

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

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

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Executive Officers
Mayors' Council of Guam

We have audited the financial statements of the Mayors' Council of Guam Non-Appropriated Funds (the Fund) as of and for the year ended September 30, 2011, and have issued our report thereon dated January 4, 2013, which report was qualified as we were unable to verify the classification of certain deposits and disbursements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-1 to be a material weakness.

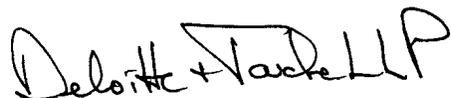
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-02 and 2011-03.

We noted certain matters that we reported to the management of the Fund in a separate letter dated January 4, 2013.

The Fund's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayors' Council of Guam, management, others within the organization and the Office of Public Accountability – Guam and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

January 4, 2013

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2011

Finding No.: 2011-01
Area: Accounting and Financial Reporting Policies and Procedures

Criteria: Formal accounting and financial reporting policies and procedures should be in place. The establishment and standardization of accounting and financial reporting policies and procedures can provide management with increased assurance that accounting and financial reporting policies and procedures are understood and consistently followed. In the event that there is turnover of key personnel, written financial reporting policies and procedures minimize disruption caused by turnover and also assists new employees in their job performance. Such policies and procedures should be documented and be readily accessible by relevant personnel.

Condition: Formal accounting and financial reporting policies and procedures are currently not in place. In addition, a process of classifying and summarizing receipts and disbursements transactions to provide accurate financial statement reporting is not in place. The Mayors' Council of Guam has established a Task Force to develop a non-appropriated fund policy that will be adhered to and implemented by all nineteen districts. Currently, the Task Force is in the process of developing uniform accounting and financial reporting policies and procedures.

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

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

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to develop formal accounting and financial reporting policies and procedures governing non-appropriated funds. These policies and procedures should include but not be limited to: (a) cash receipts; (b) cash disbursements; (c) document filing; (e) record-retention; and (f) financial reporting, among others.

Further, we also recommend that the Mayors' Council of Guam continue to serve as a resource center for municipalities on accounting and financial reporting non-appropriated fund related matters.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director, Mayors' Council of Guam

Response and Corrective Action: We agree with the findings of the audit. We further agree to continue our corrective action by finalizing and implementing a "Standard Policy" to govern the accounting and financial reporting procedures to be used by all mayoral Offices to cover (a) cash receipts, (b) cash disbursements, (c) document filing, (d) record-retention, and (e) financial reporting, at the least.

We will also procure for the use of all offices a Quickbooks accounting software Multiple-user and engage the services of University of Guam Accounting Class students to assist in the training of this system.

Proposed Completion Date: We anticipate to complete the Standard Policy and installation of the Quickbooks system by March 29, 2013.

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2011

Finding No.: 2011-02
Area: Compliance with Applicable Procurement Regulations

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

Condition: Disbursements from non-appropriated funds were not subjected to procurement procedures. The Mayors' Council of Guam had established a Task Force to research and to clarify procurement regulations applicable to NAF. Currently, the Task Force is in the process of developing a uniform procurement policy.

Cause: The cause of the above condition is the absence of formal procurement rules and regulations governing non-appropriated funds.

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director, Mayors' Council of Guam

Response and Corrective Action: We agree with the findings of the audit. We will continue in our efforts to have the Guam Legislature define the "Procurement Authority" of the Mayors' Council of Guam and the individual mayoral offices with regards to the Non-Appropriated Funds. We will develop a procurement policy governing the NAF that will be consistently and uniformly used for all NAF activities and funds.

Proposed Completion Date: We anticipate to complete the Procurement Policy by March 29, 2013. We will continue the dialogue with the Guam Legislature and look forward to some legislative action on this matter before June 30, 2013.

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Schedule of Findings and Responses
Year Ended September 30, 2011

Finding No.: 2011-03
Area: Monitoring of Non-Profit Organizations

Criteria: Policies and procedures should be in place to monitor non-profit organizations or other entities utilizing the municipalities' facilities.

Condition: A formal process to monitor non-profit organizations and other entities utilizing the municipalities' facilities is not in place. The Task Force established by the Mayors' Council of Guam is also in the process of developing policies and procedures dealing with non-profit organizations that utilize facilities under the jurisdiction of the Mayors' Offices.

Cause: The cause of the above condition is the lack of associated formal policies and procedures.

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

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to establish formal policies and procedures to monitor non-profit organizations or other entities utilizing municipality facilities. Such policies and procedures should include determining whether non-profit organizations are legal and are in compliance with Division of Revenue and Taxation filings. Further, we recommend that associated risks and liabilities be evaluated and legal advice be sought as deemed necessary.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director, Mayors' Council of Guam

Response and Corrective Action: We agree with the audit findings. We will establish a formal policy and procedures to deal with and monitor non-profit organizations and other entities who wish to utilize the facilities under the jurisdiction of the Mayors' Council of Guam or individual mayoral offices. We will coordinate with the Department of Revenue and Taxation to obtain a listing of all valid and current duly registered nonprofit organizations that will be provided to all offices for their cross-checking and references whenever such is needed.

We shall also adopt a "standard HOLD HARMLESS form" for the use of all offices that must be agreed to by facility and equipment users. We shall continue to work with the Guam Legislature to assist our office in appropriating for legal services for the Mayors' Council of Guam.

Proposed Completion Date: We anticipate to work hand in hand with the new officers of the Council and any Task Force that is organized so that all the audit findings and corrective actions can be worked on simultaneously. We therefore, anticipate to also complete this corrective action by March 29, 2013.