

April 19, 2012

Mr. Angel Sablan
Chairperson
2010 Guam Island Fair / 66th Liberation Day Committee Fund

Dear Mr. Sablan:

In planning and performing our audit of the financial statements of the 2010 Guam Island Fair / 66th Liberation Day Committee Fund (the Fund) for the period from March 17, 2010 to December 31, 2010 (on which we have issued our report dated April 19, 2012), 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 Fund's internal control over financial reporting and other matters as of December 31, 2010 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.

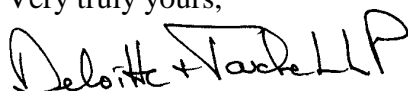
The Liberation Day Committee's responses to the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Liberation Day Committee's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the 2010 Guam Island Fair / 66th Liberation Day Committee Fund, 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 Liberation Day Committee 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 Liberation Day Committee Fund's internal control over financial reporting as of December 31, 2010 that we wish to bring to your attention:

1. Ticket Sales

During tests of the Queen's raffle tickets, the following were noted:

- a. Based on a ticket reconciliation summary by sponsor, the following tickets appear to have been reissued: i) Ticket #s 4639 to 5000, and ii) Ticket #s 10501 to 10600. However, monitoring of returned and reissued tickets was not evident.

We recommend that reissuance of returned tickets be monitored and documented.

- b. Ticket numbers 22501 to 23000 (500 tickets @ \$5 each) issued to one sponsor per the ticket issuance log were not accounted for in the ticket reconciliation summary.

We recommend that all tickets be accounted for.

- c. Ticket numbers 24601 to 24700 and 24701 to 24800 were "returned" per the ticket issuance log; however, these numbers were included in the tickets issued to one sponsor per the ticket reconciliation summary.

We recommend that the ticket issuance log and the ticket reconciliation summary be reviewed for accuracy and discrepancies be investigated.

- d. We noted two instances where the total tickets reported as issued per the ticket reconciliation summary did not agree to the total of tickets based on ticket number sequences.

We recommend that the ticket reconciliation summary be periodically reviewed for accuracy.

- e. For all six items examined, returned tickets per the ticket reconciliation summary did not agree to ticket count sheets.

We recommend that the ticket reconciliation summary be reconciled with ticket count sheets and that discrepancies be investigated.

- f. A detailed report of final returned and unsold tickets was not provided. Further, evidence that unused tickets were destroyed was not provided.

We recommend that monitoring of returned and unsold tickets be documented.

Auditee Response: We concur with the conditions noted and we will implement recommendations in future Liberation Day Festivities.

SECTION I – DEFICIENCIES, CONTINUED

2. Receipts – Guam Island Fair Account

Of twenty transactions tested aggregating \$289,691, the following were noted:

- a. A record of when funds were received for all twenty transactions was not provided.
- b. While a deposit tally sheet is available for two cash deposits totaling \$23,960; the supporting receipts, cash receipts log or an equivalent record were not provided.
- c. Four transactions received in the form of \$19,500 of checks appear to have been deposited more than five days after check date.
- d. Applicable fee schedules, concession agreements or equivalent documents were not provided.

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 equivalent record be maintained to track funds received. The log/record should contain information as to source, nature and amount of funds received.

Auditee Response: While there was a receipt process being done, not all transactions were given receipts, but all cash received were counted and accounted for by, at a minimum two individuals every time. We agree that all transactions must be receipted and will be put to practice from henceforth, or that a log of all cash receipts be maintained.

3. Receipts – Bank Statements

Bank statements were not provided for the 2009 Guam Island Fair Raffle Account for the period from May 2010 thru December 2010. As of April 30, 2010, this account had a balance of \$4,889.

We recommend that all bank statements be on file.

Auditee Response: We do maintain a record of all bank statements.

4. Receipts – Queen’s Raffle Account

Total receipts of \$88,720 per ticket sales reports differ from total receipts of \$90,089 per the financial report by \$1,369. A reconciliation was not provided.

We recommend that financial reports be reconciled with ticket sales reports.

Auditee Response: We concur that discrepancies need to be reconciled.

5. Disbursements

1. Queen’s Committee

Of twenty-one Queen’s Committee disbursements tested aggregating \$66,576, the following were noted:

- a. One item (ref. check #1026 for candidate commission) did not agree to ticket reconciliation report by \$30.

SECTION I – DEFICIENCIES, CONTINUED

5. Disbursements, Continued

1. Queen’s Committee, Continued

- b. Invoices, billings, contracts or equivalent for four items (check #s 1006, 1009, 1025, and 1034) totaling \$4,128 were not provided:

2. Guam Island Fair Account

Of forty-one disbursements tested aggregating \$237,551, the following were noted:

- a. Invoices, billings, contracts or equivalent for seven items (check #s 2569, 2402, 7237, 2563, 2471, 2383 and 2389) totaling \$10,658 were not provided:
- b. A copy of the check for one \$350 item (ref. check #2429) was not provided.
- c. An invoice/billing was provided for two items (check #s 2381 and 2412) totaling \$11,000; however the contract or equivalent document detailing the nature and scope of work and/or services was not provided:
- d. An invoice was provided for a \$4,490 item (ref. check #2401) relating to travel; however, the supporting travel authorization or equivalent document detailing the nature and purpose of the travel was not provided.
- e. Disbursement details for fifteen items aggregating \$9,787 were not provided.

We recommend that all disbursements be supported by invoices, billings and other relevant documents. Further, we recommend that these documents be on file.

Auditee Response: While all expenditures were made with the corresponding invoices, the Committee responsible for these expenditures did not keep invoices filed properly or accordingly, thus making it a difficult and tedious task to search for these documents. The Executive Committee will now keep a separate file of all invoices paid, all bank deposits, and all cash received so that there is a Master File, notwithstanding what Committee the receipts and/or expenditures are coming from.

6. Reimbursements and Advances

Reimbursements and advances amounted to \$6,538 for the period from March 17, 2010 to December 31, 2010. A process of classifying reimbursements and advances to appropriate expense accounts is not in place.

We recommend that reimbursements and advances be classified to appropriate expense accounts.

Auditee Response: We agree with the recommendation.

7. Sponsor’s Commission

Actual commission paid to the Liberation Day sponsor appears to be in excess of the established 50% of net proceeds from the Liberation Day Festivities.

We recommend that commission paid to sponsor be in accordance with applicable regulations.

SECTION I – DEFICIENCIES, CONTINUED

7. Sponsor's Commission, Continued

Auditee Response: The 2010 Liberation Executive Committee issued a check of \$50,000 to the Mayors' Council of Guam in advance of determining the amount of the net proceeds in an effort to validate the Committee's confidence to ALL the Mayors and Vice Mayors that the Liberation Committee with only 7 actively participating MCoG members is capable of making over \$50,000 as a profit. If we had the support and participation of all the Mayors and Vice Mayors, then we are even more confident that the 2010 Liberation Festivities would realize an even greater net profit above \$50,000. The 50/50 share as stipulated in the Executive Order could not be fulfilled as there was no "Textbook Fund" ever set up by the Governor's Office in which to deposit any funds from the Liberation Committee.

The understanding of the Liberation Committee was that all net proceeds would be given to the MCOG Revolving Fund until the Textbook Fund was established by then First Lady Joann Camacho. The textbook fund has not been established to this date. The \$50,000 has been distributed by the Mayors' Council of Guam for projects approved by the Mayors and for other non-profit organizations requesting financial assistance from the MCoG (e.g., GMH Volunteers Association, UOG Chamorro Competition, Liberation Memorial celebrations, Guam War Survivors Foundation, to name a few).

8. Issuance of Form - 1099

Certain disbursements related to contractual and professional services; however, a form-1099 was not issued.

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

Auditee Response: Recommendation will be followed henceforth.

9. Travel Policies

Certain disbursements related to travel expenses (i.e., airfare, per diem, accommodation). There were no formal policies and procedures in place relating to travel related expenses.

We recommend that formal travel policies and procedures be established.

Auditee Response: The Executive Committee will adopt a Travel Policy for the Liberation members, inclusive of candidates and representatives.

10. Non-profit Filing Requirements with Revenue and Taxation

Relevant documents supporting the non-profit status of the Fund were not provided.

We recommend that relevant documents supporting the non-profit status of the Fund be on file. Further, we recommend that the Fund ensure compliance with applicable Revenue and Tax filings.

Auditee Response: The Mayors' Council of Guam is actively seeking an avenue to form a separate non-profit organization solely for the purpose of sponsoring and conducting the liberation Festivities and the Guam island fair.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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 the cash basis of accounting. 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 the cash basis of accounting).

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.