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May 2, 2013

Mr. Angel Sablan  
Chairperson  
Guam Island Fair / Liberation Day Committee Fund

Dear Mr. Sablan:

In planning and performing our audit of the financial statement of the Guam Island Fair / Liberation Day Committee Fund (the Fund) for the year ended December 31, 2011 (on which we have issued our report dated May 2, 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 Fund's internal control over financial reporting and other matters as of December 31, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Liberation Day Committee, also dated May 2, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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.

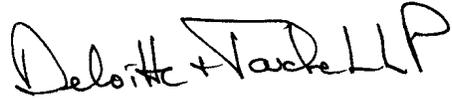
The Liberation Day Committee's responses to the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Liberation Day Committee's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Guam Island Fair / Liberation Day Committee Fund, 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 Liberation Day Committee 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, slightly stylized font. The "D" is large and loops around the "e" in "Deloitte". The "+" sign is small and positioned between "Deloitte" and "Touche". The "LLP" is written in a more upright, blocky style at the end of the signature.

**SECTION I –DEFICIENCIES**

We identified, and have included below, deficiencies involving the Guam Island Fair/Liberation Day Committee Fund's internal control over financial reporting as of December 31, 2011 that we wish to bring to your attention:

**1. Ticket Sales**

During tests of the Queen's raffle tickets, the following were noted:

- a. While a certification was prepared that all unsold tickets were accounted for and disposed of, a detailed report of final returned and unsold tickets was not provided.

We recommend that unsold and returned tickets be accounted for.

- b. Monitoring of ticket issuance was not evident. While a ticket log was provided, the log was compiled based on final ticket summary reports by candidate/sponsor. Based on the ticket log, the following ticket numbers have not been issued: 3004 to 4004; 20801 to 21000; 21001 to 23000; and 23001 to 25000. However, since a report of unsold and returned tickets was not provided, it is not possible to verify whether these tickets were not issued and whether there were tickets returned that were subsequently reissued.

We recommend ticket issuance be monitored and documented.

- c. Of six items examined:

- i. Returned tickets per the ticket reconciliation summary did not agree to ticket count sheets for one item.
- ii. Returned tickets and/or unaccounted tickets cannot be distinguished in the ticket count sheets for five items.
- iii. Ticket sales per the reconciliation summary of \$38,035 did not agree to deposits traced to bank statements of \$37,340 (\$695 difference). A reconciliation was not provided.

We recommend that the ticket reconciliation summary be reconciled with the ticket count sheets and that discrepancies be investigated. We also recommend that returned tickets and unaccounted tickets be identified in the ticket count sheets.

- d. Total ticket sales of \$52,279 per the ticket sales report differed from total receipts of \$51,600 per the bank statement (\$679 difference). A reconciliation was not provided.

We recommend that ticket sales reports be reconciled to deposits.

**Auditee Response:** The Overall Chairperson has both verbally and in writing advised the chairperson of this Committee of the noted deficiencies and to properly and accurately account for all tickets disbursed, tickets returned, tickets sold and unsold and to reconcile all ticket sales reports to bank deposits. We have ensured that all ticket distributions and collections are monitored and accurately recorded and all through a single source or office.

**SECTION I – DEFICIENCIES, CONTINUED**

2. Receipts

During tests of receipts, the following were noted:

- a. Total sponsorship receipts of \$55,000 per the Solicitation Committee’s report did not agree to actual deposits of \$49,500 (\$5,500 difference). A reconciliation was not provided.
- b. Total concessions deposited and reported by the Concessions Committee were \$431,924; however this balance was not supported by a detailed report, cash receipts log or equivalent records.
- c. Total receipts of \$5,240 were unclassified. Insufficient information was available to determine classification of these receipts.

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 source, nature and amount of funds received.

Auditee Response: The Overall Chairperson has advised the Concessions Chairperson and the Corporate Sponsors Chairperson in writing and verbally to keep accurate records of all monies received so they may easily reconciled with bank statements and deposits. We understand from the Concession Chairperson that an activity log of income is kept and that all deposits have been reconciled for 2011. We will follow the recommendation of the auditor to provide receipts for all cash activity and in lieu thereof, provide a log or record sheet of all transactions.

3. Disbursements

Of fifty-three disbursements tested aggregating \$256,581, the following were noted:

- a. Invoices, billings, contract or equivalent for the following were not provided:

<u>Check #</u>	<u>Amount</u>
2625	\$ 396
2580	540
2592	<u>1,563</u>
	\$ <u>2,499</u>

- b. The following checks cleared the bank, however, the bank statements which have the image copy of the check were not provided:

<u>Check #</u>	<u>Amount</u>
2604	\$ 287
2609	9,125
2611	10,000
2614	820
2625	3,960
2628	10,301
2649	3,000
2650	15,792
2654	<u>3,000</u>
	\$ <u>56,285</u>

**SECTION I – DEFICIENCIES, CONTINUED**

3. Disbursements, Continued

c. One \$9,125 item (check #2870) did not agree to the corresponding invoice (06222030-RK).

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

Auditee Response: While 3 tested invoices were not provided, as one of the co-signers of all checks written, I can assure the auditors that all checks that were written were made because of an invoice that was submitted for payment. The checks that have cleared the bank but had no image copies is being researched by the bank but we also assure that the check register and payee we have will correspond to the checks cleared by the bank. Item c. was an error but resulted in no overcharge to the Liberation Committee. In fact, it was \$25 less than the actual invoice but the vendor did not request for the additional amount. We will insure that all invoices are made available and kept on file. We have developed a system to have the Committee keep the original documents and a backup copy of all invoices and billings be simultaneously kept by the Executive Director's secretary.

4. Disbursements Ledger

Total disbursements per the ledger of \$478,116 did not agree to total disbursements per bank of \$455,266 (\$22,850 difference). A reconciliation was not provided.

We recommend that disbursements per ledger and per bank be reconciled monthly.

Auditee Response: This may be caused by the fact that some checks were voided due to errors and were not reflected on the ledgers. We do have several checks that were not claimed by raffle ticket winners. With the bookkeeper on board, we are now able to have ledgers and bank statements reconciled monthly.

5. Disbursements – Bank Statements

Bank statements were not provided for the following:

- a. Bank Pacific Queen's account from January 2011 through December 2011. As of December 31, 2010, this account had a balance of \$1,083.
- b. Guam Island Fair Account for the period June 19, 2011 through June 26, 2011.

We recommend that all bank statements be available on file.

Auditee Response: Duly noted and will be complied with.

6. Issuance of Form - 1099

Certain disbursements related to contractual and professional services; however, a Form-1099 was not issued.

We recommend that Form-1099 be issued for services paid in excess of \$600.

Auditee Response: Duly noted and will be compiled with the 2013 Guam Island Fair.

**SECTION I – DEFICIENCIES, CONTINUED**

7. Travel Policies

Certain disbursements related to travel expenses (i.e., airfare, per diem, accommodation). Formal policies and procedures were not in place relating to travel related expenses.

We recommend that formal travel policies and procedures be established.

Auditee Response: Duly noted and will be formalized into a policy.

8. Non-profit Filing Requirements with Revenue and Taxation

Relevant documents supporting the Fund’s non-profit status were not provided.

We recommend that relevant documents supporting the Fund’s non-profit status be available on file. Further, we recommend that the Fund comply with applicable Revenue and Tax filings.

Auditee Response: Duly noted and will be complied with. The Mayors’ Council of Guam will establish a separate non-profit entity that will be registered with Department of Revenue and Taxation to sponsor the 2013 Guam Island Fair.

9. Minutes of Meeting

Minutes of the May 12, 2011 meeting were not provided.

We recommend that minutes of meetings be kept on file.

Auditee Response: Duly noted and will be complied with.

**SECTION II – 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 the cash basis of accounting. 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 the cash basis of accounting).

### **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.