

**Dededo Mayor's Office
Non-Appropriated Funds**

**Performance Audit
October 1, 2001 through
December 31, 2004**

**OPA Report No. 05-04
September 2005**



OFFICE OF THE PUBLIC AUDITOR

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Executive Director, Mayors' Council of Guam

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OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Performance Audit of the Dededo Mayor's Office
Non-Appropriated Funds
Report No. 05-04, September 2005

The Office of the Public Auditor (OPA) found that checks and balances were deficient over the non-appropriated fund checking accounts managed by the Dededo Mayor's Office. The audit revealed that the Dededo Mayor's Office could have collected approximately \$515,940 in additional revenue had laws been adhered to and the proper checks and balances been in place.

As much as \$41,303 in Flea Market collections for FY 2004 may have been either under collected or not deposited to the bank, because the Mayor's Office did not follow basic checks and balances in the receipt, collection, deposit, and reconciliation of cash to the number of Flea Market stalls occupied weekly. This loss, when extrapolated over the 39-month audit period, amounts to as much as \$134,000 in Flea Market collections which may have been either under collected or not deposited to the bank.

Both the former and the current Dededo Mayors undercharged Flea Market vendors by selling vendor permits at a rate of \$5 per stall per day, instead of the mandated \$20 weekend rate. We estimated that as much as \$381,940 was undercharged during our audit period. In aggregate, the Dededo Mayor's Office could have realized an estimated \$1.3 million from October 1993 through December 2004 had the Mayors charged the mandated \$20 vendor permit fee.

Further, we found that the former Dededo Mayor, Vice-Mayor and Dededo Municipal Planning Council (Dededo MPC):

- Did not submit annual financial reports to the Governor, the Guam Legislature and the MCG, as required by law. As a result, over half a million dollars in Flea Market and other revenues were not reported for the Revolving Fund.
- Were not authorized to open two checking accounts. As a result, approximately \$59,000 in revenue was not reported, and \$48,000 in expenses was paid without the approval of the Dededo MPC.
- Did not have documentation to support that purchases of \$216,444 in supplies, equipment and labor were procured in compliance with Government of Guam Procurement Regulations.
- Did not issue Form 1099-MISC to individuals who provided services of at least \$600 each fiscal year.
- Did not deposit donations of \$16,900 from Daily Flea Market vendors into a separate checking account or report these donations to the Dededo MPC, but instead used these funds as petty cash and did not seek the approval of the Dededo MPC before expending these funds.

In January 2005, the Dededo Mayor instituted the segregation of duties. Despite the new changes to segregate accounting duties, an employee failed to make deposits of \$1,000 when the employee had assumed the responsibility of receiving and depositing payments while another employee was on leave. This incident was eventually detected by other staff members and reported to the Mayor. After the Mayor's investigation, the employee admitted to theft and was subsequently terminated from the Dededo Mayor's Office. The Mayor reported the theft to the police and is actively seeking repayment from the former employee.

OPA made ten recommendations to the Dededo Mayor, Vice Mayor, and Dededo MPC to correct these deficiencies. Among these recommendations are to:

- Establish a system to (a) reconcile cash collections to cash deposits and the number of weekly Flea Market stalls occupied weekly (b) ensure that cash custodial and accounting duties remain segregated, (c) require monthly bank reconciliation to be performed, for the Revolving Fund account and (d) update the graphical layout of the Dededo Flea Market.
- Charge the prescribed \$20 weekend fee, as mandated by 5 G.C.A. §68901 (b) effective immediately.
- Close the Lencho Park Thursday Night Market Fund and the DMPC Preventative Maintenance Fund accounts, and transfer all account balances to the Dededo Municipal Planning Council Revolving Fund account.

The Dededo Mayor, Vice-Mayor, and Dededo MPC concurred with the findings and recommendations of this report.



Doris Flores Brooks, CPA, CGFM
Public Auditor



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Introduction

This report represents the results of our audit of the Non-Appropriated Funds¹ of the Dededo Mayor's Office. The audit objectives were:

- To determine whether internal controls over non-appropriated funds were adequately designed and implemented; and
- To determine whether non-appropriated funds of the Dededo Mayor's Office were adequately collected and accounted for in accordance with applicable laws and regulations.

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

Background

The Dededo Mayor's Office serves the most populated village on Guam, with an elected Mayor and Vice-Mayor, who are elected independently and not as a team. The Dededo Mayor's Office and the Dededo Municipal Planning Council (Dededo MPC) account and manage their non-

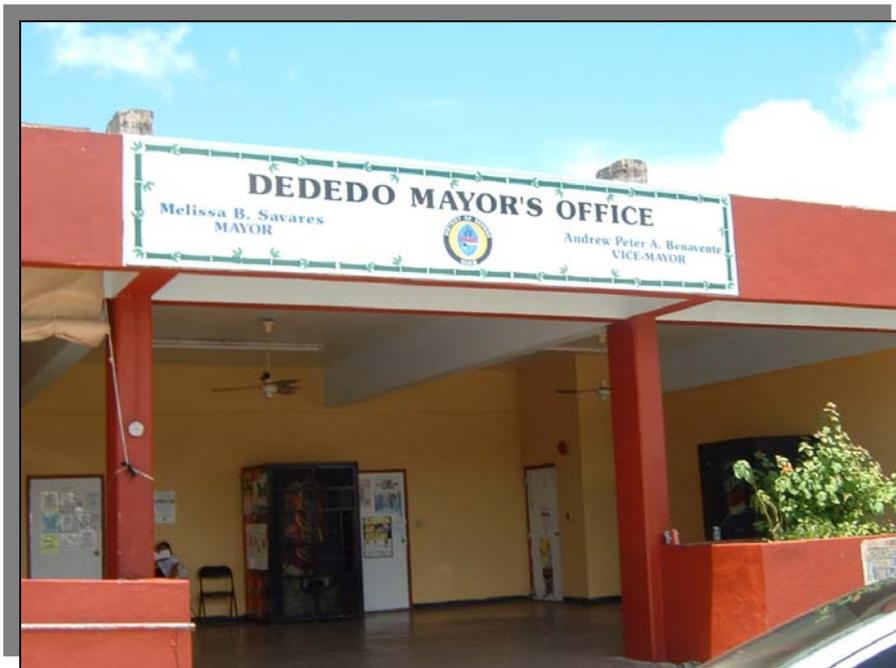


Image 1: External view of the Dededo Mayor's Office

appropriated funds in three checking accounts, which remain separate from the General Fund. These checking accounts include (1) the Dededo Municipal Planning Council Revolving Fund, (2) the Lencho Park Thursday Night Market Fund and (3) the Dededo MPC Preventive Maintenance for Centers Fund. The money from these accounts is used for the maintenance and security of buildings, village beautification projects, humanitarian assistance, Dededo MPC stipends, seasonal projects, and community projects.

¹Non-appropriated funds are all funds derived from any source other than appropriated by the Legislature.

The Dededo Municipal Planning Council Revolving Fund (Revolving Fund) is Dededo's largest checking account and was established through Public Law (P.L.) 24-97², which opened in June 1999. By law, this is the only authorized checking account that the Dededo Mayor and the Dededo MPC can establish. The Revolving Fund receives all proceeds from fundraisers, donations, and village projects to include the Dededo Flea Market, the Dededo Fiesta Carnival, and Liberation Day ticket sales. The Revolving Fund's primary source of revenue is the Dededo Flea Market, which can collect as much as \$235,040 annually.

P.L. 24-97 also authorized the Dededo Mayor's Office and the Dededo MPC to directly receive proceeds from vendor permits sold for the Dededo Flea Market. The Dededo Flea Market opens on Saturday and Sunday mornings and houses approximately 246 vendor stalls, with the exception of 20 stalls, which are not marketable because of various logistical problems.³ On average, 226 stalls are generally available for use at the Flea Market. These stalls are available for rent through the purchase of a temporary vendor permit. As a matter of policy, the Dededo Mayor's Office only accepts cash for the rental of these stalls.

Other deposits made into the Revolving Fund also include prize money from village competitions and Federal Emergency Management Agency (FEMA) reimbursements. As prescribed by law, all funds from the Revolving Fund are to be expended for the operation and maintenance of village sports facilities and to fund special projects identified by the Municipal Planning Council.

All village Mayors and their respective Municipal Planning Councils (MPC) as mandated by law are to perform the following functions with respect to their MPC Revolving Funds:

- (a) "the Municipal Planning Council of each village shall approve all expenditures for that particular village;
- (b) the minutes of the meetings must verify the authorization given by the Municipal Planning Council;
- (c) there must be two (2) authorized signatures; authorized signatures shall be determined by the Mayor and the Chairpersons of the Municipal Planning Councils or a member designee;
- (d) the Mayor shall be responsible for receipts and other substantiation as determined by the Municipal Planning Council for all checks issued; and
- (e) the Mayor shall submit a financial statement at the end of each fiscal year to the Mayors' Council of Guam."⁴

Additionally, 5 G.C.A. Chapter 40 §40112 (k) require Mayors to submit annual reports to the Governor and the Guam Legislature on the activities of his or her office, to include expenditure

²In October 1997, P.L. 24-97 authorized village Mayors to establish Municipal Planning Council Revolving Funds to receive funds raised through 1) charges assessed to commercial enterprises for advertising on the walls of the village sports facilities 2) fund-raising efforts including concessionaire activities and 3) charges set for the use of community centers, gymnasiums, and all sports facilities. These proposed fees shall be submitted to the Guam Legislature for approval.

³Logistical problems include heat, flooding, and unauthorized parking.

⁴ P.L. 24-97

of allotted funds. P.L. 27-106 also required that a quarterly reporting of all non-appropriated funds be submitted to the Speaker of the Guam Legislature, the Public Auditor, and the Mayors' Council, effective fiscal year (FY) 2005.

All Mayors shall ensure that their village MPC Revolving Fund is operating in conformity with all existing and applicable statutes, rules and regulations, codes, executive orders and any other authority.

Dededo's second largest checking account, the Dededo MPC Preventive Maintenance for Centers Fund (Centers Fund) was opened in December 2000. The Centers Fund receives \$600 a month from the Government of Guam Association of Retired Persons (GGARP) for the lease of the Dededo and Astumbo Senior Centers. The Centers Fund also receives



Image 2: External view of the Dededo Senior Center

\$75 (non-refundable) user fees from village residents who utilize the Dededo and Astumbo Centers for social and civic activities. All fees deposited into this account are to be expended for utilities, maintenance, and upkeep of the Dededo and Astumbo Senior Centers.

The third account, the Lencho Park Thursday Night Market Fund (Lencho Park Fund) opened in September 2002 to collect payments from village and island residents who set up Night Market booths.⁵ Residents are charged \$10 per booth, per night. Proceeds gained from the Thursday Night Market are to support Dededo's Liberation Queen candidate and the operational costs of the Night Market. Proceeds from the village Summer Camp Program are also deposited into this account. These funds are to be used for the operational expenses incurred by the summer camp program.

The Centers and Lencho Park Fund checking accounts were established at the discretion of the former Dededo Mayor and are not authorized by law.

⁵ The Lencho Park is located across Santa Barbara Church in front of the Dededo Senior Center.

Results of Audit

We found that the former Dededo Mayor, Vice Mayor, and Dededo MPC did not establish an adequate system of checks and balances to account for all non-appropriated funds collected for the village of Dededo. Specifically, they:

- Did not segregate accounting duties or reconcile cash collections from the Dededo Flea Market to cash deposits and to the number of Flea Market stalls occupied weekly. As a result, as much as \$41,303 in Flea Market collections for FY 2004 may have been either under collected or not deposited to the bank. When extrapolated over the 39-month audit period as much as \$134,000 may have been under collected or not deposited to the bank.
- Did not charge the prescribed \$20 weekend permit fee to Flea Market vendors, but instead charged a \$10 weekend fee. As a result, as much as \$381,940 was under charged over the 39-month audit period. In aggregate, the Dededo Mayor's Office could have realized an estimated \$1.3 million more in revenue from October 1993 through December 2004 had the Mayors charged the mandated \$20 vendor permit fee.
- Did not submit annual financial reports to the Governor, the Guam Legislature and the Mayors' Council of Guam (MCG), as required by law. As a result, over half a million dollars in Flea Market and other revenues were not reported for the Revolving Fund.
- Were not authorized to open the Centers Fund and the Lencho Park Fund checking accounts. As a result, approximately \$59,000 in revenue was not reported, and \$48,000 in expenses was paid without the approval of the Dededo MPC.
- Did not have documentation to support that procurement regulations were followed. As a result, purchases of supplies, equipment and labor totaling \$216,444 were procured absent compliance with Government of Guam Procurement Regulations. And, did not issue Form 1099-MISC to all individuals who provided services of at least \$600 each fiscal year.
- Did not deposit donations of \$16,900 received from Daily Flea Market vendors, to the Revolving Fund, and did not seek or report these donations to the Dededo MPC.

These conditions occurred because the former Dededo Mayor, Vice Mayor and the Dededo MPC failed to create a system of checks and balances to ensure that all non-appropriated funds collected by the village of Dededo would be publicly accountable. Further, the former Dededo Mayor, Vice Mayor and the Dededo MPC failed to comply with approval and reporting requirements, as mandated by law.

Reconcile Cash Collections and Segregate Duties

Good checks and balances divide responsibility for a transaction or a series of related transactions between two or more individuals or departments. This is to ensure that the work of one acts as a check on the other. This principle is often called separation of duties.

The separation of incompatible duties means that no employee should be in a position to both commit an irregularity and conceal it. Ideally, no single individual should be able to (1) authorize a transaction, (2) record the transaction in the books of the account, and (3) have custody or access to the asset resulting from the transaction.

The former Dededo Mayor, Vice Mayor and the Dededo MPC did not ensure that (1) accounting functions were properly segregated and (2) cash collections from vendor permits were reconciled to cash deposits and to the number of Flea Market stalls occupied weekly.

The former Mayor⁶ reported that the Dededo Mayor's Office serves the most populated village on island, managing a series of tasks and projects on a daily basis. The Mayor stated that due to staff limitation, the duties assigned to the Administrative Assistant were appropriate to accommodate the village activities. These duties included exclusively receiving cash collections, issuing receipts, making deposits, preparing checks, recording transactions, and preparing financial reports.

We recognize that in a small office complete segregation of duties may be difficult. However, at a minimum, the functions of collection/receipting, depositing, accounting, and reconciliation should be segregated to the extent possible. One individual having exclusive control of cash transactions, with little to no monitoring, can result in undetected errors and omissions and possible misappropriation of funds.

The former Administrative Assistant⁷ disclosed that cash collections were not reconciled to cash deposits or to the number of Flea Market stalls occupied weekly. She also stated that cash was kept in an unlocked drawer in the office and taken home when she was unable to make timely deposits. These practices demonstrate the vulnerability of cash.

To illustrate the effect of non-segregated duties and the absence of bank reconciliation, we calculated potential Flea Market earnings by multiplying the 226 marketable stalls by the \$5 permit fee charged by the Mayor. We estimated that as much as \$2,260 could have been collected each weekend based on a 92 percent⁸ vendor occupancy rate.

On a monthly basis the Dededo Mayor's Office could have received as much as \$9,040⁹ or \$11,300¹⁰ from the sale of vendor permits, depending on the number of weekends present in any

⁶The former Mayor's term ended December 2004, and the former Vice-Mayor took office as Mayor in January 2005.

⁷ The former Administrative Assistant served during the former Mayor's term, which ended in December 2004.

⁸This percentage rate was derived from dividing 226 marketable stalls by 246 total stalls.

⁹ This figure was obtained by multiplying \$2,260 by 4 weeks.

¹⁰ This figure was obtained by multiplying \$2,260 by 4 weeks.

particular month. Therefore, the Dededo Mayor’s Office could have collected as much as \$117,520¹¹ annually.

There was a variance of \$41,303 or 35 percent when comparing potential revenue of \$117,520 to actual reported revenue of \$76,217. The 12-month loss of \$41,303, when extrapolated over the 39-month audit period, amounts to \$134,000 in Flea Market collections, which may have been under collected or not deposited to the bank.

This analysis raises the concern that the Dededo Mayor’s Office may have deposited and reported a reduced amount of Flea Market revenue during FY 2004, than originally collected. See Table 1 for the potential revenue uncollected at the \$5 permit rate for FY 2004.

**Table 1: Potential Revenue Uncollected at the \$5 Permit Rate
FY 2004**

Month	Potential Revenue	Actual Revenue Reported	Potential Revenue Uncollected
Oct-03	\$9,040.00	\$7,460.00	\$1,580.00
Nov-03	\$11,300.00	\$8,660.00	\$2,640.00
Dec-03	\$9,040.00	\$7,410.00	\$1,630.00
Jan-04	\$11,300.00	\$4,630.00	\$6,670.00
Feb-04	\$9,040.00	\$3,519.00	\$5,521.00
Mar-04	\$9,040.00	\$4,705.00	\$4,335.00
Apr-04	\$9,040.00	\$6,585.00	\$2,455.00
May-04	\$11,300.00	\$8,115.00	\$3,185.00
Jun-04	\$9,040.00	\$6,915.00	\$2,125.00
Jul-04	\$11,300.00	\$6,675.00	\$4,625.00
Aug-04	\$9,040.00	\$5,710.00	\$3,330.00
Sep-04	\$9,040.00	\$5,833.00	\$3,207.00
TOTAL	\$117,520.00	\$76,217.00	\$41,303.00

The former Dededo Mayor, Vice-Mayor, and Dededo MPC failed to monitor the revenues of the Dededo Flea Market when they allowed one employee to (1) authorize a transaction, (2) record the transaction in the books of the account, and (3) have custody or access to the asset resulting from the transaction. Cash collections from the Dededo Flea Market should not have gone unreconciled to cash deposits.

To correct these actions the current Mayor implemented the segregation of accounting duties and assigned three staff members to (1) receive payment for vendor permits (2) make timely deposits, and (3) input collections and disbursements into the accounts ledger.

Additionally, in a February 2005 meeting with the Mayors’ Council of Guam, the Public Auditor distributed internal control procedures outlining the importance of maintaining checks and balances to include segregating duties and performing bank reconciliation. See Appendix 7.

¹¹This figure was obtained by multiplying \$2,260 by 52 weeks.

Poor Management of Flea Market

The former Dededo Mayor, Vice Mayor and the Dededo Municipal Planning Council did not establish and maintain effective controls over the assignment of Flea Market stalls. For example:

- Weekly reconciliation of Flea Market cash collections to Flea Market stalls was not performed.
- Reported collections were not reconciled to cash receipts because past inventories of open and booked Flea Market stalls were not kept.

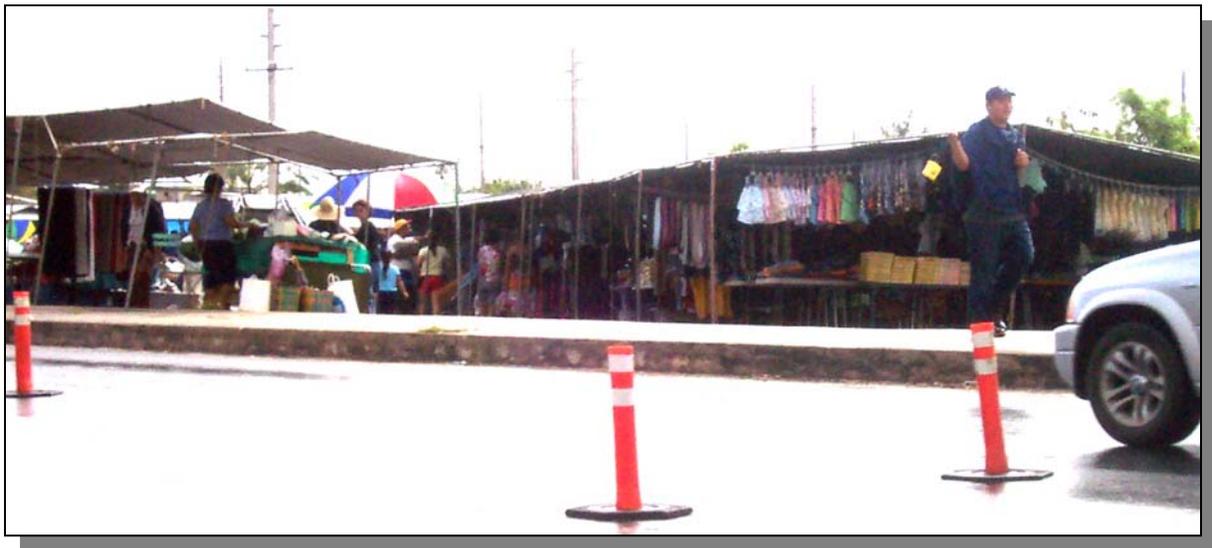


Image 3: The Dededo Flea Market

- Flea Market vendor permits are signed and seal-stamped prior to purchase, allowing vendor permits to be susceptible to misuse.
- Graphical layout of the Flea Market is outdated, making tracking of open and booked stalls difficult to reconcile.
- Written policies and procedures for cash collection, deposits, and disbursements of Flea Market funds did not exist.

Because of the lack of effective controls and the high volume of cash involved with the collection of Flea Market permits, it is imperative that adequate checks and balances are in place over the assignment of Flea Market stalls.

In June 2005, the current Mayor organized a task force to re-visit the vending areas of the Flea Market. The purpose of the task force is to improve the organization of the Flea Market, address vendor concerns, and strengthen controls to prevent illegal vendors from occupying stalls rent-free.

Reported Cash Theft

Despite the new changes to segregate accounting duties, an employee assumed the responsibility of depositing and receiving payments, while another employee was on leave. During this period, the employee failed to make deposits amounting to over \$1,000. This incident was eventually detected by other staff members and reported to the Mayor. After the Mayor's investigation, the employee admitted to theft and was subsequently terminated from the Dededo Mayor's Office. The Mayor reported the theft to the Police and is actively seeking repayment from the former employee.

To correct these deficiencies, we recommend that the Dededo Mayor and the Dededo MPC establish a system to reconcile cash collections to cash deposits and the number of weekly Flea Market stalls occupied weekly; ensure that cash custodial and accounting duties remain segregated; require monthly bank reconciliation to be performed for the Revolving Fund account and update the graphical layout of the Dededo Flea Market.

Charge Prescribed \$20 Vendor Permit Fee

5 G.C.A. §68901 (b), authorizes the Dededo Mayor, with the approval of the Department of Land Management (DLM), to issue vendor permits for the Dededo Flea Market at a standard cost of \$20. The \$20 fee allows vendors to receive a stall for the entire weekend, so the daily cost becomes \$10 per stall per day, to each vendor.

Both the former and the current Dededo Mayors undercharged the Flea Market vendors by selling the permits at \$5 per stall per day, instead of the mandated \$20 weekend rate. We also found that DLM has not approved the issuance or approval of Dededo Flea Market vendor permits, as they are not active with the process.

The current Dededo Mayor stated that the Flea Market is traditionally a successful enterprise with almost every space being occupied. We estimated that as much as \$4,520¹² could have been collected each weekend based on a 92%¹³ vendor occupancy rate. On a monthly basis the Dededo Mayor's Office could have received as much as \$18,080 or \$22,600 from the sale of vendor permits, depending on the number of weekends present in any particular month. Therefore, the Dededo Mayor's Office could have collected as much as \$235,040¹⁴ annually.

Based on our projections, we compared the projected revenue at the mandated \$20 weekend rate to the current \$10 weekend rate for FY 2004 as illustrated in Table 2 below.

¹²This figure was obtained by multiplying 226 marketable stalls by the mandated \$20 weekend fee.

¹³This percentage rate was derived from dividing 226 marketable stalls by the 246 total stalls.

¹⁴This figure was obtained by multiplying 52 weeks by \$4,520.

**Table 2: Foregone Revenue at the \$20 Weekend Rate
Compared to the \$10 Weekend Rate
FY 2004**

Month	Projected Revenue at \$20	Projected Revenue at \$10	Estimated Foregone Revenue
Oct-03	\$18,080.00	\$9,040.00	\$9,040.00
Nov-03	\$22,600.00	\$11,300.00	\$11,300.00
Dec-03	\$18,080.00	\$9,040.00	\$9,040.00
Jan-04	\$22,600.00	\$11,300.00	\$11,300.00
Feb-04	\$18,080.00	\$9,040.00	\$9,040.00
Mar-04	\$18,080.00	\$9,040.00	\$9,040.00
Apr-04	\$18,080.00	\$9,040.00	\$9,040.00
May-04	\$22,600.00	\$11,300.00	\$11,300.00
Jun-04	\$18,080.00	\$9,040.00	\$9,040.00
Jul-04	\$22,600.00	\$11,300.00	\$11,300.00
Aug-04	\$18,080.00	\$9,040.00	\$9,040.00
Sep-04	\$18,080.00	\$9,040.00	\$9,040.00
<i>TOTAL</i>	<u>\$235,040.00</u>	<u>\$117,520.00</u>	<u>\$117,520.00</u>

Over a 12-month period we estimated that the Dededo Mayor’s Office under collected \$117,520 in vendor permits fees for FY 2004. When extrapolated over the 39-month audit period, we estimated that \$381,940 in vendor permits fees was foregone.

In aggregate, the Dededo Mayor’s Office could have realized an estimated \$1.3 million more in revenue from October 1993¹⁵ through December 2004 had the Mayors charged the mandated \$20 vendor permit fee.

Therefore, we recommend that the Dededo Mayor and the Dededo MPC charge the prescribed \$20 weekend fee, as mandated by 5 G.C.A. §68901 (b) effective immediately.

Prepare Financial Reports

Accountability is the cornerstone of all-financial reporting in government, and financial reporting plays a major role in fulfilling government’s duty to be publicly accountable. Accountability requires government to answer to the citizenry and to justify the raising of public resources and the purposes for which they are used.

5 G.C.A. §40112 and §40135¹⁶ mandated that all Mayors submit an annual written report and financial statement to the Governor, the Guam Legislature and the Mayors’ Council of Guam on the general expenditure of funds allotted and the annual activity of the Revolving Funds.

¹⁵ P.L. 22-40 placed the Dededo Flea Market under the jurisdiction of the Dededo Mayor in late September 1993, so we extrapolated amounts beginning in October 1993.

¹⁶Added by P.L. 24-97.

Additionally, P.L. 27-106 required that a quarterly reporting of all non-appropriated funds be submitted to the Speaker of the Guam Legislature, the Public Auditor, and the Mayors' Council of Guam, effective FY 2005.

Prior to December 2004, the Dededo Mayor's Office had not submitted a single annual report to the Mayors' Council of Guam, the Governor, and the Legislature on the general expenditure of funds allotted or financial statement of the annual activity of the Revolving Fund, as required. As a result, over half a million dollars deposited into the Revolving Fund has not been reported for approximately five years. See Appendix 4.

The Dededo MPC also required the Dededo Mayor to submit monthly financial reports, of the Revolving Fund, to the MPC for review. We noted that the Dededo Mayor's Office did report on the activities of the Revolving Fund to the Dededo MPC, as requested.

The current Dededo Mayor recognized the need for a computerized accounting software program because of the substantial cash collected from the Dededo Flea Market, the Thursday Night Market, and lease of the Dededo and Astumbo Senior Centers. In March 2005, the Mayor purchased and installed new accounting software, thus the first quarterly report of all non-appropriated fund checking accounts was transmitted to the proper oversight in April 2005.

We recommend that the Dededo Mayor and the Dededo MPC adhere to all reporting requirements as mandated by the various laws. We also recommend that the Mayors' Council of Guam ensure all Mayors comply the quarterly and annual reporting requirements as set forth in P.L. 24-97 and P.L. 27-106 for all revenues and expenditures of non-appropriated funds.

Set Petty Cash Fund Limit



Image 4: Five daily Flea Market vendors

As required by P.L. 24-97 the Mayor and the Municipal Planning Councils of each village are hereby authorized to accept contributions that are solely beneficial to the sports facilities or village. Legislation stipulated that these contributions should be deposited into the Municipal Planning Council Funds of each village and subject to reporting and expenditure requirements. We found that donations are received from five Flea Market vendors who sell local produce and fish at the Dededo Flea Market. These vendors occupy a designated area seven days a week and are allowed to operate at their present sites at no cost, grandfathered¹⁷ by P.L. 23-45¹⁸.

¹⁷Right to continue to utilize property as it existed prior to the adoption of zoning ordinances or restrictions-
www.dictionary.com.

Despite the fee waiver, each of these five vendors agreed to donate \$20 a week to the Dededo Mayor's Office for their occupancy, which amounts to \$100 per week. These donations are not deposited into the Revolving Fund checking account, but instead are used as petty cash. This practice does not conform to good accounting practices wherein petty cash funds are derived from a checking account and fund limits are set.

Although the Dededo MPC is aware that the Dededo Mayor's Office maintains a petty cash fund to pay for minor office expenditures, the Mayor does not report the cash received from these vendors to the proper oversight as required by law, despite that receipts of all expenditures are kept. Based on the \$100 weekly collections, we estimated that approximately \$16,900 in donations may have been received and expended without the approval of the Dededo MPC during the 39-month audit period.

An employee is usually less likely to commit theft if he/she knows someone may unexpectedly count the funds in the petty cash fund and review daily receipts. Therefore, we conducted a surprise petty cash count in June 2005 to monitor the amount of cash and expenditure receipts being kept on hand by the Mayor's Office. We found that petty cash of \$1,157 was missing. When questioned about the missing cash, the current Mayor explained that the money had been placed in a safety deposit box at the start of the term, but she later disclosed that the money could not be located. The Mayor recovered the missing money a few days after the surprise count.

To correct this deficiency, we recommend that the Dededo Mayor and the Dededo MPC deposit daily vendor donations into the Dededo MPC Revolving Fund Account and conform to standard control policies in the operation of a petty cash fund.

Consolidate Checking Accounts

The Dededo MPC Preventive Maintenance for Centers Fund (Centers Fund) checking account was created in December 2000 following the approval of a Memorandum of Understanding (MOU) entered into by the Department of Public Health and Social Services (DPHSS) and the Office of the Dededo Mayor. The MOU allowed DPHSS to lease the Astumbo and Dededo Senior Centers for senior citizen activities for \$600 a month.



Image 5: External view of the Astumbo Senior Center

¹⁸Codified in 21 G.C.A §68901.

The Lencho Park Thursday Night Market Fund (Lencho Park Fund) checking account was created in September 2002, three months after the DMPC allowed the Dededo Mayor's Office to operate a Thursday Night Market.

Both checking accounts were opened at the discretion of former Dededo Mayor's and were not authorized by law. The former Mayor, Vice-Mayor, and the Administrative Assistant, were the signatories on the accounts and approved all expenditures.

Bank statements for the Lencho Park and Centers Fund from FY 2002 through the first quarter of FY 2005 report had combined deposits of \$59,000 and withdrawals of \$48,000. These amounts were not accounted for, approved, nor reported to the proper oversight as required by law.

We recommend that the Dededo Mayor and the Dededo MPC close the Lencho Park Thursday Night Market Fund and the DMPC Preventative Maintenance Fund accounts and transfer all account balances to the Dededo Municipal Planning Council Revolving Fund account.

In September 2005, the current Mayor and the Dededo MPC agreed to close the Lencho Park and Centers Fund accounts and consolidate all non-appropriated fund activities into a single checking account, the Dededo MPC Revolving Fund.

Obtain Approval of Expenditures

P.L. 24-97 requires the village Municipal Planning Council approve all expenditures for their particular village, and the minutes of the meetings must verify the authorization given by the Municipal Planning Council.

We found that of the 101 transactions tested from all three checking accounts, 39 transactions totaling \$193,376, did not have documented approval in the Dededo MPC minutes, therefore these expenditures were not approved as required by law.

These expenditures were for general building maintenance, village beautification projects, and upkeep and logistical costs of seasonal projects and community projects. Examples include:

- \$29,469 paid to a construction company for repairs to baseball fields at the Vicente S.A. Benavente Middle School, Wettengel Field, and the Astumbo Little League Baseball Field.
- \$19,419 paid to a paint company for repair work of the "earthquake damaged" Astumbo Gym¹⁹.
- \$7, 950 paid to a construction company for air conditioning repairs done in the Astumbo Gym.

¹⁹A Memorandum of Agreement signed in January 2001 between the Department of Education (Guam Public School System) and the Dededo Mayor's Office allowed the Dededo Mayor's Office to utilize the gymnasium and be responsible for daily cleaning, maintenance, and minor repairs.

- \$3,429 paid to a construction company for air conditioning parts and repairs to the Astumbo Gym.

To correct this deficiency, we recommend that the Dededo Mayor ensure that all expenditures are authorized, verified, and documented in monthly Dededo MPC meeting minutes.

Comply with Procurement Laws and Regulations

5 G.C.A. §5004 (b) of the Guam Procurement Law states:

That procurement shall apply to every expenditure of public funds irrespective of [its] source, including federal assistance funds except as otherwise specified in 5 G.C.A §5501, by this Territory, acting through a governmental body as defined herein, under any contract, except that [Guam Procurement Law] shall not apply to either grants or contracts between the Territory and another government.

5 G.C.A. §5030 (k) further defines governmental body as:

Any department, commission, council, board, bureau, committee, institution, agency, government corporation, authority or other establishment or establishment or official of the executive branch of the Government of Guam, except for the Guam Community College, the University of Guam, the Guam Public School System, and the Guam Memorial Hospital Authority.

The non-appropriated funds expended by the Dededo Mayor's Office and the Dededo Municipal Planning Council are subject to the procurement laws of Guam.

Small purchases between \$500²⁰ and \$15,000 can be made when no less than three positive written quotations from businesses are solicited, recorded, and placed in a procurement file. Awards are made to the lowest responsible and responsive bidder. The law also prohibits payments from being artificially divided, to avoid small purchase requirements.²¹ Procurement of supplies or services greater than \$15,000 must undergo competitive sealed bidding except when procured through Sole Source,²² Emergency,²³ and Competitive Selection Service procedures.²⁴

During our review of disbursements, 99% of the 101 transactions tested, totaling \$216,444, revealed that vendors who regularly do business with the Dededo Mayor's Office, and receive payment through non-appropriated accounts, are procured absent any open competition. We found only one transaction that met the procurement requirement, while the remaining 100

²⁰P.L. 25-118 allowed the Mayors Council to procure equipment, supplies, or services without the necessity of going through the normal government procurement procedures for purchases fewer than \$500.

²¹2 G.A.R. §3111(b)(5).

²²2 G.A.R. §3112.

²³2 G.A.R. §3113.

²⁴2 G.A.R. §3114.

transactions either did not have attached records documenting the procurement or were exempt from procurement regulations because the procurement fell below the \$500 threshold.

During testing of disbursements, it was apparent that certain individuals and businesses, such as vendors paid for the rental of portable toilets and disc jockey (DJ) services, were utilized without determination of best value or comparison to other vendor quotations.

Over a six-month period tested in FY 2004 and 2005, a vendor paid for DJ services received a total of \$2,200 in payments. In this period 19 different checks at an average of \$115 was paid for DJ services for the Thursday Night Market. A second vendor was paid \$4,940 in a 12-month period for the rental of portable toilets for the weekend Flea Market and the Thursday Night Market. A review of these vendor files showed no record explaining how these vendors were selected.

The current Mayor stated that staff members tasked to seek services and equipment for the Mayor's Office is knowledgeable of and comply with local procurement law. Yet, we found certain files that had no procurement history documenting how the selection of the vendor was made or whether other vendors were given the opportunity to bid.

Absent any procurement documentation, we concluded that the Dededo Mayor's Office may have given preferential treatment to two of its vendors since the records of how the vendors were selected were not documented in the files.

Non-Compliance of Form 1099-MISC income requirement

26 U.S.C §6041 states Form 1099-MISC, Miscellaneous Income must be filed for each person to whom at least \$600 in services (including parts and materials) or other income payments has been paid. FORM 1099 is reported to the Department of Revenue and Taxation (DRT) with a copy sent to the affected individuals.

In January 2003, DRT issued a memorandum to all Government of Guam department and agencies after they were informed that many departments and agencies do not issue Forms 1099-MISC for payments of contractual services. The current Dededo Mayor stated that she was not aware of the January 2003 memorandum and therefore, her office did not issue Form 1099-MISC. Further, the Executive Director of the Mayors' Council of Guam stated that he is not aware of any Mayor that has issued Form 1099-MISC to their respective vendors.

From FY 2002 through the first quarter of FY 2005, we estimate a significant amount of earnings that were not reported on Form 1099 for those vendors paid from the Dededo Mayor's Office non-appropriated funds. The current Mayor is working with DRT to resolve the issuance of Form 1099.

To address these deficiencies, we recommend that the Dededo Mayor and the Dededo MPC adhere to Guam procurement law when contracting and soliciting for services and equipment paid for by non-appropriated funds and issue Form 1099-MISC to all individuals (including prior years) who provided services of at least \$600 each fiscal year.

Obtain Approval for Fee Schedule

P.L. 24-97 allowed the Mayors' Council of Guam to set charges for the use of community centers, gymnasiums, and all sports facilities. By law, these proposed fees, are to be submitted to the Guam Legislature for approval.

To comply with this requirement, the Mayors' Council of Guam transmitted a proposed fee schedule to the 27th Guam Legislature. The fee schedule was not approved because several Legislators did not agree with several items, including the authority to permit fee waivers at the Mayor's discretion.

We recommend that the Mayors' Council of Guam submit a new fee schedule for approval to the Guam Legislature. As of the issuance of this report, the Mayors' Council of Guam has yet to transmit a revised proposed fee schedule to the 28th Guam Legislature for approval.

Conclusion

During the 39-month audit period, we concluded that the former Dededo Mayor, Vice Mayor and the Dededo Municipal Planning Council did not establish an adequate system of checks and balances to account for all non-appropriated funds collected for the village of Dededo.

A pattern of noncompliance with certain laws and regulations relating to reporting, procurement, and the sale of vendor permits occurred. Checks and balances over the management of the Flea Market, and petty cash funds were also lacking.

On July 6, 2005, we notified the Dededo Mayor's Office of these deficiencies. The current Mayor submitted a response dated September 20, 2005, indicating what corrective action has been taken to address these deficiencies. See Appendices 8 and 9 for details.

Overall, the Dededo Mayor, Vice-Mayor, and Dededo MPC concurred with the findings and recommendations of this report. See Appendix 10 for the Mayors official management response.

Recommendations

Recommendations to the Dededo Mayor, Vice Mayor, and the Dededo Municipal Planning Council are to:

1. Establish a system to (a) reconcile cash collections to cash deposits and the number of weekly Flea Market stalls occupied weekly (b) ensure that cash custodial and accounting duties remain segregated, (c) require monthly bank reconciliation to be performed, for the Revolving Fund account and (d) update the graphical layout of the Dededo Flea Market.
2. Charge the prescribed \$20 weekend fee as mandated by 5 G.C.A. §68901 (b) effective immediately.
3. Adhere to all reporting requirements as mandated by the various laws.
4. Close the Lencho Park Thursday Night Market Fund and the Dededo MPC Preventative Maintenance Fund accounts, and transfer all account balances to the Dededo Municipal Planning Council Revolving Fund account.
5. Adhere to Guam procurement law when contracting and soliciting for services and equipment paid for by non-appropriated funds.
6. Deposit Daily Vendor donations into the Dededo MPC Revolving Fund Account, and conform to standard control policies in the operation of a petty cash fund.
7. Issue Form 1099-MISC to all individuals (including prior years) who provided services of at least \$600 each fiscal year.
8. Ensure that all expenditures are authorized, verified, and documented in monthly Dededo MPC meeting minutes.

Recommendations to the Mayors' Council of Guam are to:

9. Ensure all Mayors comply with the quarterly and annual reporting requirements as set forth in P.L. 24-97 and P.L. 27-106 to report all revenues and expenditures of non-appropriated funds.
10. Submit a new fee schedule for approval to the Guam Legislature.

The legislation, creating the Office of the Public Auditor, requires agencies to submit an action plan to implement audit recommendations within six months after report issuance. Accordingly, our office will be contacting the Dededo Mayor to provide the target date and title of the staff responsible for implementing the recommendations.

We appreciate the cooperation shown by the Dededo Mayor, Vice Mayor, and Mayors' Council of Guam.

OFFICE OF THE PUBLIC AUDITOR

A handwritten signature in black ink, appearing to read "D. Flores Brooks". The signature is written in a cursive, flowing style.

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1: Classification of Monetary Amounts

<u>Finding Area</u>	<u>Lost /Potential Revenues</u>	<u>Cost Exceptions</u>	<u>Unreported Revenues</u>
Reconcile Cash Collections and Segregate Duties	\$ 134,000	\$ -	\$ -
Poor Management of Flea Market	\$ -	\$ -	\$ -
Reported Cash Theft ²⁵	\$ -	\$ -	\$ -
Charge Prescribed \$20 Vendor Permit Fee ²⁶	\$ 381,940	\$ -	\$ -
Prepare Financial Reports	\$ -	\$ -	\$ 659,000
Set Petty Cash Fund Limit	\$ -	\$ 16,900	\$ -
Consolidate Checking Accounts	\$ -	\$ 48,000	\$ 59,000
Obtain Approval for Expenditures ²⁷	\$ -	\$ 33,463	\$ -
Comply with Procurement Laws and Regulations	\$ -	\$ 216,444	\$ -
Non-Compliance of FORM 1099-MISC	\$ -	\$ -	\$ -
Obtain Approval for Fee Schedule	\$ -	\$ -	\$ -
 Total	 <u>\$ 515,940</u>	 <u>\$ 314,807</u>	 <u>\$ 718,000</u>

²⁵ The loss revenue of \$1,000 resulting from the reported cash theft occurred in July of 2005, therefore this revenue is not included in the aggregate classifications covering the 39-month audit period.

²⁶ We estimated \$1.3 million in loss revenue from October 1993 through December 2004 had the Mayors charged the mandated \$20 vendor permit fee.

²⁷ Of \$193,376 questioned expenditures not approved; only \$33,463 is shown because \$159,913 was already included in the \$216,444 classified as cost exceptions under procurement.

Appendix 2: Audit Scope and Methodology

The scope of this performance audit covered fiscal years 2002, 2003, 2004, through first quarter of FY 2005. The audit work was conducted at the Dededo Mayor's Office.

The performance audit methodology included gaining an understanding of the policies, procedures, applicable laws and regulations pertaining to the non-appropriated funds handled by the Dededo Mayor's Office. We reviewed the controls over cash transactions (i.e. receipts and disbursements) and the controls over the procurement of goods and services.

We determined that the Dededo Mayor's Office operated three separate checking accounts during the audit period. Based on bank statements, these checking accounts collected \$474,756 from various non-appropriated fund sources and expended \$488,712 on various village related expenses. We tested a sample of receipts and expenditures by reviewing the monthly bank records for each account and selecting three months per fiscal year, based on the highest dollar amounts of aggregate check/debits reported in each monthly bank statement. Our sample covered 12 months, approximately 30% of the original 39-month audit period for all three accounts.

The number of months selected per fiscal year was chosen randomly, but the audit team determined that a sample of 30% was adequate for the audit period, being that the 30% sample would judgmentally select months with the highest dollar amounts. After obtaining the sample, transactions were selected for detail testing, and were judgmentally selected based on the highest dollar amounts.

In identifying the various public laws and policies that govern and regulate the approval and authorization process of non-appropriated funds, the criteria for testing was based on the premise that all expenditures must have the approval and/or authorization of the Dededo Mayor and the Dededo Municipal Planning Council.

Our audit was conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Accordingly, we obtained an understanding and performed an evaluation of the internal controls of the Dededo Mayor's Office. We included tests of records and other auditing procedures that were considered necessary under the circumstances.

SCOPE LIMITATION

We were unable to include the receipt and expenditure amounts for two months, from two separate bank accounts, as bank statements were missing from the file. The statements missing were for November 2003 (Lencho Park Fund) and May 2004 (Revolving Fund). To date, the Mayor has been unable to obtain duplicate copies of these statements from the bank.

Appendix 3: Prior Audit Coverage

The Office of the Public Auditor Reports

December 2004 OPA issued a performance audit on the *Department of Administration's Dededo Buffer Strip Revolving Fund* (OPA Report 04-13). This report identified that the Dededo Mayor's Office and Dededo Municipal Planning Council (MPC) were not in compliance with the laws regarding the accountability of the Dededo MPC Revolving Fund (Revolving Fund) and the effective management of the Dededo Buffer Strip (DBS). The report made two recommendations relative to (1) establishing accounting procedures, providing appropriate separation of duties, and performing monthly bank reconciliation, and (2) complying with legislative mandates and submitting quarterly financial reports. As of September 2005, two recommendations, the separation of duties and the submittal of quarterly financial reports, have been implemented.

Single Audit Reports

FY 2001 – 2003 Further, the Dededo Buffer Strip (DBS) Revolving Fund was presented in the Basic Financial Statements as part of the annual Single Audit for the Government of Guam. No findings were identified in the Single Audit Reports for FY 2003; however, the independent auditors reported findings in the Single Audit Reports for FY 2001 and 2002. In FY 2002, the audit indicated that the DBS Revolving Fund should reflect continuing appropriation balances rather than unreserved fund balances. In FY 2001, auditors cited that the DBS Revolving Fund had not received DBS lease-related proceeds and was in potential violation of law. The DBS Revolving Fund receives its revenue from the non-appropriated monies collected from the use of the Dededo Buffer Strip.

The recommendations reported in the FY 2001 Single Audit, relative to the non-appropriated funds of the Dededo Mayor's Office for the receipt of proceeds was correctly recognized in the DBS Revolving Fund account in the FY 2003 Single Audit, therefore, we considered this recommendation resolved. However, the recommendations made in the FY 2002 Single Audit remains unresolved since fund balances are still classified as unreserved fund balances and must be reclassified as continuing appropriations in accordance with the Attorney General's interpretation.

Appendix 4:
DMPC Revolving Fund Account
(June 1999 – December 2004)

(Page 1 of 2)

Months	Beginning Balance	Receipts	Expenditures	Ending Balance
FY 1999				
June	\$ -	\$ 9,375.00	\$ 8.25	\$ 9,366.75
July	\$ 9,366.75	\$ 10,570.00	\$ 20.82	\$ 19,915.93
August	\$ 19,915.93	\$ 15,444.00	\$ 12.00	\$ 35,347.93
September	\$ 35,347.93	\$ 8,525.00	\$ 3.00	\$ 43,869.93
Totals	\$	\$ 43,914.00	\$ 44.07	
FY 2000				
October	\$ 43,869.93	\$ 9,045.00	\$ 3.00	\$ 52,911.93
November	\$ 52,911.93	\$ 7,450.00	\$ 3.00	\$ 60,358.93
December	\$ 60,358.93	\$ 15,336.95	\$ 3.00	\$ 75,692.88
January	\$ 75,692.88	\$ 11,090.30	\$ 6,398.00	\$ 80,385.18
February	\$ 80,385.18	\$ 6,440.00	\$ 1,930.00	\$ 84,895.18
March	\$ 84,895.18	\$ 10,204.00	\$ 27,540.00	\$ 67,559.18
April	\$ 67,559.18	\$ 7,112.93	\$ 1,083.55	\$ 73,588.56
May	\$ 73,588.56	\$ 9,321.21	\$ 20,002.00	\$ 62,907.77
June	\$ 62,907.77	\$ 10,160.00	\$ 6,103.00	\$ 66,964.77
July	\$ 66,964.77	\$ 6,000.00	\$ 15,425.63	\$ 57,539.14
August	\$ 57,539.14	\$ 10,590.00	\$ 14,733.27	\$ 53,395.87
September	\$ 53,395.87	\$ 6,475.00	\$ 11,281.03	\$ 48,589.84
Totals	\$	\$ 109,225.39	\$ 104,505.48	
FY 2001				
October	\$ 48,589.84	\$ 2,735.00	\$ 4,663.81	\$ 46,661.03
November	\$ 46,661.03	\$ 6,925.00	\$ 11,477.48	\$ 42,108.55
December	\$ 42,108.55	\$ 14,362.52	\$ 10,297.77	\$ 46,173.30
January	\$ 46,173.30	\$ 6,175.00	\$ 4,813.15	\$ 47,535.15
February	\$ 47,535.15	\$ 10,086.00	\$ 7,339.36	\$ 50,281.79
March	\$ 50,281.79	\$ 7,765.00	\$ 1,194.85	\$ 56,851.94
April	\$ 56,851.94	\$ 6,409.00	\$ 2,804.86	\$ 60,456.08
May	\$ 60,456.08	\$ 10,775.00	\$ 2,353.88	\$ 68,877.20
June	\$ 68,877.20	\$ 5,245.00	\$ 2,438.40	\$ 71,683.80
July	\$ 71,683.80	\$ 6,075.00	\$ 8,177.85	\$ 69,580.95
August	\$ 69,580.95	\$ 8,515.00	\$ 2,271.35	\$ 75,824.60
September	\$ 75,824.60	\$ 5,000.00	\$ 6,166.44	\$ 74,658.16
Totals	\$	\$ 90,067.52	\$ 63,999.20	
FY2002				
October	\$ 74,658.16	\$ 6,670.10	\$ 8,738.00	\$ 72,590.26
November	\$ 72,590.26	\$ 14,966.00	\$ 13,789.79	\$ 73,766.47
December	\$ 73,766.47	\$ 7,774.00	\$ 13,079.06	\$ 68,461.41
January	\$ 68,461.41	\$ 8,275.00	\$ 7,375.40	\$ 69,361.01
February	\$ 69,361.01	\$ 6,910.00	\$ 6,287.93	\$ 69,983.08
March	\$ 69,983.08	\$ 8,235.00	\$ 15,788.37	\$ 62,429.71
April	\$ 62,429.71	\$ 9,405.75	\$ 9,218.01	\$ 62,617.45
May	\$ 62,617.45	\$ 8,082.86	\$ 5,934.57	\$ 64,765.74

Months	Beginning Balance	Receipts	Expenditures	Ending Balance
June	\$ 64,765.74	\$ 8,239.89	\$ 3,137.36	\$ 69,868.27
July	\$ 69,868.27	\$ 5,295.00	\$ 2,028.00	\$ 73,135.27
August	\$ 73,135.27	\$ 9,560.00	\$ 35,296.84	\$ 47,398.43
September	\$ 47,398.43	\$ 6,510.00	\$ 11,625.79	\$ 42,282.64
Totals	\$	99,923.60	\$	132,299.12
FY 2003				
October	\$ 42,282.64	\$ 7,985.00	\$ 9,108.43	\$ 41,159.21
November	\$ 41,159.21	\$ 12,991.97	\$ 12,066.75	\$ 42,084.43
December	\$ 42,084.43	\$ 5,127.00	\$ 2,721.54	\$ 44,489.89
January	\$ 44,489.89	\$ 81,218.59 ²⁸	\$ 1,865.98	\$ 123,842.50
February	\$ 123,842.50	\$ 8,450.00	\$ 4,915.68	\$ 127,376.82
March	\$ 127,376.82	\$ 7,419.49	\$ 27,371.37	\$ 107,424.94
April	\$ 107,424.94	\$ 9,990.00	\$ 14,786.53	\$ 102,628.41
May	\$ 102,628.41	\$ 7,040.00	\$ 11,031.85	\$ 98,636.56
June	\$ 98,636.56	\$ 6,613.33	\$ 24,311.83	\$ 80,938.06
July	\$ 80,938.06	\$ 10,114.24	\$ 13,529.82	\$ 77,522.48
August	\$ 77,522.48	\$ 7,305.00	\$ 6,344.42	\$ 78,483.06
September	\$ 78,483.06	\$ 7,417.50	\$ 4,736.45	\$ 81,164.11
Totals	\$	171,672.12	\$	132,790.65
FY 2004				
October	\$ 81,164.11	\$ 9,845.00	\$ 4,406.15	\$ 86,602.96
November	\$ 86,602.96	\$ 5,090.00	\$ 13,444.63	\$ 78,248.33
December	\$ 78,248.33	\$ 11,410.50	\$ 20,789.72	\$ 68,869.11
January	\$ 68,869.11	\$ 8,635.00	\$ 6,725.72	\$ 70,778.39
February	\$ 70,778.39	\$ 6,294.00	\$ 4,574.32	\$ 72,498.07
March	\$ 72,498.07	\$ 7,395.99	\$ 4,639.64	\$ 75,254.42
April	\$ 75,254.42	\$ 31,795.73 ²⁹	\$ 6,007.17	\$ 101,042.98
May ³⁰	N/A	N/A	N/A	N/A
June	\$ 96,981.54	\$ 6,915.00	\$ 18,436.61	\$ 85,459.93
July	\$ 85,459.93	\$ 6,675.00	\$ 9,348.83	\$ 82,786.10
August	\$ 82,786.10	\$ 5,710.03	\$ 3,254.99	\$ 85,241.14
September	\$ 85,241.14	\$ 5,833.37	\$ 40,373.34	\$ 50,701.17
Totals	\$	105,599.62	\$	132,001.12
FY 2005				
October	\$ 50,701.17	\$ 7,608.08	\$ 4,828.00	\$ 53,481.25
November	\$ 53,481.25	\$ 5,295.00	\$ 4,694.40	\$ 54,081.85
December	\$ 54,081.45	\$ 25,452.54	\$ 38,140.54	\$ 41,393.85
Totals	\$	38,355.62	\$	47,662.94
FY 99-05 Totals	\$	658,757.87	\$	613,302.58

²⁸ \$67,336 of this amount was received from the Superior Court of Guam. This amount was reimbursed to the Dededo Mayor's Office following the Chamorro Land Trust Commission (CLTC) vs. Scott Duenas litigation during which Flea Market vendor payments were deposited to the courts.

²⁹ \$21,728 of this amount was received from the Department of Administration (DOA). This amount was reimbursed to the Dededo Municipal Planning Council, through DOA, from the Federal Emergency Management Agency.

³⁰ May 2004 figures were not available since the corresponding bank statement was missing from the file.

Appendix 5: Lencho Park Thursday Night Market Fund Account (September 2002- December 2004)

Months	Beginning Balance	Receipts	Expenditures	Ending Balance
Opening Deposit 9/23/02	-	-	-	1,590.00
FY 2003				
October	\$ 1,590.00	\$ 500.00	\$ 42.39	\$ 2,047.61
November	\$ 2,047.61	\$ 690.00	\$ -	\$ 2,737.61
December	\$ 2,737.61	\$ -	\$ -	\$ 2,737.61
January	\$ 2,737.61	\$ 50.00	\$ -	\$ 2,787.61
February	\$ 2,787.61	\$ -	\$ -	\$ 2,787.61
March	\$ 2,787.61	\$ -	\$ -	\$ 2,787.61
April	\$ 2,787.61	\$ -	\$ -	\$ 2,787.61
May	\$ 2,787.61	\$ -	\$ 312.00	\$ 2,475.61
June	\$ 2,475.61	\$ 535.00	\$ -	\$ 3,010.61
July	\$ 3,010.61	\$ 250.00	\$ -	\$ 3,260.61
August	\$ 3,260.61	\$ 1,430.00	\$ 24.77	\$ 4,665.84
September	\$ 4,665.84	\$ 2,049.00	\$ -	\$ 6,714.84
Totals		5,504.00	379.16	
FY 2004				
October	\$ 6,714.84	\$ 805.00	\$ 2,374.64	\$ 5,145.20
November ³¹	N/A	N/A	N/A	N/A
December	\$ 3,153.99	\$ 4,415.00	\$ 1,450.00	\$ 6,118.99
January	\$ 6,118.99	\$ 987.50	\$ -	\$ 7,106.49
February	\$ 7,106.49	\$ 237.60	\$ 250.00	\$ 7,094.09
March	\$ 7,094.09	\$ 425.00	\$ -	\$ 7,519.09
April	\$ 7,519.09	\$ 95.00	\$ -	\$ 7,614.09
May	\$ 7,614.09	\$ 1,240.00	\$ 100.00	\$ 8,754.09
June	\$ 8,754.09	\$ 1,195.00	\$ 967.00	\$ 8,982.09
July	\$ 8,982.09	\$ 3,005.00	\$ 3,199.59	\$ 8,787.50
August	\$ 8,787.50	\$ -	\$ 200.00	\$ 8,587.50
September	\$ 8,587.50	\$ 800.00	\$ 340.00	\$ 9,047.50
Totals	\$	13,205.10	\$ 8,881.23	
FY 2005				
October	\$ 9,047.50	\$ -	\$ 400.00	\$ 8,647.50
November	\$ 8,647.50	\$ 650.00	\$ 1,196.75	\$ 8,090.75
December	\$ 8,090.75	\$ 442.00	\$ 7,101.00	\$ 1,431.75
Totals	\$	1,092.00	\$ 8,697.75	
FY 03-05 Totals	\$	19,801.10	\$ 17,958.14	

³¹ November 2003 figures were not available since the corresponding bank statement was missing from the file.

Appendix 6:
DMPC Preventive Maintenance for Centers Fund Account
(October 2001 – December 2004)

(Page 1 of 2)

Months	Beginning Balance	Receipts	Expenditures	Ending Balance
FY 2002				
October	\$ 7,752.81	\$ 750.00	\$ 150.00	\$ 8,352.81
November	\$ 8,352.81	\$ 1,575.00	\$ -	\$ 9,927.81
December	\$ 9,927.81	\$ 900.00	\$ 1,101.00	\$ 9,726.81
January	\$ 9,726.81	\$ 975.00	\$ 400.00	\$ 10,301.81
February	\$ 10,301.81	\$ 1,275.00	\$ -	\$ 11,576.81
March	\$ 11,576.81	\$ 975.00	\$ -	\$ 12,551.81
April	\$ 12,551.81	\$ 450.00	\$ 160.00	\$ 12,841.81
May	\$ 12,841.81	\$ 375.00	\$ 335.00	\$ 12,881.81
June	\$ 12,881.81	\$ 2,025.00	\$ 840.00	\$ 14,066.81
July	\$ 14,066.81	\$ 900.00	\$ -	\$ 14,966.81
August	\$ 14,966.81	\$ 1,125.00	\$ 75.00	\$ 16,016.81
September	\$ 16,016.81	\$ 900.00	\$ 355.80	\$ 16,561.01
Totals	\$	12,225.00	\$	3,416.80
FY 2003				
October	\$ 16,561.01	\$ 1,200.00	\$ 775.80	\$ 16,985.21
November	\$ 16,985.21	\$ 1,500.00	\$ 75.00	\$ 18,410.21
December	\$ 18,410.21	\$ -	\$ 75.00	\$ 18,335.21
January	\$ 18,335.21	\$ 975.00	\$ 581.54	\$ 18,728.67
February	\$ 18,728.67	\$ 575.00	\$ 75.00	\$ 19,228.67
March	\$ 19,228.67	\$ 1,275.00	\$ 67.95	\$ 20,435.72
April	\$ 20,435.72	\$ 1,050.00	\$ 444.75	\$ 21,040.97
May	\$ 21,040.97	\$ 1,050.00	\$ -	\$ 22,090.97
June	\$ 22,090.97	\$ 825.00	\$ 596.00	\$ 22,319.97
July	\$ 22,319.97	\$ 300.00	\$ 7,405.16	\$ 15,214.81
August	\$ 15,214.81	\$ 300.00	\$ 570.00	\$ 14,944.81
September	\$ 14,944.81	\$ 1,725.00	\$ 76.00	\$ 16,593.81
Totals	\$	10,775.00	\$	10,742.20
FY 2004				
October	\$ 16,593.81	\$ 1,200.00	\$ 75.00	\$ 17,718.81
November	\$ 17,718.81	\$ 1,650.00	\$ 250.00	\$ 19,118.81
December	\$ 19,118.81	\$ 1,425.00	\$ -	\$ 20,543.81
January	\$ 20,543.81	\$ 300.00	\$ 598.58	\$ 20,245.23
February	\$ 20,245.23	\$ 975.00	\$ 554.14	\$ 20,666.09
March	\$ 20,666.09	\$ 1,650.00	\$ 978.75	\$ 21,337.34
April	\$ 21,337.34	\$ 825.00	\$ 2,935.25	\$ 19,227.09
May	\$ 19,227.09	\$ 1,200.00	\$ -	\$ 20,427.09
June	\$ 20,427.09	\$ 300.00	\$ -	\$ 20,727.09
July	\$ 20,727.09	\$ 1,650.00	\$ 488.00	\$ 21,889.09
August	\$ 21,889.09	\$ 300.00	\$ 802.24	\$ 21,386.85
September	\$ 21,386.85	\$ 1,500.00	\$ 641.95	\$ 22,244.90

Months	Beginning Balance	Receipts	Expenditures	Ending Balance
Totals		\$ 12,975.00	\$ 7,323.91	
FY 2005				
October	\$ 22,244.90	\$ 1,200.00	\$ -	\$ 23,444.90
November	\$ 23,444.90	\$ 1,275.00	\$ -	\$ 24,719.90
December	\$ 24,719.90	\$ 954.20	\$ 4,516.65	\$ 21,157.45
Totals		\$ 3,429.20	\$ 4,516.65	
FY 02-05 Totals		\$ 39,404.20	\$ 25,999.56	

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 following 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:

1. **Establish responsibilities**

- Control is most effective when each task is clearly established and assigned to one person.

2. **Maintain adequate records**

- Good record keeping 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 record keeping 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 for the person who controls the asset knows that another person keeps the records of the asset. The record keeper 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 software 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.
- Internal auditor or someone who is not directly involved in operations should perform independent reviews. The independent review should be done periodically or on a surprise basis.
- External auditors should 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. 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 or 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

- 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 bank reconciliation. 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.

Appendix 8: OPA Preliminary Findings Letter

(Page 1 of 2)



OFFICE OF THE PUBLIC AUDITOR

July 6, 2005

Mayor Melissa B. Savares
Municipality of Dededo
PO Box 786
Hagatna, Guam 96932

Dear Mayor Savares:

During the course of our audit, on the non-appropriated funds handled by your office, certain matters came to our attention that require your immediate action.

- A weekly reconciliation of Flea Market cash collections to Flea Market stalls is not performed.
- Daily vendor donations (fees) are not deposited into a checking account, and instead are used as the direct source of petty cash.
- The petty cash operations do not conform to good accounting practices, wherein petty cash funds are derived from a checking account and fund limits are set.
- Two of the three non-appropriated checking accounts are not authorized to be established.
- The Dededo Municipal Planning Council (DMPC) has not approved all non-appropriated fund expenditures, to include all expenditures of the Lencho Park and Preventive Maintenance for Centers Funds.

Other matters, such as the non-segregation of duties, non-reporting, and lack of accounting procedures were previously brought to the attention of the your Office, the Dededo Municipal Planning Council, and the Mayor's Council of Guam in OPA report 04-13, the Performance Audit of the Dededo Buffer Strip Revolving Fund.

To mitigate the above, we recommend that the Dededo Mayor, with the support of the Dededo Municipal Planning Council (DMPC):

Perform weekly reconciliation of Flea Market cash:

- Conduct an inventory of all the current stalls available for rent within the Dededo Flea Market, and use this number to reconcile the number of stalls paid with the number of stalls occupied weekly.
- Obtain a space rental and management software which can easily perform end of day reconciliation and provide a graphical layout of Flea Market slots which would show the expiration date of permits and track stall availability.

Suite 401, Pacific News Building
258 Archbishop Flores Street, Hagåtña, Guam 96910
Tel (671) 475-0390 • Fax (671) 472-7951
www.guamopa.org • Hotline: 47AUDIT (472-8348)

Deposit Daily Vendor donations:

- Deposit all Daily Vendor donations (fees) into the DMPC Revolving Fund Account.
- Include these Daily Vendor donations (fees) in the quarterly reports submitted to the Speaker of the Legislature, the Mayors Council of Guam, and the Office of the Public Auditor, as required by P.L. 27-106.

Establish a petty cash fund:

- Discontinue using the Daily Vendor donations as petty cash.
- Conform to standard control policies in the operation of a petty cash fund.¹

Maintain a single checking account:

- Close the Lencho Park Thursday Night Market Fund and the DMPC Preventive Maintenance for Centers Fund bank accounts and transfer all fund balances into the DMPC Revolving Fund account.

Approve all non-appropriated fund expenditures:

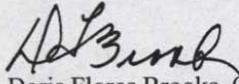
- Ensure that the authorization of all monthly expenditures are verified and clearly documented in the minutes of the monthly MPC meetings.
- Reconcile all expenses listed in the monthly financial report to the minutes of monthly MPC meetings.

These items do not include all our audit findings, but are being brought to your attention since they require your immediate action. In the conclusion of our audit, the status of these concerns will be reported.

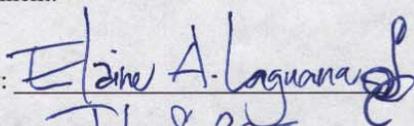
Further, we applaud you and your staff for taking the appropriate steps to complete the installation of, *i gov solutions*, your new accounting software. According to your staff, this software has assisted in recording all the non-appropriated fund transactions of your Office beginning in April 2005.

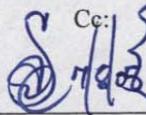
Should you have any questions, please contact Theresa Gumataotao at 475-0390 ext. 207 for assistance.

Senseramente,


Doris Flores Brooks, CPA, CGFM
Public Auditor

Acknowledgment:

Received By: 
Date: July 8, 2005

Cc:  Andrew Benavente, Vice-Mayor of Dededo
Mr. John F. Blas, Executive Director Mayors' Council of Guam
Dededo Municipal Planning Council Members

¹ These policies will be communicated to your Office at a later date.

Appendix 9: Mayor's Response to Preliminary Findings Letter



Office of the Mayor
MUNICIPALITY OF DEDEDO

Melissa B. Savares
Mayor

Andrew Peter A. Benavente
Vice Mayor

September 20, 2005

9:30 PM 9/21/05
Received by Office of the
Public Auditor *Jay*

Doris Flores Brooks, CPA, CGFM
Public Auditor
Suite 401 Pacific News Building
238 Archbishop Flores St.
Hagatna, Guam 96910

Dear Mrs. Brooks,

In response to your memo, the following changes have been made with operations within the Dededo Mayor's Office. Currently, the duty of the Administrative Assistant, [REDACTED], is to collect all payments for the Dededo Flea Market. She also prepares the bank deposits upon completion of the collection. The Municipal Clerk, [REDACTED], is responsible for taking the collected money to each bank for deposit. The input of data into the ledger is still done by the Administrative Assistant. I am currently working to train my second Municipal Clerk, [REDACTED], to input the collections and disbursements into the ledger. Until such time, my Administrative Assistant will continue the responsibility.

I am currently working with [REDACTED] at Department of Revenue & Taxation, on the filing of the 1099 Tax forms. [REDACTED] is currently researching reasons for the Dededo Municipal Planning Council Revolving Fund Account to file these forms. I will continue to work with Dept. of Rev. & Tax to assure that my office is in compliance with the law.

Attached you will find the documents needed by your office. A copy of the bank card for BankPacific when the Preventive Maintenance for Centers Fund was opened. A copy of the minutes for the June 14, 2005 DMPC meeting, indicating the committee meeting to draft a permit and application for the Dededo Flea Market. A copy of the July 12, 2005 meeting indicating that the DMPC motioned and approved the merge of the various bank accounts held by the Dededo Mayor's Office.

Should you have any questions or concerns, please feel free to contact me at the numbers below. Your attention in this matter will be greatly appreciated.

Sincerely,


Melissa B. Savares

Attachments

GOVERNMENT OF GUAM • P. O. Box 786, Hagåtña, Guam 96932
Office: (671) 632-5203 / 5019 • Fax: (671) 637-1129

Appendix 10: Management Response



Office of the Mayor
MUNICIPALITY OF DEDEDO

Melissa B. Savares
Mayor
Andrew Peter A. Benavente
Vice Mayor

September 27, 2005

Doris Flores Brooks, CPA, CGFM
Public Auditor
Suite 401 Pacific News Building
238 Archbishop Flores St.
Hagatna, Guam 96910



Dear Mrs. Brooks,

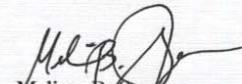
I have reviewed the final draft audit report for the Dededo Mayor's Office Non-Appropriated Funds. As you are aware, I along with the current Municipal Planning Council are in the process of making changes in our collection process for the Dededo Flea Market vendors. Members of the Municipal Planning Council have formed a task force to revise the permit and rules and regulations for the flea market vendors. These changes will be effective before the end of the 2005 calendar year.

Vice Mayor Andrew Benavente and I, along with the Dededo Municipal Planning Council members, are working together to comply with all public laws regarding the Dededo Flea Market and the Dededo Buffer Strip. Together we have agreed to consolidate all bank accounts in to one, with subsidiary ledgers showing the activity for each account. This body has also agreed to deposit the petty cash fund exceeding \$500 in to the bank account as well. Minutes of these motions and approvals have been transmitted to your office.

Your continued guidance in the process of Dededo Municipal Planning Council Revolving Account will be greatly appreciated by my office. I look forward to working with your office to assure we are in compliance with all public laws pertinent to the process.

Your attention in this matter is greatly appreciated.

Sincerely,


Melissa B. Savares
Mayor

Cc: Vice Mayor Andrew Peter Benavente, Dededo

Do you suspect fraud, waste, or abuse in a government agency or department? Contact the Office of the Public Auditor:



- Call our HOTLINE at 47AUDIT (472-8348);
- Visit our website at www.guamopa.org;
- Call our office at 475-0390;
- Fax our office at 472-7951;
- Or visit us at the PNB Building, Suite 401
In Hagåtña

All information will be held in strict confidence.