

Compliance and Internal Control

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

Year ended September 30, 2017



**Building a better
working world**

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, 2017

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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 the 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 the business-type activities of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise DCANAF’s basic financial statements and have issued our report thereon dated October 15, 2018.

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 the DCANAF’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-003, 2017-004 and 2017-005 to be significant deficiencies.

Compliance and Other Matters

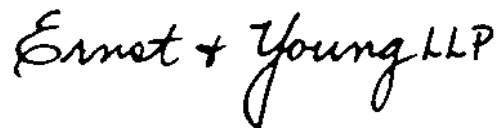
As part of obtaining reasonable assurance about whether DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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*.

DCANAF's Response to Findings

DCANAF's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. DCANAF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of 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.

The image shows a handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

October 15, 2018

Department of Chamorro Affairs – Non-Appropriated Funds
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Schedule of Audit Findings and Responses

Finding No. 2017-001

Criteria or specific requirement:

Government Accounting Standards Board (GASB) Codification N50 – *Non-exchange Transactions* require imposed nonexchange revenues from assessment by governments on nongovernmental entities to be recorded as revenues and receivable in the period when an enforceable claim to the asset arises or when the resources are received, whichever occurs first.

Condition:

DCANAF did not recognize revenues related to imposed nonexchange revenues related to Public Law (PL) 31-118. PL 31-118 requires any public buildings and buildings supported by federal or Government of Guam subsidy that exceed \$100,000 contain provisions for the inclusion of works of art, by local artists amounting to at least 1% of the overall construction or alternatively be received by DCANAF in lieu of the inclusion of the works of art (the Assessment).

Context:

DCANAF entered into an agreement with a recipient of public subsidies in February 2016. The recipient exercised the alternative to make direct payments to DCANAF. The agreement allowed the recipient to pay the Assessment over a period of time as a condition for receiving clearance for a full occupancy permit.

Effect:

DCANAF understated revenues and receivables related to PL 31-118 in 2016 amounting to \$600,000 for the fiscal year ended September 30, 2016.

Cause:

There are no monitoring controls in place to ensure that imposed nonexchange revenues are appropriately recorded as revenues and receivable in the appropriate period.

Recommendation:

DCANAF should implement review controls of significant contracts related to PL 31-118 to ensure that those agreements meeting GASB Codification N50 are recorded in the appropriate period.

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
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Schedule of Audit Findings and Responses, continued

Finding No. 2017-002

Criteria or specific requirement:

Government Accounting Standards Board (GASB) Codification 1600 – *Basis of Accounting* require revenues from exchange transactions should generally be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts.

Condition:

DCANAF did not recognize revenues and related receivables related to the operations of the Guam Museum and Chamorro Educational Facility (the Project).

Context:

The Project started operations in November 2016 and was managed, operated and maintained by a contractor. Revenue generating activities of the project for the fiscal year ended September 30, 2017 included admissions, events, Café and gift shop operations.

Effect:

DCANAF understated revenues and receivables related to the operations of the Project by a net amount of \$28,450. The amount represents gross revenues of \$94,836 and an allowance for doubtful accounts of \$66,386.

Cause:

DCANAF was unable to timely obtain records from the contractor to record the revenues prior to the close of the September 30, 2017 financial statements.

Recommendation:

DCANAF should consider implementing additional processes and procedures to ensure that records are obtained timely to support the amounts to be recorded in its financial statements.

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
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Schedule of Audit Findings and Responses, continued

Finding No. 2017-003

Criteria or specific requirement:

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

Condition:

Chamorro Village recorded vendor/supplier invoices into the general ledger when they have been approved for payment.

Context:

Unrecorded liabilities were identified during our subsequent cash disbursement and accrued liability testing. Our samples comprised of significant disbursements (21 samples) made subsequent to September 30, 2017.

Effect:

Five (5) invoices related to security, power, water and waste disposal services pertaining to the year ended September 30, 2017 were not recorded. As a result, DCANAF's liabilities and expenses were understated by \$32,887.

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 monthly with the vendors' statements, 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
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Schedule of Audit Findings and Responses, continued

Finding No. 2017-004

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:

Deposits in transit identified in the bank reconciliation did not reflect actual deposits.

Context:

Our procedures on the propriety of the bank reconciliation performed for the Chamorro Village identified that prior year audit adjusting entries were not appropriately recorded into the financial statements.

Effect:

Deposits in transit totaling \$12,474 were improperly included in the bank reconciliation statement as of September 30, 2017.

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 to evidence they had performed the review.

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
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Schedule of Audit Findings and Responses, continued

Finding No. 2017-005

Criteria or specific requirement:

Inventory counts should be periodically performed, especially at year end, to verify the balance of book inventory recorded in the financial statements.

Condition:

At September 30, 2017, the preliminary ending balance of inventory was negative \$361 which did not reflect the actual inventory on hand.

Context:

DCANAF did not perform an inventory count to support the balance of book inventory at year end. We also noted that prior year adjustments related to the allowance of inventory obsolescence was netted against the inventory balance.

Effect:

Inventory was understated by \$77,447.

Cause:

A timely inventory count was not performed.

Recommendation:

DCANAF should ensure that an inventory count is performed at year end to support the ending balance of book inventory. Additionally, allowance for inventory obsolescence should be tracked using a separate, contra-asset account to ensure that the gross balance of inventory is maintained in DCANAF's accounting system.

Views of responsible officials and planned corrective actions:

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