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September 8, 2015

Mayor Dale E. Alvarez  
Municipality of Santa Rita

Dear Mayor Alvarez:

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, 2014 (on which we have issued our report dated September 8, 2015), 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 Santa Rita Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2014 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 Santa Rita 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 Santa Rita Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

**1. Compliance with Applicable Procurement Rules and Regulations**

Check #1427 for \$700 for food and catering and check #128 for \$9,027 for airline tickets were not supported by comparative prices.

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 Mayors' 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 Santa Rita 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 the nineteen districts.

**2. Non-Profit Organization Monitoring**

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

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

**3. Receipts**

In our examination of receipts and deposits, we noted the following:

- a. When the ledgers were initially provided, receipts of \$1,533 were not traceable to bank statements and bank credits of \$823 were not reflected in the ledger. These matters were subsequently corrected by the Santa Rita's Mayor's Office.

We recommend that the ledgers be regularly reconciled to bank statements.

- b. Bingo Fundraiser proceeds of \$748 dated November 22, 2013 were erroneously deposited to the Senior Center account instead of to the regular NAF. The proceeds were presented as a receipt in both funds and this matter was corrected during the audit.

We recommend that cash receipts per ledgers be regularly reconciled to deposits per bank statements.

- c. A receipt was not issued for a \$2,250 grant from the Guam Visitors Bureau dated April 1, 2014.

We recommend that receipts be issued for all funds received, regardless of activity or amount. In the event that this process becomes impracticable, we recommend that a cash receipts log or an equivalent record be maintained to track funds received. The log/record should contain information as to the date, source, nature and amount of the funds received.

## SECTION I – DEFICIENCIES, CONTINUED

### 3. Receipts, Continued

- d. The accounting and custody of receipts for the Senior Center's raffle, bingo, and board and food sales was handled by the same officer without a secondary reviewer.

We recommend the appointment of a secondary reviewer for end-of-day accounting of funds who should not be the same person who has custody of cash.

### 4. Disbursements

Of five NAF disbursements aggregating \$53,092 tested, the following were noted:

- a. Travel authorizations and trip reports for a \$6,935 disbursement (check #1021) for per diem for three travelers were not provided.

We recommend that travel related disbursements be supported by travel authorizations and trip reports and formal procurement rules and regulations be established.

- b. The policy for awards distribution, award eligibility, the awards point system and approval procedures were not reduced to writing. This finding applies to check #1164 for \$4,550 for Christmas appreciation, #1200 for \$2,500 for Mes Chamorro and #121 for \$12,150 for the Philippine trip.

We recommend policies and procedures be reduced to writing.

- c. The current practice is to write a check to the Senior Citizens Center President who cashes the check and then distributes the proceeds to the recipients. The recipients are to sign the disbursement log indicating their receipt of the funds.

We recommend the log/record should contain information as to the date, source, nature, amount of the funds disbursed and signature of the recipient. This log should be subjected to a secondary reviewer and cash should be maintained by a person separate from the recordkeeping function.

## SECTION II – DEFINITIONS

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.