



Report on Compliance with Laws and Regulations
September 30, 2011

Department of Chamorro Affairs - Non-Appropriated Funds

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Department of Chamorro Affairs - Non-Appropriated Funds
Hagatna, Guam

We have audited the accompanying financial statements of the Department of Chamorro Affairs - Non-Appropriated Funds (DCANAF), as of and for the year ended September 30, 2011, and have issued our report thereon dated March 02, 2012. The report on the DCANAF was qualified because we were unable to audit the book sales/cost of sales due to insufficient support in 2010. 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

In planning and performing our audit, we considered the DCANAF'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 DCANAF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DCANAF's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2011-1 and 2011-2 to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In the attached schedule of findings, we noted several findings over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2011- 3 and 2011-4.

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

This report is intended solely for the information and use of management, the Board of Trustees, others within DCANAF, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Boise, Idaho
March 02, 2012

Financial Statement Findings

Material Weaknesses

2011-1 Audit Adjustments

Condition – During the course of the audit there were several adjustments that were proposed as a result of audit procedures to record the financial statements on an accrual basis.

Criteria – The internal control structure should include monitoring procedures that ensure that the trial balance is reflected on an accrual basis.

Cause – The controls currently in place were not sufficient to detect the misstatements to the trial balance.

Effect – The trial balance provided for the audit was misstated.

Recommendation – The client should examine current controls and make necessary changes to ensure that all adjustments are included in the trial balance.

Management's Response – Management will continue to review the trial balance each month to verify that all accrual entries are made.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – Adjustments recommended by the auditors are accepted.

Explanation of Disagreement – Management agrees with the findings.

Official Responsible for Ensuring Corrective Action – Juanita P. Quintanilla, Administrative Services Officer

Planned Completion for Corrective Action – Adjustments will be completed for the 2012 audit.

Plan to Monitor Completion of Corrective Action – Monitoring procedures that ensure that the trial balance is reflected on an accrual basis will be done as entries are made and checked again on a monthly basis and documented complete by the 15th of the following month.

2011-2 Report Preparation

Condition – The Department of Chamorro Affairs does not have an internal control system designed to provide for the preparation of financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Criteria – Management should have an internal control system in place designed to provide for the preparation of financial statements being audited.

Cause – The size of the organization and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Effect – Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Recommendation – Management should consider the costs and benefits of preparing their own report.

Management's Response – Management will develop an internal control system to provide for the preparation of the financial statements.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – A policy and procedure will be implemented, approved by the Board of Trustees to accept the forms of the audited financial statements for future use and will report financial data monthly.

Explanation of Disagreement – Management agrees with the findings.

Official Responsible for Ensuring Corrective Action – Juanita P. Quintanilla, Administrative Services Officer

Planned Completion for Corrective Action – This internal control system will be done for fiscal year end 2011.

Plan to Monitor Completion of Corrective Action – Management will seek a consultant to update and train staff on the use of Quickbooks. In addition to Quickbooks, management will search for a financial system that will automatically generate financial reports and flag entries of concern.

Significant Deficiencies

2011-3 Procurement

Condition – During fieldwork, there were several instances noted where food was purchased for various events that was not considered an appropriate use of the Department of Chamorro Affairs funds, as well as a book that was commissioned without a properly executed contract. These purchases took place during the October through December 2010 time period, which coincided with the end of the term of the prior President of the Department of Chamorro Affairs.

Criteria – According to Title 5 of the Guam Code Annotated Section 5429 and 5250, a complete record of each procurement must be maintained. In addition to a record of each procurement award, no procurement award shall be made unless a responsible procurement official certifies that he/she has maintained a record of the procurement.

Cause – The controls that were in place did not detect the violation with the Government of Guam procurement policies.

Effect – There were several expenditures paid during the years audited where DCANAF funds were used for expenditures that were not considered within the best interest of DCANAF, such as food. The total amount of these expenditures was \$41,683, all of which were incurred in the first quarter of 2011 by the prior President.

Recommendation – The Department of Chamorro Affairs should have a control system in place to verify that they are following the procurement policies of the Government of Guam, which includes spending DCANAF funds on necessary items that are within the best interest of DCANAF. DCANAF should consider exploring its legal options to remedy the actions of the previous President regarding the finding.

Management's Response – Non-compliance with the Government of Guam procurement policies regarding purchases did occur with the past President. Food was purchased for various events, certified and authorized by the past President who ordered the preparation and cutting of checks for these purchases.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding –The department has ceased the purchase of food.

Explanation of Disagreement – Management agrees with the findings.

Official Responsible for Ensuring Corrective Action – Juanita P. Quintanilla, Administrative Services Officer

Planned Completion for Corrective Action – A complete record of each procurement will be maintained and no procurement award shall be made unless certified by the department's certifying officer and approved by the appointing authority, the President. The Board of Trustees of the Department of Chamorro Affairs has a policy in effect that food expenditures are solely for the purposes of marketing the programs and activities of the Department of Chamorro Affairs. Any amounts exceeding \$250 are to be approved prior to expenditure by the Board of Trustees.

Plan to Monitor Completion of Corrective Action – The Department of Chamorro Affairs will have an internal control system in place to verify that they are following the procurement policies of the Government of Guam. In addition to the required procurement forms, DCANAF will require every transaction be accompanied by an approved budget plan.

2011-4 Travel Policy

Condition – During the course of the audit there were several instances noted during the time period of October 2010 through December 2010, where travel related expenditures were not approved in accordance with the travel policy guidelines of fifteen days prior to travel and expressed approval by the Board of Trustees.

Criteria – According to the Department of Chamorro Affairs' travel policy, all travel related expenditures must be approved fifteen days prior to travel.

Cause – The controls that were in place did not detect the violation with the Department of Chamorro Affairs' travel policy.

Effect – There were several instances noted where travel related expenditures were not approved within the fifteen day required time period of travel.

Recommendation – The Department of Chamorro Affairs should have a control system in place to verify that they are following their travel policy.

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Management's Response – There have been no travel utilizing Department of Chamorro Affairs' funds from January 3, 2011 to present that have not first obtained Board of Trustee approval.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – All travel expenditures utilizing Department of Chamorro Affairs' funds are approved in accordance with Government of Guam policies.

Explanation of Disagreement – Management agrees with the findings.

Official Responsible for Ensuring Corrective Action – Juanita P. Quintanilla, Administrative Services Officer

Planned Completion for Corrective Action – As of January 3, 2011, all travel related expenditures utilizing Department of Chamorro Affairs funds are approved by the Board of Trustees.

Plan to Monitor Completion of Corrective Action – All travel expenditures utilizing Department of Chamorro Affairs' funds are first approved by the President of Department of Chamorro Affairs and then forwarded to the Board of Trustees for final approval.