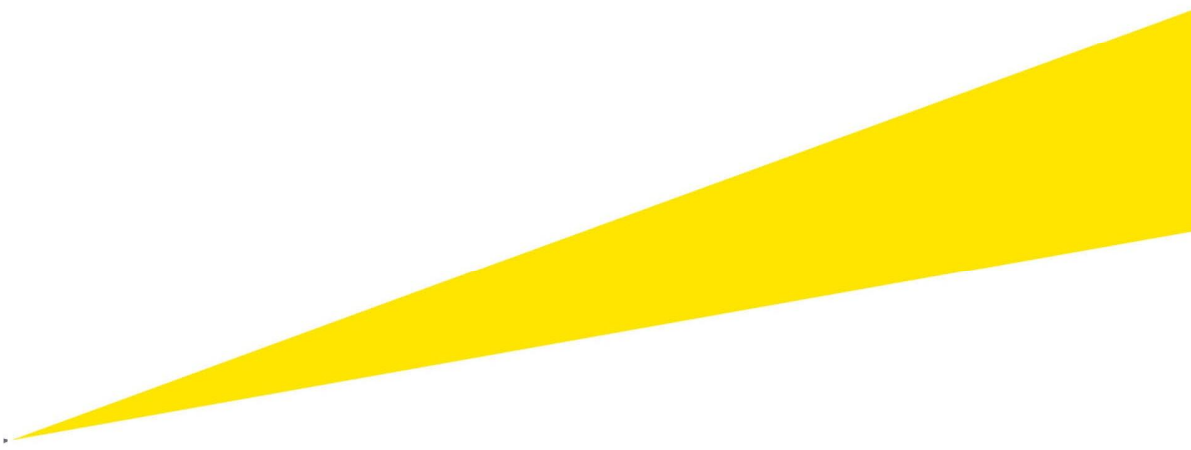


*Compliance and Internal Control*

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

*Year ended September 30, 2016*



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, 2016

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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*

Management and 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, 2016, 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 May 8, 2017.

### **Internal control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the DCANAF's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 certain deficiencies in internal control, described in the accompanying schedule of audit findings that we consider to be significant deficiencies. These findings are listed as 2016-001 and 2016-002.

## **Compliance and other matters**

As part of obtaining reasonable assurance about whether the 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*

May 8, 2017

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

Schedule of Audit Findings

**Finding No. 2016-001**

Criteria or specific requirement:

Purchases and the corresponding payables should be recorded upon receipt of purchased goods or services.

Condition:

DCANAF records vendor/supplier invoices into the general ledger when they have been approved for payment.

Context:

The practice of recording the asset or expense when paid has resulted in liabilities not being recorded in the correct period.

Effect:

Four (4) invoices pertaining to the year ended September 30, 2016 were not recorded. As a result, DCANAF's liabilities and expenses were understated by approximately \$232,000.

Cause:

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

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 monthly especially for all major and regular vendors. Any unusual items noted should be promptly investigated.

Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.

# Department of Chamorro Affairs – Non-Appropriated Funds

(A Component Unit of the Government of Guam)

## Schedule of Audit Findings, continued

### **Finding No. 2016-002**

#### Criteria or specific requirement:

Bank reconciliations should be reviewed and reconciling items should be monitored and corrected on a monthly basis. Without appropriate review and monitoring of bank reconciliations, it is possible that errors will be undetected or reconciling items that require investigation go unaddressed for long periods of time.

#### Condition:

Outstanding checks and deposits in transit that are more than 3 months old are included in the bank reconciliation.

#### Context:

Lack of prompt follow up of outstanding reconciling items can lead to fraud or error not being detected on a timely basis.

#### Effect:

Long-outstanding checks totaling approximately \$13,000 and deposits in transit totaling approximately \$2,500 are included in the bank reconciliation statement as of September 30, 2016.

#### Cause:

There is no timely monitoring of bank reconciliations.

#### Recommendation:

DCANAF should designate an appropriate individual to review bank reconciliations. The review process should be performed on a timely basis to ensure that reconciling items are monitored, followed up, and adjusted. The change in process should include a monthly worksheet listing all of the DCANAF's bank accounts that will serve as a control sheet. The sheet should track the dates at which bank reconciliations have been prepared and reviewed. To improve accountability, management should initial the reconciliation as evidence of review.

#### Views of responsible officials and planned corrective actions:

Management agrees. Please refer to the separate corrective action plan.