

**Department of Chamorro Affairs  
Non-Appropriated Funds**

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

**OPA Report No. 04-06  
June 2004**



OFFICE OF THE PUBLIC AUDITOR

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OFFICE OF THE PUBLIC AUDITOR

## EXECUTIVE SUMMARY

OPA Report No. 04-06 June 2004

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### Department of Chamorro Affairs Performance Audit of Non-Appropriated Funds October 1, 2000 through September 30, 2003

The Office of the Public Auditor (OPA) initiated a performance audit of the Department of Chamorro Affairs' (DCA) five checking accounts at the request of the current DCA President. The audit's objectives were to evaluate the accountability of the non-appropriated funds and checking accounts of DCA for fiscal years 2001 through 2003.

In 1999, pursuant to Public Law 25-69, the DCA Board of Trustees established five checking accounts although the law authorized the creation of six funds within DCA. These funds and accounts are to be maintained separate and apart from other funds. The five checking accounts established are:

1. The Department of Chamorro Affairs (the primary bank account),
2. *I Inaligao, Tinige' Yan Fina'na'gue* (Chamorro Heritage Institute Planning Group),
3. *I Kottura* (Chamorro Language Commission),
4. *I Kosas* (Guam Museum), and
5. *I Sagan Rikuetdon* (Chamorro Archives).

The Chamorro Village complex, under the management of DCA, maintains a sixth checking account, which will be covered in a separate audit report.

Because of the lack of reports, we reconstructed financial data for the three-year period and found that collectively, receipts were \$686,831 and disbursements were \$598,534 during the three-year period.

Our audit found significant deficiencies in controls over cash:

- No monthly or annual financial reports and no accounting software to record financial activities;
- Unknown and unaccounted cash deposits of \$ 84,996;
- Unsupported and unauthorized disbursements of \$471,704, including no cancelled checks for \$11,000 spent from the DCA primary account;
- No pre-numbered receipt books were used therefore, it cannot be reasonably assured that all revenues received were accounted for and deposited to the bank accounts;
- A \$2,097 check payable to the Guam Archives account was cashed but never deposited into the checking account;
- No bank reconciliations for any of the five checking accounts;
- Lack of custody and control over the Guam Museum donation box; and
- No deposits of donations into the Guam Museum checking account for 15 months when it was located at Adelup and for two months while located at the Guam Premier Outlets;

DCA has not followed procurement regulations consistent with promoting fair and open competition:

- A former elected official was awarded a contract to develop a new Chamorro English dictionary without the benefit of a publicized request for proposal. The individual was paid \$28,254 but DCA never received a draft of the dictionary.
- A 50% advance of \$6,270 was paid to a vendor for financial services on December 30, 2002, only nine days before the new administration took office while the only work performed by the vendor was a meeting with section heads.
- Contracts were given to unlicensed vendors.

Other findings include:

- \$25,000 received as part of the qualifying certificate program for the cleaning of restrooms at the Chamorro Village was used by DCA for other purposes.
- \$240,000 in-kind contributions available through another qualifying certificate since 1997 has never been fully utilized.
- DCA did not issue Form 1099-MISC to report payments DCA made to individuals for their services. If these earnings were not reported as income on tax filings, this would result in lost income tax revenue.
- A DCA employee worked at a second job while on government time.

Our recommendations to the Department of Chamorro Affairs include:

- Install an accounting software system to record cash receipts and disbursements and other financial activities.
- Update policies and procedures to include cash management procedures.
- Comply with GSA Procurement Regulations.
- Comply with the Internal Revenue Code by issuing Form 1099-MISC.
- Pursue collection of \$6,270 or its equivalent in services from the vendor who was supposed to provide financial services.
- Request a working draft of the Chamorro English Dictionary or recover money paid to the former elected official for non-performance.
- Abolish all accounts except one.

We recommend the Legislature enact legislation to abolish five DCA funds and retain only one fund.

Based on our audit it is evident that DCA was not prepared to be responsible for and manage so many checking accounts and funds. We recommend that the Legislature be more deliberate in permitting agencies to have control over non-appropriated funds or even their own appropriations. It would be preferable to require that non-appropriated funds of such agencies be deposited with the General Fund and controlled through the Department of Administration.



Doris Flores Brooks  
Public Auditor



OFFICE OF THE PUBLIC AUDITOR

**Department of Chamorro Affairs  
Performance Audit of Non-Appropriated Funds  
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## **Introduction**

The Office of the Public Auditor (OPA) initiated a performance audit into the non-appropriated funds of the Department of Chamorro Affairs (DCA) in response to an audit request by the DCA President.

## **Jurisdiction to Audit**

The Public Auditor is required to annually audit “all transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam.” The Public Auditor may also “conduct or cause to be conducted such audits or reviews as she deems necessary.”<sup>1</sup>

## **Background Information**

Public Law No. 25-69, codified in 5 G.C.A. Chapter 87, established the ‘*Dipattamenton I Kaohao Guinahan Chamorro*’ or ‘Department of Chamorro Affairs’ in 1999. The purpose and authorized activities of the Corporation are to assist in the implementation of an integrated program for the preservation, development, and promotion of the Chamorro heritage of Guam for the public benefit and to provide specific services to the Chamorro people.<sup>2</sup>

The four divisions of DCA and their purposes are:

1. *Dibision Inaligao, Tinige’, Yan Fina’na’gue* (Research, Publications and Training Division): Develop course texts and materials for mandated courses in Guam’s schools related to Guam’s history, language, and culture;
2. *Sagan Rikuetdon Guahan* (Guam Archives): Insure the retention and preservation of our documentary heritage by serving as the official repository and custodian of historical government and non-government records of Guam.
3. *Dibision Fino’yan Kotturan Chamorro* (Chamorro Language and Culture Division): Formulate and develop standards and procedural requirements with regard to the development, promotion, and preservation of the Chamorro language and culture; and
4. *Dibision Faninadahen Kosas Guahan* (Guam Museum Division): Promote increased understanding of Guam’s geology, biota (plant and animal life), prehistory, history, and contemporary culture by serving as the official repository and custodian of historical artifacts of Guam.

The President of DCA is directly responsible to a nine-member Board of Trustees (Trustees), appointed by the Governor of Guam, for the day-to-day operations and

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<sup>1</sup> 1 G.C.A. §1908

<sup>2</sup> 5 G.C.A. §87103

administration of DCA's programs and policies. Additional boards of advisors to the Trustees within DCA are also required to be appointed by the Governor. They are:

- Kottura (Culture) Board of Advisors;
- Dibision Inaligao, Tinige', Yan Fina'na'gue (Research, Publications and Training Division) Board of Advisors;
- Kosas (Guam Museum) Board of Advisors; and
- Irensia (Heritage) Board of Advisors.

P.L. 25-69 created six funds within DCA that the Trustees shall maintain separate and apart from other funds, the records of which shall be kept and maintained by the Trustees.<sup>3</sup> All monies received by the funds from sources other than government appropriation shall be deposited in the respective fund for its specified purpose(s). The six funds established are:

1. Kottura Fund (5 G.C.A. §87125);
2. Research and Publication Fund (5 G.C.A. §87128);
3. Guam Archives Fund (5 G.C.A. §87134);
4. Guam Museum Fund (5 G.C.A. §87136(h))
5. Irensia Fund (5 G.C.A. §87140); and
6. Irensia Board Fund (5 G.C.A. §87141).

On March 8, 2001, the DCA Board of Trustees adopted Resolution 003-01 establishing five checking accounts:

1. The Department of Chamorro Affairs (the primary bank account);
2. *I Inaligao, Tinige' Yan Fina'na'gue'* (f/k/a the Chamorro Heritage Institute Planning Group) bank account managed by the Research, Publication, and Training Division;
3. *I Kottura* (f/k/a the Chamorro Language Commission) bank account managed by the Chamorro Language and Culture Division;
4. *I Kosas* (f/k/a Guam Museum) bank account, managed by the Guam Museum Division; and
5. *I Sagan Rikuetdon* (f/k/a the Chamorro Archives) bank account managed by the Guam Archives Division.

Subsequent to the initiation of our audit, we discovered a sixth checking account maintained by the Chamorro Village complex. The Chamorro Village was placed under the purview of DCA by Executive Order 2002-14. This account will be covered in a separate audit report.

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<sup>3</sup> Except for the Research and Publication Fund which shall be kept and maintained by the *Salappe' of the Ufisinan Minaneha* or Administrative and Program Support Office.

## **Objectives**

The objectives of this audit were to evaluate the accountability of the non-appropriated funds and checking accounts of DCA, which includes the examination of accounting and controls over cash transactions (i.e. revenues and expenditures) and the controls over the procurement of goods and professional service contracts.

## **Scope and Methodology**

The scope of the audit encompasses the non-appropriated funds, financial transactions, and contractual activities of DCA for three fiscal years, October 1, 2000 through September 30, 2003.

The audit methodology included gaining an understanding of the policies, procedures, applicable laws and regulations pertaining to DCA. We tested revenues and expenditures from five checking accounts and procurement transactions to ensure that expenditures were duly authorized, recorded, and documented and revenues were completely accounted, collected, and deposited. We also reviewed service contracts to ensure procurement laws and regulations were followed.

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 procurement process of DCA. We included tests of records and other auditing procedures that were considered necessary under the circumstances.

## **Prior Audit Coverage**

The appropriations of DCA were included in the annual audit of the Government of Guam General Purpose Financial Statements for fiscal years ended September 30, 1999-2002. The Guam Museum Special Revenue fund, established by 5 G.C.A. §83110 and repealed by P.L. 25-69 in 1999, was reported in the General Purpose Financial Statements for fiscal year ended September 30, 2002.

Finding Number 2000-32, 2001-65, and 2002-38 all cited that the Guam Museum, an account of the Federal Grants In-Aid Advances – Governor’s Office, had a balance of \$11,754 in cash advances for grant years from 1990 through 2001. This amount was not applied to expenditures for the fiscal years 2000, 2001, and 2002. The Department of Administration responded that this was caused by a lack of reconciliation and recording of the accounting system and that the amounts were properly disbursed according to their respective grant applications.

OPA Report 04-04, *Department of Administration Special Revenue Funds Part I*, recommended that the Guam Museum Fund maintained at the Department of Administration be closed and the balance of \$1,478 be transferred to the General Fund.



DCA's non-appropriated funds have not been audited.

### **Overall Conclusion**

For the three-year period, DCA's five checking accounts had deposits of \$686,831 and disbursements of \$598,534. Our findings include:

#### **Lack of control over cash:**

- No monthly or annual financial reports and no accounting software to record financial activities;
- Unknown and unaccounted cash deposits of \$ 84,996;
- Unsupported and unauthorized disbursements of \$471,704, including no cancelled checks for \$11,000 spent from the DCA primary account;
- A \$2,097 check payable to the Guam Archives account was never deposited into the account but the check was cashed;
- No pre-numbered receipt books were used therefore it cannot be reasonably determined that all cash received was accounted for and deposited into the bank accounts;
- No bank reconciliations ever performed for the five checking accounts;
- Lack of custody and control over the Guam Museum donation box; and
- There were 15 months that had no deposits from the Guam Museum when it was located at Adelup and another two months of no deposits when the museum was located at Guam Premier Outlets.

#### **Non-compliance with Guam procurement regulations:**

- A former elected official was given a contract to develop a new Chamorro English dictionary without the benefit of a publicized request for proposal. The individual was paid \$28,254 but no draft of a dictionary was ever provided to DCA;
- A 50% advance of \$6,270 was paid to a vendor for financial services on December 30, 2002, just nine days before the new administration took office; the only work performed by the vendor was a meeting with section heads; and
- Contracts were given to unlicensed vendors.

#### **Lack of oversight by DCA management:**

- \$25,000 received as part of the qualifying certificate program for the cleaning of bathrooms at the Chamorro Village was used by DCA;
- DCA failed to collect \$10,000 from a non-profit organization for its sponsorship of the *Chamorro Heritage: A Sense of Place*;
- No 1099s [Income tax forms] were issued to individuals for services rendered to DCA; and
- A DCA employee worked at a second job while on government time.

These accounting deficiencies stem from a lack of an accounting software system and the lack of qualified staff knowledgeable in accounting to record receipts and disbursements and prepare monthly and annual financial reports. Management's failure

to monitor revenues and disbursements and provide sufficient oversight contributed to the lack of accountability. Both previous and current DCA management failed to provide necessary oversight. The Board of Trustees contributed to the lack of fiscal accountability by not asking management for an accounting of funds. Both management and the Board of Trustees lack an understanding of the importance of a system of internal control over the operations of the Department of Chamorro Affairs.

## **Specific Findings and Conclusion**

### **Finding 1: Lack of Internal Controls and Lack of Accounting System**

Adequate controls should be installed over the identification, receipt, disbursement, and recording of cash. DCA's current Administrative Services Officer (ASO) informed us that the written cash management procedures are not followed. According to the ASO, revenues are received by mail, at the office, or collected from the Guam Museum. Cash is verified by two employees and a deposit slip is prepared. However pre-numbered receipts are not used to identify cash.

DCA requires disbursements to be duly authorized based on supporting documentation, which includes an approved payment voucher form, requisition form, payment schedule, vendor invoice, and proper procurement entailing three vendor quotes.<sup>4</sup> We found that disbursements were often not supported by invoices, nor were they authorized or approved.

There is no record of the receipts and disbursements of DCA. Given the amount of financial activity at DCA, a simplified accounting software system such as Quickbooks Pro would be adequate to meet the financial reporting requirements. There is also no staff knowledgeable in basic accounting.

Because of poor record keeping, we reconstructed DCA's financial activities for three fiscal years, 2001, 2002, and 2003 based on the respective bank statements. See **Appendix A** for reconstructed revenues and expenses.

### ***No Separation of Duties***

Inadequate separation of duties exists when the same individual has custody of assets, authorizes transactions, records transactions and maintains records. This allows errors, misappropriations, and other types of fraud to occur without detection. We did not observe an acceptable separation of duties within DCA for the day-to-day handling of receipts and disbursements of the five checking accounts.

The current ASO is an authorized check signer for the DCA primary account (authority), has access to blank checks and prepares all checks for all the accounts (custody of assets), and keeps any documents related to these transactions (control). Another

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<sup>4</sup> 5 G.C.A. §87104(t) requires DCA to acquire personal property in accordance with Guam Procurement Law. 2 G.A.R. §3111(c)(e) requires three written quotes for purchases between \$500 and \$15,000. Telephonic quotes may be used for purchases less than \$500.

employee receives revenues, either through the mail or in the office, (collecting) and makes the deposit to the bank (custody).

Many small organizations find it difficult to separate these duties amongst a handful of employees. However, the duties can be separated with just three people to ensure checks and balances.

### ***No Bank Reconciliations***

The independent review and reconciliation of monthly bank statements are internal control procedures used to ensure the validity and accuracy of cash transactions.

DCA did not perform any bank reconciliations for any of the five checking accounts during the three-year period, October 1, 2000 through September 30, 2003. DCA was not aware of the importance of bank reconciliations. As a result, there may have been undetected errors and unrecorded transactions in the bank statements and/or check registers due to unreconciled accounts.

The following describes the specific findings related to each of the five checking accounts.

### ***The Department of Chamorro Affairs Account***

#### **Revenues**

Bank account statements reflected \$370,932 in deposits in the DCA primary account for the three-year period of our audit. See **Appendix B** for bank statement details.

The Guam Economic Development and Commerce Authority's (GEDCA) Qualifying Certificate program (QC) contributed \$77,241 in deposits; the Department of Education contributed \$5,000 for the Children's Theatre Project; \$214,970 was transferred from GEDCA pursuant to P.L. 25-69 transferring the Chamorro Heritage Foundation to DCA and \$23,682 was transferred from the other DCA checking accounts. We could not determine the source or purpose for the remaining \$50,040 in deposits. The DCA Administrative Services Officer was not able to provide documentation to identify these deposits. **Table 1** lists the total deposits for fiscal years 2001, 2002, and 2003 for the Department of Chamorro Affairs account.

**Table 1: Department of Chamorro Affairs Primary Account Revenues**

Received From	2001	2002	2003	Total
GEDCA	\$ 214,970	\$ 47,241	\$ 30,000	\$ 292,211
DOE			\$ 5,000	\$ 5,000
Transfer from other DCA accounts		\$ 7,706	\$ 15,976	\$ 23,682
Unknown*			\$ 39,359	\$ 39,359
Unaccounted**		\$ 2,721	\$ 7,959	\$ 10,680
<b>Total Revenues</b>	<b>\$ 214,970</b>	<b>\$ 57,668</b>	<b>\$ 98,295</b>	<b>\$ 370,933</b>

\*Unknown: Deposit tickets supported the amounts, however, the source or purpose of the income could not be determined.

\*\*Unaccounted: Amount was found in bank statements but there were no deposit tickets or other documents to support amount.

GEDCA's Qualifying Certificate (QC) program is a tax incentive program that offers corporate tax rebates to qualified investors who commit to creating new employment and expanding the island's industry. The companies who participate in the QC program that benefit DCA are hereinafter referred to as Company 1 (QC 212) and Company 2 (QC 219).

Under QC 212, Company 1 is to annually contribute \$10,000 and \$40,000 in-kind contributions to the Chamorro Historic Society or its successor (the Department of Chamorro Affairs Authentication Committee) to operate a Chamorro Cultural Pavilion at a local water park to explain Chamorro history and culture for a period of 20 years beginning September 11, 1997.

Although Company 1 has been current in its annual \$10,000 payments to GEDCA, we found that GEDCA had been untimely with its remittance to DCA. However, in April 2004, GEDCA remitted the past due QC payments for 2002, 2003, and the first quarter of 2004 and became up-to-date with its QC payments to DCA:

Check Number	Date of check	Amount	Period
32458	August 29, 2003	\$ 5,000	1 <sup>st</sup> 2002 payment
33047	March 11, 2004	\$10,000	2003 payment
33129	April 13, 2004	\$ 7,500	2 <sup>nd</sup> 2002 payment & 1 <sup>st</sup> qtr 2004 payment

GEDCA is required to monitor compliance with its QC program. However, it appears that since the inception of QC 212 in 1997, no definite plans have been implemented for the in-kind contributions that should have been realized for the Chamorro Cultural Pavilion.

We noted numerous dialogue via memoranda between GEDCA, Company 1, and the Chamorro Historic Society (CHS) over the years beginning in March 1999 when an implementation plan was drafted by CHS. The plan never materialized. To this day, almost seven years later, it cannot be determined whether \$40,000 in-kind contributions have actually been realized for the requirements of QC 212. Company 1 was only able

to provide a listing of various cultural activities that were held on the premises with no further explanations and details, including their nominal value.

Under QC 219, Company 2 is to annually contribute \$25,000 to GEDCA for the upkeep of the public restrooms at the Chamorro Village complex for a period of ten years beginning June 5, 1998.

Since June 2002, the Chamorro Village complex has been under the authority of DCA per Executive Order 2002-14. GEDCA issued a \$25,000 check to DCA in May 2003 for the 2002 QC payment, which was deposited to the DCA primary account. Although this check was intended for the upkeep of the Chamorro Village restrooms, we did not find any transfers from the DCA primary account to the Chamorro Village for this purpose.

Another \$25,000 check was issued in March 2004 for 2003; however this check went directly to the Chamorro Village account. As mentioned previously, the Chamorro Village account will be discussed in a separate OPA report.

We recommend GEDCA timely issue checks directly to the Chamorro Village as QC 219 requires and that the \$25,000 received in 2003 be transferred from the DCA primary account to the Chamorro Village for the upkeep of its restrooms. We also recommend that DCA and GEDCA solidify and implement plans to meet the requirements of QC 212 and utilize the \$40,000 in-kind contributions from Company 1 that have been idle since 1997.

**Disbursements**

Over the three years DCA disbursed \$359,956 from its primary account. **Table 2** provides a breakdown of how much was supported, unsupported, and reconciled in relation to the bank statements. See **Appendix B** for bank statement details.

**Table 2: Department of Chamorro Affairs Primary Account Disbursements**

	2001	2002	2003	Total
Supported	\$ 72	\$ -	\$ 20,099	\$ 20,171
Unsupported	\$18,687	\$ 157,408	\$166,803	\$342,898
Total Disbursements	<b>\$18,759</b>	<b>\$ 157,408</b>	<b>\$186,902</b>	<b>\$363,069</b>
Debit memo for insufficient funds				\$ 1,005
Outstanding disbursements (See NOTE)				\$ (4,118)
<b>Total Bank Statement Disbursements</b>				<b><u>\$359,956</u></b>

NOTE: \$4,118 of disbursements did not clear bank statements as of month ending September 30, 2003, however, \$2,406 cleared in October 2003 bank statements. \$1,712 of these was over six months old and considered stale.

We tested 263 disbursements for the three-year period documented in bank statements and noted several areas of concern. Among our concerns were two disbursements totaling \$11,000 listed in bank statements but there were no documents on file for our

review, including the cancelled checks. Therefore, we were not able to determine the payees and the purposes of these unsupported payments. Those missing checks are:

Check Number	Date	Amount
80	10/1/02	\$ 6,000.00
104	4/18/01	\$ 5,000.00
<b>Total</b>		<b>\$11,000.00</b>

We found it peculiar that these cancelled checks were missing from the bank statements although other cancelled checks were found within the same statements.

We also found DCA's disbursement process cumbersome because it requires three documents (a requisition form, a payment voucher, and a payment schedule) to authorize and document a single disbursement. Our testing showed that these documents usually did not have required signatures or one or more of the documents were missing:

- 130 disbursements (50%) or \$179,477 were not supported by invoices;
- 158 disbursements (60%) or \$170,273 did not have a requisition form on file or was not properly requested and authorized;
- 99 disbursements (38%) or \$104,790 did not have a payment voucher form or lacked the authorizing signature (usually by the President);
- At least 32 requisitions totaling \$116,776 and 37 payment schedules totaling \$125,418 were requested and approved by the same individual;
- 197 disbursements (75%) or \$240,344 did not have three vendor quotes attached and one disbursement was made in 2001 to a vendor not licensed to do business on Guam;
- A \$1,005 debit memo for insufficient funds from a bounce check. DCA made no attempts to recover the funds; and
- Five missing checks claimed to be voided.

The DCA primary account also made a total of \$92,377 in transfers to other DCA accounts to supplement their budgets. The Chamorro Heritage account received \$9,000 (see **Table 4**), the Chamorro Language account received \$36,000 (see **Table 7**), and the Guam Museum account received \$43,002 (see **Table 9**).

A total of \$4,375 was transferred from the DCA primary account to the Guam Archives account in March 2002. However, bank statements indicated the transfer of check number 27 for \$2,097.31 was not deposited to the Guam Archives account, although the DCA bank statements show that the check was cashed (see **Table 11**). Absent verification of who received the funds, the suspicion of misappropriation arises.

## **Service Contracts**

### ***Financial Services***

In December 2002, DCA advertised and issued a Request for Proposals (RFP) “from qualified professionals for financial services.” The scope of work included the preparation of financial statements including a general ledger system, fixed assets system with depreciation schedule, install and set up Quicken computer software, and create accounting policies and procedures to be in compliance with the government accounting system.

On December 30, 2002, nine days before the onset of the new administration, the former DCA president accepted a modified proposal from the only respondent. This respondent modified the original scope of work to include reconciliation of DCA’s balance sheet accounts; installation, setup, and training in Quickbooks Pro; and installation of a Windows network for a fixed fee of \$12,540. The contractor required a 50% advance of \$6,270 and a check in that amount was issued to the vendor prior to commencement of the engagement. This is in direct contravention of the procurement law policy prohibiting advance payments.<sup>5</sup>

In March 2003, the current DCA president requested that the contractor reimburse the \$6,270 deposit because all ongoing contractual services with DCA were now terminated due to the government’s financial situation. In April 2003 the contractor’s attorney wrote, “By January 14, 2003, client personnel had done a great deal of work under the contract.” According to DCA staff, the contractor only had one meeting with section heads.

We did not find any record of evaluations by DCA for this proposal, yet 5 G.C.A. §5216(e) states that award shall be made to the offeror determined in writing to be the best qualified based on the evaluation factors set forth in the RFP.

We also question the qualifications of the vendor based on the initial scope of work requiring compilation of financial statements and development of accounting policies and procedures, as this vendor appeared more qualified in implementing accounting software systems, not compiling financial statements. We contacted this vendor and found they offer service and repair of copy machines, networks, and cash registers, and installation of computer software, and do not prepare financial statements.

### ***Chamorro Heritage Books***

In 2003, our testing found disbursements of \$12,142 paid to a DCA employee for contractual services.

On February 3, 2003, the DCA employee was awarded a contract as a government consultant to coordinate and administer the publication of Chamorro heritage books. DCA’s current management was not aware that the employee was officially re-

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<sup>5</sup> 5 GCA § 5007 provides “[w]ith the exception of off-island orders of the Department of Education, no procurement shall be made under this Chapter which shall require advance payment.”

appointed from the Governor's Office to DCA on December 15, 2002, prior to the new administration, and that DCA's Chamorro Heritage account transferred \$53,279 on December 30, 2002, to the Department of Administration to cover the future salary of this employee. DCA instead believed the employee had been terminated as part of the former administration.

In order to avoid a disruption of services required from the employee, DCA's current management initiated the contract to retain the employee's services. According to personnel records of the employee, she was in fact a government employee as of December 15, 2002. The contract was terminated on April 3, 2003 and the individual continues to be a DCA employee paid by DOA since pay period ending March 22, 2003.

Although the contract has been rescinded since April 2003, and appears to be the result of a misunderstanding, DCA awarded a contract without adhering to procurement laws. If the employee's services were required, DCA should have ensured the employee was retained or simply re-hired by DCA. By a simple inquiry, DCA management could have discovered the employee had been transferred to DCA and there was no need for the contract.

### ***Children's Theatre Project***

In fiscal year 2003, DCA disbursed \$28,233 for a Department of Education children's theatre project held on December 24, 2002, entitled "Miracle of Christmas."

The primary objective of the children's theatre project was to present an annual Christmas program open to students island-wide.

A Memorandum of Understanding between DOE and DCA was created to define DCA's role in the organization of this event. DCA's main responsibilities were:

- (1) To produce the project and be held fiscally accountable for all disbursements of funds from the children's theatre project fund;
- (2) Employ personnel to produce the event and make necessary disbursements;
- (3) Purchase or authorize the purchase of materials and supplies to include costumes, stage sets, etc.; and
- (4) Provide overtime compensation for DOE personnel at Southern High School as needed.

According to a report submitted for this project, government, private support, and grants for the project should have been \$35,000 which consisted of a \$20,000 grant from the Guam Council on the Arts and Humanities, a \$10,000 grant from DCA, and \$5,000 in other private support. After we reconstructed the financial information of the checking accounts, we were only able to account for a \$5,000 deposit from DOE to DCA towards this project. The \$20,000 CAHA grant was awarded to DOE, however, we were not able to find any record of this deposit from DOE to DCA.



We did identify expenses of \$28,233 related to the children’s theatre project. The disposition of net income of \$6,767 could not be determined. See **Table 3** for a complete listing of expenses.

**Table 3: Children’s Theatre Project Expenses**

√ = Disbursement met requirement

Payee	Description	Amount	Authorized	Vendor Invoice	Three Quotes
Vendor 1	Children's Theatre Project Board Approval 10-3-02	\$ 3,000			
Vendor 1	Christmas Children's Theatre project – director	\$ 2,500	√	√	
Vendor 1	Christmas Children's Theatre	\$ 565	√	√	
Vendor 1	Reimbursement Christmas Children Theatre	\$ 300	√	√	
Vendor 2	Children's Theatre Project Board Approval 10-3-02	\$ 5,000			
Vendor 2	Christmas Children Theatre	\$ 5,000	√	√	
Vendor 3	Christmas Children Theatre	\$ 1,250		√	
Vendor 3	Children's Theatre Project Board Approval 10-3-02	\$ 1,250			
Vendor 4	Christmas Children Marketing / promotion fee	\$ 5,000	√	√	
Vendor 5	Christmas Children Theatre Cargo	\$ 123	√		
Vendor 7	Christmas Children's Theatre	\$ 500	√		
Vendor 8	Raw video- Christmas Children Theatre	\$ 125	√	√	
Vendor 9	Photography services Christmas Children's Theatre	\$ 120	√	√	
Vendor 10	Equipment rental for Children's Theatre, Christmas Mass	\$ 3,000		√	
Cash	Christmas Children's Theatre	\$ 500	√	√	
<b>Total expenses</b>		\$ 28,233			
<b>Less DOE contribution</b>		\$ (5,000)			
<b>Additional DCA contribution inclusive of \$10,000 pledged grant</b>		\$ 23,233			

The only outside funding for this project was the \$5,000 contributed by DOE. DCA expended \$23,233 for this project, inclusive of its \$10,000 pledged grant.

We noted the following from the disbursements of the Children’s Theatre Project:

- Five disbursements did not have vendor invoices;
- Five disbursements were not authorized. These disbursements either lacked the proper authorization, the requestor’s and approver’s signatures were from the same person, or there were no documents at all;
- None of the 15 disbursements had three vendor quotes;
- Vendor 1 was paid \$6,365 and Vendor 2 was paid \$10,000 for their respective services. There were no RFP’s available for the procurement of their services. These vendors are further discussed under **Finding 2: Procurement of Professional Services** of this report.

**Conclusion:**

DCA has failed to utilize resources of \$40,000 per year since September 1997 available to them through QC 212. This has resulted in \$240,000 in-kind contributions lost because GEDCA had not aggressively pursued compliance with this requirement of QC 212.

The transactions of the DCA primary checking account were not completely and accurately recorded nor were they clearly documented and properly authorized.

There is no accounting system to record transactions, limited policies and procedures, incompatible duties were not segregated, and insufficient monitoring by DCA management to oversee receipts and disbursements.

DCA's current disbursement procedures requiring three authorized documents for a single disbursement are cumbersome and difficult to manage. This process can be streamlined to one document. The use of duplicate checks, the original to the payee and the duplicate copy to serve as the check register to keep track of all checks could streamline the disbursement process.

DCA management failed to implement a system of internal controls. Management is responsible for protecting government assets and for ensuring the integrity and comprehensiveness of the data collected by the accounting system. Internal controls are the practical means that management uses to achieve these objectives.<sup>6</sup> See **Appendix C** for a detailed discussion of internal control.

***The Chamorro Heritage Account*****Revenues**

Bank statements show total deposits of \$216,742 for the three-year period (See **Appendix D** for Chamorro Heritage bank statement details). The account's sources of income are *Hale'-Ta* book sales (Chamorro heritage book series) and sponsorships.

DCA documents available for our review identified \$189,137 in book sales and \$3,804 in sponsorships. We could not determine the nature of revenues totaling \$14,732, although deposit tickets accounted for them. See **Table 4** for details.

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<sup>6</sup> *An Elected Official's Guide to Auditing*, Government Finance Officers Association

**Table 4: Chamorro Heritage Account Revenues**

Received From	2001	2002	2003	Total
Book Sales	\$ 149,657	\$ 13,221	\$ 26,259	\$ 189,137
Sponsorship	\$ 3,800	\$ -	\$ 4	\$ 3,804
Transfer	\$ -	\$ 9,000	\$ -	\$ 9,000
Unknown*	\$ 12,868	\$ -	\$ 1,864	\$ 14,732
Unaccounted**	\$ -	\$ (205)	\$ 274	\$ 69
<b>Total Revenues</b>	<b>\$ 166,325</b>	<b>\$ 22,016</b>	<b>\$ 28,401</b>	<b>\$ 216,742</b>

\*Unknown: Deposit tickets supported the amounts, however, the source or purpose of the income could not be determined.

\*\*Unaccounted: Amount was found in bank statements but there were no deposit tickets or other documents to support amount.

Of the \$216,742 in revenues, only \$19,288 was recorded on pre-numbered receipts, leaving \$197,454 not recorded; however, we were able to review revenues recorded on non-numbered documents. Because revenues are not entirely recorded in pre-numbered receipt books, we cannot be sure that all donations and book sales' revenues were deposited to the Chamorro Heritage account.

We were pleased to see an annual inventory of books performed by DCA. DCA inventory reports for fiscal years 2001, 2002, and 2003 indicated a total of 8,014 books sold (see **Table 5a**) and \$187,046 in book sales. These reports were compared to our reconstructed financial information based on recorded sales and found book sale variances of \$2,090 (see **Table 5b**).

**Table 5a: Book Inventory**

Beginning FY2001 Inventory	9,207
Add Purchases	8,500
Less Sales	(8,014)
Less Typhoon Loss	(1,673)
<b>Ending FY2003 Inventory</b>	<b>8,020</b>

**Table 5b: Book Sales Variance**

Fiscal Year	Qty Sold	Promotional Discounts	Total Sales (DCA Inventory Reports)	Recorded Sales	Variance
2001	6,181	\$ 1,504	\$ 153,361*	\$ 149,657	\$ 3,704
2002**	646	\$ 3,048	\$ 8,647	\$ 13,221	\$ (4,574)
2003	1,187	\$ 5,469	\$ 25,038	\$ 26,259	\$ (1,221)
<b>Total Variance</b>	<b>8,014</b>	<b>\$ 10,021</b>	<b>\$ 187,046</b>	<b>\$ 189,137</b>	<b>\$ (2,091)</b>

\* Includes Department of Education purchase of \$142,500.

\*\*2002 typhoon loss of 1,673 books and sales of \$34,930.

See **Appendix E** for the publication name and unit price of each book on sale at DCA.

### Disbursements

The total disbursements of the Chamorro Heritage account were \$149,640 for the three-year period. See **Table 6** for a breakdown of supported, unsupported, and reconciling items for the three fiscal years.

**Table 6: Chamorro Heritage Account Disbursements**

	2001	2002	2003	Total
Supported	\$ 72	\$ 8,590	\$ 78,063	\$ 86,725
Unsupported	\$1,942	\$18,015	\$ 42,990	\$ 62,947
Total Disbursements	\$2,014	\$26,605	\$121,053	\$149,672
Debit memo (unknown and not followed up by DCA)				\$ 115
Outstanding disbursements (See NOTE)				\$ (147)
<b>Total Bank Statement Disbursements</b>				<b>\$149,640</b>

Note: \$147 of disbursements did not clear bank statements of month ending September 30, 2003. Of this amount, \$75 is over six months old and considered stale-dated.

We tested 74 disbursements and note several areas of concern:

- 31 disbursements (46%) or \$13,016 were not supported by invoices;
- 38 disbursements (57%) or \$14,031 were not properly procured with three quotes and two disbursements were made to vendors not licensed to do business on Guam;
- Two disbursements (3%) or \$13,872 were requested and approved by the same individual on the requisition form and payment schedule forms;
- A \$115 debit memo was charged to the account. DCA was not able to identify the nature of the debit;
- Two stale checks totaling \$75 are over six months old. Banks may not honor these outstanding checks<sup>7</sup>; and
- We were not able to verify two voided checks by observing the originals or duplicates of the checks.

Our testing identified disbursements of \$62,039 for book publications. Request for Proposals (RFP) were issued for these book publications. One vendor was paid \$17,080 for services associated with the production of *Hemplan Nana Siha*, part of the *Hale'-Ta* Chamorro heritage book series.

Another vendor was paid \$44,550 towards the publication of three books in 2003. Request for Proposals (RFP) were submitted for two of the three books and have supporting vendor receipts.

<sup>7</sup> 13 G.C.A. §4404 states a bank is under no obligation to a customer having a checking account to pay a check, other than a certified check, which is presented more than six months after its date, but it may charge its customer's account for a payment made thereafter.

The RFP for the third book, *Chamorro Heritage: A Sense of Place*, was not published because DCA understood that the Guam Visitors Bureau and a non-profit organization (NPO) would absorb the cost of the publication for recognition as sponsors in the book. DCA received \$5,000 from GVB, however, DCA did not receive the donation from the NPO.

The NPO's Board flatly denied the sponsorship but did support a joint fundraising effort for proceeds to be used for the book's publication. The fundraiser was unsuccessful and DCA absorbed the additional costs of publication.

The Chamorro Heritage account transferred a total of \$15,096 to the DCA primary account and \$53,279 to the Department of Administration to pay the salary of the administrator of the division.

**Conclusion:**

Revenues of \$197,454 for the Chamorro Heritage account cannot be audited because pre-numbered receipts were not issued when cash was received. Disbursements of \$62,947 were not supported with invoices nor were they authorized and approved.

***Chamorro Language Commission Account***

**Revenues**

Bank statements indicated deposits of \$43,752 for 2001 and 2002. There were no deposits in 2003. The account's revenues should come from translation fees from private companies; government of Guam agencies are not charged a fee. The current administrator of the Chamorro Language Commission Division stated that revenues from translation fees have not been received since his appointment in 2003 nor does he have record of such revenue. **Table 7** illustrates the total bank deposits.

**Table 7: Chamorro Language Commission Revenues**

	2001	2002	2003	Total
Transfer	\$ -	\$ 36,000	\$ -	\$ 36,000
Unknown	\$ 7,752	\$ -	\$ -	\$ 7,752
<b>Total Revenues</b>	<b>\$ 7,752</b>	<b>\$ 36,000</b>	<b>\$ -</b>	<b>\$ 43,752</b>

There were no supporting documents for these deposits. DCA's current ASO could not confirm the nature of the 2001 deposits because they occurred during the previous administration. We were only able to identify the \$36,000 transfer in 2002 after reviewing disbursements of the DCA primary account. See **Appendix F** for bank statement details.

### **Disbursements**

The total disbursements of the Chamorro Language Commission account for the three-year period were \$36,751. See **Table 8** for a breakdown of supported and unsupported disbursements for the three fiscal years.

**Table 8: Chamorro Language Commission Account Disbursements**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Total</b>
Supported	\$ 72	\$ 7,500	\$10,045	\$17,617
Unsupported	\$2,977	\$10,557	\$ 5,600	\$19,134
Total Disbursements	\$3,049	\$18,057	\$15,645	\$36,751
<b>Total Bank Statement Disbursements</b>				<b><u>\$36,751</u></b>

We tested 34 disbursements listed in bank statements and noted several areas of concern:

- Eight disbursements (24%) or \$3,707 were not supported by invoices, at least nine disbursements were not properly authorized, and 21 disbursements (62%) or \$8,821 were not properly procured with three quotes;
- There were two check numbers that were duplicated and the current DCA ASO could not provide an explanation for this duplication; and
- There were three voided checks but no original or copy.

In 2001, \$75 was spent on the celebration of Chamorro Month, while \$6,311 was spent in 2003 for Chamorro Month. For 2002 \$6,373 was spent for Chamorro Month festivities but paid by the DCA primary account and not the Chamorro Language Commission account.

An individual was paid \$2,700 for professional services for the 2001 Chamorro Ball. We did not find vendor quotes for this service and did not find documentation identifying this vendor as a sole source provider. This individual was paid for other services by other DCA checking accounts. This individual is further discussed under **Finding 2: Procurement of Professional Services** of this report and identified as Vendor 2.

The Chamorro Language Commission account transferred \$4,541 to the DCA primary account.

### ***Chamorro-English/English-Chamorro Dictionary***

Professional services over \$5,000 shall be procured by a Request for Proposal (RFP).<sup>8</sup> Notice of an RFP must be made public and determination of the best-qualified offeror is based on an evaluation that is fair and reasonable.

<sup>8</sup> 5 G.C.A. §5216; 2 G.A.R. §3114

DCA was unable to provide a copy of any advertisement published for professional services in the preparation of a Chamorro-English/English-Chamorro dictionary and we did not locate any payments made to a newspaper for such an ad.

On February 15, 2002, DCA awarded a \$30,000 professional services contract (RFP DCA02-001) to its sole responder, a former elected official. This vendor was paid a total of \$22,500 from the Chamorro Language Commission account in fiscal years 2002 and 2003 for work performed for this contract.

The scope of work entails the performance and completion of research, review, compilation, and creation of a Chamorro-English English-Chamorro Dictionary. The dictionary was to be completed by March 31, 2003.

The following are a list of events during the life of the contract:

- |                   |  |
|-------------------|--|
| February 15, 2002 | Contractor is awarded contract.  |
| May 20, 2002      | Contractor submitted the 1 <sup>st</sup> quarterly written report.   |
| May 27, 2002      | The Chamorro Language Commission Division issued a \$7,500 check for services completed as of that date.   |
| August 25, 2002   | The Chamorro Language Commission Division issued a \$7,500 check for services complete as of that date.  |
| August 27, 2002   | Contractor submitted the 2 <sup>nd</sup> quarterly written report. Contractor also requested for a contract extension.   |
| November 26, 2002 | A revised contract was sent by the contractor to DCA with an increased price of \$39,375 and extended completion date of October 31, 2003. (The revision was not approved by the Board.) |
| November 27, 2002 | Contractor submitted the 3 <sup>rd</sup> quarterly written report.   |
| December 19, 2002 | The Chamorro Language Commission Division issued a \$7,500 check for services completed as of that date.   |

Notes on this contract drafted by the administrator of the Chamorro Language and Culture Division indicated the Board denied the contract price increase and the extended due date. The notes also suggested the Division of Culture and Language take over the project because a majority of the words and meanings were a duplication of a previous published dictionary.

We also discovered that this same contractor, the former elected official, was awarded another \$15,000 professional services contract on September 28, 2000, to provide research and materials to be used in the development of the Chamorro-English Dictionary. The contract required the services to be performed by November 16, 2001, 13 months after the award date. This contractor was paid \$5,754 from the general fund, not a DCA checking account, for services toward this contract. Again there was no notice of this RFP ever being publicized.

The contractor asserted in the August 2002 extension request that one year was too short a time to produce the document. However, it appears the vendor actually had 27 months, starting in September 2000 or over two years, to work on the dictionary.

This contractor was paid a total of \$28,254 (\$22,500 from the Chamorro Language Commission checking account and \$5,754 from the general fund) for these two contracts. However there is no draft of even a partial Chamorro-English/English-Chamorro Dictionary.

We recommend that DCA demand the vendor provide a draft of work completed thus far considering that almost \$30,000 had been paid for this project. A draft would allow DCA to resume the production of the dictionary. If the Contractor does not provide a draft, appropriate legal action should be initiated to remedy the nonperformance.

**Conclusion:**

There are no revenue sources for the Chamorro Language Commission account. Therefore, the Chamorro Language Commission account is not generating sufficient resources to fund its disbursements which appear to be funded by the DCA primary account. Disbursements of the account are also lacking supporting documents and approval.

A total of \$28,254 was paid for the development of the Chamorro-English Dictionary yet no draft or final product has been delivered to DCA.

***The Guam Museum Account***

**Revenues**

Bank statements indicated deposits of \$50,626 for the three-year period, the majority of which was \$43,002 transferred from the DCA primary account. **Table 9** lists the total receipts for fiscal years 2001, 2002, and 2003 for the Guam Museum account and illustrates how it was accounted.



**Table 9: Guam Museum Account Revenues**

Received from	2001	2002	2003	Total
Transfers	\$ -	\$ 38,002	\$ 5,000	\$ 43,002
Unknown*	\$ 554	\$ 1,140	\$ 1,357	\$ 3,051
Unaccounted**	\$ 4,490	\$ -	\$ 83	\$ 4,573
<b>Total Revenues</b>	<b>\$ 5,044</b>	<b>\$ 39,142</b>	<b>\$ 6,440</b>	<b>\$ 50,626</b>

\*Unknown: Deposit tickets supported the amounts, however, the source or purpose of the income could not be determined.

\*\*Unaccounted: Amount was found in bank statements but there were no deposit tickets or other documents to support amount.

The Guam Museum account's main sources of revenue should be from admission fees and donations received at their satellite exhibit facility located at the Ricardo J. Bordallo Complex (Adelup) from 1994 through December 2002.

Because of Super Typhoon Pongsona in December 2002, the Guam Museum was closed until it reopened at the Guam Premier Outlets (GPO) in June 2003. The satellite facility closed seven months later in January 2004. In April 2004, a new satellite reopened at Micronesia Mall.

Visitors to the Adelup facility paid admission fees upon entrance and were able to make contributions in the donation box. The GPO facility hosted a donation box but did not charge an admission fee.



We observed and evaluated the internal controls of the donation box and found they were insufficient. There were no written procedures for handling cash from admission fees and the donation box. Money was only deposited sporadically (daily deposits would be a better control) and the only physical control safeguarding the asset was a padlock; the box could easily be removed from the facility.

These weak controls presented an opportunity for misappropriating assets and theft. Cash control procedures should be established for future exhibits. Examples of good internal control procedures for the donation box include:

- Two authorized employees should empty the donation box, count the cash, and sign and date a deposit log documenting the amount of cash taken from the box.
- Someone independent of the two employees should re-count the cash, verify the amount indicated on the log, and prepare a deposit ticket.

- Another individual should verify the deposits per the bank statement to the deposit log book to ensure accuracy and completeness.

While the account was opened in March 2001, we noted there were no deposits in 15 months of the Adelup facility and two months at the GPO facility. It is logical to assume that at least some nominal sums should have been received and deposited to the account. Details of the bank statements can be found in **Appendix G**.

**Disbursements**

Bank statements indicated total disbursements of \$49,201 for the three-year period. See **Table 10** for a breakdown of supported and unsupported disbursements for the three fiscal years.

**Table 10: Guam Museum Account Disbursements**

	2001	2002	2003	Total
Supported	\$ 72	\$ 2,016	\$ 3,299	\$ 5,387
Unsupported	\$2,000	\$23,672	\$18,068	\$43,740
Total Disbursements	\$2,072	\$25,688	\$21,367	\$49,127
Bank Overdrafts				\$ 74
<b>Total Bank Statement Disbursements</b>				<b><u>\$49,201</u></b>

We tested 52 disbursements and noted several areas of concern:

- Eight disbursements (15%) or \$8,779 were not supported by invoices and at least eight disbursements were not properly authorized; and
- 31 disbursements (60%) or \$26,948 were not properly procured with three quotes.

Our testing of disbursements disclosed lack of documentation:

- In FY 2002, \$2,553 was disbursed to a vendor for furniture and equipment, however, no invoices or receipts were on file.
- In FY 2002, \$6,499 was disbursed to cover the cost of removal and replacement of a 10-ton condensing unit at the Adelup Exhibit Facility for museum artifacts still contained in the facility. We did not find three vendor quotes, therefore we cannot determine if this vendor was the most economical.
- Disbursements of \$9,032 were made to a vendor for the Adelup Exhibit Facility elevator in 2002 and 2003. No quotes from other vendors were found and \$5,223 of this amount had no documentation at all.

In FY 2003 under the current administration, \$8,172 was spent on the Guam Museum’s 70<sup>th</sup> Anniversary event, which is more than half of the FY 2003 disbursements.

In FY 2002, a \$2,252 transfer was made to the Department of Chamorro Affairs account.

Four checks totaling \$13,714 were disbursed to one vendor for professional services. This vendor is further discussed under **Finding 2: Procurement of Professional Services** of this report.

**Conclusion:**

The donations into the Guam Museum account are not adequately safeguarded against theft and loss. There are no procedures for the handling of donations and no pre-numbered receipts to keep track of the revenues, therefore, we cannot be sure that all revenues were accounted for.

Disbursements of the Guam Museum account were not authorized or supported.

***The Guam Archives Account***

**Revenues & Disbursements**

Bank statements indicated one deposit of \$2,500 in 2001 and another deposit of \$2,278 in 2002. Our reconstructed statements indicated a \$2,097 transfer from the DCA primary account into the archive account in 2002. We found no transfer of this amount into the account. There were no deposits in 2003.

According to the current ASO, all Guam Archives account transactions occurred during the prior administration. We were not able to determine the source and nature of the deposits and disbursements because there were no deposit tickets or other supporting documents on file for review.

The account was closed in April 2003 because no one in the division was available to manage the account. The ending balance of \$1,793 was transferred to the DCA primary account. The Guam Archives division, however, is still opened and adjoined with the Guam Museum division. See **Table 11** for a summary of revenues and disbursements or **Appendix H** for a monthly breakdown of bank statement revenues and disbursements.

**Table 11: Guam Archives Account Revenues and Disbursements**

Fiscal Years	Receipts	Disbursements	Ending Balance
2001	\$2,500	\$ 72	\$2,428
2002	\$2,278	\$ 2,491	\$2,215
2003		\$ 422	\$1,793
<b>Total</b>	<b>\$4,778</b>	<b>\$ 2,985</b>	

We were not able to find a transfer of \$2,097.31 (check number 27 dated March 20, 2002) from the DCA primary account. See **Appendix A**.

## **Finding 2: Inappropriate Procurement of Professional Services for Several DCA Accounts**

According to 5 G.C.A. §5216 and 2 G.A.R. §3114, professional services over \$5,000 shall be procured by a Request for Proposal (RFP).

There are several steps in the RFP process:

- Public notice of a RFP (§5216 (c));
- Determination of the best-qualified offeror based on the evaluation factors set forth in the RFP, and negotiation of compensation determined to be fair and reasonable (§5216 (e));
- Determination of non-responsibility of a bidder or offeror (§5230 (a)); and
- The responsible procurement officer's certification that a complete record of each procurement is maintained (§5250). A complete record includes documentation of all communications and meetings related to the procurement (§5249).

DCA entered into an agreement with a vendor on June 30, 2002. The vendor was to provide professional services to research and prepare materials to be used in the development of a database for establishing a general inventory of all materials, photographs, and historical documents within the Guam Museum, incorporate specific requirements within the database inventory, coordinate the design and production of pamphlets, brochures, and or other printed material for the Guam Museum, schedule exhibits and roving exhibits over a one-year period, and provide written reports as indicated in the agreement.

The contract stated that the agreement was in response to an April 10, 2002, ad published in the local newspaper. We were unable to find a payment to the local newspaper corresponding to a reasonable time period before this ad. The only payment to the local newspaper from this account was made on November 14, 2002. There were no payments from the other DCA accounts.

A total of \$23,893 was disbursed to the vendor for professional services of which \$13,714 came from the Guam Museum account and \$10,179 from the DCA primary bank account.

DCA appears to have used preferred vendors for professional services without going through the proper procurement process for specific events/projects. There were no proposals, no records of evaluations, no contracts, or no public notices for such services.

- Vendor 1 (see **Table 3**) received \$6,365 for the Children's Theatre Project in 2002 (DCA primary account)

- Vendor 2 received a total of \$25,200 from various accounts for professional services for different events. All but one disbursement had an invoice attached and was properly approved. The list below provides a breakdown by event.
  - \$2,700 in April 2001 for the Chamorro Ball (Chamorro Language Commission account);
  - \$7,000 in October 2001-December 2001. We could not determine the event these professional services were rendered for because the \$7,000 was unsupported. (DCA primary account);
  - \$5,500 for the Mes Chamorro Modan Fashion Show in 2002. (DCA primary account); and
  - \$10,000 (see **Table 3**) for the Children's Theatre Project in 2002. (DCA primary account).

**Conclusion:**

DCA did not follow procurement procedures consistent with promoting fair and open competition. There were no advertisements of RFPs and there were no evaluations of the vendors to determine if they were the best qualified and most economical to perform the services.

**Finding 3: Non-filing of Form 1099-MISC**

26 U.S.C §6041 states form 1099-MISC, Miscellaneous Income, must be filed for each person to whom at least \$600 in services (including parts and materials) or other income payments has been paid. This is reported to the Department of Revenue and Taxation (DRT).

DCA did not issue form 1099-MISC to any vendors it engaged in business transactions above \$600 during our scope period of fiscal years 2001, 2002 and 2003, nor was this income reported to DRT. DCA management was not aware of this requirement. See **Table 12** for the total amount DCA paid to vendors not reported to DRT who should have received 1099s.

**Table 12: Not Reported on Form 1099-MISC**

<b>Vendor</b>	<b>CY 2001</b>	<b>CY 2002</b>	<b>CY 2003</b>
Vendor 1		\$ 6,065	
Vendor 2	\$ 9,700	\$ 15,500	
Vendor 3		\$ 2,500	
Vendor 14		\$ 22,500	
Vendor 15		\$ 2,000	
Vendor 16		\$ 1,531	\$ 13,642
Vendor 17		\$ 1,250	
Vendor 18		\$ 800	
Vendor 19		\$ 600	
Vendor 21			\$ 1,000
Vendor 22			\$ 1,000
Vendor 23		\$ 600	
<b>Total</b>	<b>\$ 9,700</b>	<b>\$ 53,346</b>	<b>\$ 15,642</b>

Since DCA did not issue form 1099-MISC, DRT was not aware of income earned by these vendors. If these earnings were not reported as income on tax filings, this would result in lost income tax revenue. We have referred this matter to DRT for its review.

**Finding 4: Non-Compliance with Public Law 25-69**

***Boards of Advisors***

PL 25-69 established four advisory boards to assist the Board of Trustees: the Culture; Research and Publication; Guam Museum; and Heritage Boards of Advisors, with each Board having five members appointed by the Governor of Guam, with advice and consent of the Legislature.

No appointments have been made to these four boards. DCA management is of the opinion that these additional boards are not needed. We therefore recommend the Board of Trustees draft a resolution asking the Legislature to delete these superfluous boards.

***Checking Accounts***

PL 25-69 created six funds to be separate and apart from other funds, the records of which shall be kept and maintained by the Trustees. All monies received by each fund from sources other than government appropriation shall be deposited in the funds for their specified purposes. Checking accounts were opened and authorized by the Board of Trustees Resolution 003-01. **Table 13** lists the funds established by law and the authorized checking accounts.

**Table 13: Funds & Accounts**

Public Law 25-69	Board of Trustees Resolution 003-01	Checking Account #
Kottura Fund	Chamorro Language Commission	0038-104683
Research and Publication Fund	Chamorro Heritage Institute Planning Group	0038-104659
Guam Archives	Guam Archives	CLOSED
Guam Museum	Guam Museum	0038-104667
Irensia Fund		NOT OPENED
Irensia Board Fund		NOT OPENED
	Department of Chamorro Affairs	0038-104675

As of the date of this audit report, the Irensia Fund and the Irensia Board Fund do not have corresponding bank accounts and the Guam Archives Fund account was closed April 2003. Although public law and Board resolution authorized these accounts, they are not necessary.

Given the limited amount of financial activity in the five checking accounts, we recommend the Board of Trustees authorize the closure of all the checking accounts except one. The existence of multiple checking accounts and funds is cumbersome and inefficient. The accounting of the funds could easily be handled in one fund and one checking account. The Chamorro Language Commission account and the Guam Museum account do not have constant revenue sources to sustain their disbursements and require cash infusion from the DCA primary account. DCA is unable to efficiently and effectively manage so many accounts.

We further recommend that the Legislature abolish all but one of the funds that were established in PL 25-69. The existence of the six separate funds is not necessary for the efficient operation of DCA. The various activities could be individually accounted for in a single account.

DCA was not prepared to handle so many funds as it lacked accounting ability. The Legislature should be cautious in permitting departments and agencies to have checking accounts outside of the General Fund; it is necessary that an agency be capable of handling funds responsibly.

***Audited Financial Statements***

According to 5 G.C.A. §87111, DCA shall submit to *I Maga’lahen Guahan* and *I Liheslaturan Guahan* a detailed annual report of activities and an audited, annual financial report. DCA has not produced financial reports or financial statements and annual audits have not been performed for the non-appropriated funds of the agency. DCA management was unaware that this was required by the enabling act.

***Salary and Expenses of President and Vice-President***

5 G.C.A. § 87121 specifies that the Board of Trustees shall appoint a *Segundo/a Mas Ge’Hilo’* or Vice-President responsible for the *Ufisinan Minaneha* or Administrative and Program Support Office. The Vice-President may serve as the Comptroller of DCA.

DCA does not employ a Vice-President and the Civil Service Commission has no record for a Vice-President's position and salary.

### ***Standard Operating Procedures***

5 G.C.A. §87113 states DCA shall review and revise existing standard operating procedures and create rules and regulations for DCA regarding its functions and operations, according to the provisions of the Administrative Adjudication Law.

Although DCA has adopted standard operating procedures, they are not used. We recommend DCA update its existing procedures.

### ***Workers' Compensation***

5 G.C.A. §87107(b) states DCA shall provide Workers' Compensation coverage for its employees. DCA does not provide Workers' Compensation. This is inconsistent with the Government of Guam's self-insurance policy. Worker's compensation coverage for all agencies of the Government of Guam is managed by the Department of Labor, Workers' Compensation Commission, not the individual agencies. DCA was established as a non-profit public corporation so there may be a question as to whether DCA falls under the Workers' Compensation Commission.

### **Finding 5: Outside Employment**

4 G.C.A §4105(d) states that employees may work at outside employment not in conflict with their government service, nor such as would bring the government of Guam or its employees into disrepute, but that any employee may undertake such employment only if such is not in conflict with that person's duly scheduled hours and only with the consent of that person's department or agency head, which consent may not be unreasonably withheld.

During our audit, we found that a DCA employee was included in an instructional schedule for a non-government entity during DCA's regular hours of operations, 8:00 a.m.-5:00 pm. When we attempted to observe the employee's non-government activities, we discovered the employee's schedule had changed. Therefore, we were not able to confirm whether the employee had been working outside of his government job during his scheduled working hours.

We reviewed the employee's DCA time sheets for the four weeks of pay periods ending December 13 and 27, 2003, and compared it to December's instructional schedule (from the non-government entity) and noted this employee was paid by the Government of Guam for all hours scheduled to work at DCA (160 hours for the four weeks). We estimated that the employee spent 5 hours per week employed outside of DCA while earning a DCA salary of \$100 per week for non-DCA related duties.

DCA management was neither aware of the employee's outside employment nor did he receive authorization to obtain outside employment. DCA was unable to account for this employee's time during the regular hours of operations. This employee may have



received government compensation for time spent outside the government which violates 4 G.C.A. §4105(d).

## **Recommendations**

### **Recommendations to the Department of Chamorro Affairs:**

Regarding internal controls:

1. Update policies and procedures for receipts and disbursements to include control activities such as monitoring by DCA management; reporting to the Department of Administration; utilizing pre-numbered receipt books documenting the source, nature, and purpose of the receipts; monthly bank reconciliations; and segregation of incompatible duties.
2. Require a qualified accountant maintain the DCA records, utilizing an accounting software, and submit annual financial reports to the independent auditors as part of the government wide audit.

Regarding financial management:

1. Pursue collection of checks returned for insufficient funds and charge a return fee.
2. DCA transfer the \$25,000 FY 2002 payment to the Chamorro Village per GEDCA QC 219 from the primary account.
3. Coordinate with GEDCA to immediately implement uses for the \$40,000 in-kind contributions available from Company 1 through QC 212.

Regarding procurement of professional services:

1. Comply with GSA Procurement Regulations that require RFPs to be published and award contracts only to entities licensed to do business on Guam.<sup>9</sup>
2. DCA pursue collection of \$6,270 or its equivalent in services from the vendor who was contracted to provide financial services, install financial accounting software and train DCA employees in its use. If it is not collected, appropriate legal action should be pursued.
3. DCA should request a working draft from the vendor who was supposed to provide a Chamorro-English/English-Chamorro Dictionary and if it is not provided, appropriate legal action should be pursued.
4. DCA should submit Form 1099-MISC to individuals as required by the Internal Revenue Code who provide services to DCA of at least \$600 each calendar year.

We recommend DCA management ensure that DCA employees who opt to engage in employment outside of DCA obtain approval and schedules that do not conflict with obligations during DCA's hours of operations. Further, management should require that the DCA employee we found engaged in outside employment refund any compensation paid for hours spent outside the Government of Guam.

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<sup>9</sup> 5 G.C.A. §5008

We recommend the Board of Trustees request legislation to rescind the additional boards of advisors, close all accounts except the DCA primary account, and if the position of Vice-President is not warranted, recommend legislation to abolish the position.

**Recommendation to the Department of Revenue and Taxation**

1. Determine if appropriate action should be taken against those individuals paid professional services for which DCA did not issue 1099s.

**Recommendation to the Legislature:**

1. Enact legislation to abolish all but one of the funds that were established by PL 25-69.

**Management Response**

We provided a draft copy of our report to DCA management for review and comment. The President of DCA generally concurred with the findings and recommendations of the report. The response is attached as **Appendix I** of this report.

**Limitations of Report**

This report has been released to the Governor, the Speaker and members of the 27<sup>th</sup> Guam Legislature, the Director of the Department of Administration, the President of the Department of Chamorro Affairs, the Director of the Department of Revenue and Taxation, and the Guam branch of the Office of Inspector General of the U.S. Department of Interior. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations. This report contains only evidentiary conclusions based on documentation available during our review.

The President and staff of the Department of Chamorro Affairs contributed information that materially assisted the OPA in completing its work. Their cooperation is gratefully acknowledged.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA, CGFM  
Public Auditor

## **Appendices**

## APPENDIX A: Reconstructed Revenues and Expenses

<b>Revenues</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Total</b>	<b>Transfers</b>	<b>Total</b>
Chamorro Heritage Account	\$ 166,325	\$ 22,016	\$ 28,401	\$216,742	\$ (9,000)	\$207,742
Dept. of Chamorro Affairs Account	\$ 214,970	\$ 57,668	\$ 98,295	\$370,933	\$ (23,682)	\$347,251
Chamorro Language Commission Account	\$ 7,752	\$ 36,000	\$ -	\$ 43,752	\$ (36,000)	\$ 7,752
Guam Museum	\$ 5,044	\$ 39,142	\$ 6,440	\$ 50,626	\$ (43,002)	\$ 7,624
Guam Archives	\$ 2,500	\$ 2,278	\$ -	\$ 4,778	\$ (2,278)	\$ 2,500
<b>Total</b>	<b>\$ 396,591</b>	<b>\$ 157,104</b>	<b>\$ 133,136</b>	<b>\$686,831</b>	<b>\$(113,962)</b>	<b>\$572,869</b>
Transfers from other DCA accounts	\$ -	\$ (92,986)	\$ (20,976)			
<b>Total Revenues Net of Transfers</b>	<b>\$ 396,591</b>	<b>\$ 64,118</b>	<b>\$ 112,160</b>			<b>\$572,869</b>
<b>Expenses</b>						
Chamorro Heritage Account	\$ 2,014	\$ 26,605	\$ 121,021	\$149,640	\$ (15,096)	\$134,544
Dept. of Chamorro Affairs Account	\$ 18,759	\$140,905	\$ 200,292	\$359,956	\$ (92,377)	\$267,579
Chamorro Language Commission Account	\$ 3,049	\$ 18,057	\$ 15,645	\$ 36,751	\$ (4,541)	\$ 32,210
Guam Museum Account	\$ 2,072	\$ 17,711	\$ 29,418	\$ 49,201	\$ (2,252)	\$ 46,949
Guam Archives Account	\$ 72	\$ 2,491	\$ 422	\$ 2,985	\$ (1,793)	\$ 1,192
<b>Total</b>	<b>\$ 25,966</b>	<b>\$205,769</b>	<b>\$ 366,798</b>	<b>\$598,533</b>	<b>\$(116,059)</b>	<b>\$482,474</b>
Transfers to other DCA accounts	\$ -	\$ (95,083)	\$ (20,976)			
<b>Total Expenses Net of Transfers</b>	<b>\$ 25,966</b>	<b>\$ 110,686</b>	<b>\$ 345,822</b>			<b>\$482,474</b>
<b>Net Income (Loss)</b>	<b>\$ 370,625</b>	<b>\$ (46,568)</b>	<b>\$(233,662)</b>			<b>\$ 90,395</b>
<b>Variance</b>					<b>\$ 2,097</b>	

**Note:** Deposit of \$2097.31 from DCA primary account cannot be found in Guam Archives bank statements.

**APPENDIX B: Department of Chamorro Affairs Bank Deposits and Disbursements**

<b>Statement Date</b>	<b>Deposits</b>	<b>Disbursements</b>	<b>Ending</b>
March 15 - 31, 2001	\$ 214,970	\$ (10,000)	\$ 204,970
April 1 - 30, 2001		\$ (8,459)	\$ 196,511
May 1 - 31, 2001		\$ (300)	\$ 196,211
June 1 - 30, 2001			\$ 196,211
July 1 - 31, 2001			\$ 196,211
August 1 - 31, 2001			\$ 196,211
September 1 - 30, 2001			\$ 196,211
<b>FY 2001 Subtotal</b>	<b>\$ 214,970</b>	<b>\$ (18,759)</b>	
October 1 - 31, 2001	\$ 47,241	\$ (4,000)	\$ 239,452
November 1 - 30, 2001		\$ (18,408)	\$ 221,044
December 1 - 31, 2001		\$ (5,000)	\$ 216,044
January 1 - 31, 2002	\$ 3,172	\$ (11,953)	\$ 207,262
February 1 - 28, 2002		\$ (8,549)	\$ 198,713
March 1 - 31, 2002	\$ 108	\$ (77,420)	\$ 121,401
April 1 - 30, 2002	\$ 7,147	\$ (5,950)	\$ 122,597
May 1 - 31, 2002		\$ (65)	\$ 122,532
June 1 - 30, 2002		\$ (5,281)	\$ 117,251
July 1 - 31, 2002		\$ (2,417)	\$ 114,834
August 1 - 31, 2002			\$ 114,834
September 1 - 30, 2002		\$ (1,861)	\$ 112,973
<b>FY 2002 Subtotal</b>	<b>\$ 57,668</b>	<b>\$ (140,904)</b>	
October 1 - 31, 2002		\$ (34,402)	\$ 78,571
November 1 - 30, 2002		\$ (21,398)	\$ 57,173
December 1 - 31, 2002	\$ 15,000	\$ (17,127)	\$ 55,046
January 1 - 31, 2003		\$ (9,908)	\$ 45,138
February 1 - 28, 2003		\$ (6,953)	\$ 38,185
March 1 - 31, 2003	\$ 2,151	\$ (17,100)	\$ 23,236
April 1 - 30, 2003	\$ 1,910	\$ (2,672)	\$ 22,474
May 1 - 31, 2003	\$ 42,592	\$ (11,945)	\$ 53,121
June 1 - 30, 2003	\$ 200	\$ (9,247)	\$ 44,074
July 1 - 31, 2003	\$ 4,156	\$ (18,001)	\$ 30,229
August 1 - 30, 2003	\$ 14,350	\$ (36,577)	\$ 8,002
September 1 - 31, 2003	\$ 17,936	\$ (14,961)	\$ 10,976
<b>FY 2003 Subtotal</b>	<b>\$ 98,295</b>	<b>\$ (200,291)</b>	
<b>Grand total</b>	<b>\$ 370,933</b>	<b>\$ (359,954)</b>	

## APPENDIX C: Internal Control<sup>10</sup>

Internal control comprises the plans, methods, and procedures used to reasonably ensure (1) safeguarding of assets, (2) compliance with policies, laws, and procedures, (3) accomplishing stated goals and objectives, (4) reliable information and records, (5) efficient and effective organizations, and (6) preventing and detecting errors and fraud. It also helps minimize operational problems, and help in managing change to cope with shifting environments and evolving demands and priorities. With organizational change comes the requirement that management must continually assess and evaluate its internal controls to assure that the control activities being used are effective and updated when necessary.

**Management is responsible for protecting the government's assets and for ensuring the integrity and comprehensiveness of the data collected by the accounting system.** Internal controls are the practical means that management uses to achieve these objectives.

A comprehensive framework of internal controls must do all of the following:

- Produce a favorable *control environment*
- Ensure the ongoing *assessment of risk*
- Establish and maintain *control-related policies and procedures*
- Facilitate *communication*
- Provide for *monitoring* the effectiveness of control-related policies and procedures as well as the resolution of potential problems identified by control-related procedures.

To be effective, control-related policies and procedures, which are the heart of a government's framework of internal controls, must ensure all of the following:

- The proper *authorization* of transactions
- The proper *design of records*
- The maintenance of *security over assets and records*
- The periodic *reconciliation of accounting records*
- The *segregation of incompatible duties*. Duties are incompatible if they permit an employee to both commit and conceal an irregularity in the ordinary course of that employee's duties.
- The period *verification* of the underlying facts related in accounting records (e.g., the physical inventory of capital assets).
- The regular *analytical review* of accounting data (i.e., the systematic comparison of accounting data to other data, both accounting and non-accounting, to assess their reasonableness.)

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<sup>10</sup> *An Elected Official's Guide to Auditing*, Government Finance Officers Association

**APPENDIX D: Chamorro Heritage Institute Planning Group Account<sup>11</sup> Bank Deposits and Disbursements**

<b>Statement Date</b>	<b>Deposits</b>	<b>Disbursements</b>	<b>Ending</b>
March 15 - 31, 2001	\$ 7,500	\$ (600)	\$ 6,900
April 1 - 30, 2001	\$ 10,114	\$ (142)	\$ 16,872
May 1 - 31, 2001	\$ 391	\$ (294)	\$ 16,969
June 1 - 30, 2001	\$ 142,947	\$ (938)	\$ 158,978
July 1 - 31, 2001	\$ 2,812	\$ (40)	\$ 161,750
August 1 - 31, 2001	\$ 1,485		\$ 163,235
September 1 - 30, 2001	\$ 1,075		\$ 164,310
<b>FY 2001 Subtotal</b>	<b>\$ 166,325</b>	<b>\$ (2,014)</b>	
October 1 - 31, 2001	\$ 805		\$ 165,115
November 1 - 30, 2001	\$ 241	\$ (8,935)	\$ 156,421
December 1 - 31, 2001	\$ 65		\$ 156,486
January 1 - 31, 2002	\$ 11,986	\$ (3,007)	\$ 165,465
February 1 - 28, 2002	\$ 275	\$ (8,576)	\$ 157,164
March 1 - 31, 2002	\$ 3,390	\$ (1,480)	\$ 159,074
April 1 - 30, 2002	\$ 445	\$ (2,064)	\$ 157,455
May 1 - 31, 2002	\$ 650	\$ (50)	\$ 158,055
June 1 - 30, 2002	\$ 1,220	\$ (190)	\$ 159,085
July 1 - 31, 2002	\$ 1,029	\$ (39)	\$ 160,075
August 1 - 31, 2002	\$ 205	\$ (1,942)	\$ 158,338
September 1 - 30, 2002	\$ 1,705	\$ (322)	\$ 159,721
<b>FY 2002 Subtotal</b>	<b>\$ 22,016</b>	<b>\$ (26,605)</b>	
October 1 - 31, 2002	\$ 585	\$ (9,700)	\$ 150,606
November 1 - 30, 2002	\$ 2,545	\$ (5,200)	\$ 147,951
December 1 - 31, 2002	\$ 2,099	\$ (20,690)	\$ 129,360
January 1 - 31, 2003	\$ 3,659	\$ (53,394)	\$ 79,625
February 1 - 28, 2003	\$ 2,072		\$ 81,697
March 1 - 31, 2003	\$ 2,493	\$ (231)	\$ 83,959
April 1 - 30, 2003	\$ 89		\$ 84,048
May 1 - 31, 2003	\$ 437	\$ (13,903)	\$ 70,582
June 1 - 30, 2003	\$ 3,493	\$ (17,717)	\$ 56,358
July 1 - 31, 2003	\$ 6,406	\$ (36)	\$ 62,728
August 1 - 30, 2003	\$ 1,600	\$ (150)	\$ 64,178
September 1 - 31, 2003	\$ 2,923		\$ 67,101
<b>FY 2003 Subtotal</b>	<b>\$ 28,401</b>	<b>\$ (121,021)</b>	
<b>Grand total</b>	<b>\$ 216,742</b>	<b>\$ (149,640)</b>	

<sup>11</sup> Chamorro Heritage is used for discussion purposes. Chamorro Heritage Institute Planning Group is the official name of the account per bank statements.

**APPENDIX E: *Hale'-Ta* Book Series**

*Hale'-Ta*, our roots, is a series of books written and published by the Research, Publication, and Training Division (also known as the Chamorro Heritage Institute Planning Group) of DCA.

<b>Hale'-Ta Publication Name</b>	<b>Unit Price</b>
Hestorian Taotao Tano	\$ 30.00
Inafa'maolek	\$ 25.00
I Manfayi: Who's Who in Chamorro History, Volume 1	\$ 25.00
I Manfayi: Who's Who in Chamorro History, Volume 2	\$ 25.00
I Manfayi: Who's Who in Chamorro History, Volume 3	\$ 30.00
I Ma Gobetna'-na Guam	\$ 40.00
Kinalamten Pulitikat	\$ 30.00
Hinasso': Tinige Put Chamorro	\$ 25.00
Hemplon Nana Siha	\$ 15.00
Chamorro Heritage: A Sense of Place	\$ 24.00



**APPENDIX F: Chamorro Language Commission Account Bank Deposits and Disbursements**

<b>Statement Date</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending</b>
March 15 - 31, 2001	\$ 4,925	\$ (112)	\$ 4,813
April 1 - 30, 2001	\$ 2,827	\$ (2,937)	\$ 4,703
May 1 - 31, 2001			\$ 4,703
June 1 - 30, 2001			\$ 4,703
July 1 - 31, 2001			\$ 4,703
August 1 - 31, 2001			\$ 4,703
September 1 - 30, 2001			\$ 4,703
<b>FY 2001 Subtotal</b>	<b>\$ 7,752</b>	<b>\$ (3,049)</b>	
October 1 - 31, 2001			\$ 4,703
November 1 - 30, 2001			\$ 4,703
December 1 - 31, 2001		\$ (320)	\$ 4,383
January 1 - 31, 2002			\$ 4,383
February 1 - 28, 2002			\$ 4,383
March 1 - 31, 2002	\$ 36,000		\$ 40,383
April 1 - 30, 2002		\$ (2,500)	\$ 37,883
May 1 - 31, 2002			\$ 37,883
June 1 - 30, 2002		\$ (7,500)	\$ 30,383
July 1 - 31, 2002			\$ 30,383
August 1 - 31, 2002			\$ 30,383
September 1 - 30, 2002		\$ (7,737)	\$ 22,646
<b>FY 2002 Subtotal</b>	<b>\$ 36,000</b>	<b>\$ (18,057)</b>	
October 1 - 31, 2002			\$ 22,646
November 1 - 30, 2002			\$ 22,646
December 1 - 31, 2002		\$ (7,500)	\$ 15,146
January 1 - 31, 2003			\$ 15,146
February 1 - 28, 2003		\$ (710)	\$ 14,436
March 1 - 31, 2003		\$ (4,515)	\$ 9,921
April 1 - 30, 2003		\$ (1,465)	\$ 8,456
May 1 - 31, 2003		\$ (910)	\$ 7,546
June 1 - 30, 2003		\$ (425)	\$ 7,121
July 1 - 31, 2003			\$ 7,121
August 1 - 30, 2003			\$ 7,121
September 1 - 31, 2003		\$ (120)	\$ 7,001
<b>FY 2003 Subtotal</b>	<b>\$ -</b>	<b>\$ (15,645)</b>	
<b>Grand total</b>	<b>\$ 43,752</b>	<b>\$ (36,751)</b>	

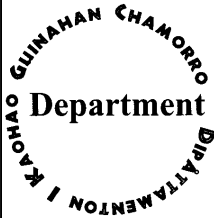
**APPENDIX G: Guam Museum Account Bank Deposits and Disbursements**

<b>Statement Date</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending</b>
March 15 - 31, 2001	\$ 4,500	\$ (2,000)	\$ 2,500
April 1 - 30, 2001	\$ 203	\$ (72)	\$ 2,631
May 1 - 31, 2001	\$ 341		\$ 2,972
June 1 - 30, 2001			\$ 2,972
July 1 - 31, 2001			\$ 2,972
August 1 - 31, 2001			\$ 2,972
September 1 - 30, 2001			\$ 2,972
<b>FY 2001 Subtotal</b>	<b>\$ 5,044</b>	<b>\$ (2,072)</b>	
October 1 - 31, 2001		\$ (2,553)	\$ 419
November 1 - 30, 2001			\$ 419
December 1 - 31, 2001		\$ (75)	\$ 344
January 1 - 31, 2002		\$ (96)	\$ 248
February 1 - 28, 2002			\$ 248
March 1 - 31, 2002	\$ 38,002	\$ (610)	\$ 37,640
April 1 - 30, 2002		\$ (2,410)	\$ 35,230
May 1 - 31, 2002		\$ (83)	\$ 35,147
June 1 - 30, 2002	\$ 817	\$ (12)	\$ 35,952
July 1 - 31, 2002			\$ 35,952
August 1 - 31, 2002	\$ 323	\$ (5,320)	\$ 30,955
September 1 - 30, 2002		\$ (6,552)	\$ 24,403
<b>FY 2002 Subtotal</b>	<b>\$ 39,142</b>	<b>\$ (17,711)</b>	
October 1 - 31, 2002		\$ (8,001)	\$ 16,402
November 1 - 30, 2002	\$ 213	\$ (10,085)	\$ 6,530
December 1 - 31, 2002		\$ (10,748)	\$ (4,218)
January 1 - 31, 2003	\$ 147		\$ (4,071)
February 1 - 28, 2003	\$ 5,000	\$ (584)	\$ 345
March 1 - 31, 2003			\$ 345
April 1 - 30, 2003			\$ 345
May 1 - 31, 2003			\$ 345
June 1 - 30, 2003			\$ 345
July 1 - 31, 2003	\$ 616		\$ 961
August 1 - 30, 2003			\$ 961
September 1 - 31, 2003	\$ 464		\$ 1,425
<b>FY 2003 Subtotal</b>	<b>\$ 6,440</b>	<b>\$ (29,418)</b>	
<b>Grand total</b>	<b>\$ 50,626</b>	<b>\$ (49,201)</b>	

**APPENDIX H: Guam Archives Account Bank Deposits and Disbursements**

<b>Statement Date</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending</b>
April 1 - 30, 2001	\$ 2,500	\$ (72)	\$ 2,428
May 1 - 31, 2001			\$ 2,428
June 1 - 30, 2001			\$ 2,428
July 1 - 31, 2001			\$ 2,428
August 1 - 31, 2001			\$ 2,428
September 1 - 30, 2001			\$ 2,428
<b>FY 2001 Subtotal \$ 2,500 \$ (72)</b>			
October 1 - 31, 2001		\$ (150)	\$ 2,278
November 1 - 30, 2001			\$ 2,278
December 1 - 31, 2001			\$ 2,278
January 1 - 31, 2002			\$ 2,278
February 1 - 28, 2002			\$ 2,278
March 1 - 31, 2002	\$ 2,278.		\$ 4,555
April 1 - 30, 2002		\$ (2,167)	\$ 2,388
May 1 - 31, 2002			\$ 2,388
June 1 - 30, 2002			\$ 2,388
July 1 - 31, 2002		\$ (174)	\$ 2,215
August 1 - 31, 2002			\$ 2,215
September 1 - 30, 2002			\$ 2,215
<b>FY 2002 Subtotal \$ 2,278 \$ (2,491)</b>			
October 1 - 31, 2002			\$ 2,215
November 1 - 30, 2002		\$ (350)	\$ 1,865
December 1 - 31, 2002			\$ 1,865
January 1 - 31, 2003		\$ (72)	\$ 1,793
February 1 - 28, 2003			\$ 1,793
March 1 - 31, 2003			\$ 1,793
April 1 - 30, 2003			\$ 1,793
<b>FY 2003 Subtotal \$ - \$ (422)</b>			
<b>Grand Total \$ 4,778 \$ (2,985)</b>			

## **APPENDIX I: Management Response**



**Department of Chamorro Affairs**

Honorable Felix P. Camacho  
Governor of Guam

JLawrence Cruz  
President

Honorable Kaleo S. Moylan  
Lt. Governor of Guam



May 10, 2004

Ms. Doris Flores-Brooks  
Public Auditor  
Office of the Public Auditor  
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238 Archbishop Flores St.  
Hagatna, Guam 96910

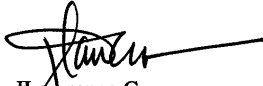
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Public Auditor

5-11-04 12:33 PM

Dear Ms. Flores-Brooks:

Attached herewith is the response to the draft of proposed OPA Report No. 04-06, Department of Chamorro Affairs Performance Audit of the Non-Appropriated Funds, for FY 2001 to 2003. I look forward to further comments and recommendations to assist us in meeting our requirements with respects to the management of government funds.

Si Yu'us Ma'ase,

  
JLawrence Cruz  
President, DCA

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**DIBISION FINO' YAN KOTTURAN CHAMORRO**  
Chamorro Language and Culture Division

**I SENGSONG CHAMORRO**  
Chamorro Village

**DIBISION IRENIA**  
Heritage Preservation Division

**DIBISION INALICAO, TINIGE', YAN FINA'NA'GUE**  
Research, Publications and Training Division

**DIBISION FANNADAHEN KOISAS GUAHAN YAN SAGAN RIKLETDON**  
Guam Museum & Archives Division

Department of Chamorro Affairs  
Response to OPA Report No. 04-06

May 10, 2004

The management, together with the members of the Board of Trustee reviewed and discussed the findings of the OPA Audit Report No. 04-06. The following responses are in relations to specific concerns made in the report. The individual division administrators submitted responses to concerns identified from FY 2000 to 2002, except for the Division of Chamorro Language and Culture.

The President's Office  
Checking Accounts

The management recognizes the need to consolidate all checking accounts into one account. Management also acknowledges the deficiencies in the internal control of the department's non-appropriated funds. The department lacks a Fiscal Officer or qualified personnel to manage and control all funds according to general accounting procedures. We submitted a request for authorization to recruit qualified personnel to correct this deficiency with the department.

The Board of Trustee endorses the recruitment of qualified personnel to address this problem. The Board of Trustee also concurs with the consolidation of all checking accounts into one. The Chairman has directed the President to serve as the certifying officer and the Board Treasurer or the President authorizes all disbursement. This concern is addressed with the action of the Board of Trustee and the management and is in effect as of May 10, 2004.

With the action of the Board of Trustee and management, all Bank accounts will be reconciled and be current with all funds records. The Administrative Service Officer has made all efforts to reconcile and will report to the Board of Trustee and management of the reconciliation of all bank account records and funds.

With respects to deposits, any and all funds received by the Department of Chamorro Affairs are deposited into the primary account. Disbursements are made through the primary accounts for projects and services requested by the division administrator and approved by the president. Supporting documents are usually provided before any funds are disbursed.

Service Contracts:

Accounting Process Contract:

The current staff of the department had indicated work related to the contract to install accounting software and establish an accounting procedure never materialized. Attempts to contact the contractor to begin work were unsuccessful. In light of the financial situation of the government, and the uncertainty of the programs at the onset of the administration, we requested reimbursement of funds to the department. To date, the department does not have any communication with the contractor to continue the project.

The management agrees there is a need to install any program that will assist us in managing the department's non-appropriated funds, however it should have been in the best interest of the department and the new management to decide on the process.

Additionally, it is of the opinion of the Board of Trustee and management that the contracted amount was an inflated amount and could have been provided under \$500.00. Nonetheless, payment was disbursed and it is rather unfortunate that the department would take such a loss.

**RPT Contract:**

The management agrees with the findings of the auditors relating to the contract with the administrator of RPT. We were uncertain of the procedures at the time, and eventually corrected the situation. The employee's employment status became clear upon further inquiries. The management is in compliance with all the procedures relating to the continuation of services of the administrator of the RPT division.

**The Children's Theatre Project:**

The Children's Theatre Project was a project of the former President. It was apparent that the original intent of the project was not fulfilled and the funds were expended for other than what it was intended for.

**Conclusion:**

The management of the department is fully aware of the inadequacies relating to the financial management of the non-appropriated fund. We have now identified our shortfalls and are making every attempt to rectify and correct the deficiencies. The Board of Trustee is fully aware of the problem and is in full support to correct the problem.

**The Chamorro Language and Culture Division:**

The findings of the auditor on items relating the Chamorro Language and Culture Division were for the calendar and fiscal years 2000 to 2003. The current administrator of the division received no funds for translation.

In reference to the Chamorro Language Dictionary project, the management is reviewing the contract and all reports submitted by the contractor. The Board of Trustee and management agrees that communication be establish with the contractor to request completion of the project. Once the review is complete, communication with the contractor will begin to finalize the project.

**The Guam Museum:**

(see attached documents)

**Research, Publication and Reproduction:**

(see attached documents)

**Finding 4:**

The Board of Trustee is fully aware of the mandate to include a Board of Advisors for each division. Attempts are made to provide for these advisory board,

however, individuals invited to fill these positions have declined appoints. Needless to say, the full compliment of the Board of Trustee is yet to be filled. The current membership of the board comprises a quorum to act on matters relating to the department. In the meantime, current Board members will oversee the respective division to relate the concerns and progress to the full Board.

**Finding 5:**

The employee identified as engaging in instructional schedule for a non-government entity during DCA's regular hours of operation has admitted to his involvement in the operation. The employee has agreed to reimburse the government for the hours spent at his non-government activity. (Attachments)

**Conclusion:**

The Board of Trustee and the management of the Department of Chamorro Affairs, having reviewed the findings of the Office of the Public Auditor is committed to rectify and address the issues pointed out in the report. The management will work with the Public Auditor to follow-up on the report, to review all corrected measures, and identify other means of compliance with policies and regulation governing the management of public funds.



### **Chamorro Heritage Account Response to OPA Draft 04-06**

In response to the \$14,732 deposited into the account with sources unknown, a portion of this amount can be contributed to occasions where books were purchased with cash and no change was available (there is no Petty Cash Fund). In these cases the customers requested that the difference be donated to the "book fund." Regrettably these donations were not written on the sales receipts or recorded in a logbook. Another possible explanation of this amount would be the transfer of funds from one account (DCA President's Office Account) to another (Chamorro Heritage Account) or deposits made to the Chamorro Heritage Account without the knowledge of the individual responsible for deposits.

Regarding the amounts specified as Sponsorship, the figures provided by the auditor are inaccurate. In 2001 a total of \$3,900 was deposited for the publication of *Volume IV: Generations of Public Servants* and in 2003, \$5,000 was deposited for the publication of *Chamorro Heritage: A Sense of Place*. Both amounts totaling \$8,900 can be contributed to the \$14,732.

In response to the statement that DCA does not use pre-numbered receipt books, this is inaccurate. Pre-numbered receipts are used, although some numbers are not sequential due to the use of more than one receipt book. For the vast majority of book sales, receipts are kept; this was explained to the auditor. On several occasions receipts were written on a different receipt book by the office staff, due to the inaccessibility to the publications receipt book, when the individual designated to monitor all book sales was on leave. When asked by the auditor about the use of receipt books, the same individual willingly offered to provide the receipt books for review, however, the auditor refused and instead requested that a listing of receipts be made indicating date of purchase, name of customer (source), amount paid and purpose (book sales, Sponsorship, postage, etc.). The listing was prepared and submitted to the auditor. A copy of the list submitted is provided.

The variances between the total book sales (inventory report) and recorded sales can be explained with the book sales that occurred without the use of receipts or the use of different receipt books. Though records are kept to the best of the designated individual's ability, improvements are needed and steps are being made to ensure that more accurate records are kept.

Based on the information provided by the auditor regarding account disbursements, there is no way of making a response. I respectfully request that the auditor provide a more detailed explanation of the findings on disbursements such as check numbers or amounts disbursed. Specifically relating to the disbursements made without proper documentation.

Because no further information was given other than the number of checks voided, I am assuming that one refers to the check that was lost as a result of Super Typhoon Pongsonga. The check was prepared several days prior to the typhoon, and

awaiting vendor pick-up when the typhoon hit. Upon returning to her work site, the individual responsible found that all the windows in the office in which the check was stored had been destroyed. The contents of the drawer in which the check was placed was found scattered throughout the flooded room; the check was destroyed. The individual immediately reported this to her supervisor who then informed the President's Office of the loss. The second check, I am assuming was issued during the past administration, and therefore I am unable to respond to the details of its voiding.

Honorable Felix Camacho  
Governor of Guam

Honorable Kaleo Moylan  
Lt. Governor of Guam



JLawrence Cruz, President  
DCA

Antonio M. Palomo, Administrator  
Guam Museum

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April 30, 2004

**MEMORANDUM**

**To: President, Department of Chamorro Affairs**

**From: Administrator, Guam Museum**

**Subject: Draft audit report**

The following are my comments relative to certain statements made in the draft audit report.

- In FY 2002, \$2,553 was disbursed to a vendor for furniture and equipment, however, no invoices or receipts were on file.

**My comments:** This presumably had to do with the purchase of a multitude of items at a closed out sale when the Hotel Regency in Tumon discontinued operation. Among items purchased were Five tables, three ice boxes, two safes, six table lamps, 20 picture frames, 100 small and large recess lights, and light fixtures. The invoices and receipts should be at the DCA central office.

- In FY 2002, \$6,499 was disbursed to cover the cost of removal and replacement of a ten-ton condensing unit at the Adelup Exhibit Facility for museum artifacts still contained in the facility. We did not find three vendor quotes, therefore, we cannot determine if this vendor was the most economical.

**My comments:** This disbursement took place shortly after Typhoon Chata'an struck Guam in July, 2002. The Guam Museum had two ten-ton condensers and one broke down before the storm struck. Chata'an broke the second one, creating a critical condition at the exhibit facility since heat and salt air were detriments to the artifacts. With the concurrence of DCA management, the Guam Museum proceeded to purchase a ten-ton condenser with the understanding that FEMA will reimburse the Museum or DCA for the cost, to which FEMA agreed. No other quotes other than JWS Refrigeration Co. were received because no other company had the ten-ton condenser in stock at the time, and this was a matter of much urgency.

- Disbursements of \$9,032 were made to a vendor for the Adelup Exhibit Facility elevator in 2002 and 2003. No quotes from other vendors were found and \$5,223 of this amount had no documentation at all.
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- My comments – In early 2002, the Museum requested repair of the elevator and sought the services of Otis Elevator Company since the elevator was manufactured by Otis and the company had a service contract with the museum since 1995. However, the Guam Museum had an outstanding debt to Otis in the amount of about \$4,000 for previous service. Otis agreed to conduct the repair provided the Museum pay off the outstanding debt and 50 percent of the estimated cost of \$10,000 to conduct the repair. This accounts for the \$9,032 amount cited by the draft audit. It should be pointed out that the Guam Museum had planned to use the Adelup facility as the site for the observance of the 70<sup>th</sup> anniversary of the establishment of the museum. But by November, 2002, the repair had not been completed and the Museum had to locate the anniversary site at the Chamorro Village. Otis announced the completion of repairs late in November, 2002, but museum staff found that the elevator door could not close. A date was set for a certified elevator inspector (Bernardo) to meet with museum staff and Otis technician, but the latter did not show up at the appointed time and date. On December 8, 2002, Ponsongna struck and all the work that was done at the Adelup facility were lost, and we'll never know whether the elevator door could have been fixed at that time. It should also be pointed out that the elevator and the air conditioning units were constant problems over the years.

  
ANTONIO M. PALOMO