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Department of Chamorro Affairs – FY 2019 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Department of Chamorro Affairs' (DCA) Non-Appropriated Funds (NAF) financial statements, report on compliance and internal control, management letter, and auditor's communication with those charged with governance for fiscal year (FY) 2019. DCA reported a \$660 thousand (K) decrease in net position (net loss) for FY 2019, as opposed to FY 2018's increase in net position (net income) of \$191K. Independent auditors Ernst & Young LLP (EY) expressed an unmodified (clean) opinion on the financial statements of DCA's FY 2019 NAF, but identified three material weaknesses and one deficiency in the DCANAF's internal control over financial reporting.

This audit was one of the last FY 2019 financial audits to be issued. This audit was delayed due to the untimely preparation and provision of financial information. DCA does not have a full-time, qualified accountant to handle the accounting process and maintain the accounting records to generate timely financial statements. Audit concerns over the DCANAF financial statement close process was noted in prior management letters.

The FY 2019 audit includes the NAFs of (1) Chamorro Village; (2) Guam Museum; (3) Research, Publication, and Training (RPT); (4) the President's Office; (5) Council on the Arts and Humanities Agency (CAHA); (6) Percent for the Arts; and (7) Festival of the Pacific Arts (FESTPAC).

Chamorro Village

For FY 2019, Chamorro Village recognized a net loss of \$6K, as opposed to the \$62K net income in FY 2018. Chamorro Village reported \$536K in revenues for FY 2019, which is a small increase from the \$524K in FY 2018 revenues. Chamorro Village expenses also increased – from \$462K in FY 2018 to \$542K in FY 2019. The majority of the DCANAF revenues and expenses (or 66% and 72%, respectively) were from Chamorro Village activities.

Guam Museum

For FY 2019, the Guam Museum recognized a net income of \$87K, which was \$49K less than FY 2018's net income of \$136K. The Guam Museum's revenues increased by 94% (or \$130K) to \$268K in FY 2019. This was due to mainly the collection from their management contractor of \$66K, which was previously deemed uncollectable in FY 2017. Admissions and events also contributed to the increase in revenue. The Guam Museum's FY 2019 expenses amounted to \$180K compared to FY 2018's \$2K. This extraordinary increase was due to \$160K of contractor's fees for the collections management consultation and support services.

Research, Publication, and Training

The RPT Division was established to develop articulated curriculum and course text for mandated courses in Guam's schools and institutions of higher learning related to Guam's history, language, and culture. For FY 2019, the RPT Division recognized a net loss of \$4K, as opposed to the \$2K net income in FY 2018. Although RPT's revenues increased by 42% to \$5K, RPT's expenses also increased by 330% from \$2K to \$9K. The extraordinary increase to RPT's FY 2019 expenses was due to the increase in the expected amount of obsolete inventory.

President's Office

For FY 2019, the President's Office recognized a net loss of \$14K, as opposed to the \$7K net income in FY 2018. Compared to the \$11K in revenues reported in FY 2018, the President's Office reported only \$392 in FY 2019 revenues. Zero donations were received in FY 2019. However, the President's Office expenses increased by 229%

from \$4K to \$15K. Expense increases were due to \$4K of travel, \$2K of miscellaneous costs, and \$5K of contractual costs.

Council on the Arts and Humanities

The Governor of Guam's Executive Order No. 2019-14 reorganized DCA to separate CAHA and the Guam Public Library System from DCA, effective June 2019. CAHA's separation included FESTPAC and the Percent for the Arts. DCANAF transferred out \$719K as a result of this separation. In FY 2019, CAHA received zero revenues, but expensed \$4K. Of the \$719K transferred out, \$8K was from CAHA's remaining accounts.

Percent for the Arts. No revenues and expenses were reported in FY 2019 by the Percent for the Arts program (also known as "Arts in Public Buildings and Facilities"). Percent for the Arts' remaining accounts of \$713K were transferred out.

Festival of the Pacific Arts. Guam hosted the 12th FESTPAC from May through June in 2016. FESTPAC's remaining liability of \$2K was transferred out.

Compliance Report and Management Letter

In the DCANAF's internal control over financial reporting, EY identified three material weaknesses, for which the following two are repeat findings:

- DCANAF's financial information was untimely (and sometimes improperly) prepared as DCA does not have a full-time, qualified accountant to handle the accounting process and maintain the accounting records.
- DCANAF did not recognize revenues and related receivables arising from the Guam Museum's operations. DCA and the Guam Museum have been unable to resolve the disagreement with their contractor on the amount to be submitted from the museum's operations. Furthermore, the contractor is required to arrange an external annual audit and report such to DCA, but DCA and the Guam Museum have been unable to obtain such audit reports from the contractor.

Brought to our attention with the help of a concerned citizen, EY identified the following as a material weakness:

- Six months (June through November 2019) and \$2K worth of rental billings to a specific Chamorro Village tenant were voided at the instruction and approval of DCA's former executive despite no evidence to justify the voided transactions. This former DCA executive had a financial interest with this specific tenant.

In a letter to management, EY reiterated a prior year comment concerning the lack of segregation of duties, which increases the risk of errors not being detected and the opportunity to misappropriate cash and falsify records.

In the interest of Full Disclosure, the Public Auditor acknowledges that: (a) he and the Chairman of the Board have a close familial relationship and worked together for several decades; (b) the Vice Chair is his "comadre" and that they have been lifelong friends; and (c) he and the Guam Museum's contractors have been friends for many years.

Help make a difference in our government. OPA's Hotline enables the people of Guam and government employees to share their concerns or report improper acts¹ committed by Government of Guam public officials. Call the OPA Hotline [(671) 47 AUDIT or 671-472-8348] or complete the hotline/citizen concern report form at www.opaguam.org.

For more details on DCA's operations, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.

¹ Including illegal acts (e.g., corruption, bribery, theft or fraud); misuse or abuse of government property or time; and gross misconduct, incompetence, or inefficiency.