

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

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

YEAR ENDED SEPTEMBER 30, 2010

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, 2010, and have issued our report thereon dated March 24, 2012, 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 certain 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 2010-1 to be a material weakness.

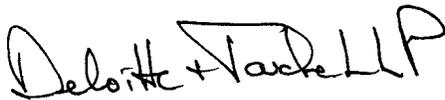
Compliance and Other Matters

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 2010-02 and 2010-03.

We noted certain matters that we reported to the management of the Fund in a separate letter dated March 24, 2012.

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 written in a cursive, stylized font.

March 24, 2012

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

Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No.: 2010-01
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. In the event that there is turnover of key personnel, 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.

Cause: The cause of the above condition is the lack of a clear understanding of the importance of formal accounting and financial reporting policies and procedures. This is heightened by the lack of an experienced accountant who can assist the Funds in promulgating best practices and in standardizing financial reporting.

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 that formal accounting and financial reporting policies and procedures be established and be documented. This should include but not be limited to policies and procedures relating to: (a) cash receipts; (b) cash disbursements; (c) document filing, (e) record retention, and (f) financial reporting, among others.

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

Further, we also recommend that the Mayors' Council of Guam serve as a resource center for the municipalities on accounting and financial reporting non-appropriated fund related concerns and matters. In order to fulfill this role, we recommend that the Council request funding from the Guam Legislature for the services of an experienced accountant who can assist the Council in promulgating best practices, in standardizing financial reporting, in training Administrative Assistants and in potentially performing the accounting function for Mayors who choose that option.

Auditee Response and Corrective Action Plan:

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

Response and Correction Action: We agree with the recommendations as set forth by the auditor.

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

Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No.: 2010-01, Continued
Area: Accounting and Financial Reporting Policies and Procedures, Continued

We have formed a task force comprised of Mayors and Vice Mayors to develop a Non-Appropriated Fund Policy that would be adhered to and implemented by all 19 villages. 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.

Proposed Completion Date: March 15, 2012

We will also establish within the central MCOG office a process for classifying and summarizing receipts and disbursements and an orientation for all NAF custodians in each village will be conducted once the process is established. We will ask for the assistance and attendance of a representative(s) from the Office of Public Accountability and the General Services Agency at the Orientation Meeting.

Proposed Completion Date: April 16, 2012

We will address the need for contractual money in our FY2013 Budget to the Guam Legislature to employ the services of an accounting firm or to establish a permanent FTE position within the Council for an Account Technician 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.

Proposed Completion Date: March 15, 2012

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

Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No.: 2010-02
Area: Compliance with Applicable Procurement Regulations

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

Condition: The Council and Mayors' Offices understanding is that NAF funds are not subject to formal Procurement Rules and Regulations, and as such, NAF disbursements are not subjected to formal procurement procedures.

Cause: The cause of the above condition is the lack of clearly defined procurement rules and regulations governing NAF funds.

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

Recommendation: We recommend the Mayors' Council of Guam clarify with the Guam Legislature as to the procurement rules applicable to NAF funding. Once applicable procurement rules and regulations are determined, we recommend that such be documented and promulgated to all districts.

Auditee Response and Corrective Action Plan:

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

Response and Correction Action: We agree with the Auditors' recommendation.

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.

Proposed Completion Date: April 16, 2012

**MAYORS' COUNCIL OF GUAM
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Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No.: 2010-03
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.

Cause: The cause of the above condition is the lack of a clear understanding of risks associated with allowing non-profit organizations or other entities to utilize municipality facilities either for fundraising, recreational or other purposes.

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

Recommendation: We recommend that formal policies and procedures be established to monitor non-profit organizations or other entities utilizing the municipalities' 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. We further recommend that the Council request for funding from the Guam Legislature to assist in obtaining periodic legal assistance.

Auditee Response and Corrective Action Plan:

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

Response and Correction Action: We agree with the Auditors' recommendation.

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. The assignment of an attorney for the Mayor's Council from the Attorney General's office will be requested but we do not foresee one being solely dedicated to the MCOG unless we contract for one. In this case, we will also seek in our FY2013 Budget an appropriation to cover for the cost of an attorney or a legal firm to assist in our legal needs.

Proposed Completion Date: March 15, 2012