

**Evaluation of Internal Controls
(Checks and Balances) Over Accounting
and Reporting of a Non-Profit
Organization**

June 30, 2003 through June 30, 2005

**OPA Report No. 06-01
January 2006**



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EXECUTIVE SUMMARY

Internal Controls (Checks and Balances) Over Accounting and Reporting of a Non-Profit Organization Report No. 06-01, January 2006

The Office of the Public Auditor evaluated a non-profit organization's (the 'Club') system of internal controls (checks and balances) over accounting and reporting for the two-year period June 30, 2003 through June 30, 2005. As the non-profit organization is not part of any agency or instrumentality of the Government of Guam, this engagement was conducted as a public service for the Club and other non-profit organizations.

We found that the Treasurer failed to maintain timely, complete and accurate records. Additionally, the Club officers did not create a system of internal control (i.e. checks and balances) and did not monitor and review the activities of the Treasurer to ensure that all funds collected were accounted for and properly reported.

Based on our findings, we concluded that Club funds may have been lost, misused, or misappropriated. However, it was not possible to completely assess or quantify the extent of loss because of inadequate documentation resulting from the weak and ineffective checks and balances. The Club officers have acknowledged, and our findings confirm, that there were insufficient records to document the Club's transactions to ensure that the Club's funds were adequately accounted for and reported properly.

Based upon the requirements specified in the by-laws of the Club and applying best practices in regards to internal controls (checks and balances) over cash management and reporting, we noted the following deficiencies:

Cash Receipts

- The custody and handling of cash was not separated from the cash record keeping function.
- The Club officers did not monitor the collection processes from fundraising events and allowed the Treasurer to (1) authorize a transaction, (2) record the transaction, (3) deposit collected funds, and (4) have custody of undeposited Club funds without verification by a second person.
- \$22,356 cash collections did not have documentation indicating an independent verification was performed by another person.
- \$3,564 of deposits recorded in the fundraising register could not be traced to the bank statements to ensure they were deposited.
- \$4,951 deposits per bank statements or validated deposit slips could not be traced to recorded transactions in the Club's checking account register, membership dues register, its fundraising register, or to any type of collection documentation.
- For \$30,341 cash receipts recorded, a numerical receipt listing was not maintained to chronologically account for the cash received. Further, cash transactions were not chronologically recorded by the date of transaction, but rather by the date the cash was deposited.
- Of the 22 cash deposits tested, 19 were deposited more than several days after the event in which the proceeds were collected, lagging 17 days to 280 days.

Cash Disbursements

- Of the 61 cash disbursement transactions tested, none had supporting documentation and 56 expenditures were not approved in the Board minutes as required by the by-laws.
- Of the 12 checks written to an officer, we identified five checks where the officer was both the payee and the signatory.
- There were no petty cash receipts/tickets for our review to support the check of \$102 written in March 2005 to replenish the petty cash fund.

Financial Reporting

- The Treasurer failed to provide the monthly financial reports in a timely manner.
- There were no reports indicating that a monitoring or other self-audit process occurred as required by the by-laws.
- The Club officers failed to monitor and review the financial reports of the Treasurer.
- The amounts reported for revenues and expenses on the financial statements were not supported.

Bank Reconciliation

- A cash reconciliation schedule submitted for our review was, in substance, merely a reconstructed schedule using data directly from the bank statements.
- There were gaps in the financial records provided and not all banks statements were available.

Non-profit Filing Requirements

- There were no documents to indicate that the required tax filing documents were made.
- There were no records indicating that annual reports were filed in accordance with 18 GCA § 14102 (i.e. publication in newspaper of general circulation).

Various recommendations were made to the officers of the Club as corrective actions for the deficiencies noted. In substance, we recommended that the officers of the Club review, adopt and apply the basic principles and procedures of internal control practical to the organizations operations to minimize the risk of fraud and theft as well as increase the reliability and accuracy of accounting records, and file all necessary tax filing documents to maintain its tax exempt status.

The best internal controls (checks and balances) are of limited value unless the individuals who run the group (that is, the board members) understand their roles in making them work effectively and consistently. Boards are only as useful as their training allows them to be.¹

We provided the draft report to the officers for review and comment. In response, the officers generally concurred with the findings and recommendations of the report. The officers have also consented to the release of the report on the OPA website at www.guamopa.org for the benefit and guidance of other non-profit organizations.



Doris Flores Brooks, CPA, CGFM
Public Auditor

¹ Excerpts from An Elected Official's Guide to Internal Controls and Fraud Prevention and Snyder, H. and Clifton, J., "Stealing From the Collection Plate," Fraud Magazine, December 2005.



Management Letter

Addressing the Internal Controls (Checks and Balances) over the Accounting and Reporting of a Non-Profit Organization

January 24, 2006

To the officers and members:

You have requested the Office of the Public Auditor (OPA) to perform a non-audit service for the Club to assist you in evaluating the system of internal controls (checks and balances) over accounting and reporting. The scope of the engagement was for the two-year period from June 30, 2003 through June 30, 2005. As the Club is a non-profit organization and not part of any agency or instrumentality under the Government of Guam, this engagement was conducted as a public service for the Club as well as for other non-profit organizations. Non-audit services are not covered by the guidelines under the Generally Accepted Government Auditing Standards.

The focus of the engagement was to:

- Highlight accomplishments and deficiencies of the Club's internal control (checks and balances) system;
- Provide best practices and standards of accounting and financial reporting;
- Promote transparency in the operations and reporting processes of the Club; and
- Ensure timely filing requirements are met as a non-profit organization.

The effectiveness of the internal controls (checks and balances) system is the sole responsibility of the officers and is designed to ensure all transactions are properly authorized, and that data contained in financial reports are reliable. To evaluate the adequacy of your system, we performed the following procedures:

- We interviewed the Club's officers and members to gain an understanding of your financial processes;
- We utilized internal control checklists and management questionnaires to gather data we determined useful in evaluating your processes;
- We reviewed pertinent financial and administrative documents such as financial statements, bank statements, bank reconciliations, checking account register, fundraising register, membership dues register, board meeting minutes, and By-laws; and
- As necessary, we tested cash transactions to ascertain whether these transactions were accounted for and recorded timely and accurately.

Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

Background

The Club is a non-profit organization formed for the general purpose of:

- Promoting unity and friendship among people of the community and its descendents;
- Fostering social, civic, cultural, and educational activities for the benefits of its members, between other descendents and other different ethnic groups on Guam;
- Acquiring, purchasing, selling, leasing or encumbering any real or personal properties for the benefits of its members; and
- Adhering to the laws of the organization and the laws of the United States and the Territory of Guam.

The Club utilizes its By-laws as guidance for implementing its financial policies and procedures since there is no formalized accounting policies and procedures manual. The management of the affairs and activities of the Club are vested in the elected officers of the Club.

The Importance of Internal Controls (Checks and Balances)

Internal controls (checks and balances) are an integral part of managing an organization. Checks and balances serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control (checks and balances) activities include the policies, procedures, techniques and processes used to ensure that actions are taken to address inherent risks, and that independent monitoring and review occur.

However, even the best designed checks and balances cannot be effective without the active involvement of management. The officers of the Club are responsible for establishing and maintaining checks and balances over cash management. The objectives of checks and balances are to provide reasonable, but not absolute assurance that assets are safeguarded against waste, loss, unauthorized use or misappropriation, and that all transactions are authorized by the members and officers and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Implementing internal controls is important, especially in the area of cash management, because of the diverse nature of the processes involved, i.e., billings, collections, deposits, and disbursement processes, as well as the fragmented oversight responsibilities generally associated with these procedures. While the need for internal controls may seem burdensome or restrictive, its value should be considered in managing inherent risk of loss or the opportunity for personal gain created by the nature of cash transactions.

Based upon the requirements specified in the Club's By-laws and applying best practices in regards to internal control over cash management and reporting, the following are deficiencies we identified and the suggested actions to correct these deficiencies.

A. Checks and Balances Over Cash Management

Cash is a necessary asset of every entity. It is the most liquid of all assets and can be easily misappropriated. For these reasons, it is important to apply principles of effective internal control over cash. A sound system of checks and balances over cash provides adequate procedures for both controlling cash receipts and cash disbursements.

Cash Receipts

During our review of the cash receipts process, we found that the custody and handling of cash was not separated from the cash record keeping function. The officers have allowed the Treasurer to have sole responsibility for all funds received by and for the Club. As specified under By-laws II Section 3(5)(A), the Treasurer shall have custody of and be responsible for all funds and keep complete and accurate records of transactions in the corresponding book of account for the Club. Based on these responsibilities, the Treasurer was performing the cash deposits and cash record keeping without any independent verification or review. Cash collections (i.e. membership collections and fundraising activities) should be performed by officers or members other than the Treasurer. Our review of membership dues collections indicate that there was independent verification; however we did not note any documentation indicating that other cash collection activities were independently verified by a second person.

For the period under review, we found that the Club recorded cash receipts of \$30,341¹. Of this amount, we tested \$22,610, or 37 cash receipts, for which we found \$22,356, or 34 cash receipts, did not have documentation indicating an independent verification by another person. We noted that current Club officers have implemented a new form for membership dues (see Appendix 2) that designates a space for a required second signature for an independent verification. We suggest that a similar form also be developed for other types of cash collection activities.

For all \$22,610 cash receipts tested, a numerical receipt book listing was not maintained to chronologically account for the cash received. The lack of receipt records creates an opportunity for misuse; further, the lack thereof makes it difficult to determine the nature of the cash transaction (i.e. membership dues, fundraising activities, donation) or whether cash received was actually deposited in a timely manner. Upon further review of cash receipts transactions posted in the checking account register, we found that cash transactions were not chronologically accounted for by date of transaction, but rather by the date the cash was deposited.

As a result, there is a high risk for unrecorded cash receipts transactions, undetected errors and misuse of cash not deposited to the bank occurring. During our review of the recorded cash receipts, we found that \$3,564 of deposits recorded in the fundraising register could not be traced to the bank statements to ensure they were deposited. See Table 1 at Appendix 3.

The Treasurer informed us that she held funds in order to pay expenses for subsequent fundraisers. This process is contrary to a necessary check and balance procedure of ensuring that all cash collected is deposited in tact on a timely basis.² Further, the Club officers did not monitor the collection processes from fundraising events and allowed the Treasurer to (1) authorize a transaction, (2) record the transaction, (3) deposit collected funds, and (4) have custody of undeposited Club funds without verification by a second person.

In contrast to the \$3,564 deposits that could not be traced to the bank statements, we found \$4,951³ deposits per bank statements or validated deposit slips that could not be traced to recorded transactions in the Club's checking account register, membership dues register, its fundraising register, or to any type of collection documentation. Such condition further added

¹ Amount does not include bank credit memos. All amounts reported are rounded to the nearest dollar.

² Refer to the deficiencies and suggested corrective actions under Cash Disbursements section.

³ Includes \$3,995 deposited to the Club's savings account.

difficulty in verifying the accuracy of the Club's reported cash balance of \$11,968⁴ as of June 30, 2005.

In terms of the cash that had been deposited, we found that not all cash collections were deposited in a timely manner. Of the 22 cash deposits tested, 19 were deposited more than two days after the event in which the proceeds were collected. Deposit lags ranged from a low of 17 days to a high of 280 days. See Table 2 at Appendix 3.

We recommend the Club review and apply basic checks and balances in regards to the cash receipts processes, which include the following⁵:

- When cash is collected, each transaction should be recorded immediately in a pre-numbered receipt book;
- The transaction should be recorded immediately in a book or ledger of original entry preferably utilizing an accounting software program;
- The collection, depositing, posting and reconciling of cash receipts should be segregated to the extent possible;
- Until deposited in a bank account, the funds should be held in a protected environment, such as a safe;
- Use of undeposited cash to pay expenses should not be allowed; all cash should be deposited intact to ensure total accountability of cash received and to preserve an audit trail;
- An independent verification of cash receipts collected should be reconciled by an officer or member not involved in the cash collection, recording or depositing function to attest for accuracy and completeness of the cash collected; and
- The officers should regularly (i.e. on a monthly basis) review the cash receipts recorded for completeness and accuracy.

Basic internal control principles call for deposits of cash collections to be made daily. We recognize that this may not be practical; therefore, we suggest that cash receipts be deposited promptly into the bank, preferably within a week of collection. The officers may want to consider that as soon as a certain amount of cash has been accumulated (for example \$100) the cash should be immediately deposited.

Cash Disbursements

All cash disbursements should be evidenced by checks or some other documented form of payment. The use of checks for cash disbursements allows an entity to have control over cash disbursements, including the accounting for funds disbursed in chronological order. In particular, checks should have dual signatories to ensure that two independent persons review the disbursement transactions for authorization, appropriateness, completeness, and adequate documentation. In our inquiries with the officers regarding timely deposits, we learned that they allowed cash to remain undeposited for extended periods of time and be held for easier accessibility to pay for expenses during fundraising events. We found \$1,750 of expenses from the fundraising register apparently paid from cash held. See Table 3 at Appendix 3 for details.

⁴ This amount includes \$7,542 (checking account end balance) plus \$4,426 (savings account end balance).

⁵ Source: The Nonprofit Times: <http://www.nptimes.com>.

All checks we reviewed were issued without supporting documentation of the receipt of goods or services. By-laws VI Section 4 states that all activities requiring the use of the Club funds must have proof of receipts and require prior approval by the Board. Of the 61, or \$20,795, cash disbursement transactions tested, none had supporting documentation and 56, or \$19,306, expenditures were not indicated as approved in the Board minutes as required by the By-laws.

Although the Club practices the use of dual signatures on checks, there were instances where checks were made payable to an officer and the officer was also a signatory. There should be at least three authorized signatories so that a payee is also not a signatory. Of the 12 checks amounting to \$1,220 that were written to an officer, we identified five checks where the officer was both the payee and the signatory.

Internal controls for cash disbursements are to ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.⁶ We suggest that the Club apply the basic internal control principles over the cash disbursement process, which encompass the following:

- The use of different people to authorize payments, sign checks, and record payments in the books, and reconcile bank statements;
- All disbursements should be accompanied by adequate documentation, in the form of receipts or an invoice;
- Expenditures should be approved in advance by authorized persons; and
- The Club should have at least three authorized signatories so that a payee is also not a signatory to ensure that at all times two independent persons are reviewing disbursements.

Petty Cash

In some circumstances, we recognize that it may not be practical for every small expenditure to be paid with a check; therefore, the establishment of a petty cash fund would be appropriate. As illustrated at Table 3 at Appendix 3, a petty cash fund would have allowed for actual cash to be used for small purchases such as supplies or food ingredients needed for a fundraising event, without compromising check and balance procedures.

The Club officers established a petty cash fund of \$100 on September 2004 under a petty cash custodian, to take care of small Club expenditures. Petty cash receipts/tickets should accompany a petty cash payment to reconcile with the remaining cash in the petty cash fund to equal \$100. We found that there were no petty cash receipts/tickets for our review to support the check of \$102 written in March 2005 to replenish the petty cash fund. The Club's practice did not conform to good accounting practices wherein petty cash fund limits are set and pre-numbered petty cash vouchers are prepared. With a petty cash fund of \$100, the officers may also wish to establish a maximum amount of expenditure against the petty cash fund, such as \$25 or \$30, which would prompt any expense over the maximum to be paid for by check.

Bank Reconciliation

Best practices call for bank reconciliations to be performed in a timely manner. A bank reconciliation should be prepared when the bank statement is received every month. This is a

⁶ Source: Labyrinth Inc., a source on registering non-profit organizations: <http://www.labyrinthinc.com>

very important part of cash control procedures as it verifies the balance in the Club's bank accounts as reported in the accounting records.

The cash balance per books will rarely agree with the balance shown on the bank statement because of the delay in checks and deposits clearing the bank, automatic bank charges and credits that have not been recorded, and errors that may have been made in the books. After preparing the bank reconciliation and resolving any unreconciled differences, one can be comfortable that the account balance reported in the books is accurate.⁷

Another important reason to perform bank reconciliation is that it may uncover irregularities such as employee theft of funds.⁷ Insufficient documentation of validated deposit receipts that account for amounts deposited into the bank hinder the reconciliation process.

The Treasurer claimed she prepared monthly bank reconciliations; however, she did not submit the reconciliation because she said these reports were not required by the Club officers. While the Club officers submitted a form of cash reconciliation schedule for our review, we noted that this was, in substance, merely a reconstructed schedule using data directly from the bank statements.

We recommend that a complete monthly bank reconciliation be properly prepared and regularly reviewed by the Club officers. An individual who is not involved in either the cash receipt or cash disbursement process should review the monthly reconciliation of each bank account.

Record Keeping

Record keeping is the responsibility of the Treasurer. Section 3.5 of the Club's By-laws defines the duties and responsibilities tasked to the Club's Treasurer as follows:

- Be responsible for all funds and keep a complete and accurate record of receipts and disbursements of the Club's transactions;
- Make and provide copies of accounting reports to include total revenues, expenses, attachment of itemized revenues and expenses, current balances for monthly or special meetings, and attachment of bank statements and receipts of transactions; and
- Provide all records to the ***appointed*** [emphasis added] auditor at the end of term of officers for appropriate reporting and accounting of all funds, i.e., records to be turned over to the new set of officers.

Under the structure of the current By-laws, the Treasurer has the responsibility of keeping complete and accurate records of the Club's financial activities including cash receipts and cash disbursements. This position is held to a high degree of honesty, integrity, trustworthiness, and responsibility and requires accurate and timely financial reporting.

Due to the incomplete financial records received from the Treasurer, we additionally reviewed documents provided by the Club's Secretary. We found that there were gaps in the financial records provided. Not all banks statements were available. It should be noted that the past Secretary and the current Treasurer requested all missing bank statements from two banks to complete their records. Most bank statements were subsequently provided to us, although there were ultimately several statements still missing.

⁷ Source: CCH toolkit, a small business guide: <http://www.toolkit.cch.com>.

The amounts reported for revenues and expenses on the financial statements were not supported and therefore the accuracy and completeness of the financial data could not be verified.

A fundraising register prepared using an electronic spreadsheet contained no indication of who prepared it. In addition, there was no indication that a second review was made by an independent person to verify the completeness of data in the spreadsheet. The checking account register and membership dues report we reviewed were also prepared using an electronic spreadsheet and contained no indication of who prepared or who may have reviewed the document.

We recommend the following policies procedures be adopted:

- The Club should utilize an accounting software program to prepare its monthly financial reports;
- Copies of deposit slips should be kept and properly filed to permit ease in the reconciliation process;
- Going forward, Club officers should require monthly bank reconciliations and monthly financial statements to ensure that all cash collected and disbursed are accurately accounted for. The bank reconciliation should be independently reviewed by another officer or member who is independent of the cash receipts and disbursements process;
- If the Club does not have a member qualified to perform such duties, we suggest that the Club officers contract an outside or independent bookkeeper to perform the record keeping function; and
- Schedules or any financial report should include the preparer's signature and the date it was prepared. In so doing, there is a documented trail of the responsibility in case questions arise regarding the data contained therein. In addition, there should also be a reviewer's signature and the date of when the financial reports were reviewed.

B. Reporting Activities

Accountability is the cornerstone of all financial reporting and financial reporting plays a major role in fulfilling an organization's duty to be publicly accountable. Accountability of a non-profit organization requires the organization to answer to its members and resource providers to justify the fundraising activities and other purposes and goals of the organization.

Financial Reporting

By-laws II, Section 3 (5) defines the Treasurer's responsibility in regards to financial reporting as follows:

- Make and provide copies of accounting reports to include total revenues, expenses, and attachment of itemized revenues, expenses, monthly or special meeting current balance, and attachment of bank statement and receipts of transactions;
- Provide copies of monthly membership dues collected; and
- Provide monthly summary statement and a yearly overall accounting final summary for end-of-year report and for filing records.

By-laws V, Section 1 discusses the grounds for suspension or removal of any officer or member for failure of being productive, not attending meetings and failing to do required work. We found that the Treasurer failed to provide the monthly financial reports in a timely manner.

By-Laws II Section 4 provides that officers should do a self-audit of account and properties owned by the Club at the end of each year. Such reports include annual financial reports and tax filing requirements. We found no reports indicating that a monitoring or other self-audit process occurred. The Club's officers and advisers did not require strict implementation of the self-audit requirement. The Club officers failed to perform their monitoring duties and responsibilities. This lack of oversight over the financial reporting permitted prevalent absenteeism of the Treasurer during Board meetings, thus failing to provide accounting of the Club's funds.

The officers and advisors of the Club (i.e., president, vice president, secretary, assistant secretary, treasurer, and assistant treasurer) comprise the management of the Club and are entrusted in managing the funds of the Club. The officers share the responsibility for implementing and monitoring the checks and balances over cash transactions. The officers should initiate an appropriate oversight process and adopt a level of awareness because cash can be easily misappropriated and is susceptible to theft. Ongoing communication should occur to ensure that officers are aware of their respective responsibility in performing their monitoring duties. Any suspected breakdown or deficiencies in the checks and balances should be reported at board meetings and properly documented. The officers as a board should take appropriate action.

At the earliest sign of the inability of an officer to carry out designated duties and responsibilities, the Club officers should adopt a proactive attitude and immediately counsel the individual. If the individual is subsequently unable to perform the duties, the officers should take action to suspend or remove an officer or a member not attending meetings or failing to do required work.

Non-profit Filing Requirements

According to the Department of Revenue and Taxation (DRT), a non-profit organization must register the organization with the General Licensing Branch. See Appendix 4 for the Tax Exemption Application Process and Procedures (revised December 2005). Once the application is approved and DRT recognizes the organization as exempt, the organization will be required to file certain returns and applications. The filing requirements are as follows (see Appendix 4 for more details):

- Form 990 – Return of Organization Exempt from Income Tax. This form is due by the 15th day of the 5th month after your accounting period ends. If non-profit organization gross receipts are normally below \$25,000 the organization need not file this return;
- Form FCN 2-2-111 – Annual Information Return for Tax Exempt Persons. This form is due no later than 90 days following the organization's tax year⁸, regardless of annual gross receipts amounts;
- Filing of Annual Reports 18 GCA § 14102. Every non-profit organization is required to publish a financial report annually within 45 days of the close of its fiscal year in a newspaper of general circulation in Guam, which shall include a statement of its income and expenditures for the preceding year and a balance sheet showing its assets and liabilities so that people of Guam can be made aware of the actual fiscal needs of the organization. A copy or the newspaper publication should be submitted to DRT;

⁸ According to By-laws VII Section 1 the Club's fiscal or funding year begins in January and ends in December.

- Form FCN 2-2-139 - Specific Event – Exemption Application for Business Privilege Tax (GRT). This form is to be filed 20 days before a specific event is to take place for which exemption is claimed; and
- Form FCN 2-2-136 – Ticket Registration Form. This form is to be submitted with every specific event that takes place and involves the issuance of tickets. First and last tickets must accompany ticket registration form. A statement from the printing company certifying the number of tickets printed is required.

In addition, the officers should be aware that 26 U.S.C §6041 requires Form 1099-MISC, Miscellaneous Income, be filed for each person or unincorporated business to whom at least \$600 in services (including parts and materials) or other income payments has been paid. Form 1099 is reported to DRT with a copy sent to the affected individual. Form 1099 requires the organization to obtain and report the business's Employer Identification Number (EIN) or the individual's social security number.

During our review of tax filing documentation we found no records indicating that the required tax filing documents were prepared and submitted.

At the start of the engagement, the Club claimed to be a non-profit organization. The Club officers were uncertain whether the organization had been granted tax-exempt status and were trying to put their financial statements together to obtain such status. During our review process of the Club's tax documentation, we found that the Club has an existing certificate of tax-exemption. The Business Privilege Tax Branch of DRT confirmed that the tax-exempt status has been granted since November 1983. The officers and members lack of understanding of tax filing requirements and the poor record keeping of tax reporting documents contributed to the confusion of the Club's tax exempt status.

According to DRT, if gross receipts fall below \$25,000, the filing of Form 990 is not required. Because of poor record keeping, we were unable to ascertain whether the Club's annual gross receipts actually fell below \$25,000. See Appendix 5 for penalty for failure to file Form 990, effective for tax year 2005 and all subsequent years, thereafter.

Form FCN-2-2-111, a required Annual Information Return for Tax Exempt Persons, has not been filed by the Club since 1995. DRT requires that the Club file this form for each year, starting tax year 1995. DRT has sent a reminder to file to the Club. In November 2005, the Club submitted all requested documents.

We also found no records indicating that annual reports were filed within the 45-day deadline in accordance with 18 GCA § 14102 (i.e. publication in newspaper of general circulation). We urge that the Club immediately comply with the above tax reporting and filing requirements to retain its non-profit and tax exemption status.

CONCLUSION

Based upon the procedures we have performed, our findings indicate that cash may have been mishandled. The Club officers have acknowledged, and our findings confirm, that there were insufficient records and support to document the Club's transactions so that the Club's funds can be adequately accounted for.

Because of these conditions, there is a potential that Club funds may have been lost, misused, or misappropriated. However, it was not possible to completely assess or quantify the extent of loss, if any, because of inadequate documentation resulting from the weak and ineffective checks and balances.

These conditions occurred primarily because of the failure of the Treasurer to maintain complete and accurate records. Additionally, the Club officers did not create a system of internal control (i.e. checks and balances) and did not monitor and review the activities of the Treasurer to ensure that all funds collected were accounted for and properly reported.

SUGGESTED CHECKS AND BALANCES PROCEDURES

It is management's responsibility to establish policies and procedures to safeguard an organization's assets, especially cash. We recommend that the officers of the Club review, adopt and apply the basic principles and procedures of internal control (See Appendices 6 and 7) practical to the organizations operations to minimize the risk of fraud and theft as well as increase the reliability and accuracy of accounting records, and file all necessary tax filing documents to maintain its tax exempt status.

The best internal controls (checks and balances) are of limited value unless the individuals who run the group (that is, the board members) understand their roles in making them work effectively and consistently. Boards are only as useful as their training allows them to be.⁹

We provided the draft report to the officers for review and comment. In response, the officers generally concurred with the findings and recommendations of the report (see Appendix 8).

The officers have also consented to the release of the report on the OPA website at www.guamopa.org for the benefit and guidance of other non-profit organizations. My office wishes to acknowledge the assistance of the officers and members of the Club in making this engagement a smooth process.

Senseramente,



Doris Flores Brooks, CPA, CGFM
Public Auditor

⁹ Excerpts from An Elected Official's Guide to Internal Controls and Fraud Prevention and Snyder, H. and Clifton, J., "Stealing From the Collection Plate," Fraud Magazine, December 2005.

Appendix 1:**Classification of Questioned Monetary Amounts ¹⁰**

Types of Exceptions	Dollar Amounts
Cash Receipts Section	
Receipts Not Issued for Cash Collections	\$ 22,610 ¹¹
Undeposited Fundraising Receipts	\$ 3,564
Bank Deposits Unrecorded in Registers	\$ 4,951
Lack of Documentation Indicating Independent Verification	\$ 22,356
Untimely Deposit of Cash Collections	\$ 10,095
Cash Disbursements Section	
Lack of Supporting Documentation For Expenditures	\$ 20,795 ¹²
Unapproved in the Board Minutes	\$ 19,306
Club Officer was Payee and Signatory	\$ 1,220
Lack of Petty Cash Receipts/Tickets	\$ 102

¹⁰ Amounts may overlap due to different problem areas.

¹¹ Total amount of cash receipts tested and questioned.

¹² Total amount of cash disbursements tested and questioned.

Appendix 2:

New Membership Collection Form

	MEMBERSHIP DUES COLLECTION LIST FOR: ____/____/____			
	NAME	AMT. PAID	COMMENTS	
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
	TOTAL DUES COLLECTED			
	TOTAL COLLECTED			
	BY: _____	DATE: _____		
	Verified by: _____	DATE: _____		

Table 1: Schedule of cash receipts from the fundraising register not listed on the bank statements

	Date	Description/Activity	Amount
1	16-May-04	May 16 Fundraiser	\$4.00
2	6-Jun-04	June 6 Fundraiser	\$18.00
3	9-Jun-04	June 9 Fundraiser	\$722.00
4	16-Jun-04	June 16 Fundraiser	\$508.00
5	23-Jun-04	June 23 Fundraiser	\$510.00
6	14-Jul-04	July 14 Fundraiser	\$5.00
7	14-Jul-04	July 14 Fundraiser	\$5.00
8	25-Jul-04	July 25 Fundraiser	\$649.50
9	25-Jul-04	July 25 Fundraiser	\$1,142.00
			<u>\$3,563.50</u>

Table 2: Schedule of cash collections deposited more than two days after the event

Description/Activity	Amount	Date of Activity	Date of Deposit	Days Lapsed Before Deposit
1 Membership dues	\$135.00	13-Jun-03	30-Jun-03	17 days
2 Membership dues	\$132.00	9-May-03	11-Jul-03	63 days
3 Membership dues	\$188.00	13-Sep-03	7-Oct-03	24 days
4 Membership dues	\$94.00	11-Jul-03	10-Oct-03	91 days
5 Membership dues	\$132.00	8-Aug-03	10-Oct-03	63 days
6 Membership dues	\$109.00	10-Oct-03	1-Dec-03	52 days
7 Fundraiser	\$1,075.00	6-Apr-04	24-Apr-04	18 days
8 Other	\$3.38	21-Feb-04	14-May-04	83 days
9 Fundraiser	\$800.00	14-Aug-04	23-Jul-04	-
10 Fundraiser	\$1,100.00	14-Aug-04	17-Aug-04	3 days
11 Fundraiser	\$500.00	14-Aug-04	17-Aug-04	3 days
12 Fundraiser	\$800.00	14-Aug-04	17-Aug-04	3 days
13 Fundraiser	\$600.00	14-Aug-04	18-Aug-04	4 days
14 Fundraiser	\$800.00	14-Aug-04	18-Aug-04	4 days
15 Fundraiser	\$975.65	14-Aug-04	20-Aug-04	6 days
16 Membership dues	\$70.00	12-Nov-04	18-Feb-05	98 days
17 Membership dues	\$90.00	10-Dec-04	18-Feb-05	70 days
18 Membership dues	\$94.00	14-Jan-05	18-Feb-05	35 days
19 Fundraisers	\$2,397.21	16-May-04 to 15-Aug-04	18-Feb-05	187 to 280 days
Total	<u>\$10,095.24</u>			

Supporting Tables (page 2 of 2)**Table 3: Expenses paid out of cash held with no supporting documents**

	Date	For	Amount
1	29-May-04	Food - volunteers	\$50.25
2	29-May-04	Expenses per Peter	\$187.10
3	2-Jun-04	Chicken	\$49.90
4	7-Jun-04	Pork	\$40.00
5	8-Jun-04	Food Ingredients	\$58.44
6	9-Jun-04	Food Ingredients	\$73.85
7	9-Jun-04	Supplemental - food orders	\$60.00
8	15-Jun-04	Food Ingredients	\$48.27
9	15-Jun-04	Crabmeat	\$41.61
10	15-Jun-04	Paper products	\$73.28
11	18-Jun-04	Tape	\$2.19
12	19-Jun-04	Supplies	\$2.80
13	20-Jun-04	Food Ingredients	\$38.97
14	21-Jun-04	Chicken	\$74.85
15	22-Jun-04	Bento boxes	\$43.80
16	7-Jul-04	Bag for stamp/receipt book	\$1.50
17	7-Jul-04	CD case/file book	\$3.00
18	10-Jul-04	Candles	\$150.00
19	13-Jul-04	Food Ingredients	\$89.43
20	20-Jul-04	Wrist passes	\$59.80
21	21-Jul-04	Food Ingredients	\$52.93
22	25-Jul-04	Ice	\$1.35
23	25-Jul-04	(8) Temporary Health Certificates	\$40.00
24	4-Aug-04	Printer ink	\$40.00
25	15-Aug-04	Cash advance for prizes/candles	\$300.00
26	15-Aug-04	Cake	\$84.00
27	15-Aug-04	Paper products	\$83.07
Total			<u>\$1,750.39</u>



Dipåttamenton Kontribusion yan Adu'ana

DEPARTMENT OF

REVENUE AND TAXATION

GOVERNMENT OF GUAM

Gubetnamenton Guahan

FELIX P. CAMACHO, Governor Maga'la
KALEO S. MOYLAN, Lt. Governor Tinento Gubetnado

ARTEMIO B. ILAGAN, Director Directot
JOHN P. CAMACHO, Deputy Director,
Sigundo Direktot

TAX EXEMPTION APPLICATION PROCESS AND PROCEDURES

Registration Process:

In order for a non-profit organization to legitimize their operation, they first have to register the organization as a non-profit organization with the General Licensing Branch at the Department of Revenue and Taxation (DRT). The organization will be required to submit their governing documents, namely the Articles of Incorporation or Association, or Constitution and By-Laws. It is recommended that 3 (three) sets of governing documents be brought in and stamped at the time of registration: 1 (one) set for the General Licensing Branch; 1 (one) set for the organization; and 1 (one) set to be turned in with the Application Package.

Note: Registration Fees are involved.

Applying for Tax-Exemption:

Recognition of an Organization's Tax-Exempt status for Income Tax purposes and Gross Receipts Tax purposes can be obtained by submitting an Application Package to the Business Privilege Tax Branch.

Note: A User Fee will be required upon submitting the application package.

A complete Application Package should have the following forms and documents:

1. Form 1023 or Form 1024 [Applications for Recognition of Exemption under Guam Territorial Income Tax Code Section 501(c)(3) or 501(a)].
2. Copy of the organization's or Articles of Incorporation or Association, or Constitution and By-laws.
3. Form FCN-2-2-110 (Exemption Application-Business Privilege Tax Laws).
4. Proof of application for Form SS-4 (Application for Employer Identification Number).
5. Form 8718 (User Fee for Exempt Organization Determination Letter Request).
6. Copy of Official Receipt or other evidence of user fee payment.

Once submitted, the application package will go through a review process. Upon approval, a Determination Letter recognizing the organization's exempt status will be issued for income tax purposes and a Gross Receipts Tax Exemption Certificate recognizing the organization's exempt status will be issued for gross receipts tax purposes.

If the application is disapproved, a written response will be sent to the organization detailing the reasons for disapproval. The organization can then make the necessary corrections on the application package and resubmit the application package. *Note:* User Fees may be applicable.

If more assistance is needed, you may call the General Licensing Branch at 475-1826, the Business Privilege Tax Branch at 475-1836 or the Technical Research and Appeals Bureau at 475-1813.

Rev.Dec.2005

EXEMPT ORGANIZATION REQUIREMENTS

If the application is approved and DRT recognizes the organization as exempt, the organization will be required to file certain returns and applications, and publish its financial statements:

Filing Requirements:

For *income tax* purposes, the organization will not be required to file Form 990 (Return of Organization Exempt from Income Tax) if the organization's annual gross receipts are normally less than \$25,000.00. *Note:* There may be exceptions to this general rule. Otherwise, the return is required to be filed on the 15th day of the fifth month after the organization's accounting period ends.

Effective for tax years 2005 and all subsequent years, a Failure to File Penalty will be imposed on any organization that fails to file an Annual Information Return (Form 990) on the date and in the manner prescribed by law. The Tax Commissioner or any of his delegates may make a written demand on any organization subject to penalty specifying therein a reasonable future date by which the return shall be filed. If any person fails to comply with such demand on or before the date specified on such demand, that person will be subject to penalties.

For *gross receipts tax* purposes, the organization will be required to file an annual information return, Form FCN 2-2-111 regardless of annual gross receipts amounts. The return is required to be filed no later than ninety (90) days following the close of the organization's tax year.

Publishing Requirements:

The organization will be required to publish its financial statements (Balance Sheets and Income Statements) annually in a newspaper of general circulation within forty-five (45) days of the close of its tax year. Upon the publishing of its financial statements, the organization should provide the newspaper section indicating publishing date or provide a copy of the newspaper section to the Business Privilege Tax Branch for the updating and maintenance of the organization's permanent file with DRT.

Fundraising Requirements:

For purposes of fundraising whereby the issuance of tickets are required for any specific event to be held, an application of Form FCN 2-2-139 should be filed with the BPTB at least twenty (20) days prior to the initial particular event for which the exemption is claimed. Form FCN 2-2-136 (Registration of Tickets), the first and last tickets printed for the event, and a statement from the printing company certifying the number of tickets printed should accompany the specific event application.

Business License Requirements:

If the organization is incorporated, the organization must file an Annual Report with the General Licensing Branch. The organization can timely file the annual report and pay the fees between July 01 and September 01 of each year. If an organization fails to meet this requirement, a penalty will be imposed.

Revocation of Exempt Status/Liability of Taxes:

If the organization is recognized by DRT as tax-exempt, failure to comply with these requirements could lead to DRT's revocation of the organization's exempt status. If the organization is not exempt, the activities will be subject to taxation or the individuals involved could be liable for taxes.

Failure to File Letter from DRT



Dipattamenton Kontribusion yan Adu'ana

DEPARTMENT OF

REVENUE AND TAXATION

GOVERNMENT OF GUAM

Gubetnamenton Guahan

FELIX P. CAMACHO, Governor Maga'lahi
KALEO S. MOYLAN, Lt. Governor Tifente Gubetnador

ARTEMIO B. ILAGAN, Director Directot
JOHN P. CAMACHO, Deputy Director,
Sigundo Direktot

**Organization's Name
& Address**

Dear

Effective for tax years 2005 and all subsequent years thereafter, a **Failure to File Penalty** under Guam Territorial Income Tax Code (GTITC) Section 6652(c) will be imposed on any organization that fails to file an Annual Information Return (Form 990) required under GTITC Section 6033 on the date and in the manner prescribed (determined with regard to any extension of time for filing) or a failure to include any of the information required to be shown on a return filed under GTITC Section 6033 or to show the correct information.

There shall be paid by the Organization \$20.00 for each day during which such failure continues. The maximum penalty on failures with respect to any return shall not exceed the lesser of \$10,000.00 or 5 % of the gross receipts of the organization for the year.

In the case of an organization having gross receipts exceeding \$1,000,000.00 for any year with respect to the return required under GTITC Section 6033, there shall be paid by the organization \$100.00 for each day during which such failure continues. The maximum penalty shall not exceed \$50,000.00.

The Tax Commissioner or any of his delegates may make a written demand on any organization subject to penalty specifying therein a reasonable future date by which the return shall be filed. If any person fails to comply with such demand on or before the date specified in such demand, there shall be paid by the person failing to so comply \$10.00 for each day after the expiration of the time specified in such demand during which such failure continues. The maximum penalty imposed on all persons for failures with respect to any return shall not exceed \$5,000.00.

If you need any assistance or have any questions, please do not hesitate to call the Department at 475-1840/1.

Sincerely,

ARTEMIO B. ILAGAN, Director

By:

HERBERT S. FUKUDA
Acting Supervisor, Examination Branch



OFFICE OF THE PUBLIC AUDITOR

INTERNAL CONTROL PROCEDURES

The following information on the fundamental principles of internal controls and cash is taken from a chapter of the Fundamental Accounting Principles, 15th edition written by Larson, Wild and Chiapetta. It has been adapted to fit a small government entity. Please note that the information is not all-inclusive of internal controls and should be used as a general guide to ensure basic internal controls are in place.

OVERVIEW

It is management's responsibility to set up policies and procedures to safeguard an agency's assets, especially cash. To do so, directors and government employees must understand and apply the basic principles of internal controls.

PURPOSE OF INTERNAL CONTROL

Directors of small government entities often control the entire operation. They supervise employees, participate in all activities, and make major decisions. At some point, directors must delegate responsibilities and rely on formal procedures rather than personal contact in controlling and knowing all operations of the entity.

Directors use an internal control system to monitor and control the entity's operations. An internal control system is all the policies and procedures directors use to:

- Protect assets
- Ensure reliable accounting
- Promote efficient operations
- Urge adherence to government policies, rules and regulations, and laws

A properly designed internal control system is a key part of systems design, analysis and performance. Directors should place a high priority on internal control systems because they can prevent avoidable losses, help directors plan operations, and monitor agency and employee performance. While internal controls do not offer guarantees, they reduce the agency's risk to fraud, waste, and abuse.

PRINCIPLES OF INTERNAL CONTROL

Internal control policies and procedures vary from entity to entity. They depend on factors such as the nature of the entity's operations and its size. Yet certain fundamental internal control principles apply to all entities. The principles of internal control are:

Basic Principles of Internal Control (page 2 of 4)



OFFICE OF THE PUBLIC AUDITOR

- 1. Establish responsibilities.**
 - Control is most effective when each task is clearly established and assigned to one person.
- 2. Maintain adequate records.**
 - Good recordkeeping helps protect assets and ensures that employees use prescribed procedures.
 - Reliable records are a source of information that directors use to monitor the entity's operations.
- 3. Separate recordkeeping from custody of assets.**
 - The person who controls or has access to an asset must not keep that asset's accounting records.
 - This principle reduces the risk of theft or waste of an asset because the person with control over the asset knows that records of the asset are kept by another person. The recordkeeper doesn't have access to the asset and has no reason to falsify records. Both persons must agree to commit a fraud, called collusion, for the asset to be stolen and theft is hidden from the records.
- 4. Divide responsibility for related transactions.**
 - Good internal control divides responsibility for a transaction or a series of related transactions between two or more individuals or departments, often called separation of duties.
 - This is to ensure that the work of one acts as a check on another.
- 5. Apply technological controls.**
 - The use of technological devices can improve internal control (i.e., accounting softwares or programs, cash registers, check protectors, time clocks, mechanical counters, and personal identification scanners).
- 6. Perform regular and independent reviews.**
 - Management should review monthly financial reports of the agency's operations.
 - Independent reviews should be done by internal auditors or by someone who is not directly involved in operations.
 - The independent review should be done periodically or on a surprise basis.
 - The entity should have external auditors test the agency's financial records to determine whether they are presented fairly in accordance with generally accepted accounting principles.
- 7. Insure assets and bond key employees.**
 - Assets should be adequately insured against casualty, and employees handling cash and negotiable assets should be bonded.

Basic Principles of Internal Control (page 3 of 4)



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- An employee is *bonded* when the entity purchases an insurance policy, or bond, against losses from theft by that employee.
- For the Government of Guam, bonding of employees may not be cost effective.

These procedures minimize the risk of fraud and theft as well as increase the reliability and accuracy of accounting records.

LIMITATIONS OF INTERNAL CONTROL

All internal control policies and procedures have limitations. Probably the most serious source of these limitations is the human element. Internal control policies and procedures are applied by people and often impact other people. This human element creates several potential limitations that we can categorize as either:

- (1) Human error, which can occur from negligence, fatigue, misjudgment, or confusion, or
- (2) Human fraud, which involves intent by people to defeat internal controls for personal gain.

Another important limitation on internal control is the cost-benefit principle, which means the costs of internal controls must not exceed their benefits. The bottom line is that no internal control system is perfect, and that the directors must establish internal control policies and procedures with a net benefit to the entity.

CONTROL OF CASH

Cash is a necessary asset of every entity. It is important to apply principles of good internal control to cash. Cash is the most liquid of all assets and are easily hidden and moved. A good system of internal control for cash provides adequate procedures for protecting both cash receipts and cash disbursement. These procedures should meet three basic guidelines:

1. Handling of cash is separate from recordkeeping for cash.
 - This guideline aims to minimize errors and fraud by division of duties.
 - When duties are separated, two or more people must collude to steal cash and conceal this action in the accounting records.
2. Cash receipts are promptly (daily) deposited in a bank.
 - This guideline aims to use immediate (daily) deposits of all cash receipts to produce a timely independent test of the accuracy of the count of cash received.
 - Cash theft of loss is reduced as well as the risk of an employee personally using the money before depositing it.
3. Cash disbursements are made by check.

Basic Principles of Internal Control (page 4 of 4)



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- This guideline aims to use payment by check to develop a bank record of cash disbursements.
- This guideline also reduces the risk of cash theft.

The deposit of cash receipts and the use of checks for cash disbursement allows an entity to use bank records as a separate external record of cash transactions. For small entities, use of prenumbered cash receipts as well as the requirement of dual signatures on checks are also essential procedures for good internal control for cash.

VOUCHER SYSTEM OF CONTROL

A voucher system is a set of procedures and approvals designed to control cash disbursements and acceptance of obligations. The voucher system of control establishes procedures for:

- Accepting obligations resulting in cash disbursements.
- Verifying, approving, and recording obligations.
- Issuing checks for payment of verified, approved, and recorded obligations.
- Requiring obligations be recorded when incurred.
- Treating each purchase as an independent transaction.

A good voucher system follows these procedures for every transaction. This applies even when many purchases are made from the same vendor during a period.

BANK RECONCILIATION

When an agency deposits all receipts and when all payments except petty cash payments are by check, the bank statement is a device for proving the accuracy of the depositor's cash records. The agency tests the accuracy by preparing a bank reconciliation. A bank reconciliation explains the difference between the balance of a checking account according to the depositor's records and the balance reported on the bank statement.

OPA Internal Control Checklist (page 1 of 3)



OFFICE OF THE PUBLIC AUDITOR

INTERNAL CONTROL CHECKLIST

This internal control checklist is designed to help Directors assess their agency's internal controls and to provide guidance in implementing controls where weaknesses are presented. This is not an all-inclusive list of internal controls and should be used as a general guide to ensure that basic internal controls are in place. Please note that answering "yes" indicates that a desired control is in place; answering "no" indicates that a control weakness may be present, and corrective action may be necessary. Keep in mind that some questions may not be applicable to all operations.

	Yes	No	N/A	Comments
General Controls				
• Does the entity have an accounting system such as QuickBooks, Peachtree, MAS 90, etc.?	_____	_____	_____	_____
• Does the entity have adequate written statements and explanations of its accounting policies and procedures?	_____	_____	_____	_____
• Are accounting policies and procedure manuals updated as necessary?	_____	_____	_____	_____
• Are manuals distributed to appropriate personnel?	_____	_____	_____	_____
• Is there a periodic review of accounting procedures with all staff?	_____	_____	_____	_____
Cash Receipts				
• Are responsibilities for collecting, depositing, and recording cash receipts performed by different	_____	_____	_____	_____
• Are cash receipts recorded on pre-numbered duplicate receipt forms with the original copy given to the payer?	_____	_____	_____	_____
• Are deposits compared on a daily basis to pre-numbered receipt forms by someone other than employee initially receiving cash?	_____	_____	_____	_____
• Is "For Deposit Only" stamped on incoming checks as soon as received?	_____	_____	_____	_____
• Are all checks received made payable to the entity?	_____	_____	_____	_____
• Are adequate physical facilities provided for safeguarding cash until it can be deposited (locked away)?	_____	_____	_____	_____

OPA Internal Control Checklist (page 2 of 3)

	Yes	No	N/A	Comments
• Does adequate accountability exist to identify who is responsible for cash at any given time (Is responsibility for cash receipts fixed from the time they are received until sent to the bank)?	_____	_____	_____	_____
• Are cash receipts deposited on a daily basis?	_____	_____	_____	_____
• Are Deposit/Receipt Forms and supporting documentation reviewed by an employee not involved with the cash collection process?	_____	_____	_____	_____
• Are cash overages or shortages reported?	_____	_____	_____	_____
• Are employees prohibited from using cash receipts to make cash disbursements?	_____	_____	_____	_____
• Is a comparison of daily reported receipts conducted on a test basis to bank statements to verify timeliness of	_____	_____	_____	_____
Cash Disbursements				
• Are responsibilities for disbursement preparation and disbursement approval functions segregated from those recording or entering cash disbursements information?	_____	_____	_____	_____
• Are all cash disbursements made by check?	_____	_____	_____	_____
• Are pre-numbered triplicate checks used where the original check is given to Payee, the duplicate filed in the vendor file and triplicate saved as the check register copy?	_____	_____	_____	_____
• Are dual signatures required on all checks?	_____	_____	_____	_____
• Are disbursements made only when approved by authorized persons?	_____	_____	_____	_____
• Are all bills or disbursement vouchers presented together with the checks for signature?	_____	_____	_____	_____
• Are all supporting documents properly marked "Paid" at time of signature to prevent duplicate payment?	_____	_____	_____	_____
• Are all bills or disbursement vouchers approved by someone other than the check signer?	_____	_____	_____	_____
• Are voided checks preserved and filed after appropriate mutilation?	_____	_____	_____	_____
• Is there a written prohibition against drawing checks payable to cash?	_____	_____	_____	_____
Financial Records				
• Is a monthly review and reconciliation of all bank statements and correspondence performed (preferably within 15 days after the statement date)?	_____	_____	_____	_____

OPA Internal Control Checklist (page 3 of 3)

	Yes	No	N/A	Comments
• Is a monthly review and reconciliation of all bank statements and correspondence performed by someone unrelated to the cash receipts or disbursement functions?	_____	_____	_____	_____
• Does a responsible official, other than the preparer, review completed bank reconciliations?	_____	_____	_____	_____
• Is the completed bank reconciliation initialed and dated by both the preparer and the reviewer?	_____	_____	_____	_____
• Does the entity's accounting system allow management to record financial transactions, view the data by category, and create timely reports to maintain accountability for the government's assets?	_____	_____	_____	_____
• Is computerized data backed up daily and source documents retained?	_____	_____	_____	_____
• Are all financial recording documents sequentially pre-numbered, retained, and accounted for, including spoiled or voided forms?	_____	_____	_____	_____
• Are records properly guarded from fire, theft and manipulation?	_____	_____	_____	_____
• Are monthly financial statements (e.g. Trial Balance, Balance Sheet, Income Statement, etc.) prepared?	_____	_____	_____	_____
• Are monthly financial statements reviewed and approved by the director?	_____	_____	_____	_____

3

February 2005

Appendix 8:
Management Response

[REDACTED]
[REDACTED]
January 17, 2006

Ms. Doris Brooks
Public Auditor
238 Archbishop Flores Street
Suite 401 Pacific Daily News Building
Hagatna, Guam 96910

Dear Ms. Brooks,

We had an exit conference interview on January 16, 2006 [REDACTED]

[REDACTED] You have no idea how satisfied we were with the two Auditors selected to audit our nonprofit club on Guam.

It takes the caliber of your leadership to understand the nature of our club needs to have honored our request for a formal audit of our club. We could not afford the cost of your office to do this and so doing it as a community service is so much appreciated. The two auditors, [REDACTED] delegated to do audit, could have not been the most professional twosome. Equally these two ladies handled the sensitive issues so well that we did not feel intimidated or threatened by any means. It came out so positive despite the much deficiency in our club's lack of financial internal control.

Saying thank you is not ever enough for the time and effort spent reviewing our files, communicating and interviewing the former and current club's officers and the club's advisors. However, we are truly grateful for the work undertaken by your staff.

We concur with the findings. We will indeed implement the internal control on finances and other recommendations provided in the report. We plan to create a policy manual for adoption by the club based on this report.

We do consent to the release of the report to OPA Website as requested. We do ask to delete the name of the Club or any names whereby the Club might be identified. We understand that by making this report available will help other nonprofit clubs on Guam utilize the principles in the report for their club's benefits. Your office has done a much appreciated public service for our club.

Another request may we please have a copy of the work sheet you used to draft the report. It is good to have it.

As a public non profit organization we wish to ensure accountability and transparency as a matter of public policy with the Revenue and Taxation codes. And your audit has indeed made this possible. We thank you for taking interest in our Club's audit. [REDACTED] We will be having a special meeting with the club's members to go over the report and recommendation [REDACTED]
[REDACTED]

Sincerely,

[REDACTED]

Do you suspect fraud, waste, or abuse in a government agency or department? Contact the Office of the Public Auditor:



- **Call our HOTLINE at 47AUDIT (472-8348);**
- **Visit our website at www.guamopa.org;**
- **Call our office at 475-0390;**
- **Fax our office at 472-7951;**
- **Or visit us at the PNB Building, Suite 401
In Hagåtña**

All information will be held in strict confidence.