



Report on Compliance with Laws and Regulations
September 30, 2010 and 2009

Department of Chamorro Affairs - Non-Appropriated Funds

Department of Chamorro Affairs - Non-Appropriated Funds

Table of Contents

September 30, 2010 and 2009

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* 1

 Schedule of Findings..... 3



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 years ended September 30, 2010 and 2009, and have issued our report thereon dated June 17, 2011. The report on the DCANAF was qualified because we were unable to audit the inventory balance and related book sales/cost of sales due to insufficient support. 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 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.

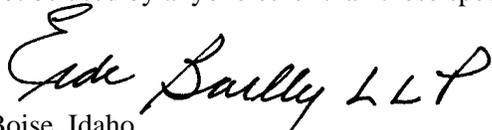
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and 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 as findings 2010-1 through 2010-4, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2010-5 through 2010-6.

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 the entity, 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 Bailly LLP".

Boise, Idaho
June 17, 2011

Financial Statement Findings

Material Weaknesses

2010-1 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 – Many of the adjustments were dated as far back as 2004 and remained on the books until such time an audit would officially write off. The decision to keep items on the books was due to the lack of data and justification why the entry in question was 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 and for the 2011 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.

2010-2 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.

2010-3 Disclaimer of Opinion on Book Inventory Balance

Condition – The book inventory balance on hand as of September 30, 2010 and 2009 was not able to be substantiated by supporting documentation.

Criteria – The balances in the trial balance should be substantiated by supporting documentation.

Cause – The inventory was purchased in prior years and the supporting documentation was not retained.

Effect – As auditors, we were unable to verify the balance on hand as of the years ended September 30, 2010 and 2009, and thus could not express an opinion on the balance.

Recommendation – The client should review the balances included in the trial balance and make sure they are substantiated with supporting documentation.

Management's Response – The book inventory on hand in file was dated as far back as 2004 and did not include what was sold and given out as complimentary books. In addition, a book inventory was done in 2008 and given to the Governor was not crosschecked nor certified true and correct by management.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – As a starting point, a physical inventory is being prepared and entries updated with the supporting documentation certified true and correct by management and staff. Training of administrative staff will be scheduled. Plans to recruit for additional staff to include an administrator and administrative personnel for each division are in progress.

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 – All plans to be complete by fiscal year end 2011.

Plan to Monitor Completion of Corrective Action – A report on the book inventory will be set up and submitted to management monthly and must be certified true and correct.

2010-4 Related Party Transactions

Condition – From November 2007 through December 2010, there was \$9,686 paid to a vendor for a book called *Inspiration of Guam* that was co-authored and edited by the former president of the Department of Chamorro Affairs. The \$9,686 was included in the following fiscal years:

- \$86 in Fiscal Year 2008
- \$2,850 in Fiscal Year 2009
- \$1,500 in Fiscal Year 2010
- \$5,250 in Fiscal Year 2011

Criteria – According to Public Law 25-69, Section 87719: “While serving in office, and for a period of one year after leaving office, no individual member of the Trustees or the Divisions’ Boards, no employee, no member of its committees, subcommittees, panels or advisory groups shall be eligible to receive in that person’s name a grant, loan or other form of assistance from the *Dipattamenton I Kaohao Guinahan* Chamorro, or any related or administered program.

Cause – The controls that were in place did not detect the related party transactions between DCA and the former president.

Effect – The \$9,686 paid to a vendor was in direct conflict with Public Law 25-69, Section 87719 due to the book being co-authored and edited by the president of DCA at the time the funds were paid.

Recommendation – Related party transactions should be reviewed to verify that they are not in a direct conflict of interest with DCA in accordance with Public Law 25-69, Section 87719 and that they appear reasonable. DCA should consider exploring its legal options to remedy the actions of the previous President regarding the finding.

Management’s Response – The related party transactions were brought to the attention of the past President at the time of the transactions. The past President used her appointing authority by the Governor to direct transactions being made. These transactions are certified and approved by the past President.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – The department ceased the purchases of these books.

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 – Strict adherence to Public Law 25-69, Section 87719 will be enforced. The department has ceased the purchase of the books. Only the Haleta Series, the I Hinanao-ta and the Official Chamorro Dictionary published by the department will be printed and sold by the department.

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 policies as established by to Public Law 25-69, Section 87719.

2010-5 Conflict of Interest Transactions

Condition – See finding 2010-4

Criteria – See finding 2010-4

Cause – The controls that were in place did not detect the violation in the conflict of interest of DCA.

Effect – The \$9,686 paid to a vendor was in direct conflict with Public Law 25-69, Section 87719 due to the book being co-authored by the president of Department of Chamorro Affairs at the time the funds were paid.

Recommendation – All disbursements made by DCANAF should be reviewed to verify that they are not in a direct conflict of interest with DCANAF in accordance with Public Law 25-69, Section 87719.

Management's Response – The Conflict of Interest transactions were brought to the attention of the past President at the time of the transactions. The past President used her appointing authority by the Governor to direct transactions being made. These transactions are certified and approved by the past President.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – The department ceased the purchase of these books.

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 – Strict adherence to Public Law 25-69, Section 87719 will be enforced. The department has ceased the purchase of the books. Only the Haleta Series, the I Hinanao-ta and the Official Chamorro Dictionary published by the department will be printed and sold by the department.

Department of Chamorro Affairs - Non-Appropriated Funds

Schedule of Findings
September 30, 2010 and 2009

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 policies as established by to Public Law 25-69, Section 87719.

2010-6 Procurement

Condition – During fieldwork, there were many instances of non-compliance with the Government of Guam procurement policies regarding obtaining the lowest pricing for any services or product purchases and/or documenting the Department of Chamorro Affairs reasoning behind choosing the vendor that was chosen for expenditures. There were also instances noted where food was purchased for various events that was not considered an appropriate use of the Department of Chamorro Affairs funds. During the year ended September 30, 2009, there were \$53,009 in such costs noted. During the year ended September 30, 2010, there were \$71,802 in such costs noted. Prior to the years included in the audit (prior to October, 1, 2008), there were \$66,372 of such costs noted. Subsequent September 30, 2010, there were \$28,464 of such costs noted.

Criteria – According to Public Law 18-44, Section 6964.4 and 6964.5, 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 many expenditures paid during the years audited, as well as in prior years, where there was no documented evidence that the lowest pricing for any service or product purchase was obtained for expenditures. If there were not multiple vendors on the island of Guam to obtain multiple bids for a given service/good, then document that reasoning with the expenditure. Also, DCANAF were used for expenditures that were not considered within the best interest of DCA, such as on food.

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. DCA 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 obtaining quotations and/or documenting the justification for the services and 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 obtaining of three quotes and justification of services and purchases of items will be required prior to the processing of checks. 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

Department of Chamorro Affairs - Non-Appropriated Funds

Schedule of Findings

September 30, 2010 and 2009

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.

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, DCA will require every transaction be accompanied by an approved budget plan.