

To the Board of Trustees
Department of Chamorro Affairs
Hagatna, Guam

In planning and performing our audit of the financial statements of the Department of Chamorro Affairs - Non-Appropriated Funds as of and for the years ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Department of Chamorro Affairs - Non-Appropriated Funds' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Chamorro Affairs - Non-Appropriated Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Chamorro Affairs - Non-Appropriated Funds' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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 following deficiencies in Department of Chamorro Affairs - Non-Appropriated Funds' internal control to be material weaknesses:

- During the course of our engagement, we proposed material audit adjustments.
- As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.
- We were unable to audit the book inventory balance as of September 30, 2010 and 2009, as well as the related book sales and cost of sales due to insufficient documentation.
- There were several transactions that were paid to a vendor from 2007 through 2010 for a book that was co-authored and edited by the president at the time of the payments, which is in violation with Public Law 25-69, Section 87719.
- There were many transactions that were not compliant with Guam law regarding Guam's procurement policies, as well as instances of not spending DCA funds in the best interest of DCA (on items such as food).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP
Boise, Idaho
June 17, 2011

MATERIAL WEAKNESSES

Material Audit Adjustments

Condition:

During the course of our engagement, we proposed material audit adjustments to the initial trial balance that was provided for the audit.

Recommendation:

Management should develop written procedures for year-end closure to ensure that all year-end adjustments are recorded and that the financial information is recorded accurately and in a timely manner.

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.

Reporting

Condition:

The Statement on Auditing Standard No. 112, "Communicating Internal Control Related Matters Identified in an Audit" changed and expanded the definition of a material weakness and a significant deficiency. Due to these expanded definitions, clients must be able to accurately prepare their own financial statements without the assistance or adjustment by the auditor. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size.

Recommendation:

Management should discuss the risks and costs involved with this condition and decide whether to accept the degree of risk because of cost or other considerations.

Management's Response:

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

Disclaimer of Opinion on Inventory Balance

Condition:

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

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.

Related Party/Conflict of Interest Transactions

Condition:

From November 2007 through December 2010, there was \$9,686 paid to Guam Rock Image for a book called *Inspiration of Guam* that was co-authored by the former president of the Department of Chamorro Affairs.

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.

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 be made. These transactions are certified and approved by the past President.

Procurement

Condition:

During fieldwork, there were many instances of non-compliance with the Government of Guam procurement policies regarding obtaining various bids for work 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.

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 DCA funds on necessary items that are within the best interest of DCA.

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.