

May 29, 2020

Ms. Pilar Laguana  
General Manager  
Guam Visitors Bureau  
401 Pale San Vitores Road  
Tumon, Guam 96913

Dear Ms. Laguana:

In planning and performing our audit of the financial statements of Guam Visitors Bureau (GVB) as of and for the year ended September 30, 2019 (on which we have issued our report dated May 29, 2020), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GVB's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GVB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GVB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to GVB's internal control over financial reporting and other matters as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated May 29, 2020, on our consideration of GVB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and the Office of Public Accountability - Guam and is not intended to be and should not be used by anyone other than these specified parties.



We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of GVB for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

**SECTION I – DEFICIENCIES**

We identified the following deficiencies involving GVB's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. Revenues

Comment: Collections should be monitored through pre-numbered cash receipts to ascertain that all cash collections are reported and timely deposited.

Approximately 38 receipts were not accounted for during FY2019.

Prior Year Status: The above condition was identified as a deficiency in prior year audits.

Recommendation: We recommend GVB implement controls to ascertain that all collections received are reported and deposited.

2. In-kind Donations

Comment 1: A post-closing entry was provided to record an additional \$31,697 of in-kind donations.

Comment 2: Internal Revenue Service (IRS) Publication 1771, *Charitable Contributions-Substantiation and Disclosure Requirements*, require donors to obtain a written acknowledgement from a charity for any single contribution of \$250 or more before the donors can claim a charitable contribution on their federal income tax returns.

For \$34,999 (or 9%) of \$374,310 reported in-kind donations, GVB did not acknowledge receipt of the donation.

Prior Year Status: The above condition was identified as a deficiency in the prior year audit.

Recommendation: We recommend GVB strengthen controls requiring all in-kind donations be recorded and comply with IRS Publication 1771 by providing an acknowledged receipt of donation.

3. Credit card Receipts

Comment: \$716 of expenditures for food and beverage were supported with a credit card receipt. A vendor invoice was not provided to support the transaction details.

Recommendation: All expenses should be supported with a detailed invoice.

4. Journal Entries

Comment: Accounts payable and expenses were overstated by \$643,989 due to erroneous journal entries. A subsequent entry was recorded to correct this matter.

Recommendation: We recommend a full understanding of the liability account be determined, and a thorough examination of invoices be performed before adjusting journal entries are posted. The above entry resulted in an overstatement of liabilities and expenditures.

5. Professional services – Advertising Agency

Comment 1: For three of fifty-five (or 5%) professional service invoices examined, \$385,909 of web media costs were paid to an agent with no documented confirmation that the costs were incurred.

## SECTION I – DEFICIENCIES, CONTINUED

5. Professional services – Advertising Agency, Continued

Comment 2: For three of fifty-five (or 5%) professional service invoices examined, a total of \$1,172,242 of sales campaign costs were paid to a marketing agent for posters advertised at various train stations. No supporting invoice from a third-party or contract to support a calculated formula was provided to show how advertising costs were determined.

Comment 3: For two of fifty-five (or 4%) of professional service invoices examined, a monthly retainer fee for public relation activity services was paid to an off-island agent with no supporting contract. GVB paid approximately \$111,766 of retainer fees during FY2019 to the off-island agent for services provided by a third party vendor.

Recommendations: Web media costs should be supported by documented evidence of the number of hits or impressions charged.

Advertising costs should be supported by documented evidence demonstrating how the costs were determined, such as invoices paid to train stations for advertisement costs.

Contracts that bind the agent to the benefit of GVB should be supported by signed and approved contracts before reimbursement is requested.

6. Board Approval

Comment 1: For twenty-one of ninety-nine (or 21%) expenses tested totaling \$3,006,746, budgets approved by the Board were used to support transactions in excess of \$1,000. Expenses primarily consist of charter flights, air support and sales campaign expenses.

Per 12 GCA Chapter 9 § 9111. Contracts and Purchases:

The Bureau will always seek the most reasonable prices for services and products needed, giving due consideration to the urgency of the requirement. Purchase orders or letters of authorization will be executed by the General Manager for needed products or provisions, pursuant to the current budget. Such purchase orders or letter of authorization for expenditures in excess of One Thousand Dollars (\$1,000) except salaries, shall require prior approval by the Board of Directors.

Prior Year Status: The above condition was identified as a deficiency in prior year audits.

Comment 2: Japan personnel received severance payments totaling \$361,721. While a motion was passed, no vote was made to approve the payments.

Recommendation: We recommend the Board consider working with the legislature to revise the above requirement as stated on comment 1. At this time, we recommend the Board consider authorizing transactions below an agreed threshold for management to approve, and review all transactions above that threshold at monthly Board meetings. Thresholds may also be subject to change at the discretion and approval of the Board as they become familiar with the activities of GVB.

Furthermore, we recommend all motions passed undergo a vote to document that the Board concurs with the motion.

## **SECTION II – DEFINITION**

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

GVB's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.