



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Non-Appropriated Funds of The Council on the Arts and Humanities Agency
Government of Guam
Report No. 05-02, June 2005

The Office of the Public Auditor initiated a performance audit on the Council on the Arts & Humanities (CAHA) as part of the overall review of the Government of Guam agencies with non-appropriated funds. The objectives of the audit were to determine whether the non-appropriated funds of CAHA were properly managed and accounted for in accordance with applicable laws and regulations.

In 1982, Public Law 16-122 created the Guam Council on the Arts and Humanities Agency. The Governor issued Executive Order (E.O.) 84-3 in February 1984, which established the CAHA Revolving Fund and guidelines for general administration, internal fiscal control, and audit review. The mission of CAHA is to encourage and foster participation in the arts and humanities with programs designed to benefit citizens of all ages and from every sector of the community.

Our audit found the former CAHA directors and the Board failed to implement and adhere to the guidelines established in E.O. 84-3. Specifically we identified the following internal control deficiencies:

- Inadequate financial reporting and lack of accounting system. CAHA does not utilize accounting software to account for the Revolving Fund transactions and did not prepare financial reports for one of the two Revolving Fund checking accounts. The former Directors and the Board did not request the Revolving Fund financial reports. As a result, receipts significantly declined by \$46,486 from FY 2001 to FY 2003. The large declines indicate that CAHA management has not been able to sustain art program activities to FY 2001 levels.
- Improper separation of duties. We found the Treasury agent held incompatible duties by maintaining all the Revolving Fund account records, preparing and signing checks, making bank deposits, and reconciling the bank statements to these records. This one individual records transactions, has custody of assets, and authorizes disbursements.
- Unauthorized and unsupported disbursements. We found a total of \$63,978 in both unsupported and unauthorized disbursements. CAHA did not utilize disbursements vouchers, did not always substantiate disbursements with supporting documentation, and did not have Board approval for four disbursements related to travel totaling \$4,330. The Board failed to approve any disbursement over \$1,500 or disbursements for services over \$500.
- Poor management over receipts. CAHA did not maintain a numerical receipt listing, receipts were not issued in sequential order, receipt numbers were duplicated, receipts were missing, and some receipts were blank. As a result, \$5,256 in bank deposits were

not recorded and there may have been undetected errors, unrecorded transactions and cash not deposited to the bank nor recorded in check registers.

- Poor controls over donation box. CAHA did not have adequate controls for the management of cash donations. There were no physical controls to safeguard the donations, and there were no documents supporting the amount of money collected. The weak internal controls present an opportunity for misappropriation and theft.
- Failure to Issue form 1099-MISC. We identified \$10,432 paid to five individuals as income not reported to DRT on Form 1099-MISC.

Overall our audit disclosed that CAHA management and the Board did not provide adequate oversight to ensure accountability over the administration of the Revolving Fund despite the availability of adequate guidelines, established in Executive Order since 1984.

To correct these deficiencies we made the following recommendations to the Director of the Council on the Arts and Humanities Agency, in consultation with the Board of Directors:

- Require all CAHA staff to read and follow the Revolving Fund guidelines in Executive Order 84-3.
- Provide training in basic accounting and/or bookkeeping for the Treasury Agent and other staff involved in the management.
- Utilize accounting software to generate monthly and annual financial reports, and submit these reports to the Board and to the Department of Administration.
- Replace the Treasury agent as an authorized signatory and require independent reviews of monthly bank reconciliations.
- Incorporate provisions into a disbursement voucher system to ensure disbursements are authorized by the Director, and as appropriate the Board. Adopt procurement procedures for disbursements, and require all CAHA staff become familiar with Government of Guam procurement laws and regulations.
- Update the Revolving Fund guidelines on bank deposits, and maintain a numerical receipt listing. Consolidate Revolving Fund transactions into one bank account and close the second account.
- Develop written procedures to ensure the safeguarding of the donation box.
- Issue Form 1099-MISC to individuals who provide services of at least \$600 each calendar year.

The Director of the Council on Arts and Humanities Agency generally concurred with the findings and recommendations.



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