



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

September 8, 2015

Mayor Carol S. Tayama and Vice Mayor Agustin G. Quintanilla
Municipality of Agat

Dear Mayor Tayama and Vice Mayor Quintanilla:

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, 2014 (on which we have issued our report dated September 8, 2015), 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 Agat Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2014 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.

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 Agat 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 Agat Mayor's Office Non-Appropriated Fund's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. Compliance with Applicable Procurement Rules and Regulations

The file of comparative prices for check #2457 in the amount of \$3,212 was not provided for examination. While it is the practice of the Agat Mayor's Office to obtain at least three quotations, these disbursements from the Senior Citizens Center funds may not have been 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 (which include Senior Citizens Center funds). Currently, the Task Force is in the process of developing a uniform procurement policy.

We recommend the Agat 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 by all the nineteen districts.

2. Non-Profit Organization Monitoring

The Agat Mayor's Office has implemented policies and procedures to determine whether non-profit organizations utilizing its facilities are in compliance with Department of Revenue and Taxation filings; however, these policies and procedures have not been reduced to writing.

We recommend that written policies and procedures to monitor non-profit organizations utilizing the Agat Mayor's Office's facilities be prepared.

3. Minutes of Meetings

A complete record of minutes of meetings of the Municipal Planning Council (MPC) during fiscal year 2014 were not provided.

We recommend that meetings be documented and that complete records of such meetings be maintained.

4. Fuel Reimbursements

Fiscal year 2014 fuel disbursements aggregating \$2,562 primarily consisted of reimbursements to mayoral staff. Fuel is reimbursed based on actual invoices and is not based on actual usage or mileage. Records of actual mileage and details of origin and destination are not available.

We recommend that formal policies be established for fuel usage and reimbursements. Further, we recommend that actual usage/mileage be considered.

5. Classification of Reimbursements

Reimbursement-related disbursements are supported by detailed reports and invoices; however, such were not classified to specific accounts in the ledger. Classification was only addressed during the audit.

We recommend that disbursements be recorded to specific and appropriate accounts.

SECTION I – DEFICIENCIES, CONTINUED

6. NAF Receipts

Of seven receipt transactions examined, we noted the following:

- a. Receipts of \$1,625 (festival concessions for June 2014) were deposited after more than 10 days from receipt date.

We recommend that collections be timely deposited.

- b. No receipts were issued for \$12,696 of collections.

We recommend that receipts be issued for all funds received, regardless of activity or amount.

7. Senior Center Operations

We noted the following relative to the 10% and 20% Bingo funds of the Senior Citizens Center:

- a. Bingo proceeds of \$3,305 and \$2,611 were deposited to the 10% and 20% Bingo funds, respectively, after more than 10 days from receipt date.

We recommend that collections be timely deposited.

- b. Non-bingo related expenses such as transportation, food and fiesta expenses were deducted from Bingo proceeds before amounts were deposited.

We recommend that bingo proceeds be deposited intact and all disbursements be made through checks or a petty cash fund, if the latter is established.

- c. Net receipts of \$110 and \$8,148 were not reported in the monthly and quarterly reports/ledgers of the 10% and 20% Bingo funds, respectively. These include variances between the amounts per the ledger and per bank credits, and deposits from one fund erroneously deposited to another but not reported in the ledger. These were addressed and adjusted during the audit.

We recommend that cash receipts be regularly reconciled with bank credits.

- d. Check disbursements of \$35,966 and \$5,865 were not accounted for in monthly and quarterly reports/ledgers of 10% and 20% Bingo funds, respectively. This matter was adjusted during the audit.

We recommend that all disbursements be accounted for in the ledgers and be reconciled with bank debits.

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.