

August 8, 2014

Mayor Melissa B. Savares and Vice Mayor Andrew A. Benavente
Municipality of Dededo

Dear Mayor Savares and Vice Mayor Benavente:

In planning and performing our audit of the financial statements of the Mayors' Council of Guam Non-Appropriated Funds (the Fund) as of and for the year ended September 30, 2013 (on which we have issued our report dated August 8, 2014), 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 Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Dededo Mayor's Office Non-Appropriated Fund's internal control over financial reporting and other matters as of September 30, 2013 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.

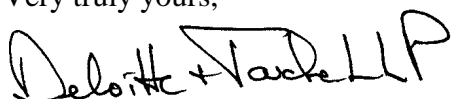
The Dededo Mayor's Office's responses to the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Dededo Mayor's Office's responses, and accordingly we express no opinion on the responses.

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 Dededo 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, deficiencies involving the Dededo Mayor’s Office Non-Appropriated Fund’s internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Monitoring of Non-Profit Organizations

While substantial improvements have been made to monitor non-profit organizations (NPO) utilizing Dededo Mayor’s Office facilities, a formal process to determine whether such NPOs are current with Department of Revenue and Taxation filings is not in place.

We recommend the Dededo Mayor’s Office to continue to coordinate with the Mayors’ Council of Guam in developing and implementing formal policies on monitoring of NPOs.

Auditee Response: During this process, we have required organization’s registered name with Department of Revenue & Taxation, EIN number, and address. Form 1099’s are processed annually by the Administrative Assistant.

2. Compliance with Applicable Procurement Rules and Regulations

Of 20 disbursements tested, the following were noted:

a. Five (5) disbursements were not supported by comparative prices. Details are as follows:

| <u>Check #</u> | <u>Disbursement Amount</u> | <u>Description</u> |
|----------------|----------------------------|-------------------------|
| 3980 | \$ 172 | Other services |
| 4053 | 500 | Senior Center Expenses |
| 4191 | 677 | Senior Center Expenses |
| 4329 | 3,800 | Repairs and maintenance |
| 4440 | <u>599</u> | Supplies and materials |
| | \$ <u>5,748</u> | |

b. Two (2) disbursements (check #s 4333 and 4346) totaling \$15,500 related to one contract were procured through the small purchase method. While the Dededo Mayor’s Office obtained quotes for the services, the contract amount exceeded the \$15,000 threshold which would require formal competitive bidding.

Disbursements from non-appropriated funds (NAF) were not consistently subjected to procurement procedures due to the absence of formal procurement rules and regulations governing NAF. The Mayor’s Council of Guam has established a Task Force to research and clarify procurement regulations applicable to NAF. Currently, the Task Force is in the process of developing a uniform procurement policy.

We recommend the Dededo Mayor’s Office continue to coordinate with the Mayors’ Council of Guam in its initiative to develop a procurement policy governing NAF that will be consistently and uniformly used.

Auditee Response:

- a. During emergencies for repairs and services, it is difficult to locate a vendor that is willing to provide price quotations in a timely manner. Senior Center expenses were voted on by participants prior to the activity.
- b. It was unclear if the project was going to exceed the \$15,000 amount. Therefore, we did not seek assistance with the Department of Public Works.

SECTION I – DEFICIENCIES, CONTINUED

3. Bank Reconciliation

Cash per books of \$31,270 did not agree with cash per bank of \$34,153, a difference of \$2,883. Monthly reconciliations were not performed.

We recommend that cash per books be regularly reconciled with bank balances.

Auditee Response: We are working with the Mayors' Council of Guam to contract a vendor that will collectively provide this service to all MCOG offices.

SECTION II – OTHER MATTERS

We also identified, and have included below, other matters involving the Dededo Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013, that we wish to bring to your attention.

1. Receipts

The following were noted from 18 receipt transactions examined:

- a. Seven (7) receipts were deposited over 7 days after receipt date.

We recommend that collections be timely deposited.

- b. One bingo collection did not agree to the actual deposit by \$49. A reconciliation was not provided for the difference.

We recommend that differences between collections and deposits be reconciled.

Auditee Response:

- a. Deposits are now being done within the first 24 hours of collection. On some occasions, it is not more than 36 hours.
- b. Bingo collections are now cross checked between Senior Citizen Center staff and Mayor's Office staff.

2. Issuance of Form 1099 – MISC, Miscellaneous Income

During fiscal year 2013, certain services were paid to various individuals for services rendered; however, a form 1099-MISC was not issued.

We recommend that form 1099-MISC be issued for services paid in excess of \$600.

Auditee Response: Form 1099's are now being processed for all organizations that are issued payments over \$600 cumulative for the year.

SECTION III – DEFINITIONS

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.

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.