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May 13, 2016

Mr. Michael J.B. Borja  
Director  
Department of Land Management  
P.O. Box 2950  
Hagatna, GU 96932

Dear Mr. Borja:

In planning and performing our audit of the financial statements of the Chamorro Land Trust Commission (CLTC) as of and for the year ended September 30, 2015 (on which we have issued our report dated May 13, 2016), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the CLTC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CLTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the CLTC's internal control over financial reporting and other matters as of September 30, 2015, that we wish to bring to your attention.

We have also issued a separate report to the Board of Commissioners, also dated May 13, 2016, on our consideration of the CLTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Public Accountability - Guam, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the CLTC for their cooperation and assistance during the course of this engagement.

Very truly yours,

## SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the CLTC's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

### (1) Loan Guarantees

Of five loan guarantees tested, one item did not agree with the latest mortgage balance evidenced by bank statement provided by borrower. We recommend that the Commission continue to timely update the loan guarantee schedule and establish policies and procedures requiring the periodic monitoring of loan guarantees with the respective loan institutions.

### (2) Payment on Lieu of Real Property Taxes (RPT)

For five of seven RPT items tested, the payment stub evidencing actual RPT collections was not made available. In addition, a \$2,257 collection from a non-CLTC property was improperly recorded as RPT revenue. We recommend that the Commission establish policies and procedures requiring that RPT collections be adequately scrutinized prior to revenues recordation.

### (3) Lease Agreements

#### ***Agricultural leases***

Of five lease agreements tested, one item indicated inconsistent information compared with information documented during the application and interview process. No supporting documentation were provided to correct application filed by applicant. In addition, one item indicated overstatement of land area per examination of surveyed map.

#### ***Residential leases***

Of five lease agreements tested, one item indicated a different lot number assigned per lease agreement compared with surveyed map. In addition, two items noted overstatement of property valuation. Finally, the supporting lease agreement for one item was not made available.

We recommend that the Commission appropriately scrutinize the lease register, perform update of information in timely manner, and adequately file necessary supporting lease documents.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

The CLTC's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.