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April 23, 2018

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, 2017 (on which we have issued our report dated April 23, 2018), 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, 2017, that we wish to bring to your attention.

We have also issued a separate report to the Board of Commissioners, also dated April 23, 2018, 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,

Deloitte & Touche LLP

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, 2017 that we wish to bring to your attention:

(1) Other lease revenues

CLTC received $2,820 during FY2017 in relation to 10% of the events admission price from a certain lease agreement as mandated by Public Laws 24-141 and 30-204. However, documentation lacks a supporting events admission report to ascertain the completeness of amounts collected. We recommend management obtain and file events admission reports to facilitate adequate documentation and to ascertain completeness of revenues received.

(2) Lease Agreements

One CLTC commercial lease with an annual rental fee of $2,207 lacks a formal signed agreement. Thus, we were not able to verify the completeness of associated terms and conditions.

Certain lease agreements stipulate that upon lease renewal of every five years, rental fees shall be adjusted to a certain percentage of the fair market value of the leased land, excluding improvements on the premises. Several lease agreements were renewed and extended. However, CLTC lacks adequate documentation that performance of an appraisal to substantiate the market value of the leased lands occurred. Thus, current rental fees billed remained at the same rate as per the initial lease. This also allows the Commission practice foregoes opportunity of increasing rental rates based on market values.

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 updates of related information in a timely manner, and adequately file necessary supporting lease documents. Furthermore, we recommend CLTC management revisit lease agreements, assess applicability based on current transactions, and determine appropriate courses of action.

(3) Lease Application Fees

One residential lease application was stamp dated December 6, 1995. A transfer of lessee occurred in FY 2017 where the new lessee paid the $50 application fee. However, P.L. 23-38, Section 5.3, states that the applicant shall pay a one-time processing fee of $50 within 30 days from application submittal. Payment of application fee did not occur within the required period.

We recommend management review lease applications ensuring that compliance with CLTC rules and regulations occur.

(4) Contractual Services

During the year ended September 30, 2017, the Commission incurred and paid $112,938 of legal counsel salaries. The amount covers services rendered for CLTC, Guam Ancestral Lands Commission (GALC) and Department of Land Management (DLM). Documentation from legal counsel to support allocation of the expenditure among three agencies was not available.

We recommend management obtain documentation from legal counsel as basis for allocation of expenditure.

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.