



## **Chamorro Land Trust Commission FY 2012 Financial Highlights**

August 14, 2014

The Chamorro Land Trust Commission (CLTC) closed Fiscal Year (FY) 2012 with an increase in fund balance (net income) of \$562 thousand (K), compared to a \$173K increase in FY 2011. The fund balance increase was primarily due to increased revenues of \$270K, of which \$240K was derived from royalties. The FY 2012 is the first financial audit completed for the CLTC since it was established as a component unit of the Government of Guam (GovGuam). However, the Office of Public Accountability (OPA) has issued three performance audits in 1999, 2005, and 2009. The development of an inventory of leases was a primary recommendation of the OPA audits.

CLTC, with the significant guidance of the independent auditors Deloitte and Touche, LLP, finally completed the first inventory of its leases. CLTC is to be applauded for this accomplishment. Due to limited staff expertise and lack of internal accounting infrastructure, CLTC relied heavily on the independent auditors to assist in the development of the land inventory database, which management owns and takes full responsibility for. Upon CLTC's physical review of all leases, several discrepancies were discovered which led to the correction and update to the inventory database. It is important that CLTC implement proper controls to ensure the preservation and integrity of this database.

CLTC received an unmodified (clean) opinion from its independent auditors. In order to receive the clean opinion, seven and nine audit adjustments were made in 2011 and 2012 that cumulatively increased CLTC's net position by \$10K in 2011 and \$523K in 2012. The auditors identified four material weaknesses in its Report on Compliance and Internal Control, which pertain to the lack of accounting system; lack of monitoring of leases, royalties, and loan guarantees; and lack of accounts receivable follow-up and collection. These material weaknesses were previously identified in prior OPA audits.

### **Land Endowment Recordation of \$400 Million**

With the completion of the land lease inventory, a total of \$406.7 million (M) in investment in land and other real estate was recorded at the government-wide level. Of this amount, \$400M was attributed to CLTC land leases. CLTC must now work with the Department of Revenue and Taxation (DRT) to ensure the land leases are recorded at DRT for real property tax assessments.

### **CLTC Land Inventory**

CLTC's primary mission is to lease Chamorro homelands to native Chamorro people. CLTC executes property leases for residential, agricultural, and commercial programs. CLTC also has about 33% of GovGuam properties or 11,785 acres in its inventory. In September 2011, Governor Eddie Baza Calvo issued Reorganization Advisories Nos. 5 and 9 which merged CLTC and the Guam Ancestral Lands Commission into the Department of Land Management (DLM). The reorganization was to consolidate resources, eliminate redundancies, and provide better and faster services. However, due to funding constraints, minimal resources have been allocated to CLTC.

In 2011, CLTC issued a total of 37 leases totaling 41 acres. After the merger with DLM, CLTC issued 90 leases totaling 90 acres in FY 2012. At the end of FY 2012, there were approximately 8,453 applications pending review and approval from CLTC's management and board. Of the pending applications, 5,260 consisted of residential, and 3,193 were agricultural. Based on the FY 2012 inventory database, 1,354 residential leases have been issued totaling 488 acres of property and 997 agricultural leases have been issued totaling 2,233 acres.

With the limited staff, CLTC is unable to adequately oversee the slotting of constituents, enforce compliance with lease agreements, maintain records, and track revenues and increases in liabilities. A portion of funds

from lease and royalty revenues should be set aside for the administration, processing, issuance, review, monitoring, collection, inspection, and inventory of leases.

### **CLTC Guaranteed \$13M in Loans**

CLTC is authorized to loan or guarantee the repayment of any authorized loan to a Chamorro homeland lessee, where the initial capital is one million dollars up to a maximum amount not to exceed the financial ability of the borrower. In the event of default, the loan guarantees shift the lender's default risk entirely to the CLTC whereby the lender can call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2012 CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12.9M to the Guam Housing Corporation and the Small Business Administration. In 2005, the OPA performance audit report 05-09 identified a total of \$73K in defaulted loans guaranteed and paid by the CLTC. Since then, one other loan has defaulted, and the foreclosure proceedings are currently in court. Should more loans go into default, CLTC may not have the financial wherewithal to continue to meet the guarantee. Accordingly, the Board, management, and Legislature should consider whether CLTC should continue to guarantee loans.

### **CLTC Revenue Sources**

CLTC's main sources of revenue are derived from lease rentals, and royalties. Commercial leases represent 54% of total revenues, while agricultural and residential leases comprise less than 1%. For residential leases, CLTC charges only \$1 a year for a period of 99 years. Royalties constitutes 45% of CLTC's Revenues.

### **Compliance Report**

The independent auditors identified four material weaknesses in the Report on Internal Control over Financial Reporting and Compliance that pertained to the following:

- Accounting System - CLTC did not maintain adequate records for its non appropriated funds on a formal accounting system, and no formal reconciliation process is in place for general ledger account balances;
- Collection and Monitoring of Accounts Receivable - CLTC did not have adequate internal control policies requiring the timely collection and monitoring of accounts receivable. CLTC received a payment of \$100K for which no receipt was available evidencing the nature of the transaction nor the total amount due from this lessee. As a result, there is a possibility of loss revenue and inaccurate financial reporting;
- Coral Extraction Royalties - CLTC did not have adequate internal control policies requiring monitoring and documentation of coral extraction royalties. Revenues collected were not supported by a contract agreement for established rates, nor did CLTC verify amount of coral materials extracted; and
- Loan Guarantees – No effective system of monitoring guaranteed loans with respective loan institutions has been established.

Presently, CLTC has one full-time Administrative Officer and Word Processing Secretary II who handle all the accounting and maintenance of the land inventory, and financial reporting. Management has not identified any other employee who is trained to serve as an alternate and to monitor and oversee these responsibilities. It is important that resources be made available to support the continuity of CLTC operations and ensure integrity of the land inventory database.

For a more detailed discussion on CLTC's operations, see the Management's Discussion and Analysis in the audit report at [www.guamopa.org](http://www.guamopa.org).