

Compliance and Internal Control

**Department of Chamorro Affairs –
Non-Appropriated Funds**
(A Component Unit of the Government of Guam)

Year ended September 30, 2019



Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Report on Compliance and Internal Control

Year ended September 30, 2019

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Report of Independent Auditors 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*

Management and the Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise DCANAF's basic financial statements and have issued our report thereon dated January 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCANAF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DCANAF's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2019-001, 2019-002 and 2019-003 that we consider to be material weaknesses.

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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DCANAF's Response to Findings

DCANAF's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. DCANAF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

January 21, 2021

Department of Chamorro Affairs – Non-Appropriated Funds
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Schedule of Audit Findings and Responses

Finding No. 2019-001

Criteria

Internal controls should exist to prevent conflicts of interest.

Condition

It is our understanding that:

- A former executive of DCA, had instructed and approved voiding of rental billings assessed to a tenant of the Chamorro Village, and that
- the former DCA executive has a financial interest in the tenant
- this situation was brought to the attention of the Public Auditor through a whistle blower

Cause

There is a lack of internal controls to detect and prevent the initiation of transactions wherein personnel of DCA have a conflict of interest.

Effect or potential effect:

June to November 2019 billings totaling \$2,100 to a specific tenant of Chamorro Village were voided at the instruction of DCA's former executive. There is no evidence to support reasons why the billings were voided.

Recommendation

We recommend that DCA create internal controls to prevent personnel, who have conflicts of interest, to initiate and approve transactions involving the DCANAFs.

Views of responsible officials:

Management agrees. Please refer to the separate correction action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
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Schedule of Audit Findings and Responses, continued

Finding No. 2019-002

Criteria

DCANAF should have a qualified accountant to handle the accounting process.

Condition

A lack of a qualified accountant resulted in:

- an inadequate financial statement close process
- a delay in preparing the year end September 30, 2019 trial balance
- supporting schedules for the trial balance were not readily available
- prior audit adjusting entries had not been recorded
- improper cut off of accounts payable
- lack of physical inventory management over books held for sale
- revenue transactions are recorded on a cash basis rather than the modified accrual basis of accounting
- A bank deposit totaling approximately \$13,000 representing a remittance made from the Guam Museum operator, was incorrectly deposited using a bank deposit slip containing the Guam Museum operator's bank account. Accordingly, the \$13,000 was not deposited into the bank account of the DCANAF

Cause

DCA does not have a full-time, qualified accountant to handle the accounting process of the various non-appropriated funds.

Effect or potential effect:

DCANAF does not have an accountant who possesses adequate skill sets to ensure that accounting records are maintained so that timely financial statements can be generated.

This is the proximate cause for DCANAF's inadequate financial statement close process. As such, the DCANAF was unable to close its fiscal year end September 30, 2019 trial balance until approximately nine months after the year end. In addition, schedules to support the trial balance were not readily available.

Recommendation

We recommend that DCA employ an experienced full-time accountant.

Views of responsible officials:

Management agrees. Please refer to the separate correction action plan.

Department of Chamorro Affairs – Non-Appropriated Funds
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Schedule of Audit Findings and Responses, continued

Finding No. 2019-003

Criteria

Government Accounting Standards Board (GASB) Codification 1600 – *Basis of Accounting* require revenues from exchange transactions should generally be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts.

Condition

DCANAF did not recognize revenues and related receivables arising from the operations of the Guam Museum and Chamorro Educational Facility (the Project). The Project started operations in November 2016 and was managed, operated and maintained by a contractor. The contract agreement states that all admission and event fees, membership fees, endowments, donations, corporate contributions, local, federal and private grants, non-appropriated funds and other revenue streams are to be remitted to the DCANAF. The contractor, however, deducts gross receipts tax and other operating expenses from its remittances to the DCANAF.

DCANAF has also been unable to obtain an annual audit from the contractor regarding its services.

Cause

DCANAF was unable to timely obtain records from the contractor to record the revenues prior to the close of the September 30, 2019 financial statements. DCANAF has been unable to resolve the disagreement with the contractor on the amount to be remitted from the operations of the Project.

Effect or potential effect:

An audit adjusting journal entry was recorded to correct for the understated revenues and receivables related to the operations of the Project. Due to the ongoing nature of the dispute, certain balances are provided a valuation allowance due to the uncertainty of collecting the aforementioned amounts.

<u>Fiscal Year</u>	<u>Disputed Revenues</u>	<u>Allowance</u>	<u>Net</u>
FY 2018	\$46,690	\$(46,690)	\$ ---
FY 2019	<u>22,208</u>	<u>(13,530)</u>	<u>8,678</u>
	<u>\$68,898</u>	<u>\$(60,220)</u>	<u>\$8,678</u>

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Schedule of Audit Findings and Responses, continued

Recommendation

DCANAF should consider strengthening procedures to ensure that records are obtained timely to support the amounts to be recorded in its financial statements.

Views of responsible officials:

Management agrees. Please refer to the separate correction action plan.