

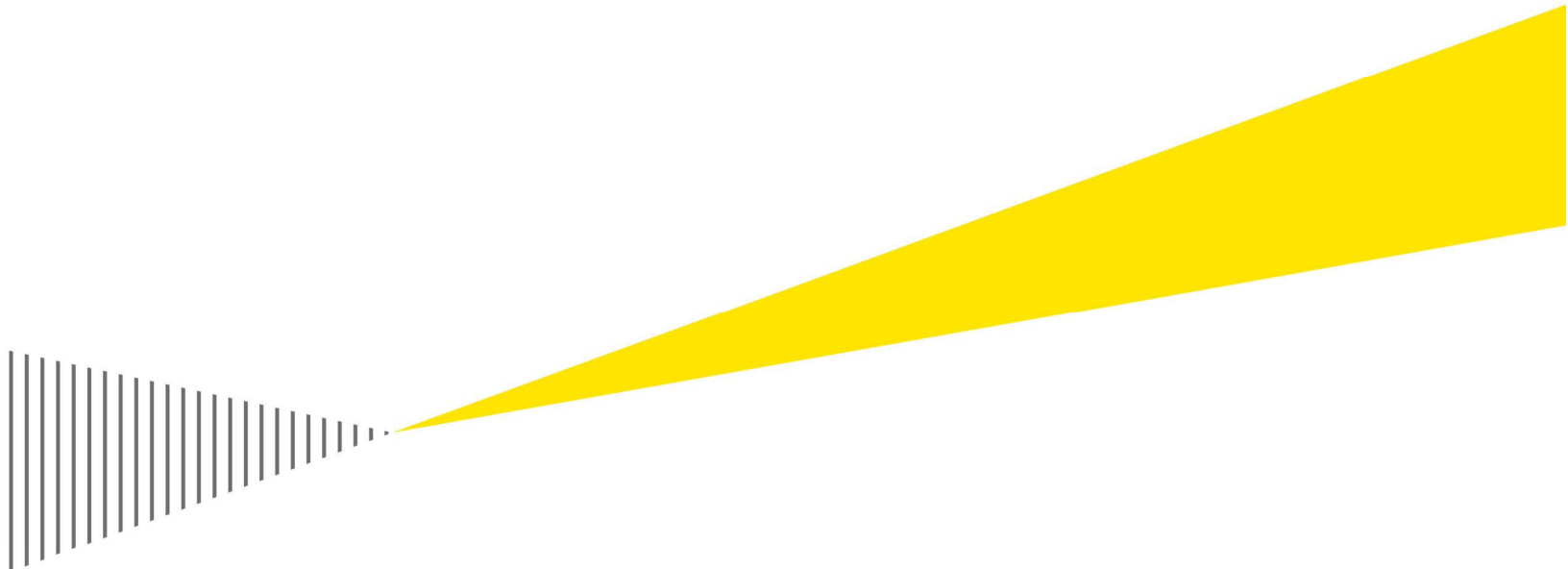
*Management Comments and Recommendations*

**Department of Chamorro Affairs**

**Non-Appropriated Funds**

(A Component Unit of the Government of Guam)

*Year ended September 30, 2014*





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June 1, 2015

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

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, 2014, in accordance with auditing standards generally accepted in 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 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):

### **Monitoring of Accounts Receivable Sub-ledger**

#### ***Observation***

A significant number of credit balances (for payments, credits or duplicate postings of cash receipts) are included in the accounts receivable sub-ledger. In addition, a returned check of one customer was not identified nor investigated resulting in recording the receivable as due from "Department of Chamorro Affairs". Unresolved credit balances and the use of suspense accounts may result in incorrect aging of accounts receivable and leads to questioning the accuracy of reports used by management.

#### ***Recommendation***

Necessary amendments should be made in the accounting system so that credit entries in an account receivable balance will be allocated to specific invoices or written-off. Payments received from tenants should be applied against specific invoices and returned checks should be identified and reverted to the correct customer's account.

## **Provision for Doubtful Accounts**

### ***Observation***

DCANAF does not have a stated policy to provide against overdue accounts receivable. At September 30, 2014, there was approximately \$23,000 of accounts receivable that was overdue by more than 90 days and doubtful to be collected with no related provision. Developing and applying a policy for determining the provision for doubtful accounts will provide DCANAF with a more objective assessment of the valuation of accounts receivable, while allowing management to monitor the collectability of receivables proactively and take action when appropriate.

### ***Recommendation***

Management should develop a policy for provisioning against overdue accounts receivable using percentages, determined based on historical experience, for various aged categories or by specific identification.

## **Accounting Department Personnel**

### ***Observation***

DCANAF's accounting department personnel directly involved in financial reporting consist of four (4) employees. Given the size of DCANAF, volume of business transactions and number of divisions involved, the size of the financial reporting team appears to be adequate to meet financial reporting requirements. However, we noted the financial statement close process requires a significant amount of time and the accuracy of accounting information generated may be questionable.

### ***Recommendation***

Management should consider providing training for the accounting department personnel. Such training should be designed with the objective of:

- Improving the timeliness of the financial statement close process
- Minimize the frequency of and the degree of accounting errors
- Improve the overall reliability of information generated from the accounting system

## **Create Formal Back-up Procedure Plan**

### ***Observation***

DCANAF does not have formal backup procedures. As such, each user creates their own back-up of the accounting system resulting in multiple versions of the existing books. This results in inefficiency when determining which version of the back-up contains the most recent, complete and accurate information. In addition, the daily back-up of computerized information is stored on-site at the DCANAF office.

## **Create Formal Back-up Procedure Plan, continued**

### ***Recommendation***

An appropriately designed, implemented and tested back-up plan can reduce the adverse impact to DCANAF when a loss of critical system occurs. The development, communication, and implementation of a back-up plan should be undertaken to minimize the business effect of the loss of the financial applications, data, and supporting automated processes. Back-up information should be stored in a separate location (either physical or electronic) to maintain the continuity and integrity of data in case of an emergency. This will reduce the risk that both the original and back up are lost.

\* \* \* \* \*

We have separately reported in our letter dated June 1, 2015, addressed to the Board of Trustees, certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

This communication is intended solely for the information and use of management and the Board of Trustees 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.

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

*Ernst + Young LLP*