

August 8, 2014

Mayor Robert R.D.C. Hofmann and Vice Mayor Rudy D. Iriarte
Municipality of Sinajana

Dear Mayor Hofmann and Vice Mayor Iriarte:

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, 2013 (on which we have issued our report dated August 8, 2014), 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 Sinajana Mayor's Office Non-Appropriated Fund's internal control over financial reporting and other matters as of September 30, 2013 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.

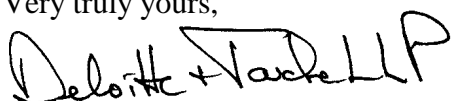
The Sinajana Mayor's Office's responses to the deficiencies identified in our audit are set forth in the attached Appendix III. We did not audit the Sinajana Mayor's Office's responses, and accordingly we express no opinion on the responses.

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 Sinajana Mayor's Office for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – DEFICIENCY

We identified, and have included below, a deficiency involving the Sinajana Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Compliance with Applicable Procurement Rules and Regulations

Of 9 disbursements tested, 2 items (ref. check #420 for \$1,000 for summer camp snacks and lunches; and check #538 for \$500 for summer camp supplies) were not supported by comparative prices.

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 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 Sinajana Mayor's Office continue to coordinate with the Mayor's 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.

SECTION II – OTHER MATTER

We also identified, and have included below, another matter involving the Sinajana Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013, that we wish to bring to your attention.

1. Of 8 receipt transactions examined, 2 receipts (Senior Center bingo proceeds on 1/22/13 and 7/8/13 for \$114 and \$86, respectively) were deposited over 10 days after receipt date.

We recommend that collections be timely deposited.

SECTION III – DEFINITIONS

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.

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.

Robert R.D.C. Hofmann
Mayor

Rudy D. Iriarte
Vice Mayor



Municipality of Sinajana
Mayors' Council of Guam

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April 25, 2014

Mr. Daniel S. Fitzgerald
Deloitte & Touche, LLP

Dear Mr. Fitzgerald,

Buenas yan Hafa Adai! Thank you for the draft report on the 2013 Audit of the Non-Appropriated Funds for the Municipality of Sinajana. Please see our responses to your findings.

SECTION I – DEFICIENCY

1. Compliance with Applicable Procurement Rules and Regulations Of nine disbursements tested, two items (ref. check #420 for \$1,000 for summer camp snacks and lunches; and check #538 for \$500 for summer camp supplies) were not supported by comparative prices.

Disbursements from non-appropriated funds were not consistently subjected to procurement procedures due to the absence of formal procurement rules and regulations governing non-appropriated funds. 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 Sinajana Mayor's Office continue to coordinate with the Mayor's 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.

Response: *We are working on a unified policy and will adopt immediately. For the above mentioned items. We usually purchase the small toys/rewards for the campers from several companies- Shop For Less, Kwong Hwa, Kmart, National Office Supply and we know from experience that 99% of these are made in China/Asia. We purchased a large amount in the Philippines in 2013. Using common knowledge of how to shop and best value- With the dollar being 43 Php to 1 USD at that time is a very good deal and so since we were in the Philippines for other business we agreed to take along money to make purchases. The savings was tremendous and we were able to make the items last and use the items we purchased for Summer, Christmas and our Easter. For the food and snack purchases we use the guidance given to us by the OPA in regards to spreading the purchases, being cognizant of the location and area of purchase. We try our best to cut down of staff away time so we rely on stores that are within a mile or less radius. We also at times take advantage of sales in the news paper and store postings.*

SECTION II – OTHER MATTER

We also identified, and have included below, other matter involving the Sinajana Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2013, that we wish to bring to your attention.

1. Of eight receipt transactions examined, two receipts (Senior Center bingo proceeds on 1/22/13 and 7/8/13 for \$114 and \$86, respectively) were deposited after more than 10 days from receipt date.

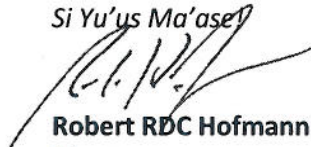
We recommend that collections be timely deposited.

Response: *We agree with the finding and in regards to the above items they are anomalies. In our operations we have regular practice of timely deposits however at times depending on the situation or workload these deposit trips can get delayed.*

Thank you for your efforts in helping us achieve sound and efficient financial management practices. We know that in the last few years we have improved in reducing our risks and liabilities, incorporated best policies and your recommendations and we can safely say that the non-appropriated funds are accounted for and spent in accordance to our mission and goals.

Thank You!

Si Yu'us Ma'ase!



Robert RDC Hofmann
Mayor