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August 8, 2014

Mayor Ernest T. Chargualaf
Municipality of Merizo

Dear Mayor Chargualaf:

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 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, deficiencies related to the Merizo 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.

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.

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

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving the Merizo 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. Compliance with Applicable Procurement Rules and Regulations

   Disbursements from non-appropriated funds (NAF) were not 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 Merizo 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 by all nineteen districts.

2. Monitoring of Non-profit Organizations

   A formal process to monitor non-profit organizations utilizing the Merizo Mayor's Office facilities is not in place.

   We recommend that the Merizo Mayor's Office determine whether non-profit organizations utilizing its facilities are in compliance with Department of Revenue and Taxation filings.

3. Disbursements Authorization

   Only one signature is required for NAF disbursements.

   The Merizo Mayor's Office should consider requiring two signatures for disbursements in excess of $100.

4. Receipts

   The following were noted from our tests of receipt transactions:

   a. Eleven (11) receipts totaling $1,995 could not be traced to bank statements.

      We recommend receipts be reconciled to deposits.

SECTION I – DEFICIENCIES, CONTINUED

4. Receipts, Continued

   b. Of 10 receipt transactions tested, the following were noted:

      i. Daily bingo revenue and expenditure reports were not consistently assigned control number.

         We recommend that all daily bingo reports be assigned control numbers for monitoring purposes.

      ii. One item (bingo collections for 07/29/13) was deposited over 10 days after receipt date.

         We recommend that collections be timely deposited.

      iii. Three (3) receipts (ref. #s 223675, 223692 and 223694) totaling $2,642 did not agree to the $3,418 deposited. A reconciliation of the $776 variance was not provided.

         We recommend that collections be reconciled to deposits.

      iv. The deposit slips for 2 receipts (#223693 for $850 and #728915 for $470) were not provided. Further, these could not be traced to the bank statements. It is not evident whether these funds were deposited.

         We recommend that all cash received be deposited and that deposit slips be on file.

5. Disbursements

   The following were noted of 13 disbursements tested aggregating $18,910:

   a. Supporting invoices for the following were not completely provided:

Check #	Disbursement Amount	Description
301	$ 1,000	NAF Fiesta expenses – advances
410	1,265	NAF Fiesta expenses – advances
	$ 2,265	

   b. One $800 item (NAF check #387) did not agree to the invoice of $511. A reconciliation of the $289 difference was not provided.

   We recommend that invoices, billings and relevant documents be available on file.

SECTION II – 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 of 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.