

August 8, 2014

Mayor Ken Joe Ada
Municipality of Yona

Dear Mayor Ada:

In planning and performing our audit of the financial statements of the Mayors' Council of Guam Non-Appropriated Funds (the Fund) as of and for the year ended September 30, 2013 (on which we have issued our report dated August 8, 2014), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Yona Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

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

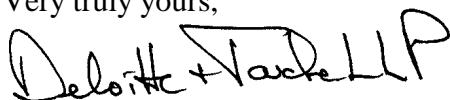
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Mayors' Council of Guam, management, others within the organization and the Office of Public Accountability – Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

We wish to thank the staff and management of the Yona Mayor's Office for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the Yona Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Compliance with Applicable Procurement Rules and Regulations

Disbursements from non-appropriated funds (NAF) were not subjected to procurement procedures due to the absence of formal procurement rules and regulations governing NAF. The Mayors' Council of Guam has established a Task Force to research and clarify procurement regulations applicable to NAF. Currently, the Task Force is in the process of developing a uniform procurement policy.

We recommend the Yona Mayor's Office continue to coordinate with the Mayors' Council of Guam in its initiative to develop a procurement policy governing NAF that will be consistently and uniformly used by all the nineteen districts.

2. Monitoring of Non-profit Organizations

A formal process to monitor non-profit organizations (NPO) utilizing the Yona Mayor's Office facilities is not in place during fiscal year 2013. The Yona Mayor's Office represented that subsequent to fiscal year 2013, they are working on implementing NPO monitoring policies and procedures.

We recommend that the Yona Mayor's Office continue with its initiative in implementing policies and procedures to determine whether NPOs utilizing its facilities are in compliance with Division of Revenue and Taxation filings. We also recommend that written policies and procedures to monitor NPOs utilizing the Yona Mayor's Office's facilities be prepared.

3. Financial Reporting

Financial reports were not prepared during fiscal year 2013. Further, a ledger was not maintained for NAF and Senior Center transactions; however, this was subsequently corrected by the Yona Mayor's Office.

We recommend that preparation of financial reports (i.e. on a quarterly, monthly or annual basis) be enforced. Further, we recommend that a ledger or equivalent set of records be maintained for NAF and Senior Center transactions.

4. Formal Process of Classifying and Summarizing Transactions

A process of classifying and summarizing receipt and disbursement transactions to provide an accurate financial statement is not in place.

We recommend that a process be established for classifying and summarizing receipts and disbursements for financial statement reporting purposes. Further, we recommend that the Yona Mayor's Office seek further guidance and assistance from the Mayors' Council of Guam to establish a formal process.

SECTION I – DEFICIENCIES, CONTINUED

5. Receipts/Collections

During tests of receipt transactions, the following were noted:

- a. Ten (10) NAF deposits totaling \$4,440 were not supported by receipts, a cash log or an equivalent set of records. As such, the nature of these deposits could not be verified.
- b. Seventy-four (74) NAF receipts issued between December 2012 and September 2013 totaling \$5,958 could not be traced to the bank statements. It is not evident whether these funds were deposited.
- c. Validated deposit slips for 3 items (#s 153865 for \$250, 153886 for \$420 and 153847 for \$50) were not provided.

We recommend that all cash received be deposited. Further, we recommend that receipts be issued for all funds received. In the event that this process becomes impracticable, we recommend that a cash receipts log or an equivalent record be maintained to track funds received. The log/record should contain information as to the date of receipt, source, nature and amount of funds received. We also recommend that receipts, validated deposit slips, and daily bingo and expenditure reports be available on file.

6. Disbursements

During tests of disbursement transactions, the following were noted:

- a. Supporting invoices, billings or equivalent for all 5 items tested were not provided. Details are as follows:

<u>Fund</u>	<u>Check No.</u>	<u>Amount</u>
Senior Center	272	\$ 240
Senior Center	391	601
Senior Center	211	784
NAF	101	2,000
NAF	104	<u>2,500</u>
		\$ <u>6,125</u>

- b. Details (i.e. payee, description, etc.) were not available for 30 Senior Center disbursements totaling \$5,171. As such, the nature of these disbursements could not be verified.

We recommend that disbursements be supported by invoices, billings and other relevant documents. Further, we recommend that these documents be available on file.

SECTION I – DEFICIENCIES, CONTINUED

7. Disbursements to Cash

Of 190 Senior Center disbursements aggregating \$26,058, 23 items totaling \$6,044 were issued payable to "Cash".

We recommend that disbursements payable to "Cash" not be utilized to the extent possible.

8. Segregation of Duties

The individual responsible for the recordkeeping function is also responsible for cash handling.

We recommend that the individual responsible for recordkeeping be independent of the individual handling cash. In the event this segregation of duties is not practical, we recommend involvement of the Mayor and/or the Municipal Planning Council.

SECTION II – DEFINITIONS

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

The definition of a deficiency is as follows:

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

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

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

Management's Responsibility

Management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles used to prepare the financial statements. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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