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March 30, 2016

Mayor Melissa B. Savares and Vice Mayor Andrew A. Benavente  
Municipality of Dededo

Dear Mayor Savares and Vice Mayor Benavente:

In planning and performing our audit of the financial statement of the Mayors' Council of Guam for the year ended September 30, 2015 (on which we have issued our report dated March 30, 2016), 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 Mayors' Council of Guam'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 Mayors' Council of Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mayors' Council of Guam'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 Mayors' Council of Guam's Dededo Mayor's Office internal control over financial reporting and other matters as of September 30, 2015 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 Dededo Mayor's Office's responses to certain of the deficiencies identified in our audit are set forth in the attached Appendix I. We did not audit the Dededo Mayor's Office's responses and, accordingly, we express no opinion on the responses.

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 Dededo 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 Mayors’ Council of Guam’s Dededo Mayor’s Office internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

1. Monitoring of Non-Profit Organizations

While substantial improvements have been made to monitor non-profit organizations (NPO) utilizing Dededo Mayor’s Office facilities, a formal process to determine whether such NPOs are current with Department of Revenue and Taxation (DRT) filings is not in place.

We recommend the Dededo Mayor’s Office to continue to coordinate with the Mayors’ Council of Guam in developing and implementing formal policies on monitoring of NPOs.

Response: Upon request for support/sponsorship, it is normal practice for us to request for NPO Certificate from DRT. This is what we use to also help us in filling out the 1099 at the end of the year to file with DRT.

2. Compliance with Applicable Procurement Rules and Regulations

Of 11 disbursements tested, the following were noted:

a. Four (4) disbursements were not supported by comparative prices. Details are as follows:

<u>Check #</u>	<u>Amount</u>	<u>Description</u>	<u>Fund</u>
5141	\$ 738	Supplies and materials	Regular NAF
5198	720	Repairs and maintenance	Regular NAF
223	1,500	Food and catering	Dededo Senior Center
227	<u>1,200</u>	Food and catering	Astumbo Senior Center
	\$ <u>4,158</u>		

Disbursements from Non-Appropriated Funds (NAF) were not consistently subjected to procurement procedures due to the absence of formal procurement rules and regulations governing NAF. The Mayor’s 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.

b. While the Dededo Mayor’s Office obtained quotes before commencement of certain services in the flea market and park, an update or reevaluation of these services has not occurred for more than three years.

We recommend the Dededo 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. We also recommend that the Dededo Mayor’s Office consider periodic written periodic reevaluations (e.g., every three years) of its long-standing vendor contracts.

Response: For check #5141, the men’s restroom sink at the Astumbo Senior Citizen Center fell off the wall. For the safety of the Man Amko’s, community maintenance workers immediately went to Home Depot to purchase the needed supplies to put a new sink in the restroom. Because of the emergency, there was no comparative pricing done. This practice is now corrected through a SOP adopted by the Mayors’ Council of Guam. For check #5198, there was no new annual contract for this service. When the six split air conditioner units were purchased, a one-year service contract was done on the units. However, there was no new annual contract done. At this time, a new service contract has been done for one year as part of our SOP. The Recreation Leaders with the Dededo and Astumbo Senior Citizen Centers are now in compliance with the MCOG SOP for the NAF accounts for each of their centers. A new price request for outdoor toilets is being done now and will be done at the beginning of every fiscal year.

**SECTION I – DEFICIENCIES, CONTINUED**

3. Bank Reconciliation

Cash per books of \$56,101 did not agree with cash per bank of \$59,967, a difference of \$3,866 exists which may be due to stale dated checks. A reconciliation of this matter has not been completed.

We recommend that cash per books be regularly reconciled with bank balances.

Response: My staff are working with the bank to reconcile all statements with our check book balance. Checks that have not cleared over their expired date have been closed.

4. Disbursements to Cash

Eight checks totaling \$965 from Astumbo Senior Center and three checks totaling \$5,950 from Dededo Senior Center were issued to “Cash”. These primarily relate to prizes, reimbursements and humanitarian assistance.

We recommend that disbursements payable to “Cash” not be utilized to the extent possible.

**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.