

Compliance and Internal Control

**Department of Chamorro Affairs –
Non-Appropriated Funds**

Year ended September 30, 2013



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working world**

Department of Chamorro Affairs – Non-Appropriated Funds

Report on Compliance and Internal Control

Year ended September 30, 2013

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Department of Chamorro Affairs – Non-Appropriated Funds
Hagatna, Guam

We have audited the financial statements of Department of Chamorro Affairs – Non-Appropriated Funds (DCANAF), and its discretely presented component unit as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise DCANAF’s basic financial statements and have issued our report thereon dated May 19, 2014. We conducted our audit 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. The financial statements of the Guam Museum Foundation, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Guam Museum Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCANAF’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCANAF’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist, that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of finding and response that we consider to be a significant deficiency. This finding is listed as 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCANAF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DCANAF's Response to Finding

DCANAF's response to the finding identified in our audit is described in the accompanying schedule of finding and response. DCANAF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

May 19, 2014

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Audit Finding and Response

Finding No. 2013-1

Criteria or specific requirement:

Internal controls over the financial statement close process should be established and implemented to ensure that audit adjustments are recorded in the proper accounts.

Condition:

As of September 30, 2013, prior year audit adjustments were not recorded in the books or were recorded in the wrong account.

Context:

The improper recording of adjustments was discovered during our reconciliation of the beginning net position to the audited financial statements as of September 30, 2013.

Effect:

The beginning balance of net position did not agree with the audited balance as of September 30, 2012.

Cause:

There are no monitoring controls in place to ensure current year transactions and audit adjustments are properly recorded.

Recommendation:

Management should review the financial statements to minimize material misstatements and to detect or correct errors on a timely basis.

Management's Response:

Management will collectively review the financial statements monthly prior to closing and after closing and authorized signatures will be required. The Administrative Services Officer will then adjust the books to ensure that transactions are recorded in the proper period and adjustments, if any, are timely recorded.

Department of Chamorro Affairs – Non-Appropriated Funds

Schedule of Prior Audit Findings

Findings in the prior year Audit Report dated May, 10, 2013 are as follows:

Finding No. 2012-1 Audit Adjustments

Finding:

Several prior year audit adjustments were not recorded in the books. In addition, several audit adjustments were required in order to record transactions in the proper period.

Status:

Management has recorded the prior year adjustments in their books, however several prior year adjustments are recorded in the wrong account. As a result, the beginning balance of net assets did not agree with the audited balance as of September 30, 2012.

Finding No. 2012-2 Written Policy

Finding:

There is no written policy or procedure describing the standard operating procedures on management of funds, equipment, and other properties, appropriated, loaned, contributed to, or raised for the purpose of preparing for and conducting activities relating to the Festival of the Pacific Arts.

Status:

Management is in the process of establishing the written policy or procedures as it deems appropriate for the purpose of preparing for and conducting activities relating to the Festival of the Pacific Arts in 2016.

Finding No. 2012-3 Travel Expense

Finding

The travel related expenditures were not documented in accordance with the applicable travel laws and regulations of Section 23104 of Title 5 Guam Code Annotated requires that all persons who have completed travel on behalf of the Government of Guam to clear all travel advances within ten (10) days following the return from official travel.

Status:

Management will adopt a travel policy within the department to ensure that non-profit organizations abide by the Guam Travel Laws. No similar finding was noted during the fiscal year ended September 30, 2013 audit since there were no travel expenses for the year.