

October 23, 2013

Mayor Paul M. McDonald
President
Mayors' Council of Guam

Dear Mayor McDonald:

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, 2012 (on which we have issued our report dated October 23, 2013), 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Mayors' Council of Guam Non-Appropriated Fund's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

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

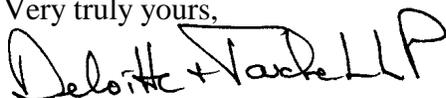
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 Mayors' Council of Guam for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the Mayors' Council of Guam Non-Appropriated Fund's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Disbursements Payable to Cash

Twenty disbursements totaling \$7,100 were issued payable to "Cash".

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

2. Disbursements Authorization

Only one signature is required for disbursements.

The Council should consider requiring two signatures for disbursements in excess of \$100.

3. Formal Process of Summarizing Transactions

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

We recommend that a process be established for summarizing receipts and disbursements for financial statement reporting purposes. Further, we recommend that a formal chart of accounts be established.

4. Compliance with Applicable Procurement Rules and Regulations

Of twelve disbursements tested aggregating \$35,758, two items (ref. check #s 450 and 454) totaling \$15,150 were not supported by comparative prices. While, the Mayors' Council of Guam seeks to obtain comparative prices for NAF disbursements, a formal procurement policy has not been established.

We recommend the Council clarify with the Guam Legislature the applicability of Guam procurement rules and regulations to NAF disbursements. We further recommend that the Council establish a procurement policy governing NAF that will be consistently and uniformly used by all nineteen districts.

5. Monitoring of Non-Profit Organizations

A formal process to monitor non-profit organizations utilizing the Council's facility is not in place.

We recommend that the Council establish formal procedures to monitor non-profit organizations utilizing the Council and Mayoral facilities for compliance with Department of Revenue and Taxation filings.

SECTION II – OTHER MATTERS

We also identified, and have included below, other matters involving the Mayors' Council of Guam Non-Appropriated Fund's internal control over financial reporting as of September 30, 2012, that we wish to bring to your attention.

1. Receipts

During tests of receipts, the following were noted:

- a. Receipts are not consistently issued for all funds/cash received.
- b. The cash receipts log does not include the receipt date.

We recommend that receipts be issued for all funds received, regardless of activity or amount. 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 source, date of receipt, nature and amount of funds received.

2. Disbursements

Of twelve disbursements tested aggregating \$35,758, the following were noted:

1. The supporting invoices, billings or the equivalent for two checks (ref. check #s 450 and 454) totaling \$15,150 were not provided.
2. The requests for financial support, sponsorship forms or the equivalent for two items (check #s 527 and 547) totaling \$6,000 were not provided.

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

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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.