Tourist Attraction Fund to the GVB FESTPAC Trust Account.

In March 2016, \$4.3M was transferred from the GVB FESTPAC Trust Account to the CAHA FESTPAC checking account. Subsequently, it was determined that GVB would take over the contracting and payments of FESTPAC activities. As a result, CAHA transferred back \$1.7M to GVB.

Supplemental Appropriation

In March 2016 and as previously reported in OPA Report No. 16-02, the Committee reported an estimated \$1.1M shortfall in FESTPAC funding when it was working with a budget that consisted of \$6M in revenues and \$7M in estimated expenses. In May 2016, the Guam Legislature passed P.L. 33-150 to mitigate the estimated shortfall, which provided an additional:

- \$1.3M from the FY 2015 Hotel Occupancy Tax Surplus Fund for the programming and hosting of FESTPAC.
- \$1.3M from the FY 2016 Tourist Attraction Fund to the Department of Public Works (DPW), Guam Fire Department (GFD), and Guam Police Department (GPD) for anticipated overtime to ensure increased security measures for the welfare of the community and visitors during FESTPAC.

See Appendix 3 for additional background information.

Results of Audit

Guam successfully hosted the 12th FESTPAC, the two-week cultural event that showcased 27 island countries and territories from the Pacific and drew thousands of spectators daily from May 22, 2016 to June 4, 2016. In our second FESTPAC audit, we found that three agencies, CAHA, GVB, and Department of Administration (DOA), accounted for portions of FESTPAC funds, but no agency was assigned to account for FESTPAC funds overall. As a result, we compiled data from the three agencies to determine the overall revenues and expenses related to FESTPAC. Based on our compilation:

- \$8.5M in cash was received, of which \$8.1M were from government appropriations and \$436K were from donations, sponsorships, fundraising events, and vendor fees.
- \$8.3M in cash was spent on the following:
 - \$4.4M paid to CAHA and GVB events managements services contractors;
 - \$2.2M for 34 festival village huts;
 - \$1.1M for FESTPAC-related overtime expenses for Guam Police Department (GPD), Guam Fire Department (GFD), and Department of Public Works (DPW);
 - \$293K for the Chamorro Village traffic light controlled crosswalk;
 - \$164K for reimbursement of FESTPAC-related Department of Education (GDOE) public schools expenses; and
 - \$135K for Programming expenses paid by CAHA.
- FESTPAC raffle and other fundraising activities of \$103K were accounted for.

We also found:

- \$53K in FESTPAC-related goods and services purchased did not comply with Guam procurement law and regulations; and
- Although the \$4.4M purchased through CAHA and GVB events management services contractors were not subject to Procurement law and regulations, we identified \$36K in questioned costs for processing payments using vendor quotes instead of invoices, and lack of supporting documentation.

Overall, we identified \$89K in questioned costs.

Accounting for FESTPAC Funds

We found that three agencies, CAHA, GVB, and DOA, accounted for portions of FESTPAC funds, but no agency was assigned to account for FESTPAC funds overall. As a result, we compiled data from the three agencies to determine the overall revenues and expenses related to FESTPAC. See Table 1 below.

Table 1: Accounting of FESTPAC Funds

	CAHA	GVB	OTHER	TOTAL
REVENUES				
LOCAL AND FEDERAL FUNDS				
Tourist Attraction Fund to FESTPAC Trust Account	\$ -	\$ 4,675,714	\$ -	\$ 4,675,714
P.L. 33-150 Additional Appropriations from TAF				
Department of Public Works (DPW)	\$ -	\$ -	\$ 605,000	\$ 605,000
Guam Fire Department (GFD)	\$ -	\$ -	\$ 190,000	\$ 190,000
Guam Police Department (GPD)	\$ -	\$ -	\$ 542,000	\$ 542,000
Subtotal, P.L. 33-150 Additional Appropriations	\$ -	\$ -	\$ 1,337,000	\$ 1,337,000
P.L. 33-150 Hotel Occupancy Tax (HOT) Surplus Fund	\$ -	\$ 1,300,000	\$ -	\$ 1,300,000
Percent for the Arts	\$ -	\$ 200,000	\$ -	\$ 200,000
FY 2012 Appropriations to CAHA for FESTPAC	\$ 257,951	\$ -	\$ -	\$ 257,951
HOT Bond and Federal Highway Funds			\$ 292,540	\$ 292,540
Subtotal, Local and Federal Funds	\$ 257,951	\$ 6,175,714	\$ 1,629,540	\$ 8,063,206
DONATIONS, FUNDRAISERS, SPONSORSHIPS, & VENDOR FEES	\$ 319,674	\$ 116,512	\$ -	\$ 436,186
INTEREST INCOME	\$ -	\$ 7,340	\$ -	\$ 7,340
TOTAL, CASH REVENUES	\$ 577,625	\$ 6,299,565	\$ 1,629,540	\$ 8,506,731
IN-KIND DONATIONS	\$ -	\$ -	\$ 1,250,000	\$ 1,250,000
TOTAL, REVENUES	\$ 577,625	\$ 6,299,565	\$ 2,879,540	\$ 9,756,731
EXPENSES				
P.L. 33-150 ADDITIONAL APPROPRIATIONS				
DPW	\$ -	\$ -	\$ 389,058	\$ 389,058
GPD	\$ -	\$ -	\$ 541,999	\$ 541,999
GFD	\$ -	\$ -	\$ 128,047	\$ 128,047
Subtotal, P.L. 33-150 Additional Appropriations	\$ -	\$ -	\$ 1,059,105	\$ 1,059,105
CAPITAL IMPROVEMENT PROJECTS				
Chamorro Village Crosswalk	\$ -	\$ -	\$ 292,540	\$ 292,540
FESTPAC Village Huts	\$ 2,194,500	\$ -	\$ -	\$ 2,194,500
Subtotal, Capital Improvement Projects	\$ 2,194,500	\$ -	\$ 292,540	\$ 2,487,040
PROGRAMMING				
Travel	\$ 10,805	\$ -	\$ -	\$ 10,805
Contractual	\$ 69,299	\$ -	\$ -	\$ 69,299
Supplies	\$ 25,655	\$ -	\$ -	\$ 25,655
Equipment	\$ 29,519	\$ -	\$ -	\$ 29,519
Subtotal, Programming	\$ 135,278	\$ -	\$ -	\$ 135,278
LOGISTICS- EVENTS MANAGEMENT CONTRACTS				
Meals	\$ -	\$ 659,316	\$ -	\$ 659,316
Rentals	\$ -	\$ 646,925	\$ -	\$ 646,925
Supplies	\$ 325,100	\$ 302,433	\$ -	\$ 627,533
Events Management Fees				
CAHA Events Management Services Contractor	\$ 340,806	\$ 84,609	\$ -	\$ 425,415
GVB Events Management Services Contractor	\$ -	\$ 110,000	\$ -	\$ 110,000
Subtotal, Events Management Fees	\$ 340,806	\$ 194,609	\$ -	\$ 535,415
Costumes	\$ -	\$ 197,149	\$ -	\$ 197,149
Decorations and Floral Arrangements	\$ 21,400	\$ 99,614	\$ -	\$ 121,014
Souvenirs	\$ 60,308	\$ 151,952	\$ -	\$ 212,260
Contractual Services				
Janitorial Services	\$ -	\$ 411,000	\$ -	\$ 411,000
Other	\$ 5,337	\$ 525,492	\$ -	\$ 530,829
Subtotal, Contractual Services	\$ 5,337	\$ 936,492	\$ -	\$ 941,829

	CAHA	GVB	OTHER	TOTAL
Printing	\$ 3,356	\$ 161,763	\$ -	\$ 165,119
Equipment	\$ 43,693	\$ 104,554	\$ -	\$ 148,248
Utilities	\$ -	\$ 15,818	\$ -	\$ 15,818
Lodging	\$ -	\$ 65,402	\$ -	\$ 65,402
Security	\$ -	\$ 28,750	\$ -	\$ 28,750
Medical Services	\$ -	\$ 23,940	\$ -	\$ 23,940
Travel	\$ -	\$ 22,439	\$ -	\$ 22,439
Ground Transportation	\$ -	\$ 13,728	\$ -	\$ 13,728
Miscellaneous	\$ -	\$ 11,049	\$ -	\$ 11,049
Subtotal, Logistics	\$ 800,000	\$ 3,635,932	\$ -	\$ 4,435,932
OTHER EXPENSES				
Bank Fees	\$ 105	\$ 65	\$ -	\$ 170
GDOE REIMBURSEMENT	\$ -	\$ 163,747	\$ -	\$ 163,747
TOTAL, CASH EXPENSES	\$ 3,129,883	\$ 3,799,745	\$ 1,351,645	\$ 8,281,273
IN-KIND DONATIONS	\$ -	\$ -	\$ 1,250,000	\$ 1,250,000
TOTAL, EXPENSES	\$ 3,129,883	\$ 3,799,745	\$ 2,601,645	\$ 9,531,273
TRANSFERS IN				
CAHA	\$ -	\$ 1,712,464	\$ -	\$ 1,712,464
GVB	\$ 4,289,776	\$ -	\$ -	\$ 4,289,776
Subtotal, Transfers In	\$ 4,289,776	\$ 1,712,464	\$ -	\$ 6,002,240
TRANSFERS OUT				
CAHA	\$ -	\$ 4,289,776	\$ -	\$ 4,289,776
GVB	\$ 1,712,464	\$ -	\$ -	\$ 1,712,464
Subtotal, Transfers Out	\$ 1,712,464	\$ 4,289,776	\$ -	\$ 6,002,240
NET CHANGE IN TRANSFERS	\$ 2,577,312	\$ (2,577,312)	\$ -	\$ -
REMAINING BALANCE	\$ 25,054	\$ (77,492)	\$ 277,895	\$ 225,458

Discussions on the FESTPAC revenues, expenses, and in-kind donations follow.

\$8.5M in Cash Revenues

Based on our compilation, the Committee received \$8.5M in cash, of which a majority came from government appropriations and federal funds or \$8.1M, while donations, fundraisers, sponsorships, and vendor fees added an additional \$436K. Our compilation does not include other goods and services donated by GovGuam agencies and citizens for the duration of FESTPAC.

The \$8.1M in government funds consisted of the following.

- \$7.6M from various government appropriations and federal funds, including:
 - \$6M from the Tourist Attraction Fund (TAF);
 - \$1.3M from the Hotel Occupancy Tax (HOT) Surplus Fund; and
 - \$293K from HOT Bond and Federal Highway Funds.
- \$257K from the CAHA 2012 FESTPAC account balance; and
- \$200K from the Percent for the Arts from CAHA.

\$8.3M in Cash Expenses

Of the \$8.5M in cash appropriated or received, \$8.3M was spent on the following.

- \$4.4M paid to the CAHA and GVB events managements services contractors;
- \$2.2M for 34 festival village huts;
- \$1.1M for DPW, GPD, and GFD overtime expenses;
- \$293K for the Chamorro Village traffic light controlled crosswalk;
- \$164K for reimbursement of FESTPAC-related expenses at GDOE public schools used to house the delegates; and
- \$135K for Programming expenses paid by CAHA.



Image 1: Evening performance during FESTPAC.
Photo courtesy of FESTPAC Committee.

In February 2017, the Committee’s approved final budget reflected \$8.2M in revenues, of which \$6.9M was cash and \$1.3M was in-kind donations. See Appendix 4 for the Committee’s final budget as of February 2017 provided to OPA.

In July 2016, after the 12th FESTPAC, GDOE sought reimbursement of \$407K from the FESTPAC Committee for labor, housing, utilities, and other related expenses incurred during the period of May 18, 2016 to June 10, 2016. During the February 2017 FESTPAC closeout meeting, the Committee agreed that while they did not have enough funds to cover the entire amount that GDOE requested, they would pay GDOE the remaining funds in the FESTPAC checking account. In March 2017, the Committee transferred approximately \$164K to GDOE, which was the calculated surplus amount per the Committee’s submitted final budget. See Appendix 4.

We also found that \$278K remained in the General Fund as a result of unused appropriations for overtime costs at GPD, GFD, and DPW for FESTPAC-related overtime costs administered by DOA. According to the DOA Director, the \$278K balance lapsed as of the end of fiscal year (FY) 2016.

In-Kind Donations

In its February 2017 final budget, the Committee reported \$1.3M in in-kind goods and services from 12 private companies and organizations. However, the Committee’s Final Budget did not include the value of other goods and services donated by GovGuam agencies and citizens for the duration of FESTPAC. For example:

- Department of Parks and Recreation for the use of the Paseo Stadium and parking lot as venues;
- Department of Chamorro Affairs for the use of the Chamorro Village and Guam Museum as venues;
- Agat Mayors’ Office for the use of Sagan Bisita as a venue;
- Guam Economic Development Agency for the use of the Dededo Farmers’ Co-Op as a venue;
- University of Guam for the use of the Fine Arts Theater as a venue;

- Many GovGuam agencies and their respective staff that were assigned to assist specific countries;
- Village mayors offices that hosted various fiestas; and
- Other organizations and volunteers' assistance and donations.

FESTPAC Overtime Expenses

Prior to the 12th FESTPAC, certain GovGuam agencies requested funding to cover overtime costs that the agencies estimated would be incurred to support the 12th FESTPAC with increased security measures for the welfare of the community and visitors. In May 2016, the Guam Legislature passed P.L. 33-150, which appropriated \$1.3M from the TAF to fund FESTPAC-related overtime at DPW, GPD, and GFD.

Data initially provided by the DOA Chief Payroll Officer indicated that \$1M of the \$1.3M was paid to 368 employees at five agencies [DPW, GPD, GFD, Department of Corrections (DOC) and Guam Customs and Quarantine Agency (CQA)] for overtime and night differential. Upon verification of the accounts charged, it was determined that the DOC and CQA FESTPAC-related payroll expenses were not charged against the FESTPAC overtime appropriation. As a result, only \$1.1M of the \$1.3M was paid to employees at DPW, GPD, and GFD. See Table 2 for a breakdown.

Table 2: P.L. 33-150 Additional Appropriation

Agency	Amount Appropriated	Amount Spent	Balance
DPW	\$ 605,000	\$ 389,058	\$ 215,942
GPD	\$ 542,000	\$ 541,999	\$ 1
GFD	\$ 190,000	\$ 128,047	\$ 61,953
Total	\$ 1,337,000	\$ 1,059,105	\$ 277,895

According to the DOA Director, the \$278K appropriation balance lapsed as of the end of FY 2016.

FESTPAC Raffle and Other Fundraising Funds Accounted For

According to the Festival Director and Committee Chairperson, the FESTPAC raffle drawings were conducted through the Governor's Office Employees Association as such activities are required to be conducted through a non-profit organization. From July 2015 to December 2015, the Governor's Office Employees Association held six monthly raffle incentive drawings with cash prizes ranging from \$100 to \$1,000, with a final grand prize of \$100,000 drawn in December 2015. These drawings were held in an effort to defray FESTPAC expenses.

In March 2016, the Governor of Guam presented the Committee with a \$102,500 check on behalf of the Governor's Office Employees Association, of which \$70,000 was purportedly from the FESTPAC raffle ticket sales.

The U.S. Department of the Treasury Internal Revenue Service's (IRS) 2015 Instructions for Form W-2G and 5754 requires a Form W-2G to be filed for each person to whom \$600 or more is paid in gambling winnings from a sweepstakes, wagering pool, or lottery (including a state-conducted

lottery) if the winnings are at least 300 times the amount of the wager. In addition, federal income tax of 25% from winnings are to be withheld if the winnings minus the wager exceed \$5,000.

Based on the IRS instructions, the FESTPAC Raffle Report, Raffle Winners Report, and other supporting documentation, our review indicated that the only tax amount that should have been withheld was for the \$100,000 raffle drawing winner. We found that the Governor's Office Employees Association withheld \$3,500 more in taxes than needed from certain raffle winners. Although the additional taxes withheld from certain winners only constitutes 3% of the entire FESTPAC raffle winnings, the \$3,500 should not have been withheld in the first place. Though it was not necessary, the Committee erred on the side of caution by withholding from the winnings.

According to the FESTPAC Chairman, the Governor's Office Employees Association sought guidance from the Department of Revenue and Taxation (DRT) on what amounts, if any, were to be withheld. The Taxpayer Services Administrator of DRT stated that the withholdings would be self-corrected upon filing by the person claiming the tax payments on their income tax return.

Non-Compliance with Procurement Law and Regulations

Of the \$8.3M spent on FESTPAC, \$3.1M was spent by CAHA, which must comply with Guam Procurement law and regulations. Specific law and regulations follow:

- Title 5 of the Guam Code Annotated (GCA) Chapter 5 § 5213 states that any procurement not exceeding the amount established by regulation may be made in accordance with small purchase procedures promulgated by the Policy Office, provided, however, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Title 5 GCA § 5265 states that all specifications shall seek to promote overall economy for the purposes intended and encourage competition in satisfying Guam's needs, and shall not be unduly restrictive.
- Title 2 of the Guam Administrative Rules and Regulations (GAR), Division 4, Chapter 3 § 3111(c)(1) states that for small purchases of supplies or services between \$500 and \$15K, no less than three positive written quotations from businesses shall be solicited, recorded, and placed in the procurement file. Awards shall be made to the lowest responsible and responsive bidder.²

All goods and services for the 12th FESTPAC were purchased through CAHA and GVB. Prior to April 2016, all procurements were made through CAHA, with the largest being the construction of the festival huts at \$2.2M, followed by the events management contract at \$800K and the various Programming Committee requests. The Programming Committee was responsible for the development of the artistic disciplines to be offered at FESTPAC, such as the visual arts; performance arts; literary arts; forums, workshops, and seminars; and traditional arts, demonstrations, and exhibitions. See Appendix 3 for additional information about the Programming Committee.

² P.L. 34-35, enacted in August 2017, increased the small purchase threshold for supplies and services from \$15,000 to \$25,000. However, the transactions noted in this audit occurred prior to this change in law.



Image 2: FESTPAC festival huts at the Chamorro Village. Photo courtesy of FESTPAC Committee.

Of the \$3.1M spent by CAHA and subject to procurement law and regulation, the two largest procurements amounting to \$3M were tested in OPA Report No. 16-02, where we found the following.

- Design-build services for construction of Pacific Festival Huts totaled \$2.2M and we recommended that the Committee provide the festival huts procurement file to the Attorney General for review. As of September 2017, the Committee has yet to pay the 10% retainage fee to the festival huts contractor because CAHA is awaiting the Attorney General’s clearance.
- Events management services contract totaled \$800K. Purchases under CAHA’s events management contract was on a reimbursement basis, and included items such as futon mattresses, linens, nipa leaves, woven fans and mats, and an IT management system.

See below for an illustration of the reimbursement process between CAHA and its events management services contractor.

Image 1: FESTPAC Programming Committee Reimbursement Process



Of the remaining \$135K spent by CAHA, we initially selected 15 transactions totaling \$97K to ensure that the Committee followed GovGuam Procurement law and regulations for FESTPAC-related goods and services. We increased our tests to include two transactions related to two separate samples for a total of 17 transactions. We found six transactions with questioned costs totaling \$53K. Specifically:

- 4 of the 17 transactions totaling \$43K did not have the required three positive written quotations per 2 GAR §3111(c)(1). These transactions ranged from \$6,100 to \$15,000.
- 2 transactions totaling \$10K allowed a selected vendor to submit an adjusted quote for audio/visual tour narrative podcasts, while there was no evidence that other vendors were given the same opportunity.

See Table 3 for the six transactions with deficiencies.

Table 3: FESTPAC CAHA Transactions with Deficiencies

#	Vendor	Description	Lack of 3 Quotes	Other	Amount
1	Vendor 4	Payment to Cover Materials, Supplies, and Equipment for Forge	✓		\$ 6,119
2	Vendor 5	1st Installment Payment for Audio/Visual Tour Narratives Podcasts		✓	\$ 5,000
3	Vendor 6	50% DownPayment to Cover Cost of 6 Six-Man Outrigger Canoes	✓		\$ 15,000
4	Vendor 14	Payment to Cover Professional Fees for Master Navigator, Carver, Skilled Traditional Carvers for January and February 2016	✓		\$ 6,500
5	Vendor 6*	Remaining Payment to Cover Cost of 6 Six-Man Outrigger Canoes	✓		\$ 15,000
6	Vendor 5*	Remaining Payment for Audio/Visual Tour Narratives Podcasts		✓	\$ 5,000
					\$ 52,619

* The remaining payments were paid out of the GVB Events Management Services Contract

For example, the Committee approved the payment (\$6,500) on the professional fees for a Master Navigator, Carver, and Skilled Traditional Carvers, but the only quote on file was from the selected vendor. The Committee violated 2 GAR § 3111(c)(1) as this procurement was between \$500 and \$15K, and there was no evidence that three positive written quotes were solicited, recorded, and placed into the procurement file. The Committee explained that the selected vendor was the only master navigator known. However, the Committee did not allow for other vendors to respond.

In another example, the FESTPAC Executive Committee (Festival Director, Committee Chairperson, and Committee Treasurer) spent \$30K (in two payments) for 6 six-person outrigger canoes out of the CAHA Programming budget, although the only quote on file was from the awarded vendor. In addition, this procurement appeared to be artificially divided to constitute a small purchase instead of undergoing an Invitation for Bid (IFB). Although the total amount for the six canoes was \$30K, the Executive Committee made a 50% down payment (\$15K) in February 2016, and paid the remaining payment of \$15K out of the GVB Events Management Services contract in April 2016. “Split purchases” of



Image 3: Paddlers and voyagers share a moment of greeting during the welcoming ceremony of the 2016 FESTPAC. (Photo by Daniel Lin) <https://voices.nationalgeographic.org>

this kind do not comply with 5 GCA § 5213 and 2 GAR § 3111(b)(5), both of which prohibit artificial division to avoid using other source selection methods.

Subsequent to FESTPAC, the Committee donated all six canoes to the Guam Kayak & Canoe Federation. These two parties agreed that the continued use of the canoes are for the high school paddling season as part of the Independent Interscholastic Athletic Association of Guam.

\$4.4M in Purchases Through GVB and CAHA Events Management Services Contractors Not Subject to GovGuam Procurement Law and Regulations

Upon realizing that CAHA’s events management contract was limited to \$800K, the Committee sought approval from the Attorney General to use GVB’s existing events management services contract to support FESTPAC. As reported in OPA Report No. 16-02, certain Committee members raised concerns regarding the events management services contract and the contractor’s ability to procure goods and services on behalf of the Committee without undergoing government procurement processes. Subsequent to the March 2016 Committee meetings, the Committee Chairman and Department of Chamorro Affairs President met with the Attorney General, who stated that her “office reviewed and approved the procurement contract” and that “the contract allows for the private contractor to procure needed goods and services without undergoing additional procurement processes.” In summary, the CAHA events management services contract of \$800K and the GVB events management services contract of \$3.6M were not subject to GovGuam procurement law and regulations.

All purchases made through GVB’s events management contract were on a reimbursement basis.

Although CAHA transferred back the remaining FESTPAC funds as of April 2016 to GVB, CAHA assisted with the review of various Programming subcommittees’ reimbursement requests prior to submitting the requests to GVB’s events management contractor. GVB’s events management contractor then issued checks to the Programming subcommittee representatives and subsequently submitted reimbursement requests to GVB. Other times, the individual submits their request to the GVB events management services contractor, who processes the payment, and invoices GVB. See Appendix 5 for an illustration of the reimbursement processes between CAHA and GVB.



Image 4: New Zealand delegation’s performance during FESTPAC. Photo courtesy of FESTPAC Committee.

The audit team requested a breakdown by category of the \$3.6M paid to GVB's events management services contractor in relation to FESTPAC. However, the limited breakdown provided by GVB required the audit team to extensively review the supporting documents to better understand what goods and services were procured.

\$36K in Questioned Costs

Of the \$4.4M in FESTPAC-related goods and services procured through the GVB and CAHA events management contractors and not subject to GovGuam procurement law and regulations, we identified \$36K in questioned costs, including:

- \$20K in supplies expenses for payments processed using vendor quotes instead of invoices for coconut fronds and various supplies;
- \$10K in printing expenses due to payments processed using vendor quotes instead of invoices for \$9,630 for 172 foam boards, as well as \$299 for print media without supporting documentation;
- \$6K in contractual services expenses for production fees paid using a vendor quote instead of an invoice; and
- \$320 in meals expenses, of which \$298 was unclear what items were purchased. In addition, a \$22 reimbursement for coconut oil was paid with food stamps, which is in violation of the U.S. Supplemental Nutrition Assistance Program and is considered fraud.³ A person may be found guilty in a court of law of a misdemeanor if the amount falls below \$100.⁴ Although the individual subsequently paid back the reimbursement after we brought this to the FESTPAC Committee's attention, this finding remains since it should not have been reimbursed in the first place.

Unlike the other expenditures that had several vendors, we found that \$411K, or 44% of the \$942K in contractual services expenses, was paid to one vendor for janitorial services. While the GVB events management services contractor was not required to follow GovGuam procurement laws and regulations, in our professional judgment, there appeared to be preferential treatment as only one vendor was utilized.

See Appendix 6 for further details on the \$4.4M in GVB and CAHA events management services contractors' expenses by category.

Lack of Internal Controls

While we recognize that Guam's opportunity to host FESTPAC is a rare event, which will not recur until many years from now, if at all, future Committees of island-wide events should learn lessons from this experience to ensure that controls are in place for a successful event, both culturally and financially.

As already noted in OPA Report No. 16-02, many of the problems associated with managing the 12th FESTPAC could have been eliminated or mitigated by implementing stronger internal controls as described by the best practice model authorized by Government Auditing Standards and other official documents such as grants and contracts that involve federal funds.

³ <https://www.fns.usda.gov/fraud/what-snap-fraud>

⁴ <https://app.leg.wa.gov/rcw/default.aspx?cite=9.91.142>

In order to have effective internal controls, the entity is encouraged to apply the 17 principles defined by the Commission of Sponsoring Organizations of the Treadway Commission (COSO). For additional guidance on internal controls, refer to Appendix 7.

OPA Report No. 16-02 noted the following areas that needed improvement:

- Lack of formal delegation of authority and responsibility.
- Internal and external pressures for a successful FESTPAC.
- Lack of segregation of duties.
- Lack of monthly Committee meetings and minutes.
- No formal monitoring and evaluation process to ensure internal controls are in place.

While the FESTPAC Committee worked on issuing a formal delegation of authority and preparing meeting minutes, the other internal control areas previously cited remain unaddressed.



Image 5: Various photos during FESTPAC, courtesy of the FESTPAC Committee.

Conclusion

Guam successfully hosted the 12th FESTPAC, the two-week cultural event that showcased 27 island countries and territories from the Pacific and drew thousands of spectators daily from May 22, 2016 to June 4, 2016. In our second FESTPAC audit, we found that three agencies, CAHA, GVB, and DOA, accounted for portions of FESTPAC funds, but no agency was assigned to account for FESTPAC funds overall. As a result, we compiled data from the three agencies to determine the overall revenues and expenses related to FESTPAC and identified \$89K in questioned costs.

Based on our compilation, \$8.5M in cash was received and \$8.3M in cash was spent on:

- \$4.4M paid to the CAHA and GVB events managements services contractors;
- \$2.2M for 34 festival village huts;
- \$1.1M for GPD, GFD, DPW overtime expenses;
- \$293K for the Chamorro Village traffic light controlled crosswalk;
- \$164K for reimbursement of FESTPAC-related expenses at GDOE public schools used to house the delegates; and
- \$135K for Programming expenses paid by CAHA.

We determined that FESTPAC raffle and other fundraising activities of \$103K was accounted for.

We also found:

- \$53K in FESTPAC-related goods and services purchased did not comply with Guam procurement law and regulations; and
- Although the \$4.4M purchased through CAHA and GVB events management services contractors were not subject to Procurement law and regulations, we identified \$36K in questioned costs for processing payments using vendor quotes instead of invoices, and lack of supporting documentation.

OPA Report No. 16-02 Guam's Readiness for the 12th FESTPAC made three recommendations to: (1) reassess the FESTPAC budget and finances; (2) provide the Attorney General of Guam the festival huts procurement file for review; and (3) ensure that adequate controls are in place. The Committee addressed OPA's first recommendation in May 2016 as the Guam Legislature passed P.L. 33-150, which appropriated \$1.3M from the FY 2015 Hotel Occupancy Tax Surplus Fund to the GVB FESTPAC Trust Account for the 12th FESTPAC. In addition, the Committee addressed OPA's second recommendation as the Attorney General reviewed the festival huts procurement file. See Appendix 8 for the status of these audit recommendations.

While we recognize that Guam's opportunity to host FESTPAC is a rare event, future Committees of island-wide events should learn lessons from this experience to ensure that controls are in place for a successful event, both culturally and financially.

Classification of Monetary Impact

Finding Description	Questioned Costs	Potential Savings	Unrealized Revenue	Other Financial Impact
1 Accounting for FESTPAC Funds	\$ -	\$ -	\$ -	\$ -
2 FESTPAC Overtime Expenses	\$ -	\$ -	\$ -	\$ -
3 FESTPAC Raffle and Other Fundraising Activities Accounted For	\$ -	\$ -	\$ -	\$ -
4 Non-Compliance with Procurement Law				
Four Transactions Did Not Have the Required 3 Positive Written Quotations	\$ 42,619	\$ -	\$ -	\$ -
Two Transactions Allowed One Vendor to Submit Adjusted Quote	\$ 10,000	\$ -	\$ -	\$ -
Subtotal	\$ 52,619	\$ -	\$ -	\$ -
\$4.4M in Purchases Through GVB and CAHA Events				
5 Management Services Contractors Not Subject to GovGuam Procurement Law & Regulations				
No Supporting Documentation				
Meals	\$ 320	\$ -	\$ -	\$ -
Printing	\$ 299	\$ -	\$ -	\$ -
Subtotal	\$ 619	\$ -	\$ -	\$ -
Quote Instead of Invoice				
Contractual	\$ 5,500	\$ -	\$ -	\$ -
Supplies	\$ 20,373	\$ -	\$ -	\$ -
Printing	\$ 9,982	\$ -	\$ -	\$ -
Subtotal	\$ 35,855	\$ -	\$ -	\$ -
5 Lack of Internal Controls	\$ -	\$ -	\$ -	\$ -
Totals	\$ 89,093	\$ -	\$ -	\$ -

Management Response and OPA Reply

We transmitted a draft report to the Committee in November 2017 for their official response. We met with the Committee in November 2017 to discuss the draft report and our findings. The Committee submitted its official response in December 2017, wherein they generally agreed with the audit findings. See Appendix 9 for the official response.

The Committee's response stated that OPA suggested for GVB to use its events management services contract. However, OPA's suggestion was for GVB to handle the accounting of FESTPAC funds, which resulted in the transfer back of the remaining \$1.7M from CAHA to GVB. In addition, it was the Attorney General who approved the use of GVB's events management services contract, and determined that GVB was not prohibited from using the contract for FESTPAC.

We also transmitted a draft report to the Vice Speaker/Chairperson of the Committee on Culture and Justice, and the Chairperson of the Committee on Health, Tourism, Military Affairs, and Senior Citizens in November 2017. We met with the Vice Speaker in December 2017.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year.

We appreciate the cooperation and assistance of the Committee, CAHA, GVB, and DOA during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Objectives, Scope, and Audit Methodology**

This report presents the results of our audit of the 12th FESTPAC for the period October 01, 2009 to February 28, 2017 and other periods deemed necessary. The audit objectives were to determine:

1. The total cost of FESTPAC and the amounts appropriated by the Government of Guam;
2. Whether the FESTPAC funds were accounted for;
3. Whether the FESTPAC raffle and fundraising activities were accounted for; and
4. Whether goods and services related to FESTPAC were procured in accordance with Government of Guam (GovGuam) Procurement law and regulations, where applicable.

Scope

The scope of our audit is from October 1, 2009 to February 28, 2017 and other periods deemed necessary. This is the second of a two-part audit series on FESTPAC and was initiated as part of our annual audit plan.

Methodology

To accomplish our objectives, we completed the following:

- Identified and reviewed applicable criteria and gaining an understanding of relevant policies, procedures, and applicable laws and regulations pertaining to FESTPAC funds;
- Reviewed prior audits and OPA hotline tips relevant to FESTPAC;
- Conducted interviews and walkthroughs with key personnel to assess internal controls and risks;
- Obtained and reviewed copies of bank statements, general ledger, and financial reports;
- Reviewed supporting documentation, such as cancelled checks, deposit slips, receipts, meeting minutes, and other related documents;
- Tested 15 out of 72 CAHA Programming transactions, as well as two related transactions paid out of the GVB events management services contract by obtaining and analyzing copies of contracts, bid packages, and request for proposals to determine if goods and services were procured in accordance with GovGuam procurement law and regulations;
- Obtained and analyzed 100% of the total 618 transactions made through the CAHA and GVB events management services contractors to determine reasonableness; and
- Obtained and reviewed copies of pertinent documentation relative to FESTPAC fundraising activities.

Our audit was conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2:**Prior Audit Coverage**

Financial Audit Reports

We reviewed the annual financial audits of the GVB from FY 2012 to FY 2016 and the DCA for FY 2012 and FY 2016. From FY 2012 through FY 2016 \$4.7M has been appropriated to the FESTPAC & Folklife Festival Trust Account.

There were no findings in the GVB and DCA annual financial audits reviewed that pertained to FESTPAC.

OPA Report No. 16-02 Guam's Readiness for the 12th Festival of Pacific Arts (FESTPAC) issued April 2016

The audit objective was to determine the current condition of the Committee's preparations for the festival. The sub-objectives were to determine whether:

1. The FESTPAC funds are properly accounted for;
2. Goods and services related to FESTPAC are procured in accordance with Guam procurement law and regulations; and
3. Controls are in place and enforced to ensure that the Committee members are carrying out their fiduciary responsibilities.

This audit covered October 01, 2009 to March 31, 2016. The following were the observations noted in this audit:

- The Committee is estimating a shortfall of up to \$1.1M if it does not obtain additional funding to cover all of its projected expenses.
- The procurement of the design-build construction of 34 Pacific festival huts amounting to \$2.2M violated Guam procurement law because it did not undergo the Attorney General's (AG) review.
- While the FESTPAC events management services contract is legal and the contractor is allowed to procure necessary goods and services on behalf of FESTPAC without undergoing government procurement processes, the contract amount is capped at \$800K.
- The Committee's internal controls can be improved.

The auditors made the following recommendations to the 12th FESTPAC Committee:

1. Reassess its budget and finances to ensure that it is accounting for all the actual and in-kind FESTPAC revenues and expenses.
2. Provide the complete Pacific festival huts procurement file to the AG for review and possible ratification.
3. Ensure that adequate controls are in place, such as:
 - Assigning different individuals the responsibility of authorizing transactions, recording transactions, approving payments, and maintaining custody of assets;
 - Establishing dollar thresholds for approval of transactions and payments; and
 - Regularly communicating preparation progress with the entire Committee (via email, conference call, or meeting).

Additional FESTPAC Background

FESTPAC is recognized as a major regional event and it is the largest gathering in which Pacific people unite to enhance their respect and appreciation for one another. The 27 Pacific island countries and territories participated in the 12th FESTPAC were:

- American Samoa
- Australia
- Cook Islands
- Easter Island
- Federated States of Micronesia
- Fiji Islands
- French Polynesia
- Guam
- Hawaii
- Kiribati
- Marshall Islands
- Nauru
- New Caledonia
- New Zealand
- Niue
- Norfolk Island
- Northern Mariana Islands
- Palau
- Papa New Guinea
- Pitcairn Islands
- Samoa
- Solomon Islands
- Tokelau
- Tonga
- Tuvalu
- Vanuatu
- Wallis and Futuna

Guam bid to host the 12th FESTPAC, and was awarded this distinction at the 10th FESTPAC in American Samoa in 2008. During the 11th FESTPAC held in Solomon Islands in 2012, Guam officially received the festival flag. During the 12th FESTPAC, Guam showcased its unique Chamorro culture. The 13th FESTPAC will be held in Hawaii in 2020.

Guam Council on the Arts and Humanities Agency (CAHA)

P.L. 16-122 created the CAHA in 1982, in which CAHA is designated as the state arts agency for Guam. Its mission is to perpetuate the arts and humanities with programs and initiative that enhance our quality of life through education, creative expression, and the professional development of our local artists.

Guam Visitors Bureau (GVB)

GVB was created by P.L. 01-067 in 1952 and is a non-profit membership corporation that is the official tourism agency for Guam. Among its responsibilities, GVB is charged with setting tourism policy and direction; developing and implementing Guam's tourism strategic and marketing plans; managing programs and activities that enhance and showcase Guam's people, place and culture in order to deliver an incomparable visitor experience; and coordinating tourism-related research, planning, events and outreach activities. Its mission is to efficiently and effectively promote and develop Guam as a safe and satisfying destination for visitors and to derive maximum benefits for the people of Guam.

12th FESTPAC Coordinating Committee

In February 2010, P.L. 30-83 created the 12th FESTPAC Coordinating Committee (Committee), which is composed of the following:

1. The President of the Department of Chamorro Affairs (DCA);
2. The Executive Director of CAHA;

Additional FESTPAC Background

3. Three members, to be appointed by the Governor, representing the organizations active in the promotion of the arts on Guam;
4. A member of the Mayors' Council of Guam, appointed by the President of the Mayors Council;
5. Two members of the Legislature, appointed by the Speaker, who may designate himself;
6. The Chairperson of the Committee on Cultural Affairs of the Legislature of Guam or its successor;
7. The Chairperson of the Board of Directors of the Guam Visitors Bureau (GVB) or his designee; and
8. The Speaker of the Guam Youth Congress or his designee.

The Committee's duties include:

1. The organization of committees and sub-committees for the implementation of programs and other work deemed necessary for the successful conduct of the 12th FESTPAC to be held on Guam;
2. The preparation and execution of plans, programs, and budgets requisite for the preparation for and successful conduct of the 12th FESTPAC;
3. The management of funds, equipment, and other properties, appropriated, loaned, contributed to, or raised for the purpose of preparing for and conducting the 12th FESTPAC;
4. The submission of regular reports to the Governor of Guam and to the Speaker of the Legislature, itemizing and detailing the progress being made for and toward the purposes set out in this Section; and
5. The submission of other reports as may be, from time to time, required by the Governor or Speaker of the Legislature.

The Programming Committee was responsible for the development of the artistic disciplines offered at FESTPAC.

Visual Arts Committee The purpose of the Visual Arts Committee is to promote appreciation of the visual arts by exposing the community to a variety of artistic ventures and displays. This had to be done through various forms of programming, including art exhibits; film productions; traditional and contemporary painting; illustrations and graphics; senior art; architecture; sculpture and pottery; photography; and floral arts.

Forums, Workshops, and Seminars Committee

The primary responsibility of the Forums, Workshops, and Seminars Committee is to solicit presentations throughout the Pacific nations in either forum, workshops, or seminars format. As much as practical, forums, workshops and seminars are to provide, on a more formal basis, exchanges of views between and among the varied cultural representatives and entities. The committee also provided opportunities for all Festival of the Pacific Arts region to share their experiences, raise awareness, and promote understanding in the hope that they can learn from each other for mutual gain in all facets of their livelihood.

Additional FESTPAC Background

Literary Arts Committee

The Literary Arts Committee contain six genres for the 12th Festival of Pacific Arts: fashion, history, indigenous languages, oratory, publications, and theater. Highlighted events include fashion shows; historic tours and historical accounts; a conference focused on preservation, cultivation, and restoration of indigenous languages; storytelling and poetry events; workshops and presentations for publications; a browsing library featuring literary works from participating countries; sales of literary works at the Festival Village; stage readings of plays; and twice-daily full-length theatrical productions.

Performing Arts

The Performing Arts Committee is responsible for scheduling and coordinating performances for all delegations in the main festival village. The FESTPAC is an opportunity for the people of Guam to witness first-hand the inclusion of Chamorro dance as an indigenous art form among the peoples of Oceania.

Traditional Arts, Demonstrations, and Exhibitions Committee

One of the key guiding principles of FESTPAC is to foster the protection of indigenous cultural heritage and cultivate global awareness for Pacific Arts and cultures. The traditional practices of folk arts among the peoples of the Pacific island countries and territories is an integral part of the cultural heritage and practices that make this region unique. It is equally important that our communities are aware of those impacts and threats that may bring harm to our cultural heritage and resources that provide us sustenance and livelihood.

Appendix 4:

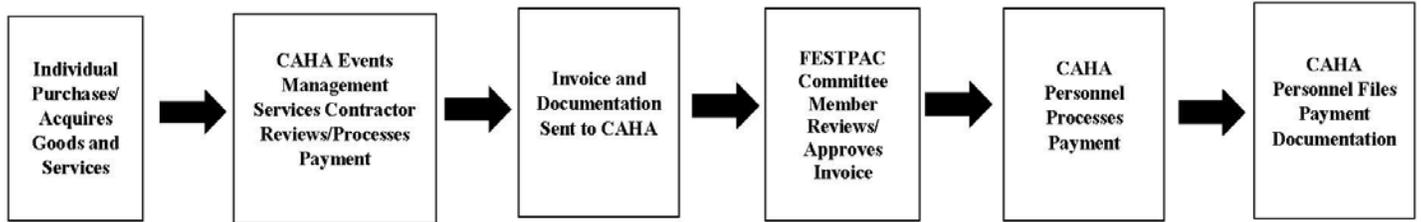
FESTPAC Committee Budget as of February 2017

	BUDGET	ACTUAL/CASH	IN-KIND	TOTAL
REVENUES:				
PUBLIC FUNDS				
GVB FestPac Trust Account	\$ 6,082,840	\$ 6,083,054		\$ 6,083,054
Vendor Fees	\$ -	\$ 62,169		\$ 62,169
Percent for the Arts	\$ 285,950	\$ 200,000		\$ 200,000
FY 2012 Appropriation to CAHA for FESTPAC	\$ 147,247	\$ 163,097		\$ 163,097
PUBLIC FUNDS TOTAL	\$ 6,516,038	\$ 6,508,319		\$ 6,508,319
SPONSORSHIP	\$ 1,350,000	\$ 200,000	\$ 1,250,000	\$ 1,450,000
DONATIONS, FUNDRAISERS, OTHER REVENUE	\$ -	\$ 211,921	\$ -	\$ 211,921
TOTAL REVENUE	\$ 7,866,038	\$ 6,920,240	\$ 1,250,000	\$ 8,170,240
EXPENSES:				
CAPITAL IMPROVEMENT PROJECTS				
FestPac Village Huts	\$ 2,194,995	\$ 2,194,500		
CAPITAL IMPROVEMENT PROJECTS TOTAL	\$ 2,194,995	\$ 2,194,500		\$ 2,194,500
PROGRAMMING				
GVB	\$ 717,972	\$ 239,970		
CAHA		\$ 110,178		
PROGRAMMING TOTAL	\$ 717,972	\$ 350,148		\$ 350,148
LOGISTICS				
Logistics	\$ 4,203,923	\$ 3,395,872	\$ 330,000	
CAHA Events Management Contract	\$ -	\$ 800,000		
LOGISTICS TOTAL	\$ 4,203,923	\$ 4,195,872	\$ 330,000	\$ 4,525,872
IN-KIND	\$ 845,000		\$ 920,000	\$ 920,000
OTHER EXPENSES	\$ -	\$ 15,882		\$ 15,882
TOTAL EXPENSES	\$ 7,961,890	\$ 6,756,403	\$ 1,250,000	\$ 8,006,403
NET INCOME (LOSS)	\$ (95,853)	\$ 163,837	\$ -	\$ 163,837

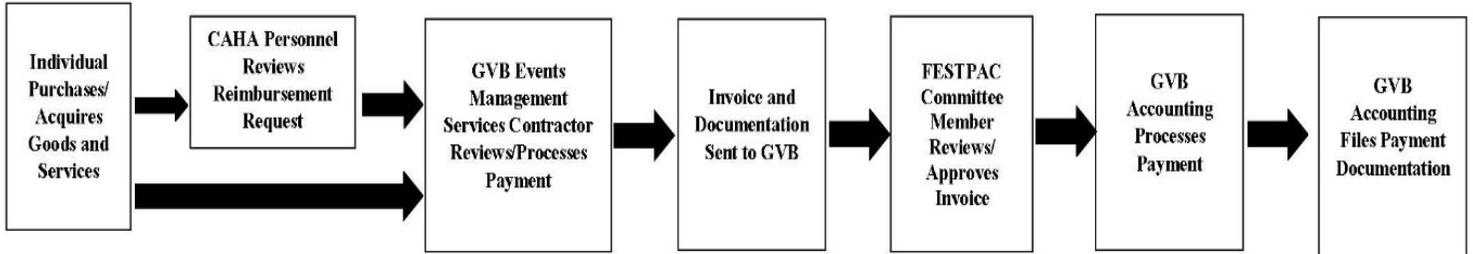
Appendix 5:

CAHA and GVB Reimbursement Processes

CAHA Events Management Services Contractor Reimbursement Process



GVB Events Management Services Contractor Reimbursement Process



Appendix 6:

**Breakdown of GVB and CAHA Events Management
Services Contractors' Expenses by Category**

Page 1 of 11

\$942K in Contractual Services Expenses

The Committee spent \$942K for various contractual services, including janitorial, ground maintenance, trash collection, choreographer, speaker fees, etc. Of the \$942K, \$936K was paid under GVB's events management services contractor and \$5K was paid under CAHA's events management services contractor.

The Committee spent:

- \$154K or \$11K per day for the daily cleaning of the Paseo festival grounds;
- \$147K, or an average of \$11K per day, for the daily cleaning and sanitation of the classrooms, gymnasiums, and restrooms at eight public schools. With the public schools ending classes on May 16, 2016, the Committee had less than a week to prepare the eight public schools to be used as the housing grounds for the delegates. The preparation included the cleaning and sanitation of 8 gymnasiums and 295 classrooms at Astumbo Elementary, Agueda Johnston Middle, Jose Rios Middle, Untalan Middle, George Washington High, Okkodo High, Southern High, and Tiyan High School;
- \$102K for the fireworks display at the opening and closing ceremonies;
- \$93K or \$5K per day for 19 days of cleaning and green waste disposal for the sea farer, fishing, and hunting sites;
- \$83K on satellite feeds that were provided by three different vendors;
- \$68K or an average of \$5K per day for the rental (\$46K) and daily cleaning (\$22K) of portable toilets and sinks;
- \$65K for Paseo Hut Village landscaping;
- \$55K on presentations and training sessions;
- \$50K for various filming and photography fees;
- \$43K for various entertainment during FESTPAC including two individuals as the opening/closing ceremony director and choreographer who were each paid \$20K;
- \$27K for waste collection services;
- \$17K for various maintenance projects to prepare the Chamorro Village for FESTPAC;
- \$17K for other contractual services, such as emergency plumbing services, vessel restoration, sail fabrication, master carver fee, stage repairs, outreach events, and website development and maintenance;
- \$16K for pest control services at the festival grounds; and
- \$5K on FESTPAC podcasts.

We identified \$6K in questioned costs for production fees paid using a vendor quote instead of an invoice.

Unlike the other expenditures that had several vendors, we found that \$411K, or 44% of the \$942K in contractual services expenses, was paid to one vendor for janitorial services. While the GVB

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

events management services contractor was not required to follow GovGuam procurement laws and regulations, there appeared to be preferential treatment as only one vendor was utilized.

\$659K in Meals Expenses

During FESTPAC, all delegates, participants, and volunteers were provided catered meals, purchased meals, and meal coupons, amounting to \$659K. The Committee provided each delegate with a meal coupon booklet containing 42 meal coupons, which equates to three daily meal coupons (breakfast, lunch, and dinner) for 14 days.

The Committee did not reconcile the actual number of meal coupons redeemed. Without a reconciliation of the quantity of meal coupons redeemed, there was a possibility of duplicate expenses for the days in which catered and purchased meals were provided to the delegates, participants, and volunteers. However, the audit team did not quantify this duplicated expense.

Of the \$659K in meals expenses, we identified \$320 in questioned costs, including the following:

- \$229 receipt on file with a written note that stated "Closing Ceremonies Latte Sponsors", but it was unclear what items were purchased;
- A \$69 credit card transaction receipt, but it was unclear what items were purchased because a detailed store receipt was not provided; and
- A \$22 reimbursement for coconut oil, which was initially paid with food stamps. As mentioned previously, this is in violation of the U.S. Supplemental Nutrition Assistance Program and is considered fraud.

\$647K in Rental Expenses

The Committee authorized \$647K in rental fees. Specifically:

- \$298K for the rental of the main stage, LED screen, video wall, audio, and lighting for the duration of FESTPAC, or approximately \$21K per day;
- \$218K or close to \$16K per day for the rental of generators and various equipment for the different festival sites;
- \$95K or \$7K per day for the rental of numerous chairs, tables, canopies, and coolers;
- \$18K for 11 vehicles for dignitaries during the two-weeks of FESTPAC. Many of the rented vehicles were considered high-end vehicles (i.e., Buick Lacrosse, Buick Regal, GMC Terrain, GMC Acadia, GMC Yukon, Cadillac Escalade, and Ford Explorer). The 11 vehicles were rented for either 14 or 15 days, with an average rental cost of \$119 per vehicle per day;
- \$10K for venue rentals throughout the island to host festival activities;
- \$5K to replace the rented chairs and tables that were damaged or missing; and
- \$3K storage fee for storing the futons and linens prior to FESTPAC.

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

\$628K in Supplies Expenses

The Committee authorized \$628K for FESTPAC-related supplies. Of this amount, \$325K were paid under CAHA's events management services contractor and \$302K were paid under GVB's events management services contractor. These expenses included the purchase of numerous office supplies, paint, tarps, country flags, futon mattresses, linens, coconut fronds, paper products, floodlights, etc. Specifically:

- \$407K for the futon mattresses and linen sets used at the housing grounds (public schools);
- \$147K for various office supplies, materials, and tools;
- \$50K for nipa leaves;
- \$13K for coconut fronds; and
- \$12K for country and festival flags.

We found that the transactions totaling \$325K reviewed by CAHA generally had supporting documentation of the minimum three quotes in accordance with GovGuam laws and regulations.

Of the \$302K in supplies paid under GVB's events management services contractor, \$35K were reviewed by CAHA personnel prior to its submission to the contractor and had supporting documentation that three quotes were obtained.

Of the \$628K in supplies, we identified several transactions with questioned costs of \$20K. As mentioned previously, these deficiencies include:

- \$13K for coconut fronds paid with a price proposal instead of an invoice; and
- \$7K for various supplies where payments were processed using vendor quotes instead of invoices, including \$1,300 for pelican cases and \$570 for vinyl canvas and stickers.

The Committee purchased 1,350 coconut fronds totaling \$13K used for the weaving courses during FESTPAC. These were purchased using sole source, were to be delivered in six separate shipments from Rota, and cost approximately \$9 per coconut frond. A GVB memo on file explained that sole source was necessary because the vendor "was the only one that regularly goes between the islands and can arrange for the picking of the Niyok fronds, cleaning, and processing as per the Department of Agriculture procedures." We do not question the use of sole source, but instead questioned the use of a price proposal instead of an invoice to process the payment.

\$535K in Management Fees

The Committee spent approximately \$535K in management fees. Of this amount, \$425K was paid to CAHA's events management services contractor, while \$110K was paid to GVB's events management services contractor. See Table 5 below for a breakdown of the management fees per contractor.

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

Table 5: Breakdown of Management Fees Paid to Events Management Services

CAHA Events Management Services Contractor		GVB Events Management Services Contractor	
Date	Amount	Date	Amount
02/17/2016	\$ 59,750	05/18/2016	\$ 30,000
03/17/2016	\$ 59,504	06/17/2016	\$ 30,000
04/28/2016	\$ 91,800	09/15/2016	\$ 40,000
06/20/2016	\$ 83,300	02/01/2017	\$ 10,000
06/30/2016	\$ 46,451		
01/27/2017	\$ 84,609		
TOTAL	\$ 425,415	TOTAL	\$ 110,000

Of the \$110K paid to GVB's events management services contractor, \$100K was for the management fee for April through June 2016 and \$10K was for December 2016. The audit team inquired why GVB's contractor was paid \$10K in December 2016 when FESTPAC ended in June 2016. The Committee explained that payments to FESTPAC vendors were still ongoing after June 2016. With the approval of the Festival Director, GVB determined that continuing services would be provided by the contractor until all vendors were paid as necessary.

The audit team found that the Committee paid \$85K to the former CAHA events management contractor in January 2017 through the GVB events management contractor to handle the FESTPAC Meals Committee after the Chairperson for the Meals Committee (a GovGuam employee) resigned in February 2016. As previously noted, the CAHA events management services contract was limited to \$800K, and was exhausted primarily due to reimbursements of goods purchased in preparation for FESTPAC by May 2016.

\$197K for Costumes Expenses

The Committee spent \$197K for costumes, which ranged from \$3 to \$113 per costume item. See Table 6 for summary and Table 7 for the breakdown of costume expenses.

Table 6: Summary of Costume Expenses

DESCRIPTION	TOTAL
Opening and Closing Ceremony Costumes	\$ 78,883
Traditional Costume Accessories	\$ 55,256
Delegate T-Shirt and Sarong Set	\$ 40,214
Costume Sets	\$ 16,320
Costume Services	\$ 6,370
Other	\$ 106
TOTAL, COSTUMES	\$ 197,148

Appendix 6:

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

Table 7: Breakdown of Costume Expenses

Description	Quantity	Price per Unit	Total Amount
Opening and Closing Ceremony Costumes			
Anklets/Bracelets	450	\$ 25.00	\$ 11,250.00
Coconut Leaf Skirt	230	\$ 45.00	\$ 10,350.00
Tuna Sticks: Men/Women Staff	450	\$ 20.00	\$ 9,000.00
Palito Dance Sticks	420	\$ 15.00	\$ 6,300.00
Fayao Short Sticks and Coconut Shells	840	\$ 10.00	\$ 8,400.00
Torches: Women's Fire	470	\$ 10.00	\$ 4,700.00
Tuna Sticks: Men's Fire Staff	150	\$ 25.00	\$ 3,750.00
Men's and Women's Neckpiece	460	\$ 10.00	\$ 4,600.00
Men's and Women's Headpiece	460	\$ 5.00	\$ 2,300.00
Katupat Pouches	450	\$ 3.00	\$ 1,350.00
Costume Supplies and Costume Set			\$ 16,883.00
Subtotal, Opening and Closing Ceremony Costumes			\$ 78,883.00
Traditional Costume Accessories			
Arm Band	808	\$ 15.00	\$ 12,120.00
Coconut Leaf Skirt	136	\$ 50.00	\$ 6,800.00
Female Headpiece	136	\$ 40.00	\$ 5,440.00
Dance Stick Set	202	\$ 21.00	\$ 4,242.00
Necklace	202	\$ 20.00	\$ 4,040.00
Dance Stick Set	202	\$ 16.00	\$ 3,232.00
Coconut Shell Set	202	\$ 15.00	\$ 3,030.00
Woven Stick Pouch	202	\$ 15.00	\$ 3,030.00
Male Headpiece	66	\$ 45.00	\$ 2,970.00
Headpieces	100	\$ 20.00	\$ 2,000.00
6 ft. Dance Stick	66	\$ 26.00	\$ 1,716.00
Woven Leaf Bags	136	\$ 10.00	\$ 1,360.00
Floral Headpiece	140	\$ 8.00	\$ 1,120.00
Conch Shells	31	\$ 33.87	\$ 1,049.97
Spanish Sash Yardage	198	\$ 4.00	\$ 792.00
Armband Sets	50	\$ 15.00	\$ 750.00

Appendix 6:

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

Description	Quantity	Price per Unit	Total Amount
White Shirts	23	\$ 19.99	\$ 459.77
Small Cowry/Chonka Shells	136	\$ 3.00	\$ 408.00
Burlap	51	\$ 7.00	\$ 357.00
Canvas Carry Bag	3	\$ 113.00	\$ 339.00
Subtotal, Traditional Costume Accessories			\$ 55,255.74
Delegate T-Shirt & Sarong Set			
Delegate T-Shirt & Sarong Set	1000	\$ 22.25	\$ 22,250.00
T-Shirt Sizes S to XL	94	\$ 10.63	\$ 999.22
T-Shirt Sizes 3XL to 4XL	22	\$ 13.38	\$ 294.36
Additional Artwork Fee	1	\$ 1,000.00	\$ 1,000.00
T-Shirts with Color Prints	640	\$ 32.00	\$ 20,480.00
Open Yardage	332	\$ 6.50	\$ 2,158.00
Blue Printed Sarongs	50	\$ 22.00	\$ 1,100.00
Credit			\$ (8,675.00)
T-Shirt Sizes M to XL	90	\$ 3.80	\$ 342.00
T-Shirt Size 2XL	10	\$ 6.50	\$ 65.00
T-Shirt Size 4XL	6	\$ 10.00	\$ 60.00
Color Print Fee	106	\$ 0.90	\$ 95.40
Artwork Fee	1	\$ 45.00	\$ 45.00
Subtotal, Delegate T-Shirt & Sarong Set			\$ 40,213.98
Costume Sets			
Tapis/Wraps	404	\$ 20.00	\$ 8,080.00
Mestiza Set	136	\$ 47.00	\$ 6,392.00
Sadi	132	\$ 14.00	\$ 1,848.00
Subtotal, Costume Sets			\$ 16,320.00
Costume Services			
Seamstress Service	75	\$ 51.97	\$ 3,897.75
Fabric for Costumes	275	\$ 8.99	\$ 2,472.25
Subtotal, Costume Services			\$ 6,370.00
Other			
Extra Charge for Mwarmwars	1	\$ 71.55	\$ 71.55
Baskets	1	\$ 34.00	\$ 34.00
Subtotal, Other			\$ 105.55
TOTAL, COSTUMES			\$ 197,148.27

Appendix 6:

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

\$212K for Souvenir Expenses

The Committee spent \$212K for souvenirs, with costs ranging from \$0.60 to \$300 per item. See Table 8 for breakdown of souvenir expenses.

Table 8: Breakdown of Souvenir Expenses

Description	Quantity	Price per Unit	Discount	Total Amount
Guam Live 2016 Concert Tickets	3000	\$ 20.00		\$ 60,000.00
Leis for FESTPAC Delegates				
Leis	3200	\$ 8.75		\$ 28,000.00
Agency Fee	1	\$ 1,768.00		\$ 1,768.00
Subtotal, Leis for FESTPAC Delegates				\$ 29,768.00
FESTPAC Umbrellas	3500	\$ 7.00		\$ 24,500.00
Non Woven Tote Bags	6000	\$ 3.89		\$ 23,340.00
T-Shirts for FESTPAC Participants				
T-Shirts Sizes S to XL	3500	\$ 4.93		\$ 17,255.00
T-Shirts Sizes S to XL	5093	\$ 5.90		\$ 30,048.70
T-Shirts Size 2XL to 3XL	699	\$ 7.90		\$ 5,522.10
T-Shirts Size 3XL	220	\$ 9.90		\$ 2,178.00
T-Shirts Sizes 2XL to 4XL	151	\$ 11.90		\$ 1,796.90
T-Shirts Size 5XL	57	\$ 13.90		\$ 792.30
Color Separation Fee	6	\$ 20.00		\$ 120.00
Setup Fee	1	\$ 50.00		\$ 50.00
Rush Fee	2	\$ 100.00		\$ 200.00
Subtotal, T-Shirts for FESTPAC Participants				\$ 57,963.00
FESTPAC Fans				
Collapsible Fans	6000	\$ 0.70		\$ 4,200.00
Fans	1	\$ 240.00		\$ 240.00
Rainbow Color Woven Fans	5000	\$ 0.60		\$ 3,000.00
Subtotal, FESTPAC Fans				\$ 7,440.00
IFIT Latte Stone Carving	20	\$ 150.00		\$ 3,000.00
Conch Shells and Accessories				
Helmet Conch Shells	30	\$ 60.00	\$ 200.00	\$ 1,600.00
Hexagon Box to Hold Conch Shells	30	\$ 8.00		\$ 240.00
Drilled Holes for Conch Shells	30	\$ 5.00		\$ 150.00
Sarong	1	\$ 8.50		\$ 8.50
Sinahl Shells	3	\$ 300.00		\$ 900.00
Subtotal, Accessories				\$ 2,898.50
IFIT Latte with FESTPAC Design	27	\$ 75.00		\$ 2,025.00
Mwarmwars and Leis				
Head Mwarmwar	20	\$ 10.00		\$ 200.00
Neck Mwarmwar with T-Leaf	25	\$ 15.00		\$ 375.00
Yapese Leis	30	\$ 25.00		\$ 750.00
Subtotal, Mwarmwars and Leis				\$ 1,325.00
TOTAL, Souvenirs				\$ 212,259.50

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

\$165K in Printing Expenses

The Committee spent \$165K for the printing of banners, booklets, posters, books, and programs used for FESTPAC. Specifically, the Committee spent:

- \$139K on the printing of banners, booklets, meal coupons, posters, programs, and photos;
- \$15K on books written by local authors;
- \$8K on wall banners and artwork; and
- \$3K on booklet layouts and poster designs.

Of the \$165K in printing expenses, we identified \$10K in questioned costs due to payments processed using vendor quotes instead of invoices, including:

- \$9,630 for 172 foam boards; and
- \$352 for two banners.

We also questioned \$299 for print media paid without supporting documentation

\$148K in Equipment Expenses

The Committee spent \$148K for equipment. Specifically:

- \$121K for an event management system that was utilized to register FESTPAC delegates and issue ID badges, which included tracking and health information, as well as a video surveillance and monitoring throughout the festival. The Chairman stated that the event management system was hosted online on a cloud computing server. However, GVB does not plan on utilizing it in the future because it was specifically designed for FESTPAC;
- \$15K for 6 six-person canoes. The total cost of the canoes was \$30K, of which CAHA paid \$15K under the Programming budget and GVB paid the remaining \$15K under its events management services contractor. This purchase was already discussed in the Procurement Law Violations section of this report; and
- \$12K for a camera that was used during FESTPAC that is currently held by GVB.

\$121K for Decorations and Floral Arrangement Expenses

The Committee also spent \$121K for decorations and floral arrangements that ranged in dollar value from \$50 to \$20K per arrangement. See Table 9 for the breakdown of decoration and floral arrangement expenses.

Appendix 6:

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category

Table 9: Breakdown of Decoration and Floral Arrangement Expenses

Description	Quantity	Price/Unit	Total Amount
Opening Reception Arrangements			
Extra Large Tropical Centerpiece Arrangements	2	\$ 300.00	\$ 600.00
100 ft. Catwalk Side Arrangements	2	\$ 20,000.00	\$ 40,000.00
Stage Floral Arrangements	6	\$ 300.00	\$ 1,800.00
Centerpiece Arrangements	70	\$ 100.00	\$ 7,000.00
Subtotal, Opening Ceremony/Reception Arrangements			\$ 49,400.00
Closing Reception Arrangements			
Stage Floral Arrangements	1	\$ 10,200.00	\$ 10,200.00
100 ft. Catwalk Side Arrangements	2	\$ 9,300.00	\$ 18,600.00
Extra Large Buffet Centerpiece	2	\$ 300.00	\$ 600.00
Discount	1	\$ (5,000.00)	\$ (5,000.00)
Subtotal, Closing Ceremony/Reception Arrangements			\$ 24,400.00
Additional Decorations and Floral Arrangements			
LED Lighting, Flood Lights, Rope Lights	1	\$ 21,400.00	\$ 21,400.00
Roses	1	\$ 171.00	\$ 171.00
Subtotal, Additional Decorations and Floral Arrangements			\$ 21,571.00
Arches for FESTPAC Entry Ways			
Arches for FESTPAC Village Entry	2	\$ 3,250.00	\$ 6,500.00
Arch for Food Area Entry	1	\$ 3,250.00	\$ 3,250.00
Arch for Paseo Stadium Entry	1	\$ 2,750.00	\$ 2,750.00
Subtotal, Arches for FESTPAC Entry Ways			\$ 12,500.00
Airport Decoration			
Arrival Column Wrap with FESTPAC Logo	6	\$ 165.00	\$ 990.00
Arrival Hand Rail Cover with FESTPAC Logo	6	\$ 116.00	\$ 696.00
Custom Free Standing Wooden Counter	1	\$ 400.00	\$ 400.00
Free Standing Chamoru Hut with Latte Stones	1	\$ 1,200.00	\$ 1,200.00
Free Standing Wooden Counter Crest	1	\$ 165.00	\$ 165.00
Front Table Podium	2	\$ 30.00	\$ 60.00
Plastic Folding Tables	3	\$ 80.00	\$ 240.00
Tropical Front Table Floral Arrangement	2	\$ 120.00	\$ 240.00
Tropical Back-Side Floral Arrangement	2	\$ 150.00	\$ 300.00
Yellow LED Uplighting	1	\$ 350.00	\$ 350.00
Setup and Delivery Fee (15% of Order)	1	\$ 696.15	\$ 696.15
Subtotal, Airport Decoration			\$ 5,337.15
Decorative Floral Arrangement			
Decorative Floral Arrangements for Closing Reception	1	\$ 2,500.00	\$ 2,500.00
Grass for Village Huts			
Bromeliad Grass for Village Huts	1	\$ 1,925.00	\$ 1,925.00
FESTPAC Village Huts Décor			
Village Huts Material	1	\$ 1,915.90	\$ 1,915.90
Opening Ceremony Arrangements			
Filler Arrangements, Ground Water in Blue Orchids	12	\$ 50.00	\$ 600.00
"Hafa Adai" Signage Above Two Latte Stones	1	\$ 200.00	\$ 200.00
Uplighting of Latte Stones and Sign	1	\$ 100.00	\$ 100.00
Official Wreath for Palauan Delegate	1	\$ 300.00	\$ 300.00
Subtotal, Opening Ceremony Arrangements			\$ 1,200.00
Tall Stained Glass Custom Piece	1	\$ 265.00	\$ 265.00
TOTAL, Decorations and Floral Arrangements			\$ 121,014

Breakdown of GVB and CAHA Events Management Services Contractors' Expenses by Category**\$65K in Lodging Expenses**

The Committee housed delegates at eight public schools during the festivities to reduce lodging costs. However, from May 2016 to June 2016, the Committee also authorized \$65K in lodging expenses, including:

- \$51K for various hotel room rentals from May 19, 2016 to June 06, 2016 for 25 country dignitaries with room rates ranging from \$159 to \$165 per night;
- \$5K for two hotel rooms for two individuals at a room rate of \$175 per night. The first individual stayed from May 18, 2016 to June 08, 2016, while the second stayed from May 27, 2016 to June 04, 2016;
- \$3K for a house rental from May 07, 2016 to June 05, 2016;
- \$2K for four hotel rooms for four guest speakers;
- \$2K for one hotel room for one individual from May 22, 2016 to May 28, 2016 at a room rate of \$259 per night;
- \$1K for 72 delegates to spend two nights in dorm rooms from May 18, 2016 to May 20, 2016 at a rate of \$10 per day per person; and
- \$1K for the lodging expenses for two individuals.

\$29K in Security Service Expenses

From May 16, 2016 to June 18, 2016, the Committee authorized \$29K in security services. According to the Chairman, the security services were needed to augment services provided by GPD from 12:00 a.m. to 7:00 a.m. daily. Although FESTPAC was held from May 22, 2016 to June 04, 2016, the Chairman explained that security was needed outside of these days in preparation for and after FESTPAC to ensure that equipment stored at the festival grounds were secured until they were removed. All security services were provided by the same vendor. Specifically, the Committee spent:

- \$24K for security services provided from May 18, 2016 to June 18, 2016.
- \$3K for overnight security services from May 21, 2016 to June 05, 2016.
- \$1K for security services provided from May 16, 2016 to May 17, 2016.

\$24K in Medical Service Expenses

From May 2016 to June 2016, the Committee spent \$24K in medical services for 19 delegates and attendees, which included a \$10K procedure for a delegate's appendectomy. The medical expenses for the remaining 18 delegates averaged \$746, with the smallest at \$125.

While the health and safety of all FESTPAC delegates and attendees are important, the audit team questioned what authorization the Committee had to approve that the payment of the medical expenses be paid out of the FESTPAC Trust Account. The Festival Director explained that it was the Executive Committee's decision to pay for the medical expenses. However, we found no written evidence of the decision by the Executive Committee.

Appendix 6:

**Breakdown of GVB and CAHA Events Management
Services Contractors' Expenses by Category**

Page 11 of 11

\$22K in Travel Expenses

From May 2016 to June 2016, the Committee authorized \$22K in travel expenses. These expenses ranged from per diem fees to additional fees for overweight baggage brought for travel. Specifically, the Committee spent:

- \$11K for the per diem of the 5 members of the Secretariat of the Pacific Community (SPC) media team;
- \$11K for plane tickets for the 5 members of the SPC media team to arrive on Guam; and
- \$910 for the excess baggage fee for one individual.

Since FESTPAC is owned by SPC, Guam was required to host the SPC Media Team to document and broadcast the FESTPAC events in collaboration with the Governor's Office and PBS Guam.

\$16K in Utilities

The Committee spent \$16K in power and water from March to June 2016 during and in preparation for the festival. Of this amount, the Committee approved a \$529 payment for private company's water bill. The Chairman explained that a FESTPAC attendee illegally parked in front of a building in Hagatna and damaged a water pipeline. The Committee agreed to reimburse the owner of the building for the payment made to repair the broken water line.

\$14K in Ground Transportation Expenses

The Committee authorized \$14K in ground transportation expenses. The ground transportation expenses were for six different shuttle service companies that were used during FESTPAC, and ranged from \$1,800 to \$2,500 per shuttle service company. The Chairman explained that these shuttle services served as free shuttle rides from Tumon to the Paseo grounds where the main events were being held.

\$11K in Miscellaneous Expenses

From May 2016 to February 2017, the Committee authorized \$11K in miscellaneous expenses, including:

- \$7K for laundry services for the linen used by delegates at the public schools;
- \$2K for an insurance policy coverage from November 2015 to November 2016. The Chairman explained that the insurance policy was purchased to add general liability coverage for FESTPAC;
- \$1K for fuel for festival boats and a rented boom lift; and
- \$1K in labor costs for the construction of Chamorro huts for FESTPAC. The Committee explained that this was separate from the concrete village huts and the huts that were donated.

The five components and the 17 principles of internal control are as follows.

Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

Principles:

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

Principles:

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

COSO Internal Control Framework

Control Activities

Control activities are the actions established through policies and procedures that help to ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, and reconciliations. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

Principles:

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information & Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is two-fold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Principles:

13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

COSO Internal Control Framework

Monitoring Activities

Ongoing evaluations, separate evaluations, or some combination of the two is used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separation evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies, or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

Principles:

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Appendix 8:**Status of OPA Report No. 16-02 Recommendations**

	Audit Recommendation	Date Closed	Action Taken
1	The 12 th FESTPAC Coordinating Committee reassess its budget to ensure that it is accounting for all the actual and in-kind revenues and expenses.	05/2016	Recommendation closed upon initiation of post audit of 12 th FESTPAC.
2	The 12 th FESTPAC Coordinating Committee provide the complete Pacific festival huts procurement file to the Attorney General for review and possible ratification.	11/2016	Recommendation closed upon initiation of post audit of 12 th FESTPAC.
3	The 12 th FESTPAC Coordinating Committee ensure that adequate controls are in place, such as: <ul style="list-style-type: none">• Assigning different individuals the responsibility of authorizing transactions, recording transactions, approving payments, and maintaining custody of assets;• Establish dollar thresholds for approval of transactions and payments; and• Regularly communicating preparation progress with the entire Committee (either via email, conference call, or meeting)	11/2016	Recommendation closed upon initiation of post audit of 12 th FESTPAC.

We included in this appendix only the main body of the FESTPAC Committee's response. The attachments will be made available to the public upon receipt of official request.



EDDIE BAZA CALVO
Governor

RAY TENORIO
Lieutenant Governor

Office of the Governor of Guam.

December 4, 2016

Ms. Doris Flores-Brooks
Public Auditor
Office of Public Accountability
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238 Archbishop Flores Street
Hagatna, GU 96910

ACKNOWLEDGEMENT RECEIPT

FESTPAC 2016 AUDIT RESPONSE DELIVERED TO THE OFFICE OF PUBLIC ACCOUNTABILITY ON MONDAY, DECEMBER 4, 2017.

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Page 1 of 5

Organizing Committee Response to FestPac Audit

Background

In 2004, Guam bid to host the Festival of Pacific Arts (FestPac) in 2016. In 2008, Guam was awarded, and officially accepted, the honor of hosting the 2016 festival. The Guam Legislature passed, and subsequently the Governor of Guam signed into law, P.L. 30-83 as amended by P.L. 32-113, to create the 12th Festival of Pacific Arts Coordinating Committee (FESTPAC Committee). The Committee's duties and responsibilities included the "management of funds, equipment, and other properties, appropriated, loaned, contributed to, or raised for the purpose of preparing for and conducting the FESTPAC."

During the closing ceremonies in July 2012, at the 11th Festival in Honiara, Solomon Islands, Lieutenant Governor Ray Tenorio, flanked by the 120-member Guam delegation, received the Festival Flag as the Head of State in front of thousands of people. From May 22, 2016 to June 4, 2016, Guam welcomed delegations from American Samoa, Australia, Cook Islands, Easter Island, the Federated States of Micronesia, French Polynesia, Hawaii, Kiribati, the Marshall Islands, Nauru, New Caledonia, New Zealand, Norfolk Islands, the Northern Mariana Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Wallis & Futuna and Taiwan.

The theme for the 12th Festival of Pacific Arts was "Hāfa Iyo-ta, Hāfa Guinahā-ta, Hāda ta Pātte, Dinanāia Sunidu Siha Giya Pasifiku," meaning "What We Own, What We Have What We Share, United Voices of the Pacific."

We are proud of the work that was done by so many of our people to host the 12th Festival of Pacific Arts, making it one of the most successful events in the festival's history as shown in Appendix A.

Economic Impact¹

During the 12th Festival of Pacific Arts from May 22 to June 4, 2016, Guam welcomed 65,846 visitors, a 25.5% increase in arrivals compared to the same period in 2015. This added an additional 40,125 visitor nights and contributed \$125,590,710 in

¹ See Appendix B: GVB FestPac Economic Impact Report.

*Page 2 of 5*

direct, indirect and induced impacts to Guam's total economy, supporting over 1,500 jobs².

Additionally, media coverage of the festival garnered international exposure, proving that Guam has the ability to host large scale international events. It also provided opportunities for Guam's cultural practitioners and local businesses to display their "Made in Guam" products and to share their local crafts with the world.

Challenges

With a little over a year before the festival, a site for the festivities was not identified, housing of delegates was not finalized and full monetary support was not realized for the event. In 2015, as a response, Governor Eddie Baza Calvo appointed GVB President & CEO Nathan Denight as Chairman of the organizing committee and the Governor's Deputy Chief of Staff Rose Ramsey as the Festival Director.

As the new Chairman and Festival Director took over the planning of FestPac, they quickly realized that the \$13 million dollar total event budget that the previous committee members had approved in 2013 was not realistic. The new committee was able to reduce the budget by almost \$5 million dollars. Great care was taken to identify other sources of funding to support the event, and to expend those funds in a responsible and transparent manner. This allowed the committee to stay within their budget and produce an event that the people of Guam are all proud of.

Capital Improvement Projects

With the limited resources available, the FestPac Organizing Committee identified other sources of funding to prepare the Paseo de Susana for the event. This included much-needed capital improvement projects necessary to accommodate the thousands of people who attended the event. The committee was committed to ensuring that funds used for these capital improvement projects will be an investment into facilities and efforts that will be permanent and able to be used in the future.

The committee worked with the Lt. Governor's Office and Government of Guam agencies such as the Department of Parks & Recreation, Department of Chamorro Affairs, Department of Public Works, Department of Agriculture and the Guam

² See GVB Tourism Satellite Account: \$79,000 in visitor spending supports one direct job on Guam.



Page 3 of 5

Economic Development Authority to move forward projects identified as part of Governor Eddie Baza Calvo's Hagatna Revitalization Plan.

In doing so, the committee was able to assist in the completion of the federally funded Paseo de Susana renovation and fishing platform, the building of 34 village huts at the Chamorro village with funds from the FestPac appropriations (this was the only capital improvement project paid for with FestPac funds) and increase pedestrian crosswalk safety using Hotel Occupancy Tax Bond Funds and DPW Highway Funds.

These were investments were not only made for FestPac but for the people of Guam and for future generations.

Funds Management

P.L. 31-77 created the Guam FESTPAC & Folklife Festival Trust Account to be administered by the Guam Visitors Bureau (GVB) and "monies deposited into the Trust Account shall be invested or reinvested into interest bearing instruments, United States treasury notes, investment grade and insured corporate notes, and other like instruments which are readily convertible to cash needed to pay for the 12th Festival of Pacific Arts held in Guam and Guam's participation in the 2015 Smithsonian Folklife Festival as determined by the 12th Festival of Pacific Arts Coordinating Committee."

In September 2015, GVB received a request letter from FestPac Committee Festival Director Rose Ramsey to transfer the funds from the FestPac & Folklife Festival Trust Account to the FESTPAC operations account under the Guam Council of the Arts & Humanities Agency (CAHA), a division of the Department of Chamorro Affairs (DCA). GVB transferred the funds as requested.

In December 2015, DCA issued a Request for Proposal to procure Event Management Services for FESTPAC. There were several companies which bid for the project, and after a review in compliance with Guam Procurement law, the Events Management contract was issued to [REDACTED] in the amount of \$800,000. In meetings with the Attorney General's Office (AG) and the Office of Public Accountability (OPA), it was determined that although FESTPAC would cost more than \$800,000 to execute, the contract was limited to that amount. It was suggested by the OPA that GVB use its Event Management Services contract to assist FESTPAC.



Page 4 of 5

At its March 24, 2016 Board Meeting, the GVB Board approved the transfer of the balance of the FESTPAC funds from CAHA to GVB and to approve the expenditure of those funds for FESTPAC logistics through GVB's Event Management Services contract subject to the approval of the AG, OPA and FESTPAC Coordinating Committee on this plan of action.

At its April 2016 meeting, the FESTPAC Committee approved the transfer of funds to GVB and the use of GVB's Event Management Services Contract. After reviewing GVB's Event Management Services Contract with [REDACTED] the OPA and AG determined GVB is not prohibited from using the contract for FESTPAC and therefore made the suggestion to turn the event management back to GVB for services and goods needed beyond the awarded contract amount to [REDACTED]

GVB issued an amendment to its Event Management Services Contract.

Audit Response

The Organizing Committee for the 12th Festival of Pacific Arts worked with GovGuam agencies and the OPA to ensure that expenditure of funds were done the greatest amount of transparently and efficiently given the compacted timelines with which the committee had to put on this monumental event. OPA even conducted a pre-event audit.

The post audit conducted by the Office of Accountability questions a total of \$89K in costs out of the \$8.4Million spent to host the festival. This represents 1% of total expenditures, rendering the questioned costs immaterial to the size and scope of the event. Furthermore, as stated in the audit by the OPA, \$36K of the \$89K costs questioned were not subject to the Government of Guam's procurement process. Therefore, the total questioned costs amounted to \$53K or less than 1% of the total event cost.

The \$53K that was identified as questioned costs were cited for not following the Government of Guam procurement process. The purchases questioned were sole-source purchases for canoes; other cultural arts supplies and production of FestPac related audio programs. Please note at the time of these procurements, FestPac funds were managed by CAHA. CAHA did its best to follow the procurement process on these expenditures, but proper documentation was not provided. Subsequently, at the recommendation of the OPA, funds were given back to GVB to manage the procurement and expenditure of funds.



Page 5 of 5

The Committee since its inception worked with the OPA to ensure that funds utilized were properly accounted for and were spent efficiently and transparently.

Conclusion

We thank the OPA and her staff. We also appreciate their acknowledgment of the successful hosting of the event as well as that it was an event our island can be proud of. For a brief fourteen days, the world's eyes were set on Guam as host of the 12th Festival of Pacific Arts. The Organizing Committee is indeed proud of the work accomplished for the people of Guam in such a short period of time. In sharing our culture, we discovered a part of ourselves we have never met. We acknowledge that the experiences and memories we created will bind us together as brothers and sisters of many nations unified as a people of the Pacific.



**12th Festival of Pacific Arts (FESTPAC)
Follow-Up Audit
Report No. 17-06, December 2017**

ACKNOWLEDGEMENTS

Key contributions to this report were made by:

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MISSION STATEMENT

**To ensure public trust and assure good governance,
we conduct audits and administer procurement appeals,
independently, impartially, and with integrity.**

VISION

**The Government of Guam is the model for good governance in the Pacific.
OPA is a model robust audit office.**

CORE VALUES

Objectivity: To have an independent and impartial mind.

Professionalism: To adhere to ethical and professional standards.

Accountability: To be responsible and transparent in our actions.

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- **Fax our office at 472-7951**
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