

Compliance and Internal Control

**Department of Chamorro Affairs –
Non-Appropriated Funds**
(A Component Unit of the Government of Guam)

Year ended September 30, 2015



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Department of Chamorro Affairs – Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Report on Compliance and Internal Control

Year ended September 30, 2015

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Report of Independent Auditors 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 Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCANAF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF's internal control. Accordingly, we do not express an opinion on the effectiveness of DCANAF's internal control.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of audit finding and response that we consider to be significant deficiency. This finding is listed as 2015-1.

Compliance and other matters

As part of obtaining reasonable assurance about whether DCANAF'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

June 3, 2016

Department of Chamorro Affairs – Non-Appropriated Funds

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Schedule of Audit Finding and Response

Finding No. 2015-1

Criteria or specific requirement:

Accrual basis of accounting requires expenses be recorded in the period they are incurred.

Condition:

DCANAF records vendor invoices, relating to purchase of goods or services, into the general ledger when the invoices have been approved for payment.

Context:

The practice of recording expenses when the invoice is approved for payment has resulted in expenses not being recorded in the period they are incurred.

Effect:

Four (4) invoices pertaining to the year ended September 30, 2015 were not recorded. As a result, DCANAF's liabilities and expenses were understated by approximately \$16,000.

Cause:

There are no monitoring controls in place to ensure proper cut-off of purchases.

Recommendation:

DCANAF should record an accrual for all purchases/expenses into the general ledger once the product or service purchased has been received and the liability incurred. Accounts payable subsidiary ledger balances should be reconciled with the vendors' statements every month. Any unusual items noted should be promptly investigated.

Management's Response:

The recording of expenses when paid in the correct period is still a new practice. This has led to not properly recording the four (4) invoices pertaining to the year ended September 30, 2015. A monthly review will be made to monitor the controls to ensure proper cut-off of purchases and disbursements.

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Schedule of Prior Audit Findings

Findings in the prior year Audit Report dated June 1, 2015 follows:

Finding No. 2014-1

Criteria or specific requirement:

Internal controls over the financial statement close process should be established and implemented to ensure that transactions, including audit adjustments, are timely recorded in the proper accounts.

Status:

Management has resolved this deficiency.

Finding No. 2014-2

Criteria or specific requirement:

Bank reconciliations should contain sufficient reconciling item detail and should be reviewed on a timely basis.

Status:

The bank reconciliation process was changed to include the Chamorro Village Manager and the Department's Administrative Services Officer review and approval process.

Finding No. 2014-3

Criteria or specific requirement:

Governmental Accounting Standards Board (GASB) Accounting Standards Codification (ASC) I40, *Inventory*, section 107 states that "A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost. A loss should be recognized and accounted for in the current period whenever the utility of goods is impaired by damage, deterioration, obsolescence, changes in price levels, or other causes. Such losses should be measured by applying the method of pricing inventories at cost or market, whichever is lower."

Status:

The inventory is recorded at lower of cost or market with an allowance for obsolescence of approximately \$34,000.

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Schedule of Prior Audit Findings, continued

Finding No. 2014-4

Criteria or specific requirement:

Purchases and the corresponding payables should be recorded on receipt of purchased goods or upon the service being received.

Status:

Similar finding was noted during the audit of the September 30, 2015 financial statements.