

April 24, 2017

Mayor Doris F. Lujan  
Municipality of Inarajan

Dear Mayor Lujan:

In planning and performing our audit of the financial statement of the Mayors' Council of Guam for the year ended September 30, 2016 (on which we have issued our report dated April 24, 2017), 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 Mayors' Council of Guam'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 Mayors' Council of Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mayors' Council of Guam'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, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, a deficiency related to the Mayors' Council of Guam's Inarajan Mayor's Office internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention.

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.

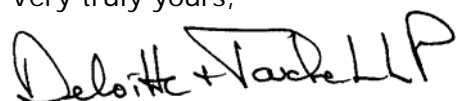
The Inarajan Mayor's Office's responses to certain of the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Inarajan Mayor's Office's responses and, accordingly, we express no opinion on the responses.

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.

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 Inarajan Mayor's Office for their cooperation and assistance during the course of this engagement.

Very truly yours,



## SECTION I –DEFICIENCIES

We identified, and have included below, a deficiency involving the Mayors' Council of Guam's Inarajan Mayor's Office internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

### 1. Compliance with Applicable Procurement Rules and Regulations

Of fourteen disbursements tested aggregating \$47,283, the following were noted:

- a. Two (check #s 748 and 819) totaling \$6,288 were disbursed for an emergency purpose without a pre-approved emergency vendor list.
- b. Two (check #s 751 and 834) totaling \$3,683 were not supported by comparative prices.

We recommend the Inarajan Mayor's office follow applicable procurement policies.

Response: For check #748, due to time constraints and to ensure plaques are ready for presentation during the San Isidro Fiesta Awards Ceremony, plaques were placed on order and purchased. The chosen vendor has better variety and stock available on-hand. For check #819, the A/C unit is old, no longer operational, and must be replaced. When the old unit shut down, clients were exposed to oppressive room temperature that was often high or higher than the temperature outside. During the monthly Municipal Planning Council (MPC) meeting held on August 11, 2016, council members agreed that prompt and immediate action must be taken to replace the A/C unit since it's a necessity for the elderly. A motion was made and approved for the chosen vendor to replace and install a new unit.

For check #751, a motion was made and approved by MPC members to purchase the steel frames for our entrance and exit signs. Additionally, we used the Marine Epoxy Paint so it could last longer since they were erected near the seashores and constantly bombarded by saltwater mist. Steel frames are designed to withstand the most severe weather conditions including typhoons; they are more durable, stronger and lasts longer. For check #834, specifications were reviewed with two other vendors and they both only had 8 camera DVR while the chosen vendor had 16 camera DVR plus camera has better day-night resolution. The CCTV system was purchased with the chosen vendor because they have better quality camera and equipment plus equipment had room for expansion, addition or upgrade.

## SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 accounting principles used to prepare the financial statements. 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 accounting principles used to prepare the financial statements).

### **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.