

**Guam Council on the Arts and
Humanities Agency
Non-Appropriated Funds**

**Performance Audit
October 1, 2000 through
September 30, 2003**

**OPA Report No. 05-02
June 2005**



OFFICE OF THE PUBLIC AUDITOR

**Guam Council on the Arts and
Humanities Agency
Non-Appropriated Funds**

**Performance Audit
October 1, 2000 through
September 30, 2003**

**OPA Report No. 05-02
June 2005**

Distribution:

Governor of Guam
Speaker, 28th Guam Legislature
Senators, 28th Guam Legislature
Executive Director, Guam Council on the Arts & Humanities Agency
Director, Bureau of Budget and Management Research
U.S. Department of Interior
Office of Inspector General – Pacific Field Office
Guam Media via E-Mail



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Non-Appropriated Funds of The Council on the Arts and Humanities Agency
Government of Guam
Report No. 05-02, June 2005

The Office of the Public Auditor initiated a performance audit on the Council on the Arts & Humanities (CAHA) as part of the overall review of the Government of Guam agencies with non-appropriated funds. The objectives of the audit were to determine whether the non-appropriated funds of CAHA were properly managed and accounted for in accordance with applicable laws and regulations.

In 1982, Public Law 16-122 created the Guam Council on the Arts and Humanities Agency. The Governor issued Executive Order (E.O.) 84-3 in February 1984, which established the CAHA Revolving Fund and guidelines for general administration, internal fiscal control, and audit review. The mission of CAHA is to encourage and foster participation in the arts and humanities with programs designed to benefit citizens of all ages and from every sector of the community.

Our audit found the former CAHA directors and the Board failed to implement and adhere to the guidelines established in E.O. 84-3. Specifically we identified the following internal control deficiencies:

- Inadequate financial reporting and lack of accounting system. CAHA does not utilize accounting software to account for the Revolving Fund transactions and did not prepare financial reports for one of the two Revolving Fund checking accounts. The former Directors and the Board did not request the Revolving Fund financial reports. As a result, receipts significantly declined by \$46,486 from FY 2001 to FY 2003. The large declines indicate that CAHA management has not been able to sustain art program activities to FY 2001 levels.
- Improper separation of duties. We found the Treasury Agent held incompatible duties by maintaining all the Revolving Fund account records, preparing and signing checks, making bank deposits, and reconciling the bank statements to these records. This one individual records transactions, has custody of assets, and authorizes disbursements.
- Unauthorized and unsupported disbursements. We found a total of \$63,978 in both unsupported and unauthorized disbursements. CAHA did not utilize disbursements vouchers, did not always substantiate disbursements with supporting documentation, and did not have Board approval for four disbursements related to travel totaling \$4,330. The Board failed to approve any disbursement over \$1,500 or disbursements for services over \$500.
- Poor management over receipts. CAHA did not maintain a numerical receipt listing, receipts were not issued in sequential order, receipt numbers were duplicated, receipts were missing, and some receipts were blank. As a result, \$5,256 in bank deposits were not recorded and there may have been undetected errors, unrecorded transactions and cash not deposited to the bank nor recorded in check registers.

- Poor controls over donation box. CAHA did not have adequate controls for the management of cash donations. There were no physical controls to safeguard the donations, and there were no documents supporting the amount of money collected. The weak internal controls present an opportunity for misappropriation and theft.
- Failure to Issue form 1099-MISC. We identified \$10,432 paid to five individuals as income not reported to DRT on Form 1099-MISC.

Overall our audit disclosed that CAHA management and the Board did not provide adequate oversight to ensure accountability over the administration of the Revolving Fund despite the availability of adequate guidelines, established in Executive Order since 1984.

To correct these deficiencies we made the following recommendations to the Director of the Council on the Arts and Humanities Agency, in consultation with the Board of Directors:

- Require all CAHA staff to read and follow the Revolving Fund guidelines in Executive Order 84-3.
- Provide training in basic accounting and/or bookkeeping for the Treasury Agent and other staff involved in the management.
- Utilize accounting software to generate monthly and annual financial reports, and submit these reports to the Board and to the Department of Administration.
- Replace the Treasury agent as an authorized signatory and require independent reviews of monthly bank reconciliations.
- Incorporate provisions into a disbursement voucher system to ensure disbursements are authorized by the Director, and as appropriate the Board. Adopt procurement procedures for disbursements, and require all CAHA staff become familiar with Government of Guam procurement laws and regulations.
- Update the Revolving Fund guidelines on bank deposits, and maintain a numerical receipt listing. Consolidate Revolving Fund transactions into one bank account and close the second account.
- Develop written procedures to ensure the safeguarding of the donation box.
- Issue Form 1099-MISC to individuals who provide services of at least \$600 each calendar year.

The Director of the Council on Arts and Humanities Agency generally concurred with the findings and recommendations.



Doris Flores Brooks, CPA, CGFM
Public Auditor



OFFICE OF THE PUBLIC AUDITOR

Contents

Introduction	1
Results of Audit.....	2
Internal Control Structure Needed For Revolving Fund	2
Inadequate Financial Reporting and Lack of Accounting System	3
Improper Separation of Duties	6
Unauthorized and Unsupported Disbursements	7
Poor Management Over Receipts.....	8
Poor Controls Over Donation Box	9
Failure To Issue Form 1099-MISC	9
Recommendations	11
Appendices	12
1 Classification of Monetary Amounts	13
2 Objective, Scope and Methodology	14
3 Prior Audit Coverage	15
4 CAHA Account 1 Receipts and Disbursements.....	16
5 CAHA Account 2 Receipts and Disbursements.....	17
6 Management Response.....	18



Introduction

This report represents the results of our audit of the non-appropriated funds of the Council on the Arts & Humanities Agency (CAHA). This audit was initiated as part of our review of Government of Guam agencies with non-appropriated funds. The audit objective was to determine whether the non-appropriated funds of CAHA were properly managed and accounted for in accordance with applicable laws and regulations. The scope and methodology and prior audit coverage are detailed in Appendices 2 and 3.

Background

In 1982, Public Law (P.L.) 16-122 created the Guam Council on the Arts and Humanities Agency (CAHA) and designated it as the state arts agency for Guam. The Governor issued Executive Order (E.O.) 84-3 in February 1984, which established the Council on the Arts & Humanities Revolving Fund (Revolving Fund) and guidelines for general administration, internal fiscal control, and audit review.

The mission of CAHA is to encourage and foster participation in the arts and humanities with programs designed to benefit citizens of all ages and from every sector of the community. An 11-member governing board (Board) appoints the Director of CAHA with the approval of the Governor and the advice and consent of the Legislature.

In addition to the Director, CAHA is staffed with three Program Coordinators who administer the various arts programs, and a Maintenance Technician responsible for project logistics. One of the Program Coordinators was appointed Revolving Fund Treasury Agent and has served in that capacity since 1998. Article II of the Revolving Fund guidelines defines "Treasury Agent" as the individual recommended by the Director who is responsible for collecting and depositing Revolving Fund monies, issuing checks, maintaining a monthly reconciliation of the fund, and maintaining Revolving Fund records.

From FY 2001 through FY 2003, CAHA received total appropriations of \$1,634,448 from the Guam Legislature; which includes federal matching grants of \$725,900 from the National Endowment for the Arts (NEA). CAHA also received \$75,669 in non-appropriated funds raised through gallery and exhibit sales, commissions, donations, and sponsorships.

Appropriations and federal grants are accounted for by the Department of Administration (DOA) and the non-appropriated funds are accounted for by CAHA in the Revolving Fund's two separate checking accounts. Account 1 was established to account for exhibit fees and operating expenses. Account 2 was established to account for sponsorships.

Results of Audit

We found that the CAHA Board and the former Directors did not provide sufficient oversight to ensure CAHA staff adhered to the guidelines in Executive Order 84-3 designed to account for the CAHA Revolving Fund. This occurred because (1) the former Directors did not research whether guidelines existed for Revolving Fund management, (2) the former Board did not meet frequently enough to make decisions regarding the Revolving Fund, and (3) the former Directors did not provide training for personnel assigned as Revolving Fund Treasury Agent. As a result, Revolving Fund receipts declined by \$46,486, unsupported costs totaled \$53,564, and unrecorded receipts totaled \$5,256. Additionally, CAHA did not file the necessary income tax forms for payments made to individuals totaling \$10,432.



Image 1: CAHA gallery located at Two Lovers' Point.

Internal Control Structure Needed For Revolving Fund

In 1984, Executive Order (E.O.) 84-3 was instituted to provide internal fiscal control for the Revolving Fund. The Executive Order specified general administrative guidelines, internal fiscal control, and audit review authority to safeguard the Revolving Fund against loss from unauthorized use and disposition. An effective internal control structure should encompass all three of the following elements:

- **Control environment:** Management is aware of the importance of internal controls and communicates this importance to employees at all levels.
- **Accounting system:** A good accounting system should analyze, classify, record, and report data; assemble information; and maintain accountability of assets.
- **Control policies and procedures:** Specific policies and procedures are needed to ensure an effective control environment and an effective accounting system.

It is the responsibility of management to maintain an effective internal control structure and evaluate the effectiveness of internal controls on an ongoing basis. During our review, we found that the three former CAHA Directors and the Board failed to implement and adhere to the guidelines established in E.O. 84-3. Consequently, CAHA management did not provide a control environment conducive to an effective internal control structure of the Revolving Fund.

The Treasury Agent was assigned to account for the Revolving Fund in 1998. She did not follow the guidelines in E.O. 84-3; rather she continued to maintain the Revolving Fund in the same manner as the past. The Treasury Agent claimed she did not receive any formal training to prepare her for her duties to maintain the Revolving Fund.

The Treasury Agent had been on leave due to a severe medical condition from November 2003 to December 2004. The extent of the leave was possible from accrued annual leave, sick leave, and leave sharing. CAHA management did not prepare for the transition of duties to other staff and did not adequately train personnel who assumed responsibility of the Revolving Fund during her absence. Other members of the staff have attempted to manage the Revolving Fund without utilizing the Revolving Fund guidelines. Without proper guidance and training, CAHA staff did not consistently account for the Revolving Fund, which increased the risk for improper cash handling, possible theft of cash, and misappropriations.

During our review, we identified the following internal control deficiencies as a result of non-compliance to the Revolving Fund guidelines:

- Inadequate financial reporting and lack of accounting system
- Improper separation of duties
- Unauthorized and unsupported disbursements
- Poor management over receipts
- Poor controls over donation box
- Failure to issue Form 1099-MISC

Inadequate Financial Reporting and Lack of Accounting System

Effective financial reporting requires an established system for periodic reporting on financial transactions and the financial status of an organization or program. Section 6.3 of the Revolving Fund guidelines requires the Director to maintain periodic net profit/loss statements.

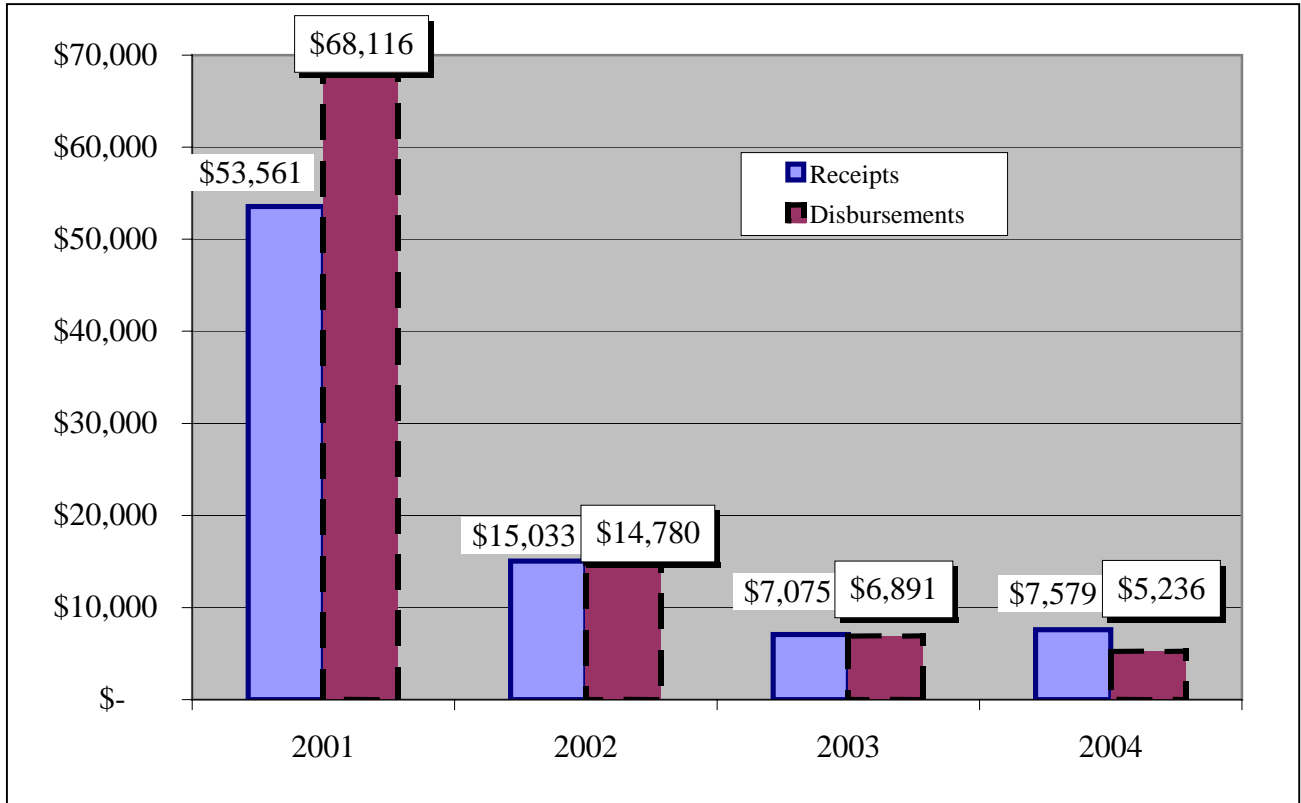
We found that CAHA generated Revolving Fund financial reports with Microsoft Excel but were not reviewed by the former CAHA Directors or the Board and did not include activities from both bank accounts. CAHA does not utilize accounting software to account for the Revolving Fund transactions. The Treasury Agent informed us that she did not prepare financial reports for Account 2 because she was overwhelmed by the additional responsibilities of maintaining the Revolving Fund, which augmented her CAHA grant administration responsibilities. Furthermore, the former Directors and the Board did not request Revolving Fund financial reports.

Financial reports are useful in making operating decisions, monitoring performance, and allocating resources. For example, our comparison of net receipts and disbursements¹ showed a significant decline of \$46,486 in receipts, from \$53,561 in FY 2001 to \$7,075 in FY 2003.

¹ The Revolving Fund received NEA grant 00-5500-3038 for \$25,000 on behalf of Gef Pago in September 2001 and \$8,000 in August 2004 on behalf of Paa Taotaotano. These amounts were not included in FY 2001 receipts of \$53,561 and FY 2004 receipts of \$7,579. The \$25,000 was disbursed to Gef Pago in November 2001 and was not included in the total FY 2002 disbursements of \$14,780. The \$8,000 was disbursed in September 2004 but had not cleared bank statements until October 2004.

Similarly, disbursements declined by \$61,226, from \$68,116 in FY 2001 to \$6,891 in FY 2003. See Chart 1 for details.

**Chart 1: CAHA Receipts and Disbursements
FY 2001-2004²**



The former CAHA Director informed us that the declines in FY 2002 and FY 2003 were the result of declines in corporate sponsorships. FY 2004 bank statements indicate little change in account activity from FY 2003. See Appendices 4 and 5 for details.

Our analysis of Revolving Fund activities found that in March 2000, CAHA embarked on one of its most significant projects. *A Journey with the Masters of Chamorro Tradition* was a coffee table book featuring a collection of posters honoring traditional Chamorro folk artists. In FY 2001, private sponsors donated \$13,750 towards the book and from FY 2001 through FY 2003, book sales generated \$12,347 in receipts.

In FY 2001, the Masters Coffee Table Book Project resulted in 56% of total CAHA sponsorships, 83% of total CAHA project-related sales, and 65% of total CAHA project disbursements. See Table 1 for details.

The Millennium project was another FY 2001 CAHA project. The Millennium project was a six-week artist residency program where CAHA had selected a Native American visual artist

² These are combined figures from both Account 1 and Account 2. The combined beginning balance on October 1, 2000 was \$17,174. FY 2004 transactions were not tested.

from Kansas to conduct workshops, exhibits, and presentations at Guam's schools. In FY 2001, CAHA received \$7,650 from the Mid Atlantic Arts Foundation for the Millennium project.

The Maga'Lahi Art Awards is an annual CAHA project recognizing individuals and organizations furthering the arts and culture of Guam. In FY 2001, CAHA received \$2,664 in sponsorships and sales. In order to determine the nature of cash receipts we reconstructed the following information:

**Table 1: CAHA Projects Sponsorship, Sales, & Disbursements
FY 2001 Through FY 2003**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Totals</u>
<u>Masters Coffee Table Book Project</u>				
Sponsorships	\$ 13,750	\$ -	\$ -	\$ 13,750
Sales	\$ 10,248	\$ 1,849	\$ 250	\$ 12,347
Disbursements	\$ 29,985	\$ 1,953	\$ 700	\$ 32,639
<u>Millennium Project</u>				
Sponsorships	\$ 7,650	\$ -	\$ -	\$ 7,650
Sales	\$ -	\$ -	\$ -	\$ -
Disbursements	\$ 13,330	\$ 575	\$ -	\$ 13,905
<u>Maga'Lahi Awards Project</u>				
Sponsorships	\$ 1,250	\$ -	\$ 2,000	\$ 3,250
Sales	\$ 1,414	\$ 1,187	\$ -	\$ 2,601
Disbursements	\$ 2,040	\$ 658	\$ 1,214	\$ 3,912
<u>Totals</u>				
Sponsorships	\$ 22,650	\$ -	\$ 2,000	\$ 24,650
Sales	\$ 11,662	\$ 3,035	\$ 250	\$ 14,947
Disbursements	\$ 45,356	\$ 3,187	\$ 1,914	\$ 50,456

CAHA Gallery sales in FY 2001 were \$31,799 but declined to \$4,152 in FY 2003. During the three-year period, the CAHA Gallery was closed from December 2002 to March 2003 as the Gallery recovered from the destruction of Super typhoon Pongsona. FY 2001 gallery receipts were 63% of total sales and disbursements were 60% of total gallery expenses for FY 2001 through 2003. See Table 2 for details.

**Table 2: CAHA Gallery Sales and Disbursements
FY 2001 Through FY 2003**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Totals</u>
<u>Gallery Sales</u>				
Sales	\$ 31,799	\$ 14,380	\$ 4,152	\$ 50,331
Disbursements	\$ 20,232	\$ 10,336	\$ 2,892	\$ 33,460

The large declines indicate that CAHA management has not been able to sustain art program activities to FY 2001 levels. Timely financial reports would have identified potential problems, such as financial effects resulting from natural disasters, so that management could make appropriate adjustments in allocating resources to circumvent over-expenditures and determine corrective action in operations.

Particularly where resources have declined, the CAHA Director and Board could have planned strategies to sustain program activity and solicit corporate sponsorships. Further, financial reports should be submitted annually to the Department of Administration for inclusion into the General Purpose Financial Statements of the Government of Guam.

We recommend that the CAHA Director (1) require all CAHA staff to read and follow the guidelines in Executive Order 84-3 for the Revolving Fund's general administration, internal fiscal control, and audit review; (2) provide training opportunities in basic bookkeeping to the Treasury Agent and other staff involved in the accounting of the Revolving Fund; (3) utilize accounting software to simplify the Revolving Fund bookkeeping and easily generate periodic financial reports; and (4) review and submit monthly and annual financial reports to the Board for review and to the Department of Administration for inclusion into the General Purpose Financial Statements.

Improper Separation of Duties

According to the CAHA Revolving Fund guidelines:

- Section 6.1 designates Program Coordinators to maintain listings of all revenues and distributions for their respective program to agree with records maintained by the Treasury Agent.
- Section 4.3 designates the Treasury Agent (or authorized Program Coordinators) to collect monies and holds the Treasury Agent accountable and responsible for all monies collected.
- Section 5.1(c) designates the Director and Treasury Agent as authorized signatures.

The separation of incompatible duties means that no employee should be in a position to both commit an irregularity and conceal it. Ideally, no single individual should be able to 1) authorize a transaction, 2) record the transaction in the books of the account, and 3) ensure custody of the asset resulting from the transaction.

We found that the Treasury Agent held incompatible duties by maintaining all the Revolving Fund account records, preparing and signing checks, making bank deposits, and reconciling the bank statements to these records. This means that one individual records transactions, has custody of assets, and authorizes disbursements, which lacks adequate separation of incompatible duties.

CAHA is a small organization with five employees and the ideal separation of duties may be difficult to maintain. However, at a minimum, bookkeeping duties must be separated from check signing, and monthly bank reconciliations should be reviewed by someone other than the bookkeeper and signatories. The Director and a Program Coordinator not connected with the accounting and bookkeeping functions should serve as independent signatories. Signatories should review documentation to ensure that disbursements are authorized, sufficiently supported by invoices or receipts, and properly procured.

We recommend the CAHA Director (1) replace the Treasury Agent with a Program Coordinator not connected with bookkeeping functions, as an authorized signatory together with the Director,

and (2) require independent reviews of monthly bank reconciliations by someone other than the bookkeeper and account signatories.

Unauthorized and Unsupported Disbursements

According to the CAHA Revolving Fund guidelines:

- Section 5.1(a) requires disbursement vouchers detailing the proposed expenditure with the approval of the Director.
- Section 5.1(d) requires sales invoices, receipts, or other substantiating documentation for the disbursement.
- Sections 5.3 and 5.4 require Board approval for Revolving Fund disbursements exceeding \$1,500 and contractual services exceeding \$500.

We found that CAHA did not utilize disbursement vouchers, did not always substantiate disbursements with supporting documentation, and the Board did not approve any disbursements over \$1,500 or disbursements for services over \$500. During FY 2001, 2002, and 2003, CAHA issued 159 checks totaling \$114,509. We tested a total of 98 disbursements totaling \$90,991. Of the 98 disbursements tested:

- Nine disbursements totaling \$53,564 did not have the required Board's approval, including four disbursements totaling \$4,330 related to travel,
- Five disbursements totaling \$3,532 did not have substantiating documentation, and
- 30 disbursements totaling \$35,146 did not have the required three quotes.

In travel related disbursements, the former Director and Program Coordinator advanced \$488 of their personal funds and an elected official loaned \$1,500 for per diem for a December 2000 trip to the Philippines. CAHA subsequently reimbursed the amounts to these individuals from the Revolving Fund. The advances were made because, according to our review of the check register, CAHA did not have sufficient funds to cover the travel costs at the time the trip was taken. The Board did not approve any of the travel related disbursements, including the Director's travel.

These disbursements lacked Board review and approval because the Board did not meet frequently enough to review and approve disbursements. Based on our review of the board minutes, the Board met a total of seven times during FY 2001,³ 2002,⁴ and 2003⁵ out of a minimum of 36 monthly meetings.⁶ The former CAHA Director stated that the Board lacked a quorum for regular meetings. However, as of September 2003, the Board had been meeting regularly.

Section 8.1 of E.O. 84-3 requires that the Revolving Fund operate in accordance with existing statutes, rules, and regulations. According to 2 G.A.R. §3111 for small purchases of supplies or services between \$500 and \$15,000, no less than three written quotations from businesses shall

³ May 15, 2001, August 8, 2001, and September 10, 2001

⁴ September 3, 2002 and September 9, 2002

⁵ October 24, 2002 and September 15, 2003

⁶ 5 G.C.A. §85103(e) requires the Board to meet at least monthly.

be solicited and recorded and placed in the procurement file. For purchases less than \$500, procedures shall be adopted for adequate and reasonable competition.

CAHA has not adopted procedures for purchases under \$500. Of the 98 disbursements we tested, we did not find documentation of three quotes for 30 disbursements amounting to \$35,146.⁷ For example, in the three-year period, five payments totaling \$24,458 was paid to a Philippines-based vendor for publishing the Masters Coffee Table Book that was not procured with the benefit of three written quotes. Other examples include airline tickets for CAHA employees (\$2830), canopy & chair rentals (\$1021), lodging (\$975), and car rentals (\$570).

We recommend the CAHA Director (1) incorporate provisions into a disbursement voucher system to ensure disbursements, including all travel related disbursements, are authorized by the Director and, as appropriate, the Board, and goods and services are procured according to Government of Guam procurement laws and regulations, (2) adopt procurement procedures for disbursements below \$500 to ensure adequate and reasonable competition, and (3) require all CAHA staff become familiar with Government of Guam procurement laws and regulations.

Poor Management Over Receipts

According to the CAHA Revolving Fund guidelines:

- Section 6.1(a) requires Program Coordinators to maintain a listing of all revenue for various events and that such listing shall agree with the records maintained by the Treasury Agent.
- Section 4.3 (e) states that money must be deposited within one working day after the collection of money.
- Article II designates the Treasury Agent responsible for monthly reconciliation of the Revolving Fund.

We found that CAHA documented \$95,391 out of \$100,648 in actual bank deposits or 95 percent of its revenues. However, a numerical receipt book listing was not maintained, receipts were not issued in sequential order, receipt numbers were duplicated, receipts were missing, and some receipts were blank. Additionally, we found that receipts were deposited, on average, every nine days and monthly reconciliations for Account 2 were not performed.

The Treasury Agent stated that with the limited number of staff, it is not practical to make daily bank deposits and it has been their practice to accumulate at least \$100 in sales from several days because monies collected from one day of sales may be too small to make a trip to the bank.

The Treasury Agent informed us that she did not perform monthly bank reconciliations for Account 2 because again, she was overwhelmed by the additional responsibilities of maintaining the Revolving Fund, including managing two checking accounts. However, our review of Account 2 transactions revealed minimal account activity in FY 2003 (See Appendix 5).

⁷ During our testing of disbursements, we required purchases under \$500 to require three quotes because CAHA had not adopted procedures for purchases under \$500 for adequate and reasonable competition.

The inadequate controls over receipt records create opportunities for misappropriations as it becomes difficult to determine whether cash received was actually deposited. As a result, \$5,256 in bank deposits were not recorded and there may have been undetected errors, unrecorded transactions and cash not deposited to the bank nor recorded in check registers.

We recommend the CAHA Director (1) update the Revolving Fund guidelines to require bank deposits when a threshold of \$100 in receipts is collected; (2) maintain a numerical receipt listing to ensure receipts are issued sequentially, all receipts are accounted for, and discrepancies are investigated; and (3) consolidate Revolving Fund transactions into one bank account and close the second bank account because of minimal account activity.

Poor Controls Over Donation Box

In 2003, the former CAHA director introduced a donation box as a fundraising venture. Based on our review, we determined that CAHA did not have adequate internal controls for the management of cash donations. According to the CAHA staff, there were no written procedures for the management of the donation box, a necessary component of effective internal control to safeguard assets.



Image 2: CAHA Donation Box.

There were no physical controls to safeguard the donations, which were placed in an open plastic container, and there were no documents supporting the amount of money collected from donations. These weak internal controls present an opportunity for misappropriation and theft of donation box funds.

We recommend the CAHA Director develop written procedures to ensure the safeguarding of the donation box to include: (1) a cash count, conducted by two authorized employees, is documented in a deposit log with signatures, the date, and the amount of cash taken from the box, (2) someone

independent of the two employees should verify the amount indicated on the log, and prepare a deposit ticket, and (3) the individual assigned to review the monthly bank reconciliation should verify the deposits to the bank statement and to the deposit log to ensure accuracy and completeness.

Failure To Issue Form 1099-MISC

Section 6.1(b) of E.O. 84-3 requires records maintenance of disbursements to individuals with remunerations of services at CAHA for the preparation of 1099-MISC forms for tax purposes. Forms 1099-MISC are reported to the Department of Revenue and Taxation (DRT) for each person to whom at least \$600 in services (including parts and materials) or other income payments has been paid.

CAHA did not issue Form 1099-MISC. Over the three-year period, we identified \$10,432 paid to five individuals as income not reported to DRT on Form 1099-MISC (See Table 3).

We were not able to determine amounts paid to individuals in excess of \$600 per calendar year for Account 2 because check registers were not maintained

Table 3: Individuals Not Issued Form 1099-MISC

Calendar Year	Number of individuals	Income Not Reported
2001	2	\$8,090
2002	1	\$800
2003	2	\$1,542
Total	<u>5</u>	<u>\$10,432</u>

The Department of Revenue and Taxation issued a memorandum to all government of Guam departments and agencies addressing the issuance of forms 1099-MISC for contractual services on January 2003. Despite the memorandum, CAHA failed to issue Form 1099-MISC. This occurred because the CAHA Director and staff were unaware of this requirement. As a result, \$10,432 in income was not reported to the Department of Revenue and Taxation as required by law.

We recommend that the Director of CAHA issue Form 1099-MISC to all individuals (including prior years) who provide services of at least \$600 each calendar year.

Overall, our audit disclosed that CAHA management and the Board did not provide adequate oversight to ensure accountability over the administration of the revolving fund despite the availability of adequate guidelines, established since 1984. Internal controls are needed to protect a government’s assets against the danger of loss or misuse. Internal controls are also necessary to ensure that all transactions are properly authorized, and that data contained in financial reports are reliable. Ultimately, it is good management that requires the maintenance of sound internal controls.

In March 2005, we provided an internal control checklist to assist CAHA in developing fundamental internal controls for the safeguarding of the Revolving Fund. The Board acknowledged the receipt of the procedures in their March meeting minutes. As of this report, CAHA has developed a donation cash log for cash received in its donation box.

Recommendations

Recommendations to the Chairman of the Council on the Arts and Humanities Agency Board:

We recommend to the Director of the Council on the Arts and Humanities Agency, in consultation with the Board of Directors:

1. Require all CAHA staff to read and follow the Revolving Fund guidelines in Executive Order 84-3 for the general administration, internal fiscal control, and audit review.
2. Provide training opportunities in basic accounting and/or bookkeeping to the Treasury Agent and other staff involved in the management of the Revolving Fund.
3. Utilize accounting software to simplify the Revolving Fund bookkeeping and easily generate monthly and annual financial reports. Review and submit these reports to the Board and to the Department of Administration for inclusion into the General Purpose Financial Statements.
4. Replace the Treasury Agent with a Program Coordinator not connected with bookkeeping functions, as an authorized signatory together with the Director. Require independent reviews of monthly bank reconciliations by someone other than the bookkeeper and account signatories.
5. Incorporate provisions into a disbursement voucher system to ensure disbursements, including all travel related disbursements, are authorized by the Director and, as appropriate, the Board, and goods and services are procured according to Government of Guam laws and regulations. Adopt procurement procedures for disbursements below \$500 to ensure adequate and reasonable competition. Require all CAHA staff become familiar with Government of Guam procurement laws and regulations.
6. Update the Revolving Fund guidelines to require bank deposits when a threshold of \$100 in receipts is collected and maintain a numerical receipt listing to ensure that receipts are issued sequentially, all receipts are accounted for, and discrepancies are investigated. Consolidate Revolving Fund transactions into one bank account and close the second account because of minimal activity.
7. Develop written procedures to ensure the safeguarding of the donation box to include: (1) cash count, conducted by two authorized employees, is documented in a deposit log with signatures, the date, and the amount of cash taken from the box, (2) someone independent of the two employees should re-count the cash, verify the amount indicated on the log, and prepare a deposit ticket, and (3) the individual assigned to review the monthly bank reconciliation should verify the deposits to the bank statement and to the deposit log to ensure accuracy and completeness.
8. Issue Form 1099-MISC to individuals (including prior years) who provide services of at least \$600 each calendar year.

The legislation, creating the Office of the Public Auditor, requires agencies to submit an action plan to implement audit recommendations within six months after report issuance. Accordingly, our office will be contacting the CAHA Director to provide the target date and title of the staff responsible for implementing the recommendations.

We appreciate the cooperation shown by the Guam Council on the Arts and Humanities Agency.

OFFICE OF THE PUBLIC AUDITOR

A handwritten signature in black ink, appearing to read 'Dor Brooks'.

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:
Classification of Monetary Amounts

<u>Finding Area</u>	<u>Unrealized Revenues</u>	<u>Unsupported Costs</u>	<u>Cost Exceptions</u>
Internal Control Structure Needed For Revolving Fund			
Inadequate Financial Reporting	\$ -	\$ -	\$ -
No Separation of Duties	\$ -	\$ -	\$ -
Unauthorized and Unsupported Disbursements	\$ -	\$ 63,978	\$ -
No Management Over Receipts	\$ -	\$ -	\$ -
Failure To Issue Form 1099-MISC	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ 63,978</u>	<u>\$ -</u>

Appendix 2

Objective, Scope and Methodology

The objectives of this audit were to determine whether the non-appropriated funds of the Council on the Arts and Humanities were managed in accordance with Executive Order 84-3 and relevant Guam procurement laws and regulations.

The audit scope included a review of the CAHA guidelines, the CAHA checking accounts and bank related documents, receipts, disbursements, and other relevant documents for FY 2001, 2002, and 2003. Bank statements for FY 2004 were reviewed only for comparative purposes.

The audit methodology included gaining an understanding of the policies, procedures, and applicable laws and regulations pertaining to CAHA. We reviewed controls over cash transactions (i.e., receipts and disbursements) and controls over the procurement of goods and services. We did not review grants from the National Endowment for the Arts, which are accounted for by the Department of Administration.

For FY 2001, 2002, and 2003, we determined that CAHA had deposits totaling \$100,669 and 159 disbursements totaling \$114,509. We judgmentally selected and tested the following:

- 30 days' deposits comprising of 273 receipts, totaling \$ 9,438, to determine whether receipts were accurately accounted for, recorded, and deposited.
- 98 disbursements, totaling \$ 90,991, to determine if disbursements were duly authorized, recorded, and documented.

The CAHA Revolving Fund was established with three separate checking accounts at two different financial institutions to prevent commingling of the exhibit funds and sponsorship funds. For the purposes of this report, we designated the first two accounts as Account 1 and Account 2. The third account's last transaction date was May 2001 and was closed in July 2002 due to inactivity. Because the transactions were minimal, we did not include this account in testing.

Because CAHA did not maintain a receipt listing, we compiled deposit slips, pre-numbered receipts, and check stubs for FY 2001, 2002, and 2003, and classified them as gallery sales, grants, sponsorships, or exhibit fees.

Our audit was conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Accordingly, we obtained an understanding and performed an evaluation of the internal controls of the CAHA. We included tests of records and other auditing procedures that were considered necessary under the circumstances.

Internal control weaknesses were identified and are discussed in the Results of Audit section of the report.

Appendix 3:
Prior Audit Coverage

The independent auditors issued a qualified opinion on the Government of Guam General Purpose Financial Statements for fiscal years 1997 through 2001. The financial statements did not include the Council on the Arts and Humanities Agency special revenue fund and the independent auditors opined that the fund should be included in order to conform with accounting principles generally accepted in the United States of America.

For fiscal years 2002 and 2003, the independent auditors did not cite exclusion of the CAHA special revenue fund in its qualification of the Government of Guam General Purpose Financial Statements. According to the independent auditors, the amount of the fund was immaterial.

Appendix 4:

CAHA Account 1 Receipts and Disbursements

Statement Date	Beginning Balance	Receipts	Disbursements	Ending Balance
October 1-31, 2000	\$13,237	\$2,507	(\$15,083)	\$661
November 1-30, 2000	\$661	\$1,250	(\$1,673)	\$238
December 1-31, 2000	\$238	\$10,437	(\$4,375)	\$6,300
January 1-31, 2000	\$6,300	\$2,250	(\$373)	\$8,177
February 1-28, 2001	\$8,177	\$3,479	(\$7,613)	\$4,043
March 1-31, 2001	\$4,043	\$3,599	(\$474)	\$7,168
April 1-30, 2001	\$7,168	\$1,509	(\$3,361)	\$5,316
May 1-31, 2001	\$5,316	\$8,838	(\$2,808)	\$11,346
June 1-30, 2001	\$11,346	\$364	(\$1,562)	\$10,148
July 1-31, 2001	\$10,148	\$930	(\$9,415)	\$1,664
August 1-31, 2001	\$1,664	\$-	(\$1,014)	\$650
September 1-30, 2001	\$650	\$25,026 ⁸	(\$134)	\$25,542
FY 2001 Total		\$60,189	(\$47,884)	
October 1-31, 2001	\$25,542	\$232	(\$1,000)	\$24,773
November 1-30, 2001	\$24,773	\$517	(\$25,000)	\$290
December 1-31, 2001	\$290	\$1,736	(\$582)	\$1,444
January 1-31, 2001	\$1,444	\$-	(\$651)	\$793
February 1-28, 2002	\$793	\$-	(\$129)	\$664
March 1-31, 2002	\$664	\$-	\$-	\$664
April 1-30, 2002	\$664	\$-	\$-	\$664
May 1-31, 2002	\$664	\$1,600	(\$1,953)	\$311
June 1-30, 2002	\$311	\$-	\$-	\$311
July 1-31, 2002	\$311	\$94	\$-	\$405
August 1-31, 2002	\$405	\$-	(\$45)	\$360
September 1-30, 2002	\$360	\$-	(\$83)	\$277
FY 2002 Total		\$4,179	(\$29,444)	
October 1-31, 2002	\$277	\$750	\$-	\$1,027
November 1-30, 2002	\$1,027	\$1,250	\$-	\$2,277
December 1-31, 2002	\$2,277	\$-	(\$111)	\$2,166
January 1-31, 2003	\$2,166	\$-	(\$800)	\$1,366
February 1-28, 2003	\$1,366	\$-	\$-	\$1,366
March 1-31, 2003	\$1,366	\$-	\$-	\$1,366
April 1-30, 2003	\$1,366	\$50	(\$538)	\$878
May 1-31, 2003	\$878	\$90	(\$308)	\$660
June 1-30, 2003	\$660	\$1,868	(\$1,623)	\$905
July 1-31, 2003	\$905	\$200	(\$620)	\$485
August 1-31, 2003	\$485	\$215	\$-	\$700
FY 2003 Total		\$4,422	(\$3,999)	
FY 2004 Total		\$15,579⁹	(\$5,236)	
Grand Total		\$84,368	(\$86,563)	



⁸ Account 1 received NEA grant 00-5500-3038 for \$25,000 on behalf of Gef Pago in September 2001. The \$25,000 was disbursed to Gef Pago in November 2001 and not included in our comparison of total CAHA receipts and disbursements.

⁹ Account 1 received an \$8,000 grant on behalf of Paa Taotaotano, which was not included in our comparison of receipts.

Appendix 5: CAHA Account 2 Receipts and Disbursements

Statement Date	Beginning Balance	Deposits	Disbursements	Ending Balance
October 1-31, 2000	\$3,937	\$3,545	(\$644)	\$6,839
November 1-30, 2000	\$6,839	\$838	(\$1,471)	\$6,205
December 1-31, 2000	\$6,205	\$230	(\$3,089)	\$3,347
January 1-31, 2000	\$3,347	\$2,128	(\$595)	\$4,880
February 1-28, 2001	\$4,880	\$3,307	(\$1,727)	\$6,459
March 1-31, 2001	\$6,459	\$2,506	(\$3,888)	\$5,077
April 1-30, 2001	\$5,077	\$1,403	(\$2,572)	\$3,908
May 1-31, 2001	\$3,908	\$821	(\$2,008)	\$2,721
June 1-30, 2001	\$2,721	\$1,152	(\$1,642)	\$2,231
July 1-31, 2001	\$2,231	\$698	(\$385)	\$2,543
August 1-31, 2001	\$2,543	\$387	(\$703)	\$2,227
September 1-30, 2001	\$2,227	\$1,358	(\$1,508)	\$2,077
FY 2001 Total		\$18,372	(\$20,232)	
October 1-31, 2001	\$2,077	\$800	(\$741)	\$2,136
November 1-30, 2001	\$2,136	\$849	(\$550)	\$2,435
December 1-31, 2001	\$2,435	\$866	(\$1,642)	\$1,659
January 1-31, 2001	\$1,659	\$1,747	(\$1,001)	\$2,404
February 1-28, 2002	\$2,404	\$1,648	(\$519)	\$3,533
March 1-31, 2002	\$3,533	\$1,068	(\$378)	\$4,222
April 1-30, 2002	\$4,222	\$1,853	(\$2,066)	\$4,008
May 1-31, 2002	\$4,008	\$694	(\$1,699)	\$3,003
June 1-30, 2002	\$3,003	\$420	(\$375)	\$3,048
July 1-31, 2002	\$3,048	\$142	(\$1,048)	\$2,143
August 1-31, 2002	\$2,143	\$ -	(\$267)	\$1,876
September 1-30, 2002	\$1,876	\$770	(\$50)	\$2,596
FY 2002 Total		\$10,855	(\$10,336)	
October 1-31, 2002	\$2,596	\$2,188	(\$2,326)	\$2,457
November 1-30, 2002	\$2,457	\$ -	(\$180)	\$2,277
December 1-31, 2002	\$2,277	\$265	(\$265)	\$2,277
January 1-31, 2003	\$2,277	\$ -	(\$115)	\$2,162
February 1-28, 2003	\$2,162	\$ -	\$ -	\$2,162
March 1-31, 2003	\$2,162	\$ -	(\$5)	\$2,157
April 1-30, 2003	\$2,157	\$200	\$ -	\$2,357
May 1-31, 2003	\$2,357	\$ -	\$ -	\$2,357
June 1-30, 2003	\$2,357	\$ -	\$ -	\$2,357
July 1-31, 2003	\$2,357	\$ -	\$ -	\$2,357
August 1-31, 2003	\$2,357	\$ -	\$ -	\$2,357
September 1-30, 2003	\$2,357	\$ -	\$ -	\$2,357
FY 2003 Total		\$2,653	(\$2,892)	
FY 2004 Total		\$0	\$0	
Grand Total		\$31,879	(\$33,460)	

Appendix 6: Management Response

Felix P. Camacho Governor		GUAM COUNCIL ON THE ARTS AND HUMANITIES AGENCY	<i>cc: Frank ✓</i> <i>cc: Yuhua</i> Kaleo S. Moylan Lieutenant Governor <i>For</i> <i>Doris</i>
Sylvia M. Flores Executive Director	<u>KAHAN I KUTTURAN GUAHAN</u>		
May 31, 2005			
Doris Flores Brooks Public Auditor, CPA, CGFM Office of the Public Auditor Suite 401, Pacific News Building 238 Archbishop Flores Street Hagatna, Guam 96910			
Dear Ms. Brooks:			
The Guam Council on the Arts and Humanities Agency is hereby submitting its response to the Office of the Public Auditor's Performance Audit, Non-Appropriated Funds (OPA Report No. 05-02).			
The Guam Council on the Arts and Humanities Agency requested the recruitment of an Administrative Officer to the Bureau of Budget and Management Research. KAHA completed its interviews on May 26, 2005 for this position. A selection has been made and the position will be filled by June 13, 2005. By having an additional staff on board, particularly in this field, we will address the separation of duties and other pertinent issues.			
<ol style="list-style-type: none">1. A copy of Executive Order 84-3 is being disseminated to all KAHA staff and board members for their review and guidance on the procedures of the Revolving Fund Account. Executive Order 84-3 will serve as a basis for KAHA's internal control and standard operating procedures.2. The Chairperson of the KAHA Board has called a special meeting for June 6th specifically to address the audit report and to encourage the passage of board policies and procedures to concur with the requirements in Executive Order 84-3, including monthly and annual financial statements/reports on KAHA accounts and inventory. Effective June 13, 2005, Guam KAHA will have an Administrative Officer with accounting and bookkeeping background on board. The Executive Director concurred with Board Chair, Ms. Flora Baza Quan's recommendation that all staff including the new Administrative Officer and Program Coordinators involved in programming project activities and financial matters obtain training through the Association of Government Accountants, the University of Guam or Guam Community College.3.a) The QuickBooks software was recommended by Chairperson of the KAHA Board to be utilized to simplify the Revolving Fund Account. The agency recently purchased the QuickBooks software and will begin utilizing that program for the account as well as acquire the training necessary to implement the program. Based on the newly hired Administrative Officer's application, she is knowledgeable in most software, which will help the agency generate monthly and annual financial reports.b) The closure of the second bank account will be brought up to the board during the special board meeting scheduled for June 6, 2005. A decision will be made on which account will be closed based on the charges / fees assessed on both accounts.			

PAGE 2- KAHA RESPONSE TO PUBLIC AUDITOR
May 31, 2005

4. The separation of duties will be determined and clearly defined once the Administrative Officer is on board and a flowchart will be created to clarify these duties. The signatories on bank account #1 and #2 were replaced with a) Executive Director, Sylvia Flores; b) Patrick Bamba, Secretary; alternates were c) Flora Baza Quan, Chairperson; and d) Jacqueline G. Balbas, Program Coordinator III. Both accounts required any two (2) signatures of names mentioned above. The closure of one of these accounts will simplify this process. Supporting documents including invoices and receipts will always be attached to check requests.

5. The agency has created a disbursement voucher form to include information such as: payee, program category, purpose, amount, invoice number, board action date (if applicable), approving official, treasury agent, balance on register, check no., balance forward and date (see attached copy). Procurement procedures for disbursements below \$500 will be addressed during KAHA's special board meeting scheduled for June 6, 2005. A copy of the Government of Guam procurement laws and regulations is being obtained from the procurement division, General Services Agency (GSA), of the Department of Administration for issuance to all staff and board.

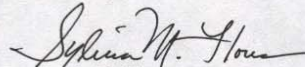
6. The bank deposits of a threshold of \$100 in receipts will be brought up to the board on its special board meeting scheduled for June 6, 2005. The decision of the board will supercede the current revolving fund guideline requiring monies to be deposited within one (1) working day after the collection of monies. For clarification purposes, receipts were collected and a numerical receipt listing was maintained for bank account #2 during fiscal year 2001 through fiscal year 2003.

7. A donation form was created and implemented when Executive Director, Ms. Sylvia Flores came on board in October 2004. KAHA has established procedures, which require the cash, count by two employees, documented on the donation form with signatures, date and the amount of cash. A third employee verifies the cash count and signs off on the form as well and prepares the deposit ticket. The deposit ticket is then forwarded to a fourth employee for bookkeeping / reconciliation purposes.

8. Because the Form 1099-MISC was never issued in the past, Guam KAHA is currently making arrangements to meet with a Department of Revenue & Taxation representative to discuss the matter of issuing the 1099's to individuals of prior years. In the meantime, Form 1099 will be issued to those individuals who have provided services of at least \$600 each calendar year.

The Guam Council on the Arts and Humanities Agency anticipates that recommendations shall be in place in the next three (3) months for those issues that have not been implemented and the Board will formalize standard operating procedures and critical relevant policies. We welcome your guidance and suggestions and also seek the advice of the office of the Bureau of Budget and Management and the Department of Administration. Should you require additional information, please feel free to contact our office at 646-2781/2.

Sincerely,


Sylvia M. Flores
Executive Director

cc: GCAHA Board Chairperson
GCAHA Board Members