



Compliance and Internal Control

**Department of Chamorro Affairs –
Non-Appropriated Funds**

Year ended September 30, 2012

Ernst & Young LLP

Department of Chamorro Affairs – Non-Appropriated Funds

Report on Compliance and Internal Control

Year ended September 30, 2012

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

We have audited the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the year ended September 30, 2012, and have issued our report thereon dated May 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 DCANAF is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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.

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 certain 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 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 to be a material weakness. This finding is listed as 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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* and which are described in the accompanying schedule of findings and responses as items 2012-2 and 2012-3.

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

We noted certain other matters that we reported to management of the DCANAF in a separate letter dated May 10, 2013.

This report is intended solely for the information and use of the Board of Trustees and Management of the DCANAF, the Office of Public Accountability of Guam, others within the entity, 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.

Ernst + Young LLP

May 10, 2013

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-1

Criteria or specific requirement:

Internal controls over the financial statement close process should be established and implemented to ensure that transactions are recorded in the proper period and audit adjustments are timely recorded.

Condition:

As of September 30, 2012, several prior year audit adjustments were not recorded in the books. In addition, several audit adjustments were required in order to record transactions in the proper period.

Context:

The unrecorded adjustments were discovered during our reconciliation of the beginning net assets to the audited financial statements as of October 1, 2011. We also verified, through our search for unrecorded liabilities, that certain expenses were not accrued as of September 30, 2012.

Effect:

The beginning balance of net assets did not agree with the audited balance as of September 30, 2011. The trial balance provided during the audit of September 30, 2012 financial statements of the DCANAF was not presented in accordance with the accrual basis of accounting.

Cause:

There are no monitoring controls in place to ensure current year transactions and audit adjustments are properly recorded.

Recommendation:

Management should review the financial statements to minimize material misstatements and to detect or correct errors on a timely basis.

Management's Response:

Due to the absence of division administrators, especially with the absence of Chamorro Village Manager and the absence of Administrative Assistants, monitoring of daily operations was difficult. It was during this time that these positions were vacant and the department was actively recruiting. Management will collectively review the financial statements monthly prior to closing and after closing and authorized signatures will be required. The Administrative Services Officer will then adjust books to ensure that transactions are recorded in the proper period and adjustments, if any, are timely recorded.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-2

Criteria or specific requirement:

Public Law 30-83 creates the Coordinating Committee responsible for the organization, preparation, execution of plans, programs and budgets for the 12th Festival of Pacific Arts that will be hosted by Guam in 2016. Specifically, Section 4 states that the Committee shall also establish such rules of order or procedure as it deems appropriate. In May 2011, the Governor of Guam appointed the Coordinating Committee to oversee Guam's participation in the 11th Festival of the Pacific Arts that was held in July 2012.

Condition:

There is no written policy or procedure describing the standard operating procedures on management of funds, equipment, and other properties, appropriated, loaned, contributed to, or raised for the purpose of preparing for and conducting activities relating to the Festival of the Pacific Arts.

Context:

We were informed that the minutes of the meetings of the Coordinating Committee serves as evidence of written policies. However, upon reading minutes provided to us, we could not corroborate this assertion. Accordingly, there is no formal process or written policy for the following:

- Selection of delegates;
- Travel, accommodations and transportation, including the required authorizations;
- Travel advances, per diem and the liquidation process, including required approvals and review;
- Allowed costs and incidental expenses, including limitations and the required documentation; and
- Custody or safekeeping of any items or assets acquired.

Effect:

The requirements of Public Law 30-83 on established rules of order or procedure have not been met.

Cause:

The Committee places undue reliance on discussions held during their meetings rather than formalizing a written standard procedures manual as intended under PL 30-83.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-2, continued

Recommendation:

Written policies and standard operating procedures should be established to ensure proper accountability of the funds relating to the Festival of the Pacific Arts.

Management’s Response:

All divisions of the Department of the Chamorro Affairs follow government rules and regulations and comply with all public law requirements. Draft written policies and standard operating procedures were developed mirroring the Government of Guam and will be presented to the Board of Trustees in its board meeting on May 15, 2013.

The issue will also be brought up to the Coordinating Committee of the Festival of Pacific Arts to provide formal procedures and written policy on all matters pertaining to travel.

Finding No. 2012-3

Criteria or specific requirement:

Section 23104 of Title 5 Guam Code Annotated requires all persons who have completed travel on behalf of the Government of Guam to clear all travel advances within ten (10) days following the return from official travel. Furthermore, Section 1712 of the Government of Guam Travel and Transportation Manual states that advances to travelers are chargeable to the traveler’s account or receivable until the account is settled in a travel voucher. In the event the advance exceeds the reimbursable amount, the traveler shall refund immediately such excess.

Condition:

The travel related expenditures were not documented in accordance with the above applicable travel laws and regulations.

Context:

Travel advances totaling \$17,500 made to three employees for 2012 FESTPAC related expenses were not cleared within the required period of ten (10) days after return from travel.

Check Number	Check Date	Amount	Return Date	Date Cleared *
0166	06/27/2012	\$7,500	07/15/2012	12/12/2012
0167	06/27/2012	\$5,000	07/15/2012	12/16/2012
0168	06/27/2012	\$5,000	07/15/2012	12/12/2012

* Submission date of receipts and other supporting documentation.

In addition, the travel advances were recorded as an outright expense rather than advances to or receivables from employees.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Findings and Responses, continued

Finding No. 2012-3, continued

Effect:

The travel advances were not settled within the required time frame. Furthermore, funds returned by employees were not immediately deposited to the FESTPAC account.

Cause:

There is no strict implementation of the applicable travel laws and regulations.

Recommendation:

Management should enforce existing rules and regulations and ensure travel expenses as well as advances have been documented accordingly.

Management's Response:

All divisions are required to follow the Government of Guam Travel Law whether it is a government employee or non-government employee. As a result of this audit, DCA will adopt a travel policy within the department to ensure that non-profit organizations abide by the Guam Travel Law.

In addition to this, formal procedures and written policy will be completed and approved by the Coordinating Committee of the Festival of Pacific Arts. Strict guidelines will be enforced. As recommended by the Public Auditor, CAHA will seek the guidance of the Guam Visitors Bureau on proper documenting of all matters pertaining to off-island travel through non-appropriated funds.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Prior Audit Findings and Responses

Findings in the prior year Audit Report dated March 2, 2012 are as follows:

Finding No. 2011-1 Audit Adjustments

Finding:

Several adjustments were proposed as a result of audit procedures to record the financial statements on an accrual basis.

Status:

Management reflected the September 30, 2012 financial statements on an accrual basis. However, adjustments were still proposed to record certain transactions in the proper period.

Finding No. 2011-2 Report Preparation

Finding:

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 this 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.

Status:

Management relied on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Finding No. 2011-3 Procurement

Finding:

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.

Status:

The department has ceased the purchase of food. No similar finding was noted during the September 30, 2012 audit.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Prior Audit Findings and Responses, continued

Finding No. 2011-4 Travel Policy

Finding:

Travel related expenditures were not approved within the fifteen day required time period of travel.

Status:

Management has implemented a policy where all travel related expenditures utilizing Department of Chamorro Affairs' funds are approved by the President and the Board of Trustees. No similar finding was noted during the September 30, 2012 audit.