

MAYORS' COUNCIL OF GUAM

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

YEAR ENDED SEPTEMBER 30, 2015



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Executive Officers
Mayors' Council of Guam

We have audited, in accordance with the 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, the financial statements of the Mayors' Council of Guam, which comprise the statement of cash deposits and disbursements and changes in cash for the year ended September 30, 2015 and the related notes to the financial statements, and have issued our report thereon dated March 30, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control, during the course of the audit.

Compliance and Other Matters

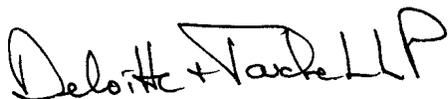
As part of obtaining reasonable assurance about whether the Mayors' Council of Guam's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2015-1 and 2015-2.

Mayors' Council of Guam's Responses to Findings

The Mayors' Council of Guam's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Mayors' Council of Guam's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

March 30, 2016

MAYORS' COUNCIL OF GUAM

Schedule of Findings and Responses Year Ended September 30, 2015

Finding No.: 2015-1
Area: Compliance with Applicable Procurement Regulations

Criteria: Procurement rules and regulations applicable to non-appropriated funds (NAF) should be clearly defined.

Condition: During fiscal year 2015, the Mayors' Council of Guam and the nineteen municipalities have demonstrated continued commitment to obtain comparative prices for their NAF disbursements. While substantial improvements were evident relative to procurement procedures, the Mayors' Council of Guam is yet to complete a uniform procurement policy.

Cause: The cause of the above condition is the absence of formal procurement rules and regulations governing NAF.

Effect: The effect of the above condition is that NAF purchases are not consistently subjected to procurement rules and regulations.

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to develop a procurement policy governing NAF that will consistently and uniformly be used by all NAF activities.

Prior Year Status: The absence of formal procurement rules and regulations governing NAF was reported as a finding in the audits of the Mayors' Council of Guam for fiscal years 2011 to 2014.

Auditee Response and Corrective Action Plan: This finding has already been addressed and corrected. A uniform policy "Standard Operating Procedures for Appropriated Funds and Non-Appropriated Funds" have been completed and unanimously adopted by the Mayors' Council of Guam in January 2016. This uniform policy is now in use at 19 villages.

MAYORS' COUNCIL OF GUAM

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No.: 2015-2
Area: Monitoring of Non-Profit Organizations and Senior Centers

Criteria: Policies and procedures should be in place to monitor non-profit organizations (NPO) or other entities utilizing the municipalities' facilities. These policies and procedures should be documented and be readily available to all districts for their guidance.

Condition: The Mayors' Council of Guam had developed policies and procedures (a) to verify validity of NPOs that utilize facilities under the jurisdiction of the Mayors' offices; and (b) to determine whether NPO's are in compliance with Department of Revenue and Taxation filings. However, such policies and procedures appear to have not been consistently provided to all nineteen districts.

Further, the Mayors' offices involvement relative to Senior Center operations and associated monitoring procedures are not clearly defined and documented. Formal accounting and financial reporting policies and procedures for the Senior Centers are currently not in place.

Cause: The existence of formal policies and procedures relative to monitoring of non-profit organizations is not known to all districts. Also, the above condition is due to the absence of uniform and formal monitoring procedures for the Senior Centers.

Effect: The effect of the above condition is that associated risks and legal liabilities may not be minimized.

Recommendation: We recommend the Mayors' Council of Guam continue to work with the nineteen districts in promulgating policies and procedures to monitor non-profit organizations. Further, we recommend that formal monitoring policies and procedures for Senior Centers' operations be established and be provided to appropriate districts for their guidance and consideration.

Auditee Response and Corrective Action Plan: The recommendation of promulgating policies and procedures to monitor non-profit organizations has already been addressed and corrected. The same "Standard Operating Procedures for Appropriated Funds and Non-Appropriated Funds" incorporates as section on Non-Profit organizations and how the districts should complete a checklist form to ensure that these non-profit entities are genuine and in good standing with the Department of Revenue and Taxation. Formal monitoring policies and procedures for Senior Centers are already incorporated in the annual Memorandum of Understanding forged between the Department of Public Health and the Mayors' Council of Guam. Polices of revenue collection and expenditures are addressed in the "Standard Operating Procedures for Appropriated Funds and Non-Appropriated Funds" that currently are in use since January 2016 as these funds are also categorized as non-appropriated funds.

MAYORS' COUNCIL OF GUAM

Unresolved Prior Year Findings
Year Ended September 30, 2015

Unresolved Prior Year Findings

As of September 30, 2015, the status of prior audit findings is as follows:

Finding No. 2014-1 – Partially corrected.

Finding No. 2014-2 – Partially Corrected.

Finding No. 2013-1 – Corrected.

Finding No. 2013-2 – Partially corrected.

Finding No. 2013-3 – Partially Corrected.

Finding No. 2012-1 – Corrected.

Finding No. 2012-2 – Partially corrected.

Finding No. 2012-3 – Partially Corrected.

Finding No. 2011-01 – Corrected.

Finding No. 2011-02 – Partially corrected.

Finding No. 2011-03 – Partially Corrected.

Finding No. 2010-01 – Corrected.

Finding No. 2010-02 – Partially corrected.

Finding No. 2010-03 – Partially Corrected.