

*Management Letter*

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

*Year ended September 30, 2022*





May 17, 2023

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, 2022, 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):

### **Non-recording of Audit Adjustments**

#### Observation

We noted DCANAF does not record prior year adjusting entries identified because of the audit. This resulted to cumulative catch-up audit adjustments on the beginning balance of net position account.

#### Recommendation

Management should record all adjustments to ensure reconciliation of accounts against its financial statements. This will also contribute to more accurate and reliable financial reporting throughout the year.

## **Review of Receivables and Payables Subsidiary Ledgers**

### Observation

We noted a significant number of accounts receivable with (1) credit balances and (2) with balances outstanding over one year. In addition, we noted a significant number of accounts payable with (1) debit balances and (2) with balances outstanding over one year.

### Recommendation

We recommend management to perform a monthly review of the accounts receivable and accounts payable subledger so as to timely identify any unusual items and take necessary action.

## **Improve Segregation of Duties (Reiteration of Prior year comment)**

### 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 personnel, the lack of segregation of duties is compensated by the close review and supervision by management. Management should review bank reconciliations and 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.

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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*