

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

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

YEAR ENDED SEPTEMBER 30, 2012

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

The Executive Officers
Mayors' Council of Guam

We have audited the financial statements of the Mayors' Council of Guam Non-Appropriated Funds (the Fund) as of and for the year ended September 30, 2012, and have issued our report thereon dated October 23, 2013, which report was qualified as we were unable to verify the classification of certain deposits and disbursements. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

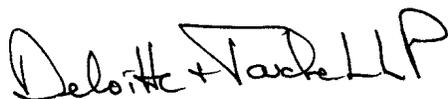
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-2 and 2012-3.

We noted certain matters that we reported to the management of the Fund in a separate letter dated October 23, 2013.

The Fund's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

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.

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

October 23, 2013

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2012

Finding No.: 2012-1
Area: Accounting and Financial Reporting Policies and Procedures

Criteria: Formal accounting and financial reporting policies and procedures should be in place. The establishment and standardization of accounting and financial reporting policies and procedures can provide management with increased assurance that accounting and financial reporting policies and procedures are understood and consistently followed. Written financial reporting policies and procedures minimize disruption caused by turnover and also assists new employees in their job performance. Such policies and procedures should be documented and be readily accessible by relevant personnel.

Condition: Formal accounting and financial reporting policies and procedures are currently not in place. In addition, a process of classifying and summarizing receipts and disbursements transactions to provide accurate financial statement reporting is not in place. The Mayors' Council of Guam has established a Task Force to develop a non-appropriated fund policy that will be adhered to and implemented by all nineteen districts. Currently, the Task Force is in the process of developing uniform accounting and financial reporting policies and procedures.

Cause: The cause of the above condition is the absence of uniform and formal accounting and financial reporting policies and procedures governing non-appropriated funds.

Effect: The effect of the above condition is the potential negative perceptions associated with lack of accountability and transparency on non-appropriated funds.

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to develop formal accounting and financial reporting policies and procedures governing non-appropriated funds. These policies and procedures should include but not be limited to: (a) cash receipts; (b) cash disbursements; (c) document filing; (e) record-retention; and (f) financial reporting, among others.

Further, we also recommend that the Mayors' Council of Guam continue to serve as a resource center for municipalities on accounting and financial reporting non-appropriated fund related matters.

Prior Year Status: The absence of formal accounting and financial reporting policies and procedures was reported as a finding in the audits of the Fund for 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the recommendations set forth by the auditors.

The task force that is in place comprised of Mayors and Vice Mayors (inclusive of new Mayors) continues to develop a Non-Appropriated Fund Policy and will be completed by November 30, 2013. This policy will include procedures relating to: a) cash receipts; b) cash disbursements; c) documents filing; d) records retention; and e) financial reporting, inclusive of website posting, among others.

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2012

Finding No.: 2012-1, Continued
Area: Accounting and Financial Reporting Policies and Procedures

Proposed Completion Date: November 30, 2013

We have set aside contractual money in our approved FY2014 budget to employ the services of an accounting firm or to establish a permanent FTE position within the Council to assist the Council in standardizing financial reporting, in training Administrative Assistants on an as needed basis or to perform accounting functions for the Council and or the Mayors offices if needed, and, to serve as a resource center for municipalities on accounting and financial reporting of non-appropriated fund related matters.

Proposed Completion Date: December 31, 2013

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2012

Finding No.: 2012-2
Area: Compliance with Applicable Procurement Regulations

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

Condition: Disbursements from non-appropriated funds were not subjected to procurement procedures. The Mayors' Council of Guam had established a Task Force to research and to clarify procurement regulations applicable to NAF. Currently, the Task Force is in the process of developing a uniform procurement policy.

Cause: The cause of the above condition is the absence of formal procurement rules and regulations governing non-appropriated funds.

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

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

Prior Year Status: The absence of formal procurement rules and regulations governing non-appropriated funds was reported as a finding in the audits of the Fund for 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the recommendations set forth by the auditors.

We have already initiated dialogue with Senator Tina Muna-Barnes, Oversight Chairperson for the Mayors' Council of Guam to review existing statute(s) on procurement that govern Non-appropriated funds. Notwithstanding the fact that we have established a Task Force to develop Procurement Rules and Regulations (among other things), we will research the NAF Rules and Regulations adopted by the Department of Education and develop a policy that will be consistently and uniformly used by all 19 districts, absent any further passage of laws from the Guam Legislature. We will continue to develop a procurement policy governing NAF that will be consistently and uniformly be used by all NAF activities.

Proposed Completion Date: December 31, 2013

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Schedule of Findings and Responses
Year Ended September 30, 2012

Finding No.: 2012-3
Area: Monitoring of Non-Profit Organizations

Criteria: Policies and procedures should be in place to monitor non-profit organizations or other entities utilizing the municipalities' facilities.

Condition: A formal process to monitor non-profit organizations and other entities utilizing the municipalities' facilities is not in place. The Task Force established by the Mayors' Council of Guam is also in the process of developing policies and procedures dealing with non-profit organizations that utilize facilities under the jurisdiction of the Mayors' Offices.

Cause: The cause of the above condition is the lack of associated formal policies and procedures.

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

Recommendation: We recommend the Mayors' Council of Guam continue with its initiative to establish formal policies and procedures to monitor non-profit organizations or other entities utilizing municipality facilities. Such policies and procedures should include determining whether non-profit organizations are legal and are in compliance with Division of Revenue and Taxation filings. Further, we recommend that associated risks and liabilities be evaluated and legal advice be sought as deemed necessary.

Prior Year Status: The absence of formal policies and procedures to monitor non-profit organizations and other entities utilizing municipalities facilities was reported as a finding in the audits of the Fund for 2011 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Angel R. Sablan, Executive Director

Response and Corrective Action: We agree with the recommendations set forth by the auditors.

The Task Force that was established to develop policy for the Non-Appropriated Funds will also develop a policy and procedures dealing with Non-profit organizations that utilize facilities under the jurisdiction of the Mayor's Offices for their own programs and or events. We would also implement a checklist of items that have to be met or completed by an organization requesting to use village facilities including liability coverage. We have already established a template to be used by all villages involving the use of community facilities by non-profit organizations. We have also established communications with the Compliance branch of the Department of Revenue and Taxation to cross-check on the legal status of non-profit organizations seeking assistance from the Mayor's Council of Guam.

Proposed Completion Date: November 30, 2013

**MAYORS' COUNCIL OF GUAM
NON-APPROPRIATED FUNDS**

Unresolved Prior Year Findings
Year Ended September 30, 2012

Unresolved Prior Year Findings

As of September 30, 2012, the status of prior audit findings is as follows:

Finding No. 2011-01 – Not corrected. See corrective action plan to Finding No. 2012-1.

Finding No. 2011-02 – Not corrected. See corrective action plan to Finding No. 2012-2.

Finding No. 2011-03 – Not corrected. See corrective action plan to Finding No. 2012-3.

Finding No. 2010-01 – Not corrected. See corrective action plan to Finding No. 2012-1.

Finding No. 2010-02 – Not corrected. See corrective action plan to Finding No. 2012-2.

Finding No. 2010-03 – Not corrected. See corrective action plan to Finding No. 2012-3.