

March 29, 2021

Mr. Jack Hattig III
Administrative Director
Chamorro Land Trust Commission
P.O. Box 2950
Hagatna, GU 96932

Dear Mr. Hattig:

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, 2020 (on which we have issued our report dated March 29, 2021), 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, 2020, that we wish to bring to your attention.

We have also issued a separate report to the Board of Commissioners, also dated March 29, 2021, 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.

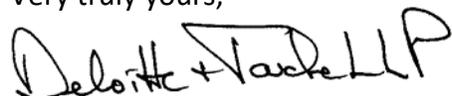
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2020 that we wish to bring to your attention:

(1) LeasesCommercial

- a. During the year ended September 30, 2020, the CLTC collected annual rental fees of \$2,207 on Lot No. 114-B-R3 without a formal signed lease. Thus, we were unable to verify the completeness of related terms and conditions. This matter was discussed in our previous letters to management for fiscal years 2016 through 2019.
- b. Two leases with annual rental fees of \$3,840 and \$6,240, respectively, matured prior to September 30, 2019. The CLTC continues to receive collections without a formal lease extension.
- c. Certain leases stipulate that upon lease renewal every five years, rents shall be adjusted to a certain percentage of the fair market value of the leased land, excluding improvements on the premises. Several leases were renewed and extended; however, the CLTC did not provide an appraisal or equivalent to substantiate the market value of the leased lands. Accordingly, current rental fees billed remained at the same rate as per the initial lease. This matter was discussed in our previous letter to management for fiscal year 2019.
- d. Lease agreements for the following properties have expired:
 - Lot No. 17-1-1, Block F, Tract 9, Barrigada (Annual lease rental of \$6,240)
 - Lot No. 354-7 Inarajan (Annual lease rental of \$3,840)
 - Lot No. 7161-R1 Yigo (Annual lease rental of \$48,000)
 - Lot No. 10125-R12-1 Dededo (Annual lease rental of \$836)
 - Lot No. 7117-4-1, Yigo (Annual lease rental of \$4,200)
 - Lot No. 5149-6, Dededo (Annual lease rental of \$5,735)
 - Lot No. 10-4, Block D, Tract 9, Barrigada (Annual lease rental of \$16,184)

The CLTC continues to receive collections without newly executed leases. This matter was discussed in our previous letter to management for fiscal year 2019.

Agricultural

- a. A certain lessee holds two separate leases (a portion of Tract 1021, Block 2, Lot 1-4, Dededo and a portion of Lot 7153, Yigo) with a lot size of one acre each, which leases were signed in April 1998 and December 2003, respectively. This matter was discussed in our previous letter to management for fiscal year 2019.
- b. A certain lessee holds two separate leases (Lot 243-REM-3, Santa Rita and a portion of Lot 243-REM, Santa Rita) with a lot size of less than half an acre each, which leases were signed in July 2002 and December 2002, respectively. This matter was discussed in our previous letter to management for fiscal year 2019.
- c. Lease agreements for the following properties with lot size exceeding the CLTC Board of Commissioners approval, were not approved by the Guam Legislature:

Lot 15-1, Block 3, Tract 1021 (Lot size 8,414 square meters)
 Lot 7066-R14 (Lot size 8,950 square meters)
 Lot 8-1, Block 4, Tract 1021 (6 acres)
 Lot 8-5 (80,940 square meters)

These leases have been classified as subsistence agricultural leases.

SECTION I - CONTROL DEFICIENCIES, CONTINUED(1) Leases, ContinuedAgricultural, Continued

- d. The CLTC approved a certain lease application (Lot 480-71, Agat) taken over by a beneficiary from an unqualified applicant.

Residential

- a. A certain lease was transferred to a current listed lessee effective June 2019; however, the previous lessee held the lease for less than seven years as required by the CLTC Rules and Regulations. Furthermore, the lessee is affiliated with a current CLTC employee. A signed disclosure of affiliation by the employee did not evidence approval by the appropriate CLTC Officer. This matter was discussed in our previous letter to management for fiscal year 2019.

The CLTC may consider performing appraisals of commercial lease lands to obtain market values to serve as a basis of rates to be billed. In addition, we recommend that the CLTC appropriately examine the lease register, perform timely updates of related information, and adequately file necessary supporting lease documents. Finally, we recommend that leases be processed in accordance with the CLTC Act and the CLTC Rules and Regulations.

(2) Special Fund Revenues

During the year ended September 30, 2020, revenue collections for the Chamorro Loan Guarantee Fund and the Chamorro Land Trust Survey and Infrastructure Fund of \$139,397 and \$86,805, respectively, were recorded; however, no cash transfers were made to the respective fund bank accounts resulting in an increase in the interfund receivable due from the GovGuam General Fund. We recommend management perform periodic monitoring of revenue collections and pursue timely deposits to the respective fund bank accounts. This matter was discussed in our previous letter to management for fiscal year 2019.

(3) Leases Receivable

At September 30, 2020, the CLTC recorded \$1,159,730 lease rental receivables, which included \$543,120 in delinquent lease rental payments. Accordingly, an audit adjustment was proposed to recognize a corresponding allowance for uncollectible accounts relating to these delinquent tenants. We recommend the CLTC timely follow up with tenants regarding delinquent lease rental payments.

(4) Bank Accounts

Two CLTC bank accounts are currently held in other entity names. We recommend that CLTC management require the bank accounts be appropriately held in the name of the CLTC.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention at this time:

(1) Lease Revenues

Public Law No. 34-142 authorized the CLTC to enter into a lease renewal for Yigo Lot 7161-R1 for a period of up to fifty (50) years, to give the current tenant the right of first refusal, and to submit the negotiated lease renewal to the Guam Legislature for approval. No lease renewal has been executed and the lease continues month-to-month as approved by the CLTC Board of Commissioners. Furthermore, Public Law 34-142 requires lease revenue collections to be deposited to the Chamorro Land Trust Survey and Infrastructure Fund. During the year ended September 30, 2020, the CLTC recorded lease revenue collections of \$48,000 in the Chamorro Land Trust Operations Fund. We recommend the CLTC comply with Public Law 34-142.

SECTION I - OTHER MATTERS, CONTINUED

(2) Office Lease

In 2019, the CLTC management awarded an office lease to a third party. However, terms and conditions stipulating the agreed specifications in the invitation for bid were not formalized into a contract agreement between the parties. We recommend management execute a lease contract formalizing the terms and conditions of the office lease. This matter was discussed in our previous letter to management for fiscal year 2019.

SECTION III - 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.