

Management Letter

Department of Chamorro Affairs
Non-Appropriated Funds
(A Component Unit of the Government of Guam)

Year ended September 30, 2015





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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, 2015, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the 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) and other matters:

Investigate and Resolve Long Outstanding Reconciling Items

Observation

Deposits in transit that are more than 3 months old are included in the bank reconciliation. Lack of proper and prompt follow up of outstanding reconciling items can lead to fraud or error not being detected on a timely basis.

Recommendation

Reconciling items should be monitored, followed up, and adjusted on a monthly basis.

Monitor Accounts Receivable Sub-ledger

Observation

A 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

Payments received from tenants should be applied against specific invoices and returned checks should be identified and reverted to the correct customer’s account.

Lease Agreements

Observation

During our test of reasonableness of lease revenue, we noted that the change in lease terms for one tenant was not documented in the tenant’s file and not acknowledged by the tenant in writing.

Recommendation

We recommend that DCANAF maintain a schedule that details pertinent information (e.g., terms, escalation, etc.) for all leases and periodically monitor them to ensure lease revenue recorded is properly supported

Improve Segregation of Duties

Observation

Due to the small size of the entity, there is a lack of segregation of duties in the preparation and posting of journal entries and the preparation of the monthly bank reconciliations. The lack of segregation of duties increases the risk that errors will not be detected and provides the opportunity to misappropriate cash and record fictitious entries.

Recommendation

Where there is a limited number of accounting personnel, the lack of segregation of duties is compensated by the close review and supervision by management. Management should review the monthly financial statements closely to ensure that the information is consistent with their understanding of DCANAF’s activities and investigate any results that differ from expectations.

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.

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.

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