

**Guam's Readiness for the
12th Festival of Pacific Arts (FESTPAC)**

**Performance Audit
October 2009 through March 2016**

**OPA Report No. 16-02
April 2016**



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EXECUTIVE SUMMARY

Guam's Readiness for the 12th Festival of Pacific Arts (FESTPAC) OPA Report No. 16-02, April 2016

With one month away from the commencement of the 12th Festival of Pacific Arts (FESTPAC) this coming May 22 to June 4, 2016, the Coordinating Committee (Committee) faces several challenges as it prepares for the festival, including:

- The Committee is estimating a shortfall of up to \$1.1 million (M) if it does not obtain additional funding to cover all of its projected expenses.
- The procurement of the design-build construction of 34 Pacific festival huts amounting to \$2.2M violated Guam procurement law because it did not undergo the Attorney General's (AG) review. It is in the best interest of the government to continue the completion of the construction project; however, review by the AG after the fact is warranted.
- While we found the FESTPAC event management services contract valid and the contractor is allowed to procure necessary goods and services on behalf of FESTPAC without undergoing government procurement processes, the contract amount is capped at \$800,000. As a result, the Committee plans to obtain the goods and services (i.e., meals, stage lighting and sound, generators, etc.) that it intended to obtain through the event management services contract by working with the Guam Visitors Bureau (GVB) and its event management contractor.
- The Committee's internal controls can be improved.

Our audit identified a questioned cost of \$2.2M due to the lack of AG's review for the procurement of the Pacific festival huts.

FESTPAC Funding Shortfall

In 2013, the Committee approved a budget of \$13M, of which \$7M was supposed to be in cash and \$6M was to be from in-kind contributions. Of the estimated \$7M in cash, \$5M was to come from the Government of Guam (GovGuam) via legislative appropriations and \$2M was to come from fundraising efforts.

During the March 9 and 14, 2016 Committee meetings, it was reported that the Committee does not have a \$13M budget, and is instead working with a significantly smaller budget of approximately \$6M in revenues and \$7M in estimated expenses. If additional revenues are not secured, the Committee is projecting a shortfall of approximately \$1.1M.

As of March 14, 2016, \$5.6M of the estimated \$6M in revenues has been recognized and was primarily from government appropriations of \$4.5M. The remaining \$1.1M is derived from sponsorships, donations, and fundraisers. Even if all \$6M in revenues were realized, it would still fall short of the \$7M in estimated expenses, consisting of \$4M for logistics, \$2.2M for the Pacific Festival huts, \$624,000 for programming, and \$18,000 for marketing and other expenses.

Per Public Law 31-77, Chapter X, Sections 10(a) and 10(c), monies deposited into the GVB-administered FESTPAC & Folklife Trust Account and any interest earned shall not be subject to any transfer authority of the Governor or any representative of GVB. GVB transferred a total of \$4.3M between October 2015 and February 2016 to the Guam Council on the Arts and Humanities Agency-administered FESTPAC checking account. This transfer may not be in compliance with the law. However, \$1.7M was transferred back in April 2016.

FESTPAC Procurement Activities Help Explain the Funding Shortfall Situation

As of March 2016, there were two major procurements funded by FESTPAC, the 34 Pacific festival huts with a cost of \$2.2M and the event management services contract for a cost of \$800,000.

34 Pacific Festival Huts

The Department of Chamorro Affairs (DCA) issued a Request for Proposal (RFP) in September 2015, which resulted in one proposal and a negotiated contract of \$1,995,000. Our findings included:

- There was no review by the AG, despite the procurement exceeding \$500,000, which is in violation of Title 5 of the Guam Code Annotated (GCA) § 5150.
- One change order totaling \$199,995 was approved, despite exceeding the 10% threshold allowed and without seeking the AG's review for the change order, as required by Title 29 of the Guam Administrative Rules (GAR) Article 1 § 1141.
- While the required affidavits were submitted along with brochures of past work done by the offeror, there was no evidence that a complete proposal was submitted to meet the minimum specifications required in the RFP, including no business license.

As of March 2016, four payments amounting to \$1.6M has already been paid to the contractor.

Event Management Services

In November 2015, DCA issued an RFP for Event Management Services, which resulted in two submitted proposals and an \$800,000 contract to the winning offeror. Unlike the huts procurement, this underwent the AG's review. However, our findings included:

- The contract did not specify how much the contractor would be compensated for its services.
- The contract amount is limited to \$800,000 per the AG's oral opinion. As a result, all the logistical items that the Committee had initially intended would have been covered by this contract needs to be procured through other means.
- The contract is a multi-year contract consisting of an initial one year period, and two one-year options to renew, which extends beyond the 12th FESTPAC.
- No rationale provided for low evaluation scores for one of the offerors.

As of March 23, 2016, three payments totaling \$578,000 has already been paid, of which \$119,000 was for event management services.

Stronger Internal Controls Are Needed

We assessed the internal control of the Committee and noted several areas needing improvement, such as the lack of assignment of authority and responsibility, lack of segregation of duties and formal delegation of approval authority, lack of monthly Committee meetings, and no formal monitoring and evaluation process to ensure internal controls are in place.

Conclusion and Recommendations

With less than 30 days, the Committee is challenged to deliver a successful FESTPAC that Guam and her people can be proud of, but the Committee must also ensure that it achieves this goal in conformity with Guam laws and regulations. OPA plans to conduct a post review of FESTPAC after the conclusion of the festival, which will also include a review of FESTPAC fundraising activities. We made three recommendations to the Committee pertaining to revisiting its finances, having the AG review the Pacific festival huts procurement, and ensuring adequate controls are in place.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our audit of Guam's readiness for the 12th Festival of Pacific Arts (FESTPAC). The scope of our audit is from October 1, 2009 to March 31, 2016 [fiscal years (FY) 2010 to six months into FY 2016]. This is the first of a two-part audit series on FESTPAC and was initiated as part of our annual audit plan. We also received several hotline tips concerning FESTPAC.

The audit objective was to determine the current condition of the 12th FESTPAC Coordinating Committee's preparations for the festival in May 2016. The sub-objectives were to determine whether:

1. The FESTPAC funds are properly accounted for;
2. Goods and services related to FESTPAC are procured in accordance with Guam procurement law and regulations; and
3. Controls are in place and enforced to ensure that the Coordinating Committee members are carrying out their fiduciary responsibilities.

The scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

FESTPAC is a two-week event that has been held every four years in various Pacific island locations since 1972. It brings together artists and cultural practitioners from 27 Pacific Island Nations and Territories to share and exchange their cultures. It is recognized as a major regional cultural event and is the largest gathering of Pacific peoples to enhance their respect and appreciation of one another. FESTPAC has been referred to as the Culture Olympics.

The idea of FESTPAC was conceived by the Conference of the Secretariat of the Pacific Community (formerly known as the South Pacific Commission) to combat the erosion of traditional customary practices. In May 2016, a delegation of 2,500 performers, artists and cultural practitioners is expected in Guam, in addition to the thousands of visitors from Asia and festival followers who see to it they are part of the festival every four years.

The 27 Pacific island countries and territories expected at the 12th FESTPAC are:

- | | | | |
|----------------------------------|--------------------|----------------------------|---------------------|
| • American Samoa | • Guam | • Norfolk Island | • Solomon Islands |
| • Australia | • Hawaii | • Northern Mariana Islands | • Tokelau |
| • Cook Islands | • Kiribati | • Palau | • Tonga |
| • Easter Island | • Marshall Islands | • Papua New Guinea | • Tuvalu |
| • Federated States of Micronesia | • Nauru | • Pitcairn Islands | • Vanuatu |
| • Fiji Islands | • New Caledonia | • Samoa | • Wallis and Futuna |
| • French Polynesia | • New Zealand | | |
| | • Niue | | |

Guam made its bid to host the 12th FESTPAC and was awarded this distinction at the 10th FESTPAC held in American Samoa in 2008. It was during the 11th FESTPAC held in the Solomon Islands, July 2012, where Guam officially received the festival flag. The 2016 FESTPAC is Guam's opportunity to showcase its unique Chamorro culture.

Guam Council on the Arts and Humanities Agency

The Guam Council on the Arts and Humanities Agency (CAHA) is the lead Government of Guam agency coordinating the 12th FESTPAC pursuant to Public Law (P.L.) 30-83. CAHA was created by P.L. 16-122 in 1982 and is designated as the state arts agency for Guam. Its mission is to perpetuate the arts and humanities with programs and initiatives that enhance our quality of life through education, creative expression, and the professional development of our local artists. CAHA operates under the authority of an eleven-member Board of Directors, who appoint the CAHA Director with the approval of the Governor and the advice and consent of the Legislature.

12th FESTPAC Coordinating Committee

In February 2010, P.L. 30-83 created the 12th FESTPAC Coordinating Committee (Committee), which is composed of the following:

1. The President of the Department of Chamorro Affairs (DCA);
2. The Executive Director of CAHA;
3. Three members appointed by the Governor, representing the organizations that actively promote the arts in Guam;
4. A member of the Mayors' Council of Guam, appointed by the President of the Mayors Council;
5. Two members of the Legislature, appointed by the Speaker, who may designate himself;
6. The Chairperson of the Committee on Cultural Affairs of the Legislature of Guam or its successor;
7. The Chairperson of the Guam Visitors Bureau (GVB) Board of Directors or his designee; and
8. The Speaker of the Guam Youth Congress or his designee.

The Committee's duties include the following:

1. Organizing committees and sub-committees to implement programs and other work necessary for the success of the 12th FESTPAC;
2. Preparing and executing plans, programs, and budgets for the success of the 12th FESTPAC;
3. Managing funds, equipment, and other properties, to prepare for and conduct the 12th FESTPAC;
4. Submitting regular reports to the Governor of Guam and to the Speaker of the Legislature, itemizing and detailing the progress toward the 12th FESTPAC; and
5. Submitting other reports that may be required by the Governor and Speaker of the Legislature.

In March 2015, the Committee elected its officers as follows:

- Festival Director- Governor's Deputy Chief of Staff
- Chairperson- GVB General Manager
- Vice Chairperson- Guam Economic Development Authority (GEDA) Special Assistant

- Treasurer- DCA President
- Secretary- CAHA Board Chairperson

12th FESTPAC Theme and Logo

The 12th FESTPAC’s theme is "Håfa Iyo-ta, Håfa Guinahå-ta, Håfa Ta Påtte, Dinanña’ Sunidu Siha Giya Pasifiku," which means “What We Own, What We Have, What We Share, United Voices of the Pacific.” This theme represents the connection between the Chamorros and their Pacific brothers and sisters.

The 12th FESTPAC logo is a combination of the latte stone, sling stone, coconut tree, the blue ocean, and the outrigger canoe. The logo symbolizes various cultural aspects of Guam’s Chamorro pride, identity, resources, and skills.



Image 1. 12th FESTPAC logo.

See Appendix 4 for additional information on the FESTPAC theme and logo.

FESTPAC Account and Appropriations

In September 2011, P.L. 31-77, Chapter X, Section 10 created the Guam FESTPAC & Folklife Festival Trust Account (GVB FESTPAC Trust Account), in which:

1. The Trust Account shall not be commingled with the General Fund or any other funds of the Government of Guam (GovGuam), and it shall be maintained in a separate bank account, administered by GVB.
2. Monies deposited into the Trust Account shall be invested or reinvested into interest bearing instruments, United States treasury notes, investment grade and insured corporate notes, and other like instruments which are readily convertible to cash needed to pay for the 12th FESTPAC held in Guam and Guam's participation in the 2015 Smithsonian Folklife Festival as determined by the 12th FESTPAC Coordinating Committee.
3. Monies deposited into the Trust Fund and any interest earned shall not be subject to any transfer authority of the Governor or any representative of GVB.

In May 2011, the Committee opened a checking account under the purview of CAHA.

From 2011 to 2015, GovGuam appropriated a total of approximately \$4.8 million (M), primarily from the Tourist Attraction Fund (TAF) to the GVB FESTPAC Trust Account. Of the \$4.8M in appropriations, a total of \$2.7M has been deposited into the Trust Account per the GVB FY 2015 financial audit. As of March 2016, \$4.3M has been transferred from the GVB FESTPAC Trust Account to the CAHA FESTPAC checking account. See Table 1 for a comparison between FESTPAC appropriations made and actual amounts transferred to the CAHA FESTPAC checking account.

Table 1: GovGuam Appropriations v. Amounts Deposited in FESTPAC Account

Description	Appropriations [A]	FESTPAC Accounts per 03/14 Budget [B]	Account Amounts [C]	Difference [A-C]
P.L. 31-77: Chapter 10, Section 10	\$ 1,075,714	FESTPAC Trust Account Transfers from GVB	\$ 4,289,776	
P.L. 31-233: Chapter 10, Section 13	\$ 200,000	Percent for the Arts	\$ 54,680	
P.L. 32-68: Chapter 10, Section 10	\$ 200,000	CAHA FESTPAC 2012 Balance	\$ 87,247	
P.L. 32-181: Chapter 10, Section 10	\$ 200,000	FY 2012 Appropriation	\$ 60,000	
P.L. 32-181: Chapter 12, Section 10	\$ 1,000,000			
P.L. 33-43: Section 2	\$ 2,000,000			
Guam Tourism Council Re- appropriation to FESTPAC & Folklife Trust Account	\$ 88,020			
	<u>\$ 4,763,734</u>		<u>\$ 4,491,703</u>	<u>\$ 272,031</u>

*The audit team determined that the \$272,031, or 6% difference between the appropriations and CAHA FESTPAC checking account amounts is immaterial.

Results of Audit

With one month before the commencement of the 12th FESTPAC this coming May 22 to June 4, 2016, the Committee faces several challenges as it prepares for the festival, including:

- The Committee is estimating a shortfall of up to \$1.1M if it does not obtain additional funding to cover all of its projected expenses;
- The procurement of the design-build construction of 34 Pacific festival huts amounting to \$2.2M violated Guam procurement law because it did not undergo the Attorney General's (AG) review. It is in the best interest of the government to continue the completion of the construction project, but the AG's review after the fact is warranted.
- While we found the FESTPAC event management services contract valid and the contractor is allowed to procure necessary goods and services on behalf of FESTPAC without undergoing government procurement processes, the contract amount is capped at \$800,000. As a result, the Committee is exploring options on how to obtain the goods and services (i.e., meals, stage lighting and sound, generators, etc.) that it intended to obtain through the contract, but is unable to do so due to the budget limitation.
- The Committee's internal controls can be improved.

Our audit identified a questioned cost of \$2.2M due to the lack of AG review on the procurement of the Pacific festival huts.

FESTPAC Funding Shortfall

In 2013, the Committee approved a preliminary budget of \$13M, of which \$7M was supposed to be in cash and \$6M was to be from in-kind contributions. Of the estimated \$7M in cash, \$5M was to come from GovGuam via legislative appropriations and \$2M was to come from fundraising efforts.

During the March 9 and 14, 2016 Committee meetings, the Committee reported that it does not have a \$13M budget, and is instead working with a significantly smaller budget of approximately \$6M in revenues and \$7M in estimated expenses. If additional revenues are not secured, the Committee is projecting a shortfall of approximately \$1.1M. See Table 2 for the updated budget provided at the March 14, 2016 meeting.

Table 2: 12th FESTPAC Budget as of March 14, 2016

	BUDGET	ACTUAL/CASH	IN-KIND	TOTAL
REVENUES:				
PUBLIC FUNDS				
GVB FestPac Trust Account	\$ 4,763,734	\$ 4,289,776		\$ 4,289,776
Percent for the Arts	54,680	54,680		54,680
CAHA Festpac 2012 Balance as of September 30, 2012	87,247	87,247		87,247
FY 2012 Appropriation Balance	60,000	60,000		60,000
TOTAL, PUBLIC FUNDS	4,965,661	4,491,703	-	4,491,703
SPONSORSHIP	1,000,000	133,333	800,000	933,333
DONATIONS/FUNDRAISERS	-	144,488	144,488	144,488
REVENUE TOTAL	5,965,661	4,769,524	944,488	5,569,524
EXPENSES:				
CAPITAL IMPROVEMENT PROJECTS				
FestPac Village Huts	2,194,995	1,118,861	-	1,118,861
TOTAL CAPITAL IMPROVEMENT PROJECTS	2,194,995	1,118,861	-	1,118,861
PUBLICITY, MARKETING, & ADVERTISING				
Creative Production				
Official Song	2,000	2,000	-	2,000
TOTAL, PUBLICITY, MARKETING, & ADVERTISING	2,000	2,000	-	2,000
PROGRAMMING				
Traditional Arts	292,725	32,409	-	32,409
Visual Arts	57,500	-	-	-
Performing Arts	130,550	-	-	-
Literary Arts	121,587	20,000	-	20,000
Diaspora	21,972	8,580	-	8,580
TOTAL PROGRAMMING	624,333	60,990	-	60,990
LOGISTICS				
Logistics	4,203,923	225,000	-	225,000
TOTAL, EVENT MANAGEMENT	4,203,923	225,000	-	225,000
OTHER				
Advertising	380	380	-	380
May 27, 2014 Fundraiser	1,602	1,602	-	1,602
RFP Fundraising Campaign	216	216	-	216
UNOT Hit Conference	3,163	3,163	-	3,163
Vaccinations	8,918	8,918	-	8,918
Representation & Booth Fee @ PIFA San Diego, CA	1,005	1,005	-	1,005
Deposit for Ecumenical Services	600	600	-	600
TOTAL, OTHER	15,884	15,884	-	15,884
EXPENSES TOTAL	7,041,135	1,422,735	-	1,422,735
NET INCOME (SURPLUS)	(1,075,474)	3,346,790	944,488	4,146,790

Revenues

As of March 14, 2016, the Committee recognized \$5.6M in revenues, consisting of the following:

- \$4.5M in Government Funds
 - \$4.3M transferred from GVB's FESTPAC Trust Account to the CAHA FESTPAC checking account. This was the result of various government appropriations primarily from the Tourist Attraction Fund.¹
 - \$55,000 from the Percent for the Arts.²
 - \$87,000 from the CAHA FESTPAC 2012 balance.
 - \$60,000 from the FY 2012 appropriation balance.
- \$1.1M in Sponsorships, Donations, and Fundraisers
 - \$933,000 in sponsorships consisting of \$800,000 in in-kind and \$133,000 in cash.³
 - \$144,000 in donations.⁴

Per Public Law 31-77, Chapter X, Sections 10(a) and 10(c), monies deposited into the GVB FESTPAC Trust Account and any interest earned shall not be subject to any transfer authority of the Governor or any representative of GVB. GVB transferred a total of \$4.3M between October 2015 and February 2016 to the CAHA ESTPAC checking account. This transfer may not be in compliance with the law. However \$1.7M was transferred back to the GVB FESTPAC Trust Account in April 2016.

Detailed Expenses

The Committee estimates that FESTPAC would cost approximately \$7M, as follows:

- \$4.2M for logistical expenses;
- \$2.2M for the construction of 34 Pacific Festival huts;⁵
- \$624,000 for programming expenses;
- \$16,000 for other expenses; and
- \$2,000 for publicity, marketing, and advertising expenses.

With one month before the festival and in order to realistically estimate FESTPAC costs, the audit team observed that the March 14, 2016 budget did not consider the following estimates:

- Actual cost of uniforms for the Guam delegates and volunteers;
- In-kind cost to house festival delegates at six public schools;

¹ As of March 2016, a total of \$4.3M has been transferred from the GVB FESTPAC Trust Account to the CAHA FESTPAC checking account. In October 2015, GVB transferred \$2.7M. In March 2016, GVB made two transfers totaling \$1.6M (\$1.2M + \$360,000). The budget in Table 2 does not include the latest deposit of \$360,000.

² P.L. 31-118 requires that at least 1% of the overall construction, remodeling, or renovation cost of a building (supported by federal or GovGuam funds exceeding \$100,000) shall be reserved for the design, construction, mounting, maintenance, replacement, and administration of works of art by CAHA in the public area of such a building or the owner shall give the amount to CAHA.

³ While the Committee has made progress in securing 10 Latte Sponsors (donations of \$100K or more), it is still in the process of following up with approximately 49 solicitation letters that were transmitted to potential sponsors.

⁴ On March 9, 2016, the Committee received two donations totaling over \$117,000, which was not yet accounted for in the \$144,000 that the Committee reported. The \$117,000 consists of the Governor's Office Employees Association donation of \$102,500 from raffle proceeds and the Governor's birthday fundraiser, as well as a \$15,000 donation from a sponsor.

⁵ See detailed discussion in FESTPAC Procurement Activities section.

- Bussing services to be provided by the Department of Public Works;
- Security services to be provided by the Guam Police Department (GPD)⁶; and
- Other services (actual or in-kind costs) that may be provided by other GovGuam agencies.

Therefore, we recommend that the Committee reassess its budget and finances to ensure that it is accounting for all the actual and in-kind FESTPAC revenues and expenses. In the event that the Committee is still projecting a shortfall, it should determine which expenses, if any, can be eliminated or reduced.

FESTPAC Raffle and Other Fundraising Activities

Between July 2015 and December 2015, the Governor’s Office Employees Association held six monthly raffle incentive drawings with cash prizes ranging from \$100 to \$1,000, with a grand prize of \$100,000. These drawings were held in an effort to defray FESTPAC expenses.

At the March 9, 2016 Committee meeting, the Governor presented a check to the Committee for \$102,500 on behalf of the Governor’s Office Employees Association. Of the amount donated, approximately \$70,000 was purportedly from the FESTPAC raffle ticket sales proceeds and the remaining balance was from the Governor’s birthday fundraiser.

According to the Festival Director and Committee Chairperson, the FESTPAC raffle drawings were conducted through the Governor’s Office Employees Association because such activities are required to be conducted through a non-profit organization.⁷

We will review the raffle and fundraising activities during the second part of our FESTPAC audit series.

Separate FESTPAC Checking Account

Our review of the CAHA FESTPAC checking account showed two checks written out to “FESTPAC 2016” as follows.

Date	Description	Amount
6/16/15	Raffle Ticket Sales from deposit made on 6/15/15	\$ 2,210
7/7/15	Raffle Ticket Sales from deposit made on 6/15/15	\$ 220

We learned that the FESTPAC 2016 checking account is separate from the CAHA FESTPAC checking account and is maintained by the Governor’s Office Employees Association.

During our entrance meeting, it was mentioned that there is only one FESTPAC account, which is one of the non-appropriated funds accounts maintained by CAHA. In addition, it was noted that

⁶ In March 2016, the GPD Chief of Police submitted a request of approximately \$900 thousand (K) for overtime during the FESTPAC.

⁷ According to the July 2014 non-profit organization listing on the Department of Revenue and Taxation’s (DRT) website, the Governor’s Office Employees Association is an active non-profit organization that was established in August 2012. A DRT Revenue Agent informed us that the Governor’s Office Employees Association has not complied with the non-profit reporting requirements and may be subject to suspension by DRT.

the raffle fundraiser was conducted out of the Governor’s Office Employee Association, which is a non-profit organization.

We will review the Governor’s Office Employees Association FESTPAC 2016 checking account in the second part of our audit series.

FESTPAC Procurement Activities

As of March 2016, there were several government procurement related to Guam’s preparation for the upcoming FESTPAC, including:

- Design-build services for the DCA construction of Pacific festival huts;
- Design-build services for the Department of Parks and Recreation Paseo Recreation Center;
- Design-build services for the DCA construction of the Chamorro Village restrooms;
- Route 1 signalized pedestrian crossing at Chamorro Village; and
- Event management services.



Image 2. DPR Paseo Recreation Center. Photo taken on March 15, 2016 by the audit team.

Of those mentioned above, two were funded through the FESTPAC checking account, which we reviewed as part of our audit, as follows:

- Design-build services for the DCA construction of the 34 Pacific Festival Huts
- Events Management Services.

Design-Build Services for Construction of Pacific Festival Huts



Image 3. Pacific Festival Huts under construction. Photo taken on March 15, 2016 by the audit team.

On September 10, 2015, DCA issued Request for Proposal (RFP) number RFP/DCA2015-007 for the Design-Build Services for the Construction of Pacific Festival Huts in Paseo de Susana, Hagatna on behalf of the 12th FESTPAC Coordinating Committee.

The scope of work included services to design the Chamorro Village Market Annex consisting of the construction of 36 fully concrete permanent structures; asphalt paving of approximately 1,500 square yards of green space; the new Guam

Cultural Village Center consisting of 29 semi-concrete transportable structures; and two wooden gazebo huts for a Farmer’s Market Annex. The structures are required to be designed as traditional Chamorro huts.

After price negotiations with the selected contractor, DCA’s counter offer was to reduce the scope of work to 34 fully concrete permanent structures amounting to \$1,995,000.

During our preliminary review of the procurement file on March 15, 2016, we noted the following deficiencies.

- No review by the AG;
- No business license on file;
- Incomplete proposal on file;
- Unable to determine that only one proposal was received and when the proposal was received;
- Change order exceeded the 10% threshold allowed, and did not seek AG review of the change order; and
- Lack of segregation of duties.

No Review by the AG

Pursuant to Title 5 of the Guam Code Annotated (GCA) § 5150, when a government agency conducts any solicitation or procurement which is estimated to result in an award of \$500,000 or more, the AG or designees, shall act as legal advisor during all phases of the solicitation or procurement process. We did not find any evidence to indicate whether the AG was involved or at least corresponded with.

On October 21, 2015, a purchase order in the amount of \$1,995,000 was issued to the selected contractor and was signed by the DCA President. However, we question what authority the DCA President had to sign the contract since the procurement had not undergone a review by the AG.

The audit team was subsequently provided a copy of an email dated September 21, 2015 from one of the evaluation committee members to the General Services Agency Chief Procurement Officer inquiring whether there was any word from the Office of the Attorney General (OAG) regarding the RFP. The Chief Procurement Officer responded the following day that she spoke to one of the Deputy AGs, but there was no detail regarding the content of the discussion. However, at the March 22, 2016 meeting between key FESTPAC Committee members, OAG, and the Office of Public Accountability (OPA), the two Deputy AGs present indicated that their office had not reviewed the procurement file for the Pacific festival huts.

As this contract exceeds \$500,000, we recommend that this procurement undergo the AG's review after the fact to determine what actions, if any, need to be taken.

It was agreed during the March 22, 2016 meeting that it was in the best interest of the government to continue the completion of project; however, the AG's review of the procurement file after the fact is warranted, and DCA will provide OAG a complete set of the procurement file.

No Business License on File

Item 8 on Page 5 of the RFP states that it is DCA's policy to award proposals to offerors duly authorized and licensed to conduct business in Guam. However, we did not find evidence of the contractor's business license or due diligence effort by the evaluation committee in ascertaining that the contractor has a valid business license. During our second review of the procurement file, a copy of the business license was still not on file. The Committee subsequently provided a copy of the contractor's license.

Incomplete Proposal on File

While the required affidavits were submitted along with brochures of past work done by the offeror, there was no evidence that the proposal contained all the required minimum submittals (i.e., table of contents, discussion of specialized experience and technical competence, technical approach and management plans, corporate capability, etc.) required in the RFP. Therefore, we are questioning how the evaluation committee was able to rate the incomplete proposal with scores of 100, 100, and 82.

Unable to Determine If Only One Proposal Was Received and When the Proposal Was Received

The RFP log found in the procurement file indicated that five potential offerors picked up the RFP packet, but the log did not indicate if and when the proposal(s) was received. In addition, the envelope of what appeared to be the lone submitted proposal was not time-stamped as required by Title 2 of the Guam Administrative Rules and Regulations (GAR), 4 Division, Chapter 3, §3114(h)(1).

Two of the three Committee members and the DCA Administrative Services Officer could only orally attest to us that only one proposal was received for this procurement. To substantiate their statements, we sent email inquiries to the four other potential offerors to confirm whether or not they submitted proposals for this solicitation. As of report issuance date, one potential offeror confirmed that they did not submit a proposal due to the aggressive timeline to complete the project.

Change Order Exceeded 10% Threshold

Pursuant to 29 GAR, Chapter 1, Article 1, § 1141, the Director may approve amendments whose total value does not exceed ten percent (10%) of the original contract amount. However, all amendments whose total value exceeds ten percent (10%) of the original contract amount shall be routed to the Governor via the AG for approval. Appropriate copies of all executed amendments shall also be transmitted to the Department of Administration and other involved agencies.

A change order of \$199,995 was approved by the DCA President on December 22, 2015, which exceeded the 10% contract threshold by \$495. The 10% threshold for this procurement would have limited the change order to \$199,500 ($\$1,995,000 \times 0.10$). The change order was for the following:

- Elevated building foundations at Flood Zone VE;
- Elevated access boardwalk at Flood Zone VE;
- Additional Base Course for Slab elevations at Flood Zone AE; and
- Nipa frond procurement and installation.



Image 4. Photo of hut construction at Flood Zone VE taken on March 22, 2016 by DCA President.

During the April 2016 audit exit meeting, the Committee explained that this change order was discussed and approved at an Executive Committee meeting prior to the DCA President approving the change order. However, there are no minutes to document this meeting.

Because the change order of \$199,995 already exceeded the 10% threshold, any additional change orders will require approvals from the Governor and AG, which in this case was not.

Lack of Segregation of Duties

The audit team observed that the DCA President issued the RFP, was part of the evaluation committee, and approved the resulting contract to the winning offeror without undergoing AG review. The importance of segregation of duties will be discussed further in the Internal Control section of this report.

Contract Payments

As of March 11, 2016, four payments amounting to \$1.6M has already been paid to the contractor and a balance of \$611,000 remains. See Table 3 for summary.

Table 3: Pacific Festival Huts Construction Payments Summary

	Date	Amount Complete to Date	10% Retainage Fee	Previous Payments	Current Payment
Original Contract	10/21/2015				\$ 1,995,000.00
Change Order #1	12/22/2015				\$ 199,995.00
				Grand Total	\$ 2,194,995.00
Payment 1	11/13/2015	\$ 455,860.00	\$ 45,586.00	\$ -	\$ 410,274.00
Payment 2	1/19/2016	\$ 846,878.75	\$ 84,687.88	\$ 410,274.00	\$ 351,916.88
Payment 3	2/15/2016	\$ 1,243,178.75	\$ 124,317.88	\$ 762,190.88	\$ 356,670.00
Payment 4	3/11/2016	\$ 1,760,316.50	\$ 176,031.65	\$ 1,118,860.88	\$ 465,423.97
Subtotals					\$ 1,584,284.84
				Remaining Balance on Contract	\$ 610,710.16

Event Management Services

On November 30, 2015, DCA issued RFP number RFP/DCA2015-009 for Event Management Services on behalf of the 12th FESTPAC Coordinating Committee. Four potential offerors picked up the RFP packet, two of whom submitted proposals before the December 10, 2015 4 PM deadline. Per the RFP, the selected offeror will serve as the Event Manager under the direction of the Coordinating Committee and Festival Director. The expectations include the following:

1. Work with the FESTPAC 2016 Marketing Committee to develop the media plan to address publicity needs of the event;
2. Coordinate and assist in the design and building of stage(s), lighting to include stage décor design, sound and lighting requirements, and LED screen usage;
3. Coordinate, assist, and secure vendors as needed (food, beverage, arts, crafts, etc.) for the event;
4. Coordinate and assist visiting delegations, performers, special guests, and talent for the event;
5. Coordinate with videographer in documenting events and filming live footage;
6. Promotion and distribution of event posters and flyers;
7. Work collaboratively with the Coordinating Committee and Festival Director with any and all other duties assigned as it pertains to the successful execution of FESTPAC 2016;
8. Provide logistical support to include, but not limited to the following:

- | | |
|--|---|
| a. Technical | l. Sound/Stage/Lighting/Electrical |
| b. Catering | m. Receptions |
| c. Fireworks/Special Effects | n. Ceremonies, including but not limited to, Traditional Welcome, Opening, Ecumenical and Closing |
| d. Portable Toilets and Portable Shower Facilities | o. Printing, Advertising, and Publications |
| e. Accommodations and Transportation | p. Apparel/Costumes |
| f. Facility Maintenance | q. Communications/Media/Broadcasting |
| g. Waste Disposal | r. Credentials |
| h. Bedding/Laundry Services | s. Collateral Materials |
| i. Drinking Water | |
| j. Security | |
| k. Signage and Banners | |
9. Attend regularly scheduled meetings with the Committee Chairman and Festival Director to discuss event details for the planning and execution of FESTPAC;
 10. Work with community stakeholders to support FESTPAC;
 11. Make timely payments to all persons or firms supplying goods and/or services;
 12. Prepare post event reporting for review and approval by the Committee and Festival Director; and
 13. Not enter into contracts on the Coordinating Committee's behalf with artists or other independent contractors who employ the offeror as their agent, with entities owned or controlled by the offeror, or entities in which the offeror has an interest, without prior disclosure to and specific written approval by the Festival Director.

This solicitation resulted in a contract of \$800,000, which went through the review and approval of the AG, unlike the Pacific festival huts construction procurement.

Based on our preliminary review of the procurement file, we noted the following:

- No rationale provided for low evaluation scores for one of the offerors;
- Contract amount limited to \$800,000, leaving the Committee to explore other options.
- Contract term extends beyond FESTPAC;
- Cost reimbursement contract;
- Contractor compensation for its services unclear; and
- Lack of segregation of duties.

No Rationale Provided for Low Scores

Based on our review of the procurement file, we observed that the three evaluation committee members scored one of the two offerors significantly lower compared to the scores given to the winning offeror. Unfortunately, there was no written rationale as to why the evaluation committee gave low scores to one of the offerors.

\$800,000 Contract Limitation

Considering all the logistical items that the Committee had initially intended to be covered by this contract, the Committee explored other options for goods and services that will exceed the contract amount. In the March 22, 2016 meeting, the AG orally stated that the Event Management contract amount cannot exceed \$800,000. Our attorney also reached a similar conclusion.

The Committee decided to obtain these goods and services (i.e., meals, stage lighting and sound, generators, etc.) through GVB's event management contractor. To facilitate this decision, the Committee approved to transfer all funds from the CAHA FESTPAC checking account back to GVB, except for funds to pay the remaining balance for the Pacific festival huts construction and the event management services contract.

Contract Term Extends Beyond FESTPAC

Although Article 2 of the Contract states that the "contract will be in effect for Fiscal Year 2016 from January to September 30, 2016," the RFP implies that this is a multi-year contract because it states that the initial term is for a one year period, with two one-year options to renew. In addition, Section 1.17 of the RFP also states that upon expiration of the third contract term, the DCA President may have the option to extend the contract for a period not to exceed 90 days from the ending term date, or until such time DCA is able to secure a new contract. We are concerned that the contract extends beyond the 12th FESTPAC, which appeared to be the reason for the solicitation in the first place. Although the RFP was for "Event Management Services for the 12th Festival of Pacific Arts," the contract states that the Contractor shall create, sustain, and foster the major events scheduled by DCA and Festival Director in FY 2016 and other events or projects, as authorized by DCA and Festival Director.

Cost Reimbursement Contract

Generally, for procurement contracts, any type of contract that will promote the best interests of GovGuam may be used, except for the use of a cost-plus-a-percentage-of-cost contract, which is prohibited by 5 GCA § 5235 and 2 GAR, Division 4, Chapter 3, § 3119. Based on the language of the contract, it is a cost reimbursement contract. However, DCA must ensure that the contractor's compensation under the contract does not become an illegal cost-plus-percentage-of-cost contract.

Contractor Compensation for Its Services Unclear

The contract states that the contractor's compensation for its services will be based on negotiated rates and a monthly budget. During the March 22, 2016 meeting, the Committee indicated that the contractor is paid on an hourly basis for its services based on a rate schedule.

As of report issuance, the requested rate schedule has not been provided.

Lack of Segregation of Duties

Similar to the festival hut RFP, the audit team also observed that the DCA President issued the RFP, was part of the evaluation committee, approved the recommendation to award the events management services contract to the winning offeror, and was a party to the contract. The importance of segregation of duties will be discussed further in the Internal Control section.

Contract Payments

As of March 23, 2016, of the \$800,000 budgeted for this contract, three payments amounting to \$578K has already been paid to the contractor, leaving a balance of \$222K. See Table 4 for summary.

Table 4: Event Management Services Contract Payments Summary

	Payment 1	Payment 2	Payment 3	Total
Original Contract Sum				\$ 800,000
	2/17/2016	3/17/2016	3/21/2016	
FESTPAC Purchases & Deposits for Supplies (Futons, Pest Control, Guafac, Tote Bags, & 'Shell Puso" Lei)	\$ 165,250			\$ 165,250
Event Management Services	\$ 59,750	\$ 59,504		\$ 119,254
Futons (Final Payment)			\$ 105,225	\$ 105,225
Linen (Deposit)			\$ 52,530	\$ 52,530
NIPA (Full Payment)			\$ 49,600	\$ 49,600
IT Management System (Deposit)			\$ 43,693	\$ 43,693
Festival Lighting & Décor (Deposit)			\$ 21,400	\$ 21,400
Flags for 25 Countries		\$ 9,360		\$ 9,360
Collapsible Woven Fans		\$ 4,200		\$ 4,200
Banner for Ribbon Cutting		\$ 3,356		\$ 3,356
Colored Woven Fans		\$ 3,000		\$ 3,000
Woven Mat		\$ 1,580		\$ 1,580
Total	\$ 59,750	\$ 81,000	\$ 272,448	\$ 578,448
	<i>Remaining Balance on Contract</i>			\$ 221,552

Based on our review of the supporting documents for the three payments made, we noted the following:

- The contractor was paid a total of \$119,000 for two months' worth of services, but there was no detail as to the rate or hours paid.
- 3,000 futons cost \$210,000, or approximately \$70 per futon.
- 3,200 leis cost \$30,000, or approximately \$9 per lei.
- 80,000 nipa thatching cost \$49,600, or approximately \$0.62 per nipa.⁸
- A deposit of \$52,000 was paid for linen (6,000 flat sheets, 6,000 pillow cases, etc.).



Image 5. Nipa.

<http://www.danglosecosystems.com/synthetic-nipa-thatch>

Attorney General Review

During the March Committee meetings, certain Committee members raised concerns regarding the events management services contract, especially in regards to the contractor's ability to procure goods and services on behalf of the Committee without undergoing government procurement processes. Subsequently, the Committee Chairman and DCA President met with the AG, who stated that her "office reviewed and approved the procurement contract" and that "the contract allows for the private contractor to procure needed goods and services without undergoing additional procurement processes."

⁸ See Image 5.

OPA's legal counsel also reviewed the contract, who concurred that the event management services agreement is a valid professional contract. In addition, the contractor had the responsibility for, and will be paid for, coordinating and assisting, promoting, providing logistical support, and collaborating for various aspects of the 12th FESTPAC.

Stronger Internal Controls Needed

Many of the problems associated with managing the 12th FESTPAC could be eliminated or mitigated by implementing stronger internal controls as described by the best practice model authorized by Government Auditing Standards and other official documents such as grants and contracts that involve federal funds.

According to the Commission of Sponsoring Organizations of the Treadway Commission (COSO), internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Internal control consists of five interrelated components:

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring Activities



Image 5. 2013 COSO Cube.
www.coso.org.

In order to have effective internal control, the entity is encouraged to apply the 17 principles defined by COSO within five components. For additional guidance on internal controls, refer to Appendix 3.

We assessed the internal control of the Committee and noted several areas needing improvement as follows:

- Lack of formal delegation of authority and responsibility.
- Internal and external pressures for a successful FESTPAC.
- Lack of segregation of duties.
- Lack of monthly Committee meetings and minutes.
- No formal monitoring and evaluation process to ensure internal controls are in place.

Control Environment: Lack of Delegation of Authority and Responsibility

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. The control environment comprises the integrity and ethical values

of the organization; the organizational structure and assignment of authority and responsibility; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

Lack of Assignment of Authority and Responsibility

Although P.L. 30-83 specified the composition of the Committee, it is unclear what the structure, reporting lines, and appropriate authorities and responsibilities of the Committee members were. In our discussion with several Committee members and based on our observation at several of the meetings we attended, there appeared to be confusion amongst the members as to what their exact roles and responsibilities were.

For example, in the March 2016 Committee meetings, there were discussions surrounding who had the authority to sign sponsorship agreements. In one instance, the Committee Secretary signed the agreement on behalf of the DCA President, but neither the DCA President nor other Committee members were made aware of the agreement until it was being discussed at the March 9, 2016 meeting. Further, it was agreed at the March 14, 2016 meeting that only the DCA President is authorized to sign sponsorship agreements on behalf of FESTPAC.

Lack of Delegation of Approval Authority and Dollar Thresholds

In addition, authority should be provided to others within an organization to assist in carrying out tasks and ensure that objectives are met. While authority may be delegated, responsibilities may not be relinquished. In addition, most organizations establish dollar thresholds with which certain positions within an organization are authorized to approve transactions.

Based on our review of FESTPAC transactions, it appears that the Committee may have informally delegated approval authority to the DCA President as Treasurer of the Committee to approve transactions and make payments on behalf of FESTPAC. However, a formal delegation of approval authority was not provided to the DCA President until the March 14, 2016 Committee meeting.

We also noted that there does not appear to be any established dollar thresholds both from the Committee perspective, as well as from the DCA perspective. For example, the DCA President approved and signed the Pacific Festival Huts purchase order, which was in the amount of approximately \$2M, without the procurement file undergoing Board approval and the required AG review.

Risk Assessment: Internal and External Pressures for a Successful FESTPAC

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.

With this being the first time Guam will be hosting FESTPAC, the Committee has been working with the Council of Pacific Arts and Culture under the Secretariat of the Pacific Community to ensure that necessary planning, policies, and logistics are in place in time for the festival.

With FESTPAC one month away, an ongoing audit, and media attention, the Committee has the added pressure not only to ensure that FESTPAC is carried out successfully, but with transparency and accountability.

Control Activities: Lack of Segregation of Duties

Control activities are the actions established through policies and procedures that help to ensure that management's directives to mitigate risks in the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, and reconciliations.

Lack of Segregation of Duties

All activities should not be performed by one person. Segregation of duties calls for assigning different individuals the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties helps to limit the possibility that one person could perpetrate and conceal errors or irregularities in the normal course of performing his or her duties.

In the two major procurements reviewed, we saw that the DCA President issued the RFP, was part of the evaluation committee, approved the recommendation to award the contract to the winning offeror, was a party to the contract, and is a signatory when making check payments.

Information & Communication: Committee Did Not Meet for Three Months

Information should be recorded and communicated to management and others within the organization who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. For an organization to run and control its operations, it must have relevant, reliable, and timely communications relating to internal and external events.

In the March 2016 Committee meetings, it was disclosed that the Committee had not held their monthly meetings for the past three months, resulting in two separate lengthy meetings for March 2016.

In addition, the Executive Committee held various meetings, but no minutes were prepared to document these meetings.

Absent periodic Committee meetings, one would expect regular email communications or conference calls amongst all the Committee members to ensure that everyone is on the same page regarding the preparation progress in general and for their respective sub-committees.

Monitoring Activities: No Formal Evaluation Process

The organization should select, develop, and perform ongoing and/or separate evaluations to ascertain whether components of internal control are present and functioning. The organization should also evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective actions.

We observed that the Committee does not have a formal evaluation and monitoring process to ascertain whether components of internal control are present and functioning.

We recommend the Committee to ensure that adequate controls are in place, such as assigning different individuals the responsibility of authorizing transactions, recording transactions, approving payments, and maintaining custody of assets; establish dollar thresholds for approval of transactions and payments; regularly communicate preparation progress with the entire Committee (either via email, conference call, or meeting); etc.

Conclusion and Recommendations

Our audit found that with one month away from the 12th FESTPAC, the Coordinating Committee faces several challenges, including:

- An estimated shortfall of up to \$1.1M if it does not obtain additional funding to cover all projected expenses;
- Violation of 5 GCA § 5150 when the \$2.2M Pacific festival huts procurement did not undergo the AG's review;
- The event management services contract is limited to \$800,000, which now requires the Committee to explore other options to obtain the logistical goods and services it initially intended for the contract to cover; and
- Stronger internal controls are needed.

The Committee is challenged to deliver a successful FESTPAC that Guam and her people can be proud of. However, the Committee must also ensure that it achieves this goal in conformity with Guam laws and regulations. Accordingly, OPA plans to conduct a post review of FESTPAC.

Recommendations

We made the following recommendations to the 12th FESTPAC Coordinating Committee:

1. Reassess its budget and finances to ensure that it is accounting for all the actual and in-kind FESTPAC revenues and expenses.
2. Provide the complete Pacific festival huts procurement file to the AG for review and possible ratification.
3. Ensure that adequate controls are in place, such as:
 - Assigning different individuals the responsibility of authorizing transactions, recording transactions, approving payments, and maintaining custody of assets;
 - Establishing dollar thresholds for approval of transactions and payments; and
 - Regularly communicating preparation progress with the entire Committee (either via email, conference call, or meeting).

FESTPAC Audit Continuation

Because this is the first of our two-part audit series, among the open items to be examined in the second part are:

- Accounting of FESTPAC funds;
- Accounting of FESTPAC raffle and other fundraising activities; and
- Review of selected procurement files and contract management.

Classification of Monetary Impact

	Finding Description	Questioned Costs	Potential Savings	Unrealized Revenue	Other Financial Impact
1	FESTPAC Funding Shortfall	\$ -	\$ -	\$ -	\$ -
2	FESTPAC Procurement Activities				
	34 Pacific Festival Huts	\$ 2,194,995	\$ -	\$ -	\$ -
	Event Management Services Contract	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ 2,194,995	\$ -	\$ -	\$ -
3	Importance of Internal Control	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
	Totals	\$ 2,194,995	\$ -	\$ -	\$ -

Management Response and OPA Reply

We transmitted a draft report to the 12th FESTPAC Coordinating Committee in March 2016 for their official response. We met with the Committee in April 2016, wherein they generally agreed with the audit findings and recommendations. See Appendix 5 for the Committee's official response.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, we will be contacting the Committee and CAHA officials to provide target dates for the implementation of the recommendation.

We appreciate the cooperation and assistance of the 12th FESTPAC Coordinating Committee, DCA, CAHA, GVB, and OAG during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Audit Objectives, Scope, & Methodology**

Objectives

The audit objective was to determine the current condition of the 12th FESTPAC Coordinating Committee's preparations for the festival in May 2016. The sub-objectives were to determine whether:

1. The FESTPAC funds are properly accounted for;
2. Goods and services related to FESTPAC are procured in accordance with Guam procurement law and regulations; and
3. Controls are in place and enforced to ensure that the Coordinating Committee members are carrying out their fiduciary responsibilities.

Scope

The scope of our audit is from October 1, 2009 to March 31, 2016 [FY 2010 to six months into FY 2016]. This is the first of a two-part audit series on FESTPAC and was initiated as part of our annual audit plan. We also received several hotline tips concerning FESTPAC.

Methodology

Our audit methodology included:

- Identifying criteria and gaining an understanding of policies, procedures, and applicable laws and regulations pertaining to FESTPAC funds.
- Identifying prior audits and OPA hotline tips relevant to FESTPAC.
- Assessing internal controls and risks through interviews and walkthroughs with key personnel.
- Obtaining copies of bank statements, the general ledger, and financial reports.
- Reviewing supporting documentation, such as cancelled checks, deposit slips, receipts, meeting minutes, and other documentation relating to FESTPAC.
- Testing a limited sample of transactions taking into consideration the results of our assessment of internal controls.
- Obtaining and reviewing copies of contracts, bid packages, and request for proposals to determine if goods and services were properly procured.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2:**Prior Audit Coverage**

Financial Audit Reports

We reviewed the annual financial audits of the GVB from FY 2012 to FY 2015 and the DCA for FY 2013 and FY 2014. We saw that GVB held a total of \$2.7M in the GVB FESTPAC Trust Account, which was then transferred to the FESTPAC checking account held at DCA in October 2015.

There were no findings in the GVB and DCA annual financial audits reviewed that pertained to FESTPAC.

The five components and the 17 principles of internal control are as follows:

Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

Principles:

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

Principles:

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

Control Activities

Control activities are the actions established through policies and procedures that help to ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, and reconciliations. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

Principles:

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information & Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is two-fold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Principles:

13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separation evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies, or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

Principles:

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Appendix 4:

Festival Theme and Logo⁹

Festival Theme

On August 4, 2011, under the leadership of Master of Chamorro Dance Frank Rabon, the Governor's appointee to the Festival Organizing Committee, a community gathering of traditional "Fafana'gui" (teachers) took place and began the process of developing the 2016 Guam Festival Theme and Logo.

Discussions indicated that the theme had to represent the Chamorros, indigenous people of the Mariana Islands. Chamorro traditions and the culture have been over shadowed by western influences that lead to the loss of connection between the Chamorros and their Pacific brothers and sisters. The recent resurgence of indigenous identity and cultural preservation started the reconnection with other Pacific island nations. The struggle of reconnection led to the following theme:

- What we own (I Pa'an Taotao Tano') – Our way of life, our identity as indigenous people.
- What we have (I guinahan I Tano' yan I Tasi) – Our resources from land and sea that have sustained our people for thousands of years.
- What we share (Inaafa Maolek) – Our hospitality and our kindness that Chamorros give to all.
- United voices of the Pacific (Taihinekok) – Never ending of our people's way of life, the respect from us and to us.

Festival Logo

The **Latte Stone**: I Tasa yan I Aligi: Latte is the term for a pillar (aligi) capped by a hemispherical stone capital (tasa) with the flat side facing up. Used as building/home supports by the ancient Chamorro people, they are found throughout most of the Mariana Islands. Today, the Latte Stone is an icon of our Chamorro people, our strength and our resilience.

The **Sling Stone**: âcho' atupat. The signature weapon of the ancient Chamorro warrior, was fashioned from either limestone, basalt, or fire-hardened clay and hung from slings made of pandanus or coconut fiber. Today, these oval-shaped stones are part of the design of the official Guam flag and are incorporated into architectural designs. Like the latte, the slingstone is a cultural icon that exhibits Chamorro pride and cultural identity.

The **Coconut Tree**: Tronkon Niyok. The tree of life symbolizes the resources of our land.

The **Blue Ocean & Outrigger Canoe**: Tasi yan Galaide': Symbolizes our ocean resources as well as connecting us with our Pacific brothers and sisters through our seafaring knowledge and skills.

⁹ <https://festpac.visitguam.com/>

Appendix 5: Management Response



EDDIE BAZA CALVO
Governor

RAY TENORIO
Lieutenant Governor

Office of the Governor of Guam.

April 7, 2016

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OFFICE OF PUBLIC ACCOUNTABILITY
BY: EDWIN DALISA
DATE: 4:02 4/8/16
TIME: 4:02 AM PM

Håfa Adai Doris!

Thank you for the opportunity to discuss the preliminary findings of the audit done in relation to Guam's Readiness for the 12th Festival of Pacific Arts (FestPac). We appreciate your assessment of the current situation and guidance on opportunities for improvement.

I would like to share the following regarding the four main audit highlights:

First, I agree that the event is underfunded. The Organizing Committee approved a \$7 million cash budget on July 21, 2013. Approximately \$2 million was to be collected through sponsorships, fundraising and merchandise. Currently less than \$150,000 has been raised. I have briefed the Committee of the situation and we are looking at ways to address the issue.

Regarding the construction of the Festival Village huts, I understand your concern that the Attorney General (AG) did not review the request for proposal (RFP). I was of the understanding that the AG approved the RFP and provided you those documents. However, as mentioned at our meeting, there was apparently a miscommunication between the agencies involved and there was no formal review by the AG. GSA's Chief Procurement Officer, Ms. Acfalle, will be assisting with providing the AG with the procurement files necessary for review and possible ratification.

The Organizing Committee was briefed on the events management services contract being valid and the contract cap amount of \$800,000. With your recommendations, the Committee approved the transfer of the balance of FestPac funds to GVB, who will manage procurement moving forward. Lastly, I will brief the Committee on your comments on internal control improvements and provide recommendations for the Committee to adopt.

Once again, thank you again for your recommendations, and we look forward to continuing to work with you and your team on ensuring Guam hosts a successful FestPac.

Senseramente;


ROSE RAMSEY
Festival Director


JON NATHAN DENIGHT
Chairman


JOSEPH A. CAMERON
Treasurer

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Appendix 6:**Status of Audit Recommendations**

No.	Addressee	Audit Recommendation	Status	Action Required
1	FESTPAC Coordinating Committee	We recommend the 12th FESTPAC Coordinating Committee reassess its budget to ensure that it is accounting for all the actual and in-kind FESTPAC revenues and expenses.	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.
2	FESTPAC Coordinating Committee	We recommend the 12th FESTPAC Coordinating Committee provide the complete Pacific festival huts procurement file to the Attorney General for review and possible ratification.	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.
3	FESTPAC Coordinating Committee	We recommend the 12th FESTPAC Coordinating Committee ensure that adequate controls are in place, such as: <ul style="list-style-type: none">• Assigning different individuals the responsibility of authorizing transactions, recording transactions, approving payments, and maintaining custody of assets;• Establish dollar thresholds for approval of transactions and payments; and• Regularly communicating preparation progress with the entire Committee (either via email, conference call, or meeting).	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.



Guam's Readiness for the 12th Festival of Pacific Arts (FESTPAC) Report No. 16-02, April 2016

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
Rodalyn Gerardo, CIA, CGFM, CPA, CGAP, CGMA, Audit Supervisor
Andriana Quitugua, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

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Professionalism: To adhere to ethical and professional standards.
Accountability: To be responsible and transparent in our actions.**

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