

Management Letter

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

Year ended September 30, 2017





Ernst & Young LLP
231 Ypao Road
Suite 201 Ernst & Young Building
Tamuning, Guam 96913

Tel: +1 671 649 3700
Fax: +1 671 649 3920
ey.com

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Management and the Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds

In planning and performing our audit of the financial statements of the Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF) as of and for the year ended September 30, 2017, 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, we considered its internal control over financial reporting (internal control) 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 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 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.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Financial Statement Close Process

Condition

We noted differences between the beginning balance of net position as recorded in the various funds of the DCANAF and the audited September 30, 2016 balances. These were primarily caused by the incorrect recording of audit adjustments identified during the 2016 audit.

Recommendation

We recommend that management improve controls over review and monitoring of approved audit adjusting entries made into the financial statements.

Account for Inventory and Cost of Sales

Condition

During our audit procedures on DCANAF's book inventory, we noted the following:

- An inventory count was not performed at year end September 30, 2017 to support the balance recorded in the financial statements.
- The cost of books sold during the year ended September 30, 2017 was not recorded thereby understating the cost of sales for the year.
- The inventory balance of the Council of the Arts and Humanities had a negative \$6,341 balance.

Recommendation

We recommend that DCANAF improve controls over the issuance of or the sale of books. We also recommend that any differences identified between the general ledger and the records be investigated and adjusted, if necessary.

Improve Segregation of Duties

Observation

Due to the small size of the entity, there is a lack of segregation of duties in the preparation and posting of journal entries and the preparation of the monthly bank reconciliations. The lack of segregation of duties increases the risk that errors will not be detected and provides the opportunity to misappropriate cash and record fictitious entries.

Recommendation

Where there is a limited number of accounting personnel, the lack of segregation of duties is compensated by the close review and supervision by management. Management should review the monthly financial statements closely to ensure that the information is consistent with their understanding of DCANAF's activities and investigate any results that differ from expectations.

This communication is intended solely for the information and use of the Board of Trustees and management of the DCANAF, others within the organization, and the Guam Office of Public Accountability, 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 information.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Sincerely,

Ernst + Young LLP