

**Guam Veterans Affairs Office
Non-Appropriated Funds**

**Performance Audit
October 1, 2008 to September 30, 2011**

**OPA Report No. 12-01
March 2012**



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EXECUTIVE SUMMARY
Guam Veterans Affairs Office
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OPA Report No. 12-01, March 2012

Our review of the Veterans Affairs Office (VAO) found that the Guam Veterans Commission did not perform its fiduciary responsibility to provide oversight or adequately monitor VAO's finances and operations. Instead, the Commission relied extensively on the former and present Administrators. From FY 2009 to 2011, the two non-appropriated fund accounts recorded total deposits of \$66,091 and total expenditures of \$65,681. We found the following:

- Pre-numbered receipts were not used for cash received;
- Receipts were not reconciled to deposits;
- 17 blank checks were pre-signed, resulting in \$12,261 in disbursements under the current Administrator;
- Guam Procurement Law and Regulations were not followed, resulting in \$65,500 in disbursements without evidence of the minimum three quotes. Of this amount, \$53,239 and \$12,261 were under the former and current Administrators, respectively;
- \$46,391 in disbursements did not have supporting documentation, of which \$35,808 and \$10,583 were disbursed by the former and current Administrators, respectively;
- The payees or nature of disbursements on 15 checks totaling \$26,758 paid by the former Administrator could not be determined;
- The current Administrator's travel was not approved by the Commission;
- Petty cash reimbursements under the current Administrator were not reconciled to receipts;
- Bank reconciliations were not performed;
- Quarterly and annual financial reports were not prepared and submitted;
- Tax filing reports were not prepared and submitted; and
- The Administrators had sole custody and complete control over the handling and recording of cash received and disbursed.

We concluded that it was not possible to completely assess or quantify the extent of (1) loss due to the lack of burial claims submitted by the former Administrator, and (2) possible misuse or misappropriation due to poor record keeping. Due to the lack of VAO records, we subpoenaed the bank statements for the Guam Veterans Cemetery Trust Fund and the Veterans Affairs Fund and reviewed and prepared schedules of cash receipt and disbursement transactions. Based on available records, we did not find evidence or deliberate attempts to misuse or misappropriate VAO funds. This was VAO's first audit with findings similar to other audits conducted on Non-Appropriated Funds (NAF).

Cash Receipts Deficiencies

Of the \$66,091 in deposits, we were unable to identify the nature of \$9,391 in deposits because VAO did not maintain pre-numbered receipt books. We also found \$952 in written cash receipts

between January and July 2011 for donations or payments that could not be traced to specific deposits in the bank statements. We could not ascertain whether all cash received under the former Administrator were deposited due to the lack of records. The former and present Administrators informed us that they held cash: (1) to pay or reimburse VAO staff; (2) to purchase supplies; or (3) because they did not have the time to make bank deposits right away.

Burial Reimbursement Claims Listing Not Maintained

The U.S. Department of Veterans Affairs (USDVA) reimburses VAO up to \$300 for the burial of each eligible veteran or retiree, whose death is non-service related. We found that VAO did not maintain a listing of claims submitted to USDVA for reimbursement. Based on available records, from fiscal years 2009 to 2011, VAO submitted 314 claims for \$94,200, of which USDVA reimbursed 138 claims for \$41,400. We noted that USDVA did not process some claims because payments had already been made to VAO or there were discrepancies that needed to be resolved. VAO subsequently received approval for 126 claims totaling \$37,800 in November 2011. Altogether, VAO received \$94,500 or \$300 more than the \$94,200 they claimed in the three years. Because VAO files were incomplete, we could not ascertain whether all claims were processed, approved, and paid.

Pre-Signed Blank Checks

Title 10 of G.C.A. § 67105.1 and 67109 requires the Commission to approve all expenditures for both non-appropriated funds. Accordingly, the Commission designated the Chairman and the Treasurer as the authorized signatories on the two bank accounts. Although the Administrator is expected to manage and account for the funds, he is not an authorized account signatory.

According to the former Chairman because the Commission lacked enough members for a quorum throughout 2011, he and the Treasurer were asked by the current Administrator to sign blank checks in order to keep VAO operational. The former Chairman admitted that they signed blank checks without supporting documentation (e.g. invoices). From January to September 2011, the former Chairman and the former Treasurer signed 17 blank checks which subsequently totaled \$12,261. The former Chairman and the former Treasurer acted merely as check signers and did not perform their fiduciary responsibilities to review, monitor, and question VAO's activities.

No Travel Authorization

Of the 17 pre-signed blank checks, two checks were related to the current Administrator's travel to attend a conference in Oregon. A \$1,505 check was issued to a travel company in August 2011 to pay for the airfare, but no supporting documentation was on file. In September 2011, the current Administrator received a \$3,200 reimbursement for travel expenses and a battery purchase, in which we verified attached receipts totaling \$1,020 for the conference fee, lodging, and car rental. We received additional information in March 2012 to substantiate the battery purchase of \$132. However, the remaining \$2,048 was unsupported because was no travel authorization on file to show how the per diem was calculated.

In March 2012, we received a copy of the Administrator's administrative leave form approved by the Governor's Chief of Staff, but we still were not provided an approved and signed travel authorization form or Commission minutes indicating travel approval.

Designation of Administrator

Title 10 G.C.A. § 67100 calls for the VAO Administrator to be a classified employee to serve as administrative head yet subject to the direction and control of the Governor. In practice, the Governor appoints an unclassified Special Assistant to fill the Administrator position. As unclassified employees, the former Administrator served from February 2003 to December 2010 and the current Administrator began his appointment in January 2011. Given that the Administrator serves at the Governor's pleasure and remains subject to his direction and control, the position is better suited to be in the unclassified service. We recommend the Commission review the matter further to determine whether a change in law is needed to reflect the current practice.

Conclusion and Recommendations

The Commission's inability to provide oversight and monitoring over VAO's finances and operations led to \$66,453 in lost/potential revenues, as well as unallowable and unsupported costs. We made several recommendations to improve the management and accountability of non-appropriated funds, such as (1) immediately discontinue the practice of signing blank checks and require the Administrator to provide supporting documentation prior to all disbursements, (2) perform monthly bank reconciliations and prepare monthly financial statements to ensure that all cash collected and disbursed are accurately accounted for, and (3) maintain a list of all claims submitted to the U.S. Department of Veterans Affairs.

A draft report was transmitted to the Board Chairman of the Guam Veterans Commission and the VAO Administrator in February 2012. The Board Chairman generally concurred with the audit report findings and provided a plan of action. In March 2012, the current Administrator disagreed with our findings and provided a detailed response. While additional information was subsequently provided to document \$9,828 in expenses directly related to the pre-signed blank checks, they were not enough to clear all questioned costs. Their management responses are attached to our report as Appendices 10 and 11.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our audit of the Guam Veterans Affairs Office (VAO) from October 1, 2008 through September 30, 2011. The audit on VAO's management of funds was initiated at the request of two Senators of the 31st Guam Legislature. Our objective was to determine whether VAO's non-appropriated funds (NAF) were properly managed and accounted for in accordance with applicable laws and regulations.

The audit scope, methodology, and prior audits are detailed in Appendices 2 and 3.

Background

Title 10 of the Guam Code Annotated (G.C.A.) § 67100 created the Office of Veterans Affairs (referred to as the Office or VAO) within the Office of the Governor. Further, the Veterans Affairs Officer (referred to as the VAO Administrator), "is a member of the *classified service* (emphasis added) and is the administrative head . . . subject to the direction and control of *I Maga'lahen Guahan*."

Under § 67102, VAO is responsible for administering all local laws, programs, and services owed to veterans of the United States (U.S.) Armed Forces, including retirees, active duty personnel and/or their dependents and survivors. VAO assists in preparing, submitting and presenting any claim against USDVA for compensation, pension, survivor's annuity, burial, hospitalization, insurance, education, health, medical rehabilitation, employment, reemployment services, or other entitled benefits pursuant to Title 38, United States Code, and other applicable laws. The VAO also is responsible for coordinating with the respective military branches for burial honors for deceased veterans, active duty personnel, and retirees at the Guam Veterans Cemetery.

Annual Appropriation and Staffing

VAO's appropriation for FY 2012 totaled \$293,983. Its total appropriations from fiscal years 2009 to 2011 amounted to \$1,006,095 and its expenditures totaled \$924,742. We noted VAO's FY 2011 appropriations were \$503,911, which was comprised of \$353,911 from the General Fund and \$150,000 from the Territorial Highway Fund (THF). Of the \$150,000 from the THF, \$136,361 was expended.

Table 1: Annual Appropriations

<u>Fiscal Year</u>	<u>Appropriations</u>	<u>Expenditures</u>
2011 (unaudited)	\$503,911	\$447,089
2010	\$255,827	\$240,024
2009	\$246,357	\$237,629
Total	<u>\$1,006,095</u>	<u>\$924,742</u>

When fully staffed, VAO should consist of six employees: the Administrator, an Administrative Assistant, three Health/Benefit Services Representatives (currently one position filled; and two vacant) and a Cemetery Maintenance Supervisor (vacant).

Guam Veterans Commission

Title 10 G.C.A. § 67107 established the Guam Veterans Commission to be comprised of members of both federally recognized and non-recognized veterans' groups which are duly registered with the Department of Revenue and Taxation (DRT) as non-profit organizations and annually submit a non-profit annual report to the Commission and DRT. Thus, Commission membership varies according to the number of veterans' organizations. Commission members serve voluntarily, without compensation, for no more than two years and elect officers each term. Currently, there are seven members on the Commission.

The Commission meets quarterly and advises the Administrator on matters affecting veterans and eligible claimants regarding Veterans Administration-related issues. A majority (50% plus 1) of membership constitutes a quorum. The Commission provides veterans and their families the opportunity to air grievances or seek corrective action to policies affecting the delivery of benefits and services. The Commission is also the body responsible for the expenditure of the NAF.

Under § 67108, when the Administrator position is vacant, the Commission may recommend to the Governor a nominee from the Department of Administration's list of eligible applicant(s).

Non-Appropriated Funds

The VAO Administrator manages two non-appropriated funds: the Veterans Cemetery Trust Fund for the maintenance of the Veterans Cemetery and the Veterans Affairs Fund for various purposes. Separate non-interest bearing checking accounts were established for the funds.

Veterans Cemetery Trust Fund

Title 10 G.C.A. § 67105.1 established the Veterans Cemetery Trust Fund¹ and states "Any money paid by the Federal government to Guam in connection with the use of the cemetery shall be deposited in the Veterans Cemetery Trust Fund and used for the maintenance of the cemetery." Funds deposited to this account are the USDVA reimbursements for the burials for deceased veterans. VAO can receive up to \$300 per burial claim; USDVA determines the amount. The Commission directs expenditures from the Fund and must annually account to the Guam Legislature for the use of the Fund.

Veterans Affairs Fund

Title 10 G.C.A. § 67109 created the Veterans Affairs Fund separate and apart from other Government of Guam funds and are not to be commingled with the General Fund. The Commission must approve all expenditures from the Fund. Also by law, the VAO Administrator is authorized to solicit, accept, utilize and administer gifts, bequests, and donations on the behalf

¹ The Veterans Cemetery Trust Fund was transferred from the Guam Parks Commission to the Guam Veterans Commission in December 2005.

of VAO. Funds received are to be deposited into the Veterans Affairs Fund² and shall be used for the maintenance of the Veterans Cemetery and the VAO for sponsorship of events for veterans and for purposes intended by the donor. The Administrator must submit quarterly reports to the Governor and the Public Auditor, describing the solicitation, acceptance, utilization and administration of gifts, bequests, and donations, and must post such reports on the VAO website.

² The Veterans Affairs Fund was established in December 2005.

Results of Audit

We determined that VAO's NAF were not properly managed and accounted for in accordance with applicable laws and regulations. The Guam Veterans Commission did not perform its fiduciary responsibility to provide oversight or adequately monitor VAO's finances and operations. Instead the Commission relied extensively on the former and present Administrators. From fiscal years 2009 to 2011, the two NAF accounts recorded total deposits of \$66,091 and total expenditures of \$65,681. We found the following:

- Pre-numbered receipts were not used for cash received;
- Receipts were not reconciled to deposits;
- 17 blank checks were pre-signed, resulting in \$12,261 in disbursements under the current Administrator;
- Guam Procurement Law and Regulations were not followed, resulting in \$65,500 in disbursements without the minimum three quotes. Of this amount, \$53,239 and \$12,261 were under the former and current Administrators, respectively;
- \$46,391 in disbursements did not have supporting documentation, of which \$35,808 and \$10,583³ were disbursed by the former and current Administrators, respectively;
- The payees or nature of disbursements on 15 checks totaling \$26,758 paid by the former Administrator could not be determined;
- The current Administrator's travel was not approved by the Commission;
- Petty cash reimbursements under the current Administrator were not reconciled to receipts;
- Bank reconciliations were not performed;
- Quarterly and annual financial reports were not prepared and submitted;
- Tax filing reports were not prepared and submitted; and
- The Administrators had sole custody and complete control over the handling and recording of cash received and disbursed.

We concluded that it was not possible to completely assess or quantify the extent of (1) loss due to the lack of burial claims submitted by the former Administrator, and (2) possible misuse or misappropriation due to poor record keeping. Due to the lack of VAO records, we subpoenaed the bank statements for the Guam Veterans Cemetery Trust Fund and the Veterans Affairs Fund and reviewed and prepared schedules of cash receipt and disbursement transactions. Based on available records, we did not find evidence or deliberate attempts to misuse or misappropriate VAO funds. This was VAO's first audit with findings similar to other audits conducted on NAF.

Pre-Numbered Receipts Not Used

Of the \$66,091 in deposits, we were unable to identify the nature of \$9,391 because VAO did not use pre-numbered receipt books. The receipts were instead assigned numbers manually and trying to associate cash receipts to specific bank deposits was difficult. The lack of pre-numbered

³ We subsequently received additional documentation to substantiate \$8,240 of the \$10,583 in disbursements under the current Administrator in March 2012.

receipts creates an opportunity for misappropriation or defalcation. We recommend that VAO use pre-numbered receipts to record all cash or checks received.

Receipts Not Reconciled to Deposits

As few receipts were issued, the deposits could not be reconciled to ascertain completeness and timeliness. Specifically, we found \$952 in cash receipts between January and July 2011 that could not be traced to specific deposits in the bank statements. We could not ascertain whether all cash received from donations or fundraising events, such as car washes, under the former Administrator were deposited due to the lack of records. See Table 2 for undeposited cash receipts. See Appendices 4 and 6 for the summary of the Veterans Cemetery Fund and Veterans Affairs Fund bank balances.

Table 2: Cash Receipts from Donations or Fundraising Events Not Reconciled to Bank Deposits

	Date	Description/Activity	Amount
1	January 9, 2011	Car wash fundraiser	\$ 50
2	January 31, 2011	Donation for cemetery project	250
3	April 7, 2011	None specified	50
4	April 7, 2011	None specified	50
5	April 7, 2011	None specified	52
6	May 12, 2011	None specified	100
7	May 12, 2011	None specified	250
8	May 18, 2011	Car wash deposit	50
9	June 6, 2011	None specified	50
10	July 5, 2011	Car wash deposit	50
			<u>\$952</u>

The former and present Administrators informed us that they held cash: (1) to pay or reimburse VAO staff for lunches for Department of Correction inmates working at the Veterans Cemetery; (2) to purchase supplies; or (3) because they had no time to make bank deposits right away. This last practice is contrary to a good system of checks and balances to ensure that collected cash is deposited timely and intact.

Best practices call for cash collections to be deposited daily and intact. However, we recognize that this may not be practical; therefore, we recommend that cash receipts be deposited promptly into the bank, preferably within a few days of receipt.

Lack of Segregation of Duties

The Commission did not monitor the collection processes for fundraising events and allowed the Administrators sole responsibility to (1) authorize transactions, (2) record transactions, (3) deposit collected funds, and (4) have custody of undeposited funds without verification by a

second person. Thus, contrary to good checks and balances and segregation of duties, the custody and handling of cash were not separated from the cash recording and keeping functions.

Burial Reimbursement Claims Listing Not Maintained

VAO does not maintain a list of its reimbursement claims to the USDVA to ensure that payments of all claims are received and reconciled. Based on available records, from fiscal years 2009 to 2011, VAO submitted 314 claims for \$94,200, of which USDVA reimbursed 138 claims for \$41,400. We noted that USDVA did not process some claims because payments had already been made to VAO or there were discrepancies that needed to be resolved. VAO subsequently received approval for 126 claims totaling \$37,800 in November 2011. Altogether, VAO received \$94,500 or \$300 more than the \$94,200 they claimed in the three years. Because VAO files were incomplete, we could not ascertain whether all claims were processed, approved, and paid. See Table 3 for summary of claims.

**Table 3: Summary of Burial Claims
FY 2009, 2010, and 2011**

Claim Date	No. of Claims Submitted	Amount Claimed	Date Approved	No. of Claims	Amount Reimbursed	Date Approved	Amount Reimbursed
11/20/08 to 11/21/08	59	\$ 17,700	1/9/09	52	\$ 15,600	2/20/09	\$ 15,600
12/12/08	65	\$ 19,500	1/30/09	51	\$ 15,300	1/28/09	\$ 22,800
1/6/09	11	\$ 3,300	3/6/09	9	\$ 2,700	4/30/09	\$ 7,800
3/8/11	38	\$ 11,400	4/25/11	24	\$ 7,200	6/2/11	\$ 9,900
3/8/11	2	\$ 600	8/29/11	2	\$ 600	9/16/11	\$ 600
8/12/11	139	\$ 41,700	Unknown	126	\$ 37,800	11/14/11	\$ 37,800
Total	314	\$ 94,200		264	\$ 79,200		\$ 94,500

For example:

- In November 2008, the former Administrator submitted 59 burial claims, totaling \$17,700, for January to July 2007. On January 9, 2009, USDVA approved 52 of the 59 claims and reimbursed \$15,600. No other documents were available to explain why seven claims were not approved. In February 2009, \$15,600 was deposited into the Cemetery Trust Fund. Since VAO had no details other than what was recorded in the bank statements, we assumed this deposit was the USDVA reimbursement because it matched the amount approved.
- In March 2011, the present Administrator submitted 38 burial claims, totaling \$11,400, for the months of June 2008 and January to April 2009. In April 2011, USDVA approved 24 burial claims for \$7,200. Some of the claims were not processed because prior payments were made. A \$300 claim also was not processed because there was a discrepancy in VAO's claim information. USDVA instructed VAO to resubmit the claim with additional information. To date, VAO has not resubmitted the claim.

To ensure all qualified burial claims are reimbursed, we recommend VAO create an electronic database of burials and copies of all claims submitted to USDVA. Once approved and received, reimbursements should be reconciled against the claims submitted, and VAO should contact USDVA immediately to resolve any discrepancies.

Guam Procurement Law and Regulations Not Followed

Title 5 G.C.A. § 5004(b) states that Chapter 5, which is the Guam Procurement Law, shall apply to every expenditure of public funds irrespective of their source, including federal assistance funds. Title 2 G.A.R. § 1101 states that the Guam Procurement Regulations' purpose is to provide standard policies and procedures governing the procurement, management, control, and disposal of supplies, services, and construction for the territory of Guam in conformity with 5 G.C.A. Chapter 5, which is the Guam Procurement Law. Again because 5 G.C.A. § 5004(b) specifies that Chapter 5 shall apply to every expenditure of public funds irrespective of their source, including federal assistance funds, the VAO is therefore required to comply with Guam Procurement Law as well as Guam Procurement Regulations.

Specifically, 2 G.A.R. § 3111(c)(1) states in pertinent part that no less than three positive written quotes shall be solicited for small purchases of supplies or services between \$500 and \$15,000. For small purchases of \$500 or less, 2 G.A.R. § 3111(e) requires procurators to obtain adequate and reasonable competition and the General Services Agency's Standard Operating Procedures requires a minimum of three telephonic quotations to be obtained for small purchases of \$500 or less. When three telephonic quotes cannot be obtained, documentation stating what efforts were made to obtain the quotations must be recorded and kept in the procurement file.

The former and present Administrators and the Administrative Assistant were of the general understanding that they did not have to follow Government of Guam procurement laws and regulations because they use non-appropriated funds. In practice, they simply purchased goods and services from vendors they previously dealt with and did not obtain three minimum quotes.

Of the \$65,681 expended from fiscal years 2009 to 2011, we found that 91 disbursements totaling \$65,500 did not comply with procurement laws and regulations. The required minimum three positive written quotes were not solicited for these transactions. The remaining 12 disbursements, totaling \$181, were for bank charges and check orders. See Table 4 for the list we compiled of disbursements by type. Summarizing financial transactions is a routine reporting function that VAO should have performed, but did not during the three years audited.

Table 4: List of Disbursements by Type

Type of Disbursement	No. of Disbursements	Total Costs
Food	3	\$ 1,088
Travel	2	\$ 4,705
Equipment	4	\$ 3,650
Services	15	\$ 12,317
Supplies & Materials	41	\$ 12,227
Bank charges/check orders	12	\$ 181
Other/unknown	26	\$ 31,513
Total Disbursements	103	\$ 65,681

We found that complete supporting documents (invoices, receipts or other documents) were not on file for 59 transactions totaling \$46,391. Of those that had receipts, the transaction amounts

did not match the check amounts for payment. Of the \$46,391, \$35,808 and \$10,583 were disbursed by the former and current Administrators, respectively.

In March 2012, we received additional information in an attempt to clear questioned costs. We verified that \$8,240 of the \$10,583 expended under the current Administrator was substantiated.

In addition, the payees or types of purchases on 15 checks totaling \$26,758 paid by the former Administrator could not be determined.

Pre-Signed Blank Checks

According to the former Chairman, because there was no Commission in place from January to December 2011, he and the former Treasurer were asked by the current Administrator to pre-sign blank checks in order to continue VAO activities. The former Chairman admitted they signed blank checks without supporting documentation (e.g. invoices). From January to September 2011, the former Chairman and former Treasurer signed 17 blank checks, which subsequently totaled \$12,261. The former Chairman and the former Treasurer merely signed the checks and failed in their fiduciary duty to review, monitor, and question VAO's activities.

Dual signature checks ensure that two persons independently review disbursements, but the security mechanism is negated when the designated signatories sign blank checks. We recommend that the officers immediately discontinue the practice of signing blank checks beforehand and require the Administrator to submit justification and supporting documentation *prior* to disbursing any funds.

No Travel Authorization

The current Administrator attended a conference in Oregon in September 2011. Of the 17 pre-signed blank checks mentioned above, two were related to this specific travel, and both had noted deficiencies.

First, a local travel company was paid \$1,505 in August 2011, but the disbursement was not supported with an attached invoice or receipt. We also could not determine whether a minimum of three price quotes were obtained to ensure that the government received the most economical price for the airfare. According to the Administrative Assistant, Government of Guam travel regulations did not have to be followed because the trip was not funded by local appropriation.

Second, the current Administrator was reimbursed \$3,200 for travel expenses and a battery purchase in September 2011. The attached receipts totaled \$1,020 for the conference fee (\$250), lodging (\$564), and car rental (\$206). We received a copy of the \$132 battery purchase receipt in March 2012. However, the remaining \$2,048 was supposedly for per diem, but there was no support for how the per diem was calculated.

Whenever government officials are required to travel for official business, best practices call for a travel authorization form to be prepared indicating the traveler's destination, duration of stay, and per diem calculation. Said travel authorizations are kept on file with necessary supporting

documentation. In this case, we did not find any travel authorization and could not determine how per diem was calculated. We also could not find any meeting minutes indicating that the Commission explicitly approved the travel.

In March 2012, we received a copy of the Administrator's administrative leave form approved by the Chief of Staff, but we still were not provided an approved and signed travel authorization form.

Petty Cash Reimbursements Not Reconciled

The current Administrator established a petty cash fund of \$500 to pay for small expenditures and acts as the petty cash custodian. While we recognize the impracticality of paying by check for every purchase, particularly small purchases, any petty cash fund should be protected from misuse. Every petty cash withdrawal should be evidenced by a receipt or other justification and payments to petty cash should equal withdrawals to restore the funds original total.

VAO's petty cash fund had three replenishments totaling \$2,000, two of which did not equal the receipts provided. For instance:

- Various cash receipts totaling \$876 were used to support a \$1,000 check to the Administrator for reimbursement of food and supplies in January 2011; the \$124 difference was not explained;⁴ and
- Various cash receipts totaling \$433 were used to support a \$500 check written in June 2011 to "Cash" for the replenishment of petty cash. There was no explanation on file as why there was a variance of \$67.

We recommend the Commission and the Administrator ensure that petty cash replenishments match the receipts provided as support prior to repayments to restore the funds.

Bank Reconciliation Not Performed

Bank reconciliations should be performed in a timely manner, ideally upon receipt of monthly bank statements. Reconciliations are an important part of cash control as they verify the balance reported in accounting records and point out mistakes and irregularities such as theft.⁵ The cash balance on the books may not agree with the balance on bank statements because of delays in posting checks and deposits and credits that have not been recorded, in the debiting of automatic bank charges, and in errors in the books. After preparing the bank reconciliation and resolving any unreconciled differences, one can be comfortable that the account balance reported in the books is accurate.

The Administrative Assistant claimed that she performed reconciliations prior to the tenure of the former Administrator. However, we found no evidence that any reconciliations occurred under either the former or current Administrator. We recommend that a person not involved in

⁴ VAO purchases lunch for DOC inmates who assist in maintaining the cemetery grounds.

⁵ Source: CCH toolkit, a small business guide: <http://www.toolkit.cch.com>.

recording and depositing cash be designated to perform monthly bank reconciliations and, subsequently, for the Administrator to review the reconciliations.

Incomplete Records

While the Administrator is responsible for maintaining records for all funds and keeping a complete and accurate record of receipts and disbursements, we found poor record keeping practices at VAO. Our review of the two non-appropriated checking accounts was limited because VAO's files were incomplete and there were gaps in the financial records provided. Because no bank statements were available, we subpoenaed the bank statements for the two non-appropriated checks accounts in order to review and prepare schedules of cash receipts and disbursement transactions.

According to the present Administrator, who assumed the position in January 2011, the office was in disarray. He noted in his initial observation that (1) files, records, bank statements, receipts, and other documents were kept either at the main office in Asan or at the Veterans' Cemetery office in Piti and (2) the former Administrator managed all the funds himself, with no accounting of the funds and donations being received or of the checks being written for purchases.

The Administrative Assistant said she also used to maintain the records of the accounts, recorded donations, and prepared vendor checks, but she was relieved of these functions as well. She said she did not know where the former Administrator kept things.

The current Administrator has applied for a federal grant to computerize and automate VAO information. We recommend VAO utilize an electronic spreadsheet or an accounting software program to prepare its monthly financial reports.

Designation of Administrator

Title 10 G.C.A. § 67100 calls for the VAO Administrator to be a classified employee to serve as administrative head yet subject to the direction and control of the Governor. In practice, the Governor appoints an unclassified Special Assistant to fill the Administrator position. As unclassified employees, the former Administrator served from February 2003 to December 2010 and the current Administrator began his appointment in January 2011. Given that the Administrator serves at the Governor's pleasure and remains subject to his direction and control, the position is better suited to be in the unclassified service. We recommend the Commission review the matter further to determine whether a change in law is needed to reflect current practice.

Mandated Financial Reports Not Submitted

Upon transferring the Veterans Cemetery Trust Fund from the Guam Parks Commission to the Guam Veterans Commission, 10 GCA § 67105.1 also mandated the deposit of any federal money paid to Guam for use of the cemetery. Trust Fund deposits are reserved for cemetery maintenance. The Veterans Commission directs expenditures from the Fund and must account

annually to the Governor for use of the Fund. Section 67106 requires the Administrator to submit quarterly reports of his solicitation, acceptance, utilization, and administration of gifts, bequests and donations. Those reports are to be submitted to the Governor and the Public Auditor and to be posted on VAO's website.

To date, no annual or quarterly financial reports have ever been submitted. The Commission has not filed its mandated annual reports to the Governor nor has it pressed the Administrator to prepare and submit the required quarterly financial reports. The VAO has a website, but no financial reports are posted.

Commission officers share the responsibility for implementing and monitoring the checks and balances over cash transactions. The officers should initiate an appropriate oversight process and adopt a level of awareness because cash can be easily misappropriated and is susceptible to theft. Ongoing communication should occur to ensure that officers are aware of their respective responsibility in performing their monitoring duties. Any suspected breakdown or deficiencies in the checks and balances should be reported at Commission meetings, properly documented, and appropriate corrective action taken.

Non-Filing of Required Tax Form 1099-Miscellaneous Income

Form 1099-MISC, Miscellaneous Income, must be issued to all entities or individuals who receive at least \$600 for goods or services unrelated to their regular income. Copies of the form must also be submitted to the Department of Revenue and Taxation (DRT). We found no records that 1099-MISC forms were issued to anyone or to DRT, even though there were 14 disbursements totaling \$29,217 made to various individuals or businesses for over \$600. For example:

- Three checks totaling \$2,025 were made to an individual to supply refreshments for VAO events;
- One check totaling \$2,100 was made to an individual for catering services for a VAO event; and
- Ten checks totaling \$25,092 (over \$600 each) were made to unnamed individuals or businesses. We were unable to determine the nature of the purchases.

The Commission members, former and current Administrators, and the Administrative Assistant we spoke with said they were unaware that both federal and local tax laws require Form 1099-MISC to be issued to payees and DRT. The Administrative Assistant said she would contact DRT for information regarding the required tax filing. We recommend VAO prepare Form 1099 - Miscellaneous Income for the 14 individuals or businesses that received over \$600 and submit copies to DRT.

Other Matters

One Senator asked OPA to look into VAO's water bill, which purportedly was in excess of \$65,000. We were informed that VAO experienced severe water leaks at the cemetery and that

the Governor's Office eventually paid the water bill. According to the current Administrator, water leakages are still a continuing problem.

Another Senator asked about how the \$150,000 appropriated in 2010 was used. In FY 2009, P.L. 30-09 appropriated \$200,000 from Territorial Highway Fund revenues to VAO for the operations and maintenance of the Veteran's Cemetery. According to the Senator, the appropriated funds were not used and reverted back to the Territorial Highway Fund. Subsequently, in March 2010, P.L. 30-101 appropriated \$150,000 to VAO to purchase supplies, materials, and equipment, as well as to procure services for cemetery maintenance. The Senator stated that the \$150,000 was to be used to obtain a conceptual plan for the cemetery's expansion. The current Administrator said he was not aware of any previous conceptual plans and expansion of the Veterans Cemetery, and documents such as requisitions and purchase orders could not be located. Based on Department of Administration records, we confirmed that a total of \$136,361 was paid out using the \$150,000 appropriation. Of this amount:

- \$97,600 was paid for contractual services;
- \$17,118 was paid for supplies; and
- \$21,643 was paid for equipment.

The same Senator was also concerned about VAO's inconsistent equipment inventory. The Administrator said VAO has since implemented strict controls on the handling of equipment and return policies to minimize the loss of equipment.

Conclusion

We concluded that VAO non-appropriated funds (NAF) were not properly managed and accounted for in accordance with applicable laws and regulations. The Commission did not perform its fiduciary responsibility to provide oversight or adequately monitor VAO's finances and operations. Instead the Commission relied extensively on the former and present Administrators. Among the deficiencies uncovered were: (1) the nature of \$9,391 in deposits could not be determined; (2) \$952 in donations were not deposited, (3) procurement regulations were not followed for 91 disbursements totaling \$65,500; (4) 17 bank checks were signed in advance and later redeemed for payments totaling \$12,261; and (5) bank reconciliations were not performed. As a result, and due to the poor record keeping, we were unable to accurately or completely assess or quantify the extent of loss (if any), misuse, and misappropriation at VAO. However, based on available records, we did not find evidence or deliberate attempts to misuse or misappropriate VAO funds. This was VAO's first audit with findings similar to other audits conducted on NAF.

Cash is the most liquid and necessary of all assets and can be easily misappropriated. Because of the diverse nature of the cash management processes involved (i.e., collections, deposits, and disbursement), and the fragmented oversight responsibilities generally associated with these procedures, application of effective internal control principles over cash is vital. A sound system of checks and balances provides adequate procedures for both controlling cash receipts and disbursements. However, even the best designed internal controls are negated when those responsible to oversee and administer the system fail to understand their roles in making them work effectively and consistently.⁶ The need for checks and balances may seem burdensome and restrictive, but their value in managing the inherent risks of fraud, misuse and abuse should always be considered. Refer to Appendix 8 and 9 for guidance on internal control principles (i.e. checks and balances) and internal control checklist.

⁶ Excerpts from An Elected Official's Guide to Internal Controls and Fraud Prevention and Snyder, H. and Clifton, J., "Stealing from the Collection Plate," Fraud Magazine, December 2005.

Recommendations

We recommend the following to the Commission and the VAO Administrator to correct the deficiencies:

1. Establish policies and procedures for handling and accounting for financial data, such as:
 - a. Utilize an electronic spreadsheet or accounting software program to prepare monthly financial reports, including an electronic database for burial claims.
 - b. Use pre-numbered receipts to record all cash and checks received.
 - c. Perform monthly bank reconciliations and prepare monthly financial statements to ensure that all cash collected and disbursed are accurately accounted for.
 - d. Promptly deposit all cash receipts into the bank, preferably no later than a few days after being received.
 - e. Immediately discontinue signing blank checks and require the Administrator to provide supporting documentation prior to disbursement of funds.
 - f. Petty cash replenishments match the receipts being provided as support.
2. Maintain a list and the copies of all claims submitted to the U.S. Department of Veterans Affairs; upon receipt, reimbursements should be reconciled against the claims submissions and immediately contact USDVA to resolve any discrepancies.
3. Issue Form 1099 Miscellaneous Income to individuals and/or businesses that were paid more than \$600 annually and submit copies to DRT.
4. Determine whether a change in law is needed to amend 10 GCA Section 67100 to make the Administrator's position unclassified to be consistent with current practice for Agency Heads.

VAO Management & Commission Responses & OPA Reply

A draft report was transmitted to VAO's Administrator and Board Chairman of the Guam Veterans Commission in February 2012 for review and response to our recommendations. We briefed the VAO Administrator and Board Chairman on the report findings and recommendations in February 2012.

The Guam Veterans Commission Board Chairman submitted a response and plan of action in March 2012 indicating general concurrence with the audit report findings. See Appendix 11 for the Commission's management response.

The current VAO Administrator submitted a response in March 2012, indicating disagreement with most of the audit findings. See Appendix 10 for the management response. Some of the Administrator's specific disagreements and our response follow.

- VAO kept all of the receipts to substantiate the 17 pre-signed blank checks resulting in \$12,261 in expenditures. In addition, the defunct Commission President and Treasurer were experiencing health problems and could not always come down to VAO when summoned.
 - We disagree. We verified that \$9,828 of the \$12,261 in disbursements was supported with receipts or invoices. However, the bigger concern here is the practice of pre-signing blank checks. Signing blank checks was an abdication of the Commission's fiduciary responsibility, which is a highly risky means of ensuring efficient operations. Therefore, the finding remains.
- Guam Procurement Law and Regulations require at least three positive written quotes to be obtained for small purchases of \$500 to \$15,000 and that only three purchases totaling \$4,404 out of the 17 totaling \$12,261 under his watch should be subjected to this requirement.
 - We disagree. While Guam Procurement Law and Regulations require at least three positive written quotes for small purchases of \$500 to \$15,000, small purchases under \$500 should still have evidence of competition, such as soliciting at least three telephonic quotes. Since none of the transactions tested totaling \$65,500 (\$53,239 and \$12,261 under the former and current Administrators, respectively) had evidence that either three positive written quotes or three telephonic quotes were obtained, this finding remains with total questioned costs of \$65,500.
- Disagreed with the finding that \$46,391 (\$35,808 and \$10,583 under the former and current Administrators, respectively) in disbursements did not have supporting documentation, claiming that there is support for the \$10,583 made during his time in office. In addition, the transactions in this finding are nearly identical to those noted in the pre-signed blank checks and Guam Procurement Laws and Regulations not followed.

- We disagree. Our review of the subsequently provided information indicated that \$8,240 has been cleared, but \$2,342 remains unsupported under the current Administrator. Further, no supporting documentation was submitted to clear the transactions questioned under the former Administrator. Therefore, the finding remains with questioned costs totaling \$38,150.
 - We conducted multiple tests, each using 100% of the expenditures incurred through VAO's two checking accounts from FY 2008 to 2011. Thus, we have multiple findings. However, we performed additional procedures to ensure that we did not double-count when compiling the questioned costs in Appendix 1.
- The Administrator's travel in question was approved, since he personally briefed both the Governor and the Commission, and the Chief of Staff approved his administrative leave.
 - We disagree. While we were provided a copy of an approved administrative leave form, there was neither a signed and approved government travel authorization form nor Commission minutes to document the travel approval. Therefore, the finding remains. Additionally, the expenses related to this travel were made through two pre-signed blank checks.
- The Administrative Assistant made sure that supporting documents match all petty cash reimbursements to the Administrator.
 - We disagree. We verified that of the three reimbursement checks made to the current Administrator totaling \$2,000, only \$1,809 has been substantiated and \$191 remains unsupported. Therefore, this finding remains.
- The Administrative Assistant performed monthly bank reconciliation when the bank statements come out.
 - We disagree. During our review, there was no evidence that bank reconciliations were performed. Further, we subpoenaed the bank statements from the bank in order to begin our review. The monthly bank reconciliation was only implemented after it was brought to VAO's attention and occurred after September 2011, which is the end of our audit scope. Therefore, the finding remains.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, we will be contacting VAO to provide the target date and title of the official(s) responsible for implementing the recommendation.

We appreciate the cooperation shown by the Guam Veterans Commission and staff and management of the Veterans Affairs Office during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:
Classification of Monetary Amounts

Finding Area	Lost/Potential Revenues	Lost Exceptions⁷	Unsupported Costs⁸
1) Pre-Numbered Receipts Not Used	\$ -	\$ -	\$ -
2) Incomplete Deposits	\$ 952	\$ -	\$ -
3) Lack of Segregation of Duties	\$ -	\$ -	\$ -
4) Burial Reimbursement Claims Listing Not Maintained	\$ -	\$ -	\$ -
5) GovGuam Procurement Law and Regulations Not Followed	\$ -	\$ 24,023 ⁹	\$ -
6) Pre-Signed Blank Checks	\$ -	\$ 12,261 ¹⁰	\$ -
7) No Travel Authorization	\$ -	\$ 4,705 ¹¹	\$ -
8) Petty Cash Reimbursements Not Reconciled	\$ -	\$ -	\$ 191 ¹²
9) Bank Reconciliations Not Performed	\$ -	\$ -	\$ -
10) Incomplete Records	\$ -	\$ -	\$ -
11) Designation of Administrator	\$ -	\$ -	\$ -
12) Mandated Financial Reports Not Submitted	\$ -	\$ -	\$ -
13) Non-Filing of Required Tax Form 1099-Micellaneous Income	\$ -	\$ 29,217 ¹³	\$ -
14) Other Matters	\$ -	\$ -	\$ -
Total	\$ 952	\$ 65,500¹⁴	\$ -

⁷ These are expenditures that have been determined unallowable or otherwise improper based on available legal criteria.

⁸ These expenditures may be allowable. However, the accounting records or other documents available to the auditors did not provide adequate support for the costs.

⁹ We found that 91 disbursements totaling \$65,500 did not comply with Guam Procurement Law and Regulations. However, because we conducted multiple tests on 100% of the expenditures, certain amounts were also questioned as part of other findings as noted within these footnotes.

¹⁰ A total of 17 blank checks were pre-signed, resulting in \$12,261 in expenditures; however, this was also questioned as part of the “GovGuam Procurement Regulations Not Followed” Finding. Of this \$12,261, \$9,828 was subsequently supported, but the finding remains because the bigger concern is the practice of pre-signing checks.

¹¹ The two checks totaling \$4,705 related to the current Administrator’s travel is being questioned because we found no approved travel authorization or meeting minutes of the Commission indicating travel approval. This amount was also part of the “Pre-signed Blank Checks” Finding.

¹² Of the \$2,000 used to replenish the petty cash fund, only \$1,809 was subsequently substantiated with supporting documents. However, the \$2,000 was also questioned as part of the “GovGuam Procurement Regulations Not Followed” Finding.

¹³ There were 14 disbursements totaling \$29,217, where VAO did not prepare and file the required 1099 forms. However, this was also questioned as part of the “GovGuam Procurement Regulations Not Followed” Finding.

¹⁴ The total questioned cost of \$65,500 excludes the \$4,705, which was already counted under the “Pre-Signed Blank Checks” Finding.

Appendix 2:
Objective, Scope, and Methodology

Our audit objective was to determine whether VAO non-appropriated funds were properly managed and accounted for in accordance with applicable laws and regulations. The scope of this engagement is from October 1, 2008 to September 30, 2011 (FY 2009, 2010, and 2011).

The effectiveness of the internal controls (checks and balances) system is the sole responsibility of VAO management and Commission members and is designed to ensure all transactions are properly authorized, and that data contained in financial reports are reliable. To evaluate the adequacy of VAO's system, we performed the following procedures:

- Interviewed VAO employees and the Guam Veterans Commission members to gain an understanding of VAO's financial processes;
- Utilized internal control checklists and management questionnaires to gather data we determined relevant in evaluating the financial processes;
- Reviewed pertinent financial and administrative documents such as bank statements, bank deposit slips, checking account register, board meeting minutes, etc.;
- Subpoenaed bank statements for the Veterans Affairs Fund and the Guam Veterans Cemetery Trust Fund;
- Compiled schedules on deposits, receipts and disbursements; and
- Tested 100% of the cash receipt and disbursement transactions to ascertain whether these transactions were accounted for and recorded timely, accurately, and with supporting documentation.

We conducted this review in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the assessment to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 3:
Prior Audit Coverage

Office of Public Accountability

The Office of Public Accountability has not performed any audits, studies, or reviews of the Guam Veterans Affairs Office.

Government of Guam Financial Audits

From fiscal years 2009 to 2011, VAO received total appropriations of \$1,006,095 and had total expenditures of \$924,742. Note that VAO's non-appropriated funds (NAF) are not reported as a part of the government-wide financial audits.

<u>Fiscal Year</u>	<u>Appropriations</u>	<u>Expenditures</u>
2009	\$246,357	\$237,629
2010	\$255,827	\$240,024
2011	<u>\$503,911¹⁵</u>	<u>\$447,089</u>
Total	\$1,006,095	\$924,742

Governor's Transition Report on the Guam Veterans Affairs Office

In December 2010, the incoming Governor's transition team identified various challenges and issues facing the VAO, to include:

- Budget for additional staff at VAO and the Commission
- Improve office automation
- Acquire additional vehicles
- Additional offices needed to handle increase of services
- VAO is two years behind in submitting reimbursement claims
- On-going project to address deficiencies outlined in the Triennial Assessment by the National Cemetery Administration

¹⁵ Appropriations of \$494,533 derived from two funding sources: \$353,911 from the General Fund and \$150,000 from the Territorial Highway Fund. Of the \$150,000 from the THF, VAO expended \$136,361.

Appendix 4:
Guam Veterans Cemetery Trust Fund Bank Balances Compiled by OPA

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2009	October-08	\$ 574.82	\$ -	\$ 1.50	\$ 573.32
	November-08	\$ 573.32	\$ -	\$ 1.50	\$ 571.82
	December-08	\$ 571.82	\$ -	\$ 1.50	\$ 570.32
	January-09	\$ 570.32	\$ 22,800.00	\$ -	\$ 23,370.32
	February-09	\$ 23,370.32	\$ 15,600.00	\$ 6,847.13	\$ 32,123.19
	March-09	\$ 32,123.19	\$ -	\$ 15,737.40	\$ 16,385.79
	April-09	\$ 16,385.79	\$ 7,800.00	\$ 117.38	\$ 24,068.41
	May-09	\$ 24,068.41	\$ -	\$ 2,524.91	\$ 21,543.50
	June-09	\$ 21,543.50	\$ -	\$ -	\$ 21,543.50
	July-09	\$ 21,543.50	\$ -	\$ 989.36	\$ 20,554.14
	August-09	\$ 20,554.14	\$ -	\$ 2,217.51	\$ 18,336.63
	September-09	\$ 18,336.63	\$ -	\$ -	\$ 18,336.63
FY 2009 Total			\$ 46,200.00	\$ 28,438.19	

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2010	October-09	\$ 18,336.63	\$ -	\$ 9,507.31	\$ 8,829.32
	November-09	\$ 8,829.32	\$ -	\$ 439.86	\$ 8,389.46
	December-09	\$ 8,389.46	\$ -	\$ 123.10	\$ 8,266.36
	January-10	\$ 8,266.36	\$ -	\$ 2,147.60	\$ 6,118.76
	February-10	\$ 6,118.76	\$ -	\$ 1,069.78	\$ 5,048.98
	March-10	\$ 5,048.98	\$ -	\$ 365.33	\$ 4,683.65
	April-10	\$ 4,683.65	\$ -	\$ -	\$ 4,683.65
	May-10	\$ 4,683.65	\$ -	\$ 1,793.71	\$ 2,889.94
	June-10	\$ 2,889.94	\$ -	\$ 626.58	\$ 2,263.36
	July-10	\$ 2,263.36	\$ -	\$ 179.97	\$ 2,083.39
	August-10	\$ 2,083.39	\$ -	\$ 94.36	\$ 1,989.03
	September-10	\$ 1,989.03	\$ -	\$ -	\$ 1,989.03
FY 2010 Total			\$ -	\$ 16,347.60	

Source: Veterans Affairs Office Bank of Hawaii Statements for the periods October 2008 through September 2011.

Appendix 4:
Guam Veterans Cemetery Trust Fund Bank Balances Compiled by OPA

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2011	October-10	\$ 1,989.03	\$ -	\$ 205.31	\$ 1,783.72
	November-10	\$ 1,783.72	\$ -	\$ 69.95	\$ 1,713.77
	December-10	\$ 1,713.77	\$ -	\$ 491.97	\$ 1,221.80
			\$ -	\$ 767.23	

FY 2009, 2010 thru Dec 2010 Total

\$ 46,200.00 \$ 45,553.02

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2011	January-11	\$ 1,221.80	\$ -	\$ 1,001.50	\$ 220.30
	February-11	\$ 220.30	\$ -	\$ 2.50	\$ 217.80
	March-11	\$ 217.80	\$ 450.00	\$ 233.50	\$ 434.30
	April-11	\$ 434.30	\$ 350.00	\$ 1.50	\$ 782.80
	May-11	\$ 782.80	\$ -	\$ 1.50	\$ 781.30
	June-11	\$ 781.30	\$ 9,900.00	\$ 2,053.27	\$ 8,628.03
	July-11	\$ 8,628.03	\$ -	\$ 1,119.00	\$ 7,509.03
	August-11	\$ 7,509.03	\$ -	\$ 4,354.96	\$ 3,154.07
	September-11	\$ 3,154.07	\$ 600.00	\$ 3,303.00	\$ 451.07
FY 2011 Total (Jan to Sept 2011)			\$ 11,300.00	\$ 12,070.73	

FY 2009, 2010 & 2011 GVC Trust Fund Total

\$ 57,500.00 \$ 57,623.75

Activities for the GVC Trust Fund from the period October 2008 through December 2010 was under the former VAO Administrator and the period January 2011 through September 2011 was under the present VAO Administrator.

Appendix 5:
Guam Veterans Cemetery Trust Fund Receipts and Disbursements
Compiled by OPA

	FY 2009	FY 2010	FY 2011	Total
Receipts:				
Donations	\$ -	\$ -	\$ 800.00	\$ 800.00
Fundraising	\$ -	\$ -	\$ -	\$ -
Burial Claims	\$ 46,200.00	\$ -	\$ 10,500.00	\$ 56,700.00
Other-unknown	\$ -	\$ -	\$ -	\$ -
Total receipts	\$ 46,200.00	\$ -	\$ 11,300.00	\$ 57,500.00
Disbursements:				
Food	\$ -	\$ -	\$ 103.00	\$ 103.00
Travel	\$ -	\$ -	\$ 4,704.96	\$ 4,704.96
Equipment	\$ -	\$ 2,851.10	\$ 799.00	\$ 3,650.10
Services	\$ 350.00	\$ 7,687.62	\$ 3,429.30	\$ 11,466.92
Supplies & Materials	\$ 4,983.64	\$ 5,808.88	\$ 552.23	\$ 11,344.75
Bank charges	\$ 96.63	\$ -	\$ 9.50	\$ 106.13
Other-unknown	\$ 23,007.92	\$ -	\$ 3,239.97	\$ 26,247.89
Total disbursements	\$ 28,438.19	\$ 16,347.60	\$ 12,837.96	\$ 57,623.75
Excess of receipts over disbursements	\$ 17,761.81	\$ (16,347.60)	\$ (1,537.96)	\$ (123.75)
Cash at beginning of year	\$ 574.82	\$ 18,336.63	\$ 1,989.03	\$ 574.82
Cash at end of year	\$ 18,336.63	\$ 1,989.03	\$ 451.07	\$ 451.07

Appendix 6:
Veterans Affairs Fund Bank Balances Compiled by OPA

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2009	October 2008	\$ 766.44	\$ -	\$ -	\$ 766.44
	November 2008	\$ 766.44	\$ 560.00	\$ 660.00	\$ 666.44
	December 2008	\$ 666.44	\$ 200.00	\$ 100.00	\$ 766.44
	January 2009	\$ 766.44	\$ 434.00	\$ 392.00	\$ 808.44
	February 2009	\$ 808.44	\$ 627.49	\$ 650.00	\$ 785.93
	March 2009	\$ 785.93	\$ -	\$ -	\$ 785.93
	April 2009	\$ 785.93	\$ 800.00	\$ -	\$ 1,585.93
	May 2009	\$ 1,585.93	\$ -	\$ 1,324.11	\$ 261.82
	June 2009	\$ 261.82	\$ -	\$ -	\$ 261.82
	July 2009	\$ 261.82	\$ -	\$ -	\$ 261.82
	August 2009	\$ 261.82	\$ -	\$ -	\$ 261.82
	September 2009	\$ 261.82	\$ -	\$ -	\$ 261.82
FY 2009 Total			\$ 2,621.49	\$ 3,126.11	

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2010	October-09	\$ 261.82	\$ 825.00	\$ -	\$ 1,086.82
	November-09	\$ 1,086.82	\$ 150.00	\$ 875.00	\$ 361.82
	December-09	\$ 361.82	\$ -	\$ -	\$ 361.82
	January-10	\$ 361.82	\$ -	\$ -	\$ 361.82
	February-10	\$ 361.82	\$ -	\$ -	\$ 361.82
	March-10	\$ 361.82	\$ -	\$ -	\$ 361.82
	April-10	\$ 361.82	\$ 960.00	\$ -	\$ 1,321.82
	May-10	\$ 1,321.82	\$ 375.00	\$ 800.00	\$ 896.82
	June-10	\$ 896.82	\$ 1,860.00	\$ -	\$ 2,756.82
	July-10	\$ 2,756.82	\$ -	\$ 44.65	\$ 2,712.17
	August-10	\$ 2,712.17	\$ -	\$ 1,290.00	\$ 1,422.17
	September-10	\$ 1,422.17	\$ -	\$ 500.00	\$ 922.17
FY 2010 Total			\$ 4,170.00	\$ 3,509.65	

Source: Veterans Affairs Office Bank of Hawaii Statements for the periods October 2008 through September 2011.

Appendix 6:
Veterans Affairs Fund Bank Balances Compiled by OPA

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2011	October-10	\$ 922.17	\$ -	\$ 782.49	\$ 139.68
	November-10	\$ 139.68	\$ 700.00	\$ 438.52	\$ 401.16
	December-10	\$ 401.16	\$ -	\$ -	\$ 401.16
			\$ 700.00	\$ 1,221.01	
FY 2009, 2010 thru Dec 2010 Total			\$ 7,491.49	\$ 7,856.77	

	Month Ending	Beginning Balance	Receipts	Disbursements	Ending Balance
FY 2011	January-11	\$ 401.16	\$ -	\$ -	\$ 401.16
	February-11	\$ 401.16	\$ -	\$ -	\$ 401.16
	March-11	\$ 401.16	\$ -	\$ 200.00	\$ 201.16
	April-11	\$ 201.16	\$ -	\$ -	\$ 201.16
	May-11	\$ 201.16	\$ 950.00	\$ -	\$ 1,151.16
	June-11	\$ 1,151.16	\$ -	\$ -	\$ 1,151.16
	July-11	\$ 1,151.16	\$ 100.00	\$ -	\$ 1,251.16
	August-11	\$ 1,251.16	\$ -	\$ -	\$ 1,251.16
	September-11	\$ 1,251.16	\$ 50.00	\$ -	\$ 1,301.16
Jan to Dec 2011 Total			\$ 1,100.00	\$ 200.00	
FY 2011 Total			\$ 1,800.00	\$ 1,421.01	

FY 2009, 2010 & 2011 VA Fund Total **\$ 8,591.49** **\$ 8,056.77**

Activities for the Veterans Affairs Fund for the period October 2008 through December 2010 was under the former VAO Administrator and the period January 2011 through September 2011 was under the present VAO Administrator.

Appendix 7:
Veterans Affairs Fund Receipts and Disbursements Compiled by OPA

	FY 2009		FY 2010		FY 2011		Total	
Receipts:								
Donations	\$	-	\$	-	\$	-	\$	-
Fundraising	\$	-	\$	-	\$	-	\$	-
Other-unknown	\$	2,621.49	\$	4,170.00	\$	1,800.00	\$	8,591.49
<hr/>								
Total receipts	\$	2,621.49	\$	4,170.00	\$	1,800.00	\$	8,591.49
<hr/>								
Disbursements:								
Food	\$	-	\$	700.00	\$	285.00	\$	985.00
Equipment	\$	-	\$	-	\$	-	\$	-
Services	\$	650.00	\$	200.00			\$	850.00
Supplies & Materials	\$	-	\$	100.00	\$	782.49	\$	882.49
Bank charges	\$	-	\$	44.65	\$	30.00	\$	74.65
Other-unknown	\$	2,476.11	\$	2,465.00	\$	323.52	\$	5,264.63
<hr/>								
Total disbursements	\$	3,126.11	\$	3,509.65	\$	1,421.01	\$	8,056.77
<hr/>								
Excess of receipts over disbursements	\$	(504.62)	\$	660.35	\$	378.99	\$	534.72
<hr/>								
Cash at beginning of year	\$	766.44	\$	261.82	\$	922.17	\$	766.44
<hr/>								
Cash at end of year		261.82		922.17		1,301.16		1,301.16
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OFFICE OF THE PUBLIC AUDITOR

INTERNAL CONTROL PROCEDURES

The following information on the fundamental principles of internal controls and cash is taken from a chapter of the Fundamental Accounting Principles, 15th edition written by Larson, Wild and Chiapetta. It has been adapted to fit a small government entity. Please note that the information is not all-inclusive of internal controls and should be used as a general guide to ensure basic internal controls are in place.

OVERVIEW

It is management's responsibility to set up policies and procedures to safeguard an agency's assets, especially cash. To do so, directors and government employees must understand and apply the basic principles of internal controls.

PURPOSE OF INTERNAL CONTROL

Directors of small government entities often control the entire operation. They supervise employees, participate in all activities, and make major decisions. At some point, directors must delegate responsibilities and rely on formal procedures rather than personal contact in controlling and knowing all operations of the entity.

Directors use an internal control system to monitor and control the entity's operations. An internal control system is all the policies and procedures directors use to:

- Protect assets
- Ensure reliable accounting
- Promote efficient operations
- Urge adherence to government policies, rules and regulations, and laws

A properly designed internal control system is a key part of systems design, analysis and performance. Directors should place a high priority on internal control systems because they can prevent avoidable losses, help directors plan operations, and monitor agency and employee performance. While internal controls do not offer guarantees, they reduce the agency's risk to fraud, waste, and abuse.

PRINCIPLES OF INTERNAL CONTROL

Internal control policies and procedures vary from entity to entity. They depend on factors such as the nature of the entity's operations and its size. Yet certain fundamental internal control principles apply to all entities. The principles of internal control are:



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- 1. Establish responsibilities.**
 - Control is most effective when each task is clearly established and assigned to one person.
- 2. Maintain adequate records.**
 - Good recordkeeping helps protect assets and ensures that employees use prescribed procedures.
 - Reliable records are a source of information that directors use to monitor the entity's operations.
- 3. Separate recordkeeping from custody of assets.**
 - The person who controls or has access to an asset must not keep that asset's accounting records.
 - This principle reduces the risk of theft or waste of an asset because the person with control over the asset knows that records of the asset are kept by another person. The recordkeeper doesn't have access to the asset and has no reason to falsify records. Both persons must agree to commit a fraud, called collusion, for the asset to be stolen and theft is hidden from the records.
- 4. Divide responsibility for related transactions.**
 - Good internal control divides responsibility for a transaction or a series of related transactions between two or more individuals or departments, often called separation of duties.
 - This is to ensure that the work of one acts as a check on another.
- 5. Apply technological controls.**
 - The use of technological devices can improve internal control (i.e., accounting softwares or programs, cash registers, check protectors, time clocks, mechanical counters, and personal identification scanners).
- 6. Perform regular and independent reviews.**
 - Management should review monthly financial reports of the agency's operations.
 - Independent reviews should be done by internal auditors or by someone who is not directly involved in operations.
 - The independent review should be done periodically or on a surprise basis.
 - The entity should have external auditors test the agency's financial records to determine whether they are presented fairly in accordance with generally accepted accounting principles.
- 7. Insure assets and bond key employees.**
 - Assets should be adequately insured against casualty, and employees handling cash and negotiable assets should be bonded.



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- An employee is *bonded* when the entity purchases an insurance policy, or bond, against losses from theft by that employee.
- For the Government of Guam, bonding of employees may not be cost effective.

These procedures minimize the risk of fraud and theft as well as increase the reliability and accuracy of accounting records.

LIMITATIONS OF INTERNAL CONTROL

All internal control policies and procedures have limitations. Probably the most serious source of these limitations is the human element. Internal control policies and procedures are applied by people and often impact other people. This human element creates several potential limitations that we can categorize as either:

- (1) Human error, which can occur from negligence, fatigue, misjudgment, or confusion, or
- (2) Human fraud, which involves intent by people to defeat internal controls for personal gain.

Another important limitation on internal control is the cost-benefit principle, which means the costs of internal controls must not exceed their benefits. The bottom line is that no internal control system is perfect, and that the directors must establish internal control policies and procedures with a net benefit to the entity.

CONTROL OF CASH

Cash is a necessary asset of every entity. It is important to apply principles of good internal control to cash. Cash is the most liquid of all assets and are easily hidden and moved. A good system of internal control for cash provides adequate procedures for protecting both cash receipts and cash disbursement. These procedures should meet three basic guidelines:

1. Handling of cash is separate from recordkeeping for cash.
 - This guideline aims to minimize errors and fraud by division of duties.
 - When duties are separated, two or more people must collude to steal cash and conceal this action in the accounting records.
2. Cash receipts are promptly (daily) deposited in a bank.
 - This guideline aims to use immediate (daily) deposits of all cash receipts to produce a timely independent test of the accuracy of the count of cash received.
 - Cash theft of loss is reduced as well as the risk of an employee personally using the money before depositing it.
3. Cash disbursements are made by check.



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- This guideline aims to use payment by check to develop a bank record of cash disbursements
- This guideline also reduces the risk of cash theft.

The deposit of cash receipts and the use of checks for cash disbursement allows an entity to use bank records as a separate external record of cash transactions. For small entities, use of prenumbered cash receipts as well as the requirement of dual signatures on checks are also essential procedures for good internal control for cash.

VOUCHER SYSTEM OF CONTROL

A voucher system is a set of procedures and approvals designed to control cash disbursements and acceptance of obligations. The voucher system of control establishes procedures for:

- Accepting obligations resulting in cash disbursements.
- Verifying, approving, and recording obligations.
- Issuing checks for payment of verified, approved, and recorded obligations.
- Requiring obligations be recorded when incurred.
- Treating each purchase as an independent transaction.

A good voucher system follows these procedures for every transaction. This applies even when many purchases are made from the same vendor during a period.

BANK RECONCILIATION

When an agency deposits all receipts and when all payments except petty cash payments are by check, the bank statement is a device for proving the accuracy of the depositor's cash records. The agency tests the accuracy by preparing a bank reconciliation. A bank reconciliation explains the difference between the balance of a checking account according to the depositor's records and the balance reported on the bank statement.



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INTERNAL CONTROL CHECKLIST

This internal control checklist is designed to help Directors assess their agency's internal controls and to provide guidance in implementing controls where weaknesses are presented. This is not an all-inclusive list of internal controls and should be used as a general guide to ensure that basic internal controls are in place. Please note that answering "yes" indicates that a desired control is in place; answering "no" indicates that a control weakness may be present, and corrective action may be necessary. Keep in mind that some questions may not be applicable to all operations.

	Yes	No	N/A	Comments
General Controls				
● Does the entity have an accounting system such as QuickBooks, Peachtree, MAS 90, etc.?	_____	_____	_____	_____
● Does the entity have adequate written statements and explanations of its accounting policies and procedures?	_____	_____	_____	_____
● Are accounting policies and procedure manuals updated as necessary?	_____	_____	_____	_____
● Are manuals distributed to appropriate personnel?	_____	_____	_____	_____
● Is there a periodic review of accounting procedures with all staff?	_____	_____	_____	_____
Cash Receipts				
● Are responsibilities for collecting, depositing, and recording cash receipts performed by different individuals?	_____	_____	_____	_____
● Are cash receipts recorded on pre-numbered duplicate receipt forms with the original copy given to the payer?	_____	_____	_____	_____
● Are deposits compared on a daily basis to pre-numbered receipt forms by someone other than employee initially receiving cash?	_____	_____	_____	_____
● Is "For Deposit Only" stamped on incoming checks as soon as received?	_____	_____	_____	_____
● Are all checks received made payable to the entity?	_____	_____	_____	_____
● Are adequate physical facilities provided for safeguarding cash until it can be deposited (locked away)?	_____	_____	_____	_____
● Does adequate accountability exist to identify who is responsible for cash at any given time (Is responsibility for cash receipts fixed from the time they are received until sent to the bank)?	_____	_____	_____	_____
● Are cash receipts deposited on a daily basis?	_____	_____	_____	_____

**Appendix 9:
Internal Control Checklist**

	Yes	No	N/A	Comments
● Are Deposit/Receipt Forms and supporting documentation reviewed by an employee not involved with the cash collection process?	_____	_____	_____	_____
● Are cash overages or shortages reported?	_____	_____	_____	_____
● Are employees prohibited from using cash receipts to make cash disbursements?	_____	_____	_____	_____
● Is a comparison of daily reported receipts conducted on a test basis to bank statements to verify timeliness of deposits?	_____	_____	_____	_____
Cash Disbursements				
● Are responsibilities for disbursement preparation and disbursement approval functions segregated from those recording or entering cash disbursements information?	_____	_____	_____	_____
● Are all cash disbursements made by check?	_____	_____	_____	_____
● Are pre-numbered triplicate checks used where the original check is given to Payee, the duplicate filed in the vendor file and triplicate saved as the check register copy?	_____	_____	_____	_____
● Are dual signatures required on all checks?	_____	_____	_____	_____
● Are disbursements made only when approved by authorized persons?	_____	_____	_____	_____
● Are all bills or disbursement vouchers presented together with the checks for signature?	_____	_____	_____	_____
● Are all supporting documents properly marked "Paid" at time of signature to prevent duplicate payment?	_____	_____	_____	_____
● Are all bills or disbursement vouchers approved by someone other than the check signer?	_____	_____	_____	_____
● Are voided checks preserved and filed after appropriate mutilation?	_____	_____	_____	_____
● Is there a written prohibition against drawing checks payable to cash?	_____	_____	_____	_____
Financial Records				
● Is a monthly review and reconciliation of all bank statements and correspondence performed (preferably within 15 days after the statement date)?	_____	_____	_____	_____
● Is a monthly review and reconciliation of all bank statements and correspondence performed by someone unrelated to the cash receipts or disbursement functions?	_____	_____	_____	_____
● Does a responsible official, other than the preparer, review completed bank reconciliations?	_____	_____	_____	_____
● Is the completed bank reconciliation initialed and dated by both the preparer and the reviewer?	_____	_____	_____	_____

**Appendix 9:
Internal Control Checklist**

	Yes	No	N/A	Comments
● Does the entity's accounting system allow management to record financial transactions, view the data by category, and create timely reports to maintain accountability for the government's assets?	_____	_____	_____	_____
● Is computerized data backed up daily and source documents retained?	_____	_____	_____	_____
● Are all financial recording documents sequentially pre-numbered, retained, and accounted for, including spoiled or voided forms?	_____	_____	_____	_____
● Are records properly guarded from fire, theft and manipulation?	_____	_____	_____	_____
● Are monthly financial statements (e.g. Trial Balance, Balance Sheet, Income Statement, etc.) prepared?	_____	_____	_____	_____
● Are monthly financial statements reviewed and approved by the director?	_____	_____	_____	_____



Eddie B. Calvo
Governor

Ray Tenorio
Lieutenant Governor

OFFICE OF VETERANS AFFAIRS

Guam Veterans Cemetery

172 South Marine Corps Drive
Asan, Guam 96910
Telephone: (671) 475-8389/90/92/94
Facsimile: (671) 475-8396



John S. Unpingco
Governor's Special Assistant

RECEIVED
OFFICE OF PUBLIC ACCOUNTABILITY
DATE: <u>3/5/12</u>
TIME: <u>3:27 pm</u>
BY: <u>Vince D.</u>

March 1, 2012

We write to you to give our comments to the audit you recently conducted on the Office of Veterans Affairs. While we agree that tax reports were not filed and quarterly and were not made, we disagree with most of the other findings. We shall first give a brief description of the condition or the state of affairs of the Office of Veterans Affairs on January 3, 2011 so that things are placed in the proper perspective. Then, we shall furnish comments in the order presented in the "executive summary." What is not covered in the "executive summary" will be covered in the "results of audit."

On January 3, 2011, the Office of Veterans Affairs was a complete mess. There was no accountability for tools, equipment and hand issued items. There were few records and receipts were haphazardly kept. There was a big problem with respect to vendors not being paid for goods furnished and services performed in prior years, maintenance of the Veterans Cemetery was a source of constant complaints and operational supplies for the cemetery were badly needed. Water leakage at the cemetery was and still is a continuing problem. Thousands of dollars were spent with no resolution. Veterans were screaming for action to be taken. The present Administrator began prioritizing the problems and went to work on solving them.

This brings us to the first comment we have on the audit. The audit findings are based on the time period from October, 2008 to September 2011. The present Administrator's time period was from January 3, 2011 to September 2011 (*9 months out of the 36 total*). The audit in the Executive Summary should at the outset make this delineation as it seems this audit seems focused on my tenure as Administrator while the prior Administrator (*who had a longer period*) is ignored.

The second general comment is that the Guam Veterans Commission had been defunct for well over two (2) years. The new slate of officers were elected on January 13, 2011.

The responsibility for the oversight of the Office of Veterans Affairs' finances should not be shouldered by all of the present officers of the Guam Veterans Commission. The terms of the Guam Veterans Commission is only for two (2) years under the Bylaws of the Guam Veterans Commission. Its members do not hold office until their successors have been duly elected and sworn in by the Governor of Guam. The present Veterans Commission was not elected until January, 2012. This was the third attempt at elections, as the first two had procedural defects. In the July meeting, for instance, it was decided to postpone the elections to give the veterans organizations a chance to get their non-profit tax certificates from Department of Revenue and Taxation. In the second one, a veteran at the meeting complained that people ineligible to vote, voted and that proper notice was not given by the Office of Veterans Affairs in the Pacific Daily News as required by the By-Laws. The present Administrator remedied these problems and the new Commission was voted in on January 13, 2012

We now turn to the findings of the Office of Public Auditor in the "executive summary."

FINDINGS ONE AND TWO ARE VALID: We shall take corrective steps to follow these recommendations in the future.

FINDINGS THREE: Seventeen (17) checks signed in blank totaling Twelve Thousand Two Hundred Sixty One Dollars (\$12,261) under the current Administrator. It is true that these checks were pre-signed. What is not mentioned is that the defunct Commission President and Treasurer were experiencing health problems and could not always come down to the Office of Veterans Affairs when summoned. In the meantime we still need trash bags, caulking to line the crypt covers at the Guam Veterans Cemetery and other bills from operations of the cemetery were still coming in. We asked for the source document upon which this finding is based. It is attached as Attachment 1.

We kept all of the receipts for which the expenditures of \$12,261 were incurred (*see Attachment 2*). Every cent of the \$12,261 was accounted for. Yet, this important fact was not mentioned in the report.

FINDING FOUR: Guam procurement laws and regulations were not followed, resulting in the \$65,500 in disbursements without the minimum three (3) quotes. Of this amount, \$53,293 and \$12,261 were under the former and current Administrator, respectively. The source document upon which the auditor based her finding is attached as Attachment 1.

First, of the 17 items listed arguably three meet the criteria for having a minimum of three quotes. These were: a) the \$799 expenditure to ERC; b) the \$2,100 to Connie's; and c) the \$1,504.96 to Travel Bag. The other expenditures totaling \$500 or less were to me for the petty cash fund. The three expenditures totaled \$4,403.96 not the \$12,261.23. (see Attachment 3)

Second, governmental body is defined in the procurement law in 5GCA subsection 5030(k) as "any department, commission, council, board, bureau, committee, institution, agency, government corporation, authority, or other establishment or establishment (SIC) or official of the executive branch of the government of Guam, except for Guam Community College, the University of Guam, the Department of Education, and the Guam Memorial Hospital. Emphasis added. Thus, the definition does not squarely encompass the Office of Veterans Affairs. It can be interpreted as including the Office of Veterans Affairs but this is an interpretation. We recommend that what the Office of Veterans Affairs should be defined by law in its enabling act. Only with such certainty can we know that it is bound by the procurement law.

Third, the Small Purchase procedure is authorized by 5GCA subsection 5213. The procedure itself is stated in 2GARDIV4 subsection 3111. It states in section 3111 (c) (1):

"(1) Procedure. Insofar as it is practical for small purchase of supplies or services between \$500 and \$15,000, no less than three positive written quotations from businesses shall be solicited, recorded, and placed in the procurement file" . . . Emphasis added.

The requirement is for small purchases of \$500 to \$15,000 there should be 3 quotes. But, most of the expenditures were for less than \$500. Therefore the requirement does not apply to most of the \$12,261. The requirement also speaks to when it is practical to do so, i.e., when the 3 quotes requirement comes into play.

And who determines when it is practical to include three written quotations in the file? The answer is found in section 3111(b) which states:

"(b)... Authority to make Small Purchases.

1) Amount. The Chief Procurement Officer, The Director of Public Works, or the head of a Purchasing Agency may use this Section if the Procurement is to be less than \$15,000 for supplies or services and less than \$50,000 for construction. Emphasis added.

The Head of the Purchasing Agency makes the determination. The three quotes were not necessary because most of the alleged purchases were petty cash transactions and they were used for purchases of less than \$500. The remainder of the small purchases (*three purchases*) would have been the one ones that I could arguably need the three quotes on, if the quotes were practical.

FINDING FIVE. \$46,391 in disbursement did not have supporting documentation of which \$35,808 and \$10,583 were disbursed by the former and current Administrator, respectively. Completely disagree with this finding with respect to the present Administrator. It should be noted that most of the entries in this source document are identical to the entries in Attachment 1. The auditor's source document for the \$10,583 is Attachment 4. There are supporting documents that show why each disbursement is made. Attachment 2 is the receipt binder. Consumable supplies for the cemetery was the primary reason for the expenditure. On page 24 of the audit, the receipts for the period of the present Administrator are more than the disbursement by \$900. This is where the unaccounted for cash receipts from donations, such as car washes went. The present Administrator applied the cash to supplement the petty cash fund and reimbursed the receipts presented. Each reimbursement is fully substantiated by a receipt. The records (*Attachment 2*) above should be reviewed. For the disbursements to John Unpingco and Tony Guzman the sub-disbursements under each category should be reviewed. The breakdown of how these disbursements were made is attached as Attachment 5.

FINDING SIX. No comment, as it was prior to my administration

FINDING SEVEN: The current Administrator's travel was not approved by the Commission. Completely disagree. The Commission is limited to Two a (2) year term. The Commission is not in office until relieved. See Constitution and By Laws of Commission (*Article III, Section 2; Attachment 6*). This travel was briefed by the present Administrator personally to the Governor and the Chief of Staff approved for administrative leave. The present Administrator briefed the Commission on July 28, 2011. See my briefing notes (*Attachment 7*). Finally, the Commission had been defunct for over two (2) years. So, who was the proper person to seek permission from? It was imperative that I attend the conference. Went through the Governor as part of his austerity program and he approved. The Chief of Staff at the Governor's Office also signed off and approved my travel. (*see Attachment 8*). Is there anyone else that I could go to for approval? The agenda for the meeting of the National Association for State Directors of Veterans Affairs is attached. (*Attachment 9*) It was an opportunity to meet face to face with officials from the National Association of State Cemeteries and network with them on our two potential grants for our cemetery of \$175,000 and \$4 million respectively. (*See Trip Report, Attachment 10*)

FINDING EIGHT. Petty cash reimbursements under the current Administrator were not reconciled to the receipts. Disagree. Documents are available for inspection. Our Administrative Assistant made sure these matched.

FINDING NINE. Bank conciliation's were not performed. The Administrative Assistant performed bank reconciliation monthly when the bank statements come out. Documents are available for review.

FINDING TEN. Quarterly and annual financial reports were not prepared and submitted. Could not submit annual reports because not in office as present Administrator for a year. Administrative Assistant was not aware of spending decisions as prior Administrator excluded her from all spending decisions. So we could not file prior years.

FINDING ELEVEN. Tax filing reports were not prepared and submitted. See response to Finding Ten.

FINDING TWELVE. The Administrator had sole custody and complete control over the handling and recording of cash received and disbursed. Disagree.

The By laws, Article V, Section 2 (Attachment 6) states:

" The Treasurer shall maintain two (2) separate Bank of Hawaii accounts: (1) Guam Veterans Cemetery Trust Fund; and (2) Veterans Affairs Trust Fund. The Treasurer shall be the custodian of all funds and property records of both active accounts; receive and collect monies turned to the "Commission" and deposit into bank accounts in a timely manner; a true and correct report of receipts and disbursements and balances...."

The present Administrator by default, had to assume the duties of the Treasurer, otherwise, the cemetery operations would come to a standstill. The present Administrator was given a cursory briefing on what his duties were. Here, we come to a discrepancy. The President of the Guam Veterans Commission wants the Commission to act in a supervisory role to the Administrator. How the cemetery is run is up to the Administrator. The problem is Article VI, Section 1 (*see Attachment 6*), which states:

"This constitution and By laws are adopted pursuant to Public Law 28-46 and are to remain in effect until the Public Law is amended or the "operational" needs of the "Commission" make them necessary. All changes require majority vote and shall be in writing.

This is another area where legislative action is in order.

The Introduction to the audit results will now be covered. The first paragraph on page 4, several corrections are in order. First, the staffing of the Office of Veterans Affairs consists of "three" not "four" Health Benefits Service Representatives. Currently, only one (1) instead of three positions are filled, with two being vacant.

The second paragraph under the heading of "Guam Veterans Commission" states in the last line that there are 10 members of the Commission. The correct number is seven (7) on the Commission.

Under the paragraph denoted as "non-appropriated Funds", the first full line of paragraph 1 should read "The Office of Veterans Affairs Administrator, manages two non-appropriated funds: the Veterans Cemetery Trust Fund for the maintenance of the veterans cemetery and the Veterans Affairs Fund for various purposes."

There is a conflict here between Article V, Section 2 and 10GCA subsection 7106 (*see Attachment 6*). Normally, a statute trumps a By Law. But, if the By Law is that of a private organization and is adopted pursuant to Public Law 28-46, we are uncertain. Therefore to cure the uncertainty we request legislative action clarifying this matter.

We now turn to the "Results of Audit" segment of the Office of Public Auditor's report. Under the subsection entitled "Receipts not reconciled to deposits" the Office of Public Auditor found that \$952 could not be traced to specific deposits. What the auditor did not mention was that the \$952 was used to supplement the petty cash funds by the present Administrator of the Veterans Affairs Funds so that in Appendix 6 (page 24) the receipts were greater than the disbursements by \$900.

With respect to Appendix 4 of the Office of Public Auditor report we requested the data from the Office of Public Auditor from which these were derived. The data shows that from January 2011 to September 2011 the disbursements are largely duplicative. The source documents for the \$12,261 and the \$10,583 referred to in Finding 4 and Finding 5 are duplicative. As mentioned previously, there are receipts for each expenditure made and they do balance out. (See Attachment 2).

With respect to the heading entitled "burial reimbursement claims listing not maintained." The report stated on page 8, the paragraph beginning with "For example":

"In March 2011,, the present Administrator submitted 38 burial claims, totaling \$11,400, for the months of June 2008 and January (SIC) to April 2009. In April 2011, U.S. Department of Veterans Affairs approved 24 burial claims for \$7,200. Some of the claims were not processed because prior payments were made."

Besides prior payments having already been made and because the prior Administrator worked out of three (3) offices all of which were a mess of records, the records had to be gleaned from the documents of the prior Administrator. Most importantly, some of the claims may not have been honored was because the statute of limitations had expired on the claims. The present Administrator made a decision on which claims were to be filed. The decision was to file all claims and if the Department of Veterans Affairs gave us the benefit of the doubt and honor the claims on which the two (2) year statute of limitations had run. If the Department of Veterans Affairs was to reject the claims because of the statute we would nonetheless have tried to get the claims approved. We had nothing to lose.

The present Administrator cannot be faulted for having filed claims that were not honored. For two years, the claims had not been filed. Had it not been for the present Administrator we would not have filed for any claims at all because the excuse would be that the records of the prior Administrator were too messed up to file any claims.

On Table 2 on page 8, it shows we filed a total of 139 claims of which 126 were approved, we were finding some of the older claims from the time of the prior Administrator was included in our claims. It should be noted that there is a two (2) year interval between the prior Administrator filing claims back in January 6, 2009 till the present Administrator started filing again in March 8, 2011. During the intervening two years, the statute of limitations had run on a number of claims. The present Administrator put his foot down and "all hands turned to" cleaning out the three (3) offices of the prior Administrator and filing, in addition, the claims for the current burials.

With respect to not keeping records on the burial claims reimbursed, we kept the claim forms which had the individual burials listed. (*see Attachment 11*). Thus, we do have records, albeit, not the way the Office of Public Auditor would prefer. When we get the proper computer equipment from a grant we are getting from the Department of Interior we shall comply.

With respect to the section entitled "Guam Procurement Laws and Regulations not followed" the last paragraph is worthy of comment (*the others having been commented on earlier*). The \$2,180 in per diem was based on the Department of Administration's per diem rate for the area visited. While the opinion that the government of Guam's travel regulations need not be followed was attributed to the Administrative Assistant, this in fact was not the case. The government of Guam travel regulations with respect to per diem were indeed followed, this is how the rate was determined.

With respect to the battery, the price of \$131.99 and the receipt was in the file.

With respect to the excess of receipts over disbursements, it should be noted that there is an excess of \$378.99 in Appendix 7.

It should also be noted that past invoices (*Attachment 12*) such as for the Tiger Dump and for the trailer that we use to transport the riding mowers were incurred in prior years but were paid this year.

There are at least two other troubling aspects of this audit. The first is that no attribution is made of prior year's encumbrances such as the "Tiger Dump" and others (*see page 13 of audit*) which were procured in prior years but was not paid till this year. There are other purchase orders such as this (*see Attachment 12*). We had to find monies from which three obligations could be paid from. We had to deal with these because the prior Administrator did not turn in the proper documents.

Second, although the present Administrator was in office for only 9 months out of the 36 months this audit encompassed, it appears the focus of the audit is on him and not the prior Administrator. What happened to the prior Administrator's 26 months? Is the dismissal of his shortcomings appropriate? Does the lack of records therefore absolve him from further liability for his actions?

In sum, the audit was hurriedly prepared. The audit were prepared as one of the last acts of the responsible auditor before she started her new duties at Department of Education. The double counting for the \$12,261 and \$10,583 figures and their not being adequately documented were not borne out by the receipts in the file. And, while the receipts were being explained to the auditor, she was also training a young newcomer. The focus of her attention was divided and therefore a proper and objective audit was not accomplished.

In short, I disagree with the present Veterans Commission Chairman's assessment that this was a professional and thorough audit. This audit was far from "professional and thorough". It was a hastily prepared audit that is not of the usual calibre or standards of the Office of Public Accountability's.

Management Response – Guam Veteran’s Affairs Commission

March 5, 2012

Doris Flores Brooks, CPA, CGPM

Public Auditor

Hagatna, Guam 96910

Subject: Response to Guam Veterans Affairs Office’s Non-Appropriated Funds Audit

Dear Ms. Brooks:

Except for the findings the GVAO Administrator is currently validating, I concur with all other audit report findings of the Guam Veterans Affairs Office’s Non-Appropriated Funds. The audit scope was between October 1, 2008 and September 30, 2011.

The following will be done to prevent future reoccurrences of the findings and to ensure greater accountability and transparency:

1. The Guam Veterans Commission (GVC) and the Guam Veterans Affairs Office (GVAO) will work closely as a team to ensure that the GVAO operations and non-appropriated financial system are sound and transparent ensuring services to our U.S. military veterans are nothing but top-notch.
2. The GVC will ensure that it performs its fiduciary responsibility to provide oversight of the GVAO’s finances and operations. A quarterly audit will be performed by the GVC designee. Audit report will be provided in writing to the GVAO administrator and GVC chairman during a GVC meeting.
3. The GVAO and GVC designee will establish policies and procedures for financial accounting transactions and transparency. The ASO or designee will be trained on the established procedures. A checklist will be established and processed by the ASO or designee for every financial transaction made. The processed checklist will be filed with

Management Response – Guam Veteran’s Affairs Commission

the financial transaction. Training will be provided by either the GVAO Administrator or GVC designee.

4. The ASO or designee, the GVAO Administrator and a GVC designee will work in tandem to establish financial accounting transactions and transparency performance standards for the ASO or designee. The Administrative Services Officer (ASO) or designee will be trained on the established performance standards either by the GVAO Administrator or GVC designee. A quarterly performance standards audit will be conducted and documented by the GVAO Administrator. The performance standards audit results will be discussed with the ASO or designee and GVAO Administrator. The results will be provided in writing to the GVC chairman during a GVC meeting.
5. The ASO or designee must maintain a list and copies of all claims submitted to the U.S. Department of Veterans Affairs. Reconciliation must be conducted when claims are received to resolve any discrepancies. All actions to resolved discrepancies must be documented. A checklist will be made and processed for every batch claim made and filed with each batch. Results will be reported in writing to the GVC chairman during a GVC meeting.
6. The GVAO Administrator must file Form 1099 for donations received over \$600.00 annually. A checklist will be made and processed for all donations received or made to include Form 1099 when donations exceeds \$600.00 annually. The results will be provided in writing to the GVC chairman during a GVC meeting.
7. Established checklists will be processed on the last work day of each quarter (March/June/Sep/Dec) by the GVC designee. Results will be provided in writing to the GVAO Administrator and to the GVC chairman during a GVC meeting. Explanation for not processing checklist on time as prescribed will be made at a GVC meeting.
8. The Public Auditor will be consulted to ensure that established financial accounting transaction system and transparency procedures and checklists are in accordance with financial and transparency best practices.

Management Response – Guam Veteran’s Affairs Commission

9. I am not sure what benefits would be derived from making the GVAO Administrator’s position unclassified other than uniformity with other agency directors. I will further research and make a response to this item at a later date.

I would to thank you and your team for conducting a professional and thorough audit. The audit results will serve as a benchmark for the GVAO and GVC to launch from to ensure that services for our veterans and their families are consistently professional and that hard earned tax dollars are judiciously used and properly accounted for.

With Respect,

Signed

William (Bill) Cundiff, Chief Master Sergeant, USAF, Retired

Guam Veterans Affairs Commission Chairman

