



Compliance and Internal Control

Guam Preservation Trust
(A Component Unit of the Government of Guam)

September 30, 2009

Ernst & Young

Guam Preservation Trust

Reports on Compliance and Internal Control

Year ended September 30, 2009

Contents

Independent Auditors’ Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* 1

Schedule of Findings and Responses 3

Summary Schedule of Prior Audit Findings 5



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Guam Preservation Trust

We have audited the financial statements of the Guam Preservation Trust (the Trust) as of and for the year ended September 30, 2009, and have issued our report thereon dated February 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. This finding is noted as item 2009-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Trust's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Trust's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Guam Preservation Trust, the Office of the Public Accountability, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public information.

Ernst + Young LLP

February 10, 2010

Guam Preservation Trust

Schedule of Findings and Responses

September 30, 2009

Finding Number 2009-1 Completeness of Revenues

Criteria:

Generally accepted accounting principles require that all revenues be recorded in the proper accounting period.

Condition:

Building permits are issued by the Department of Public Works (DPW) and building permit fees are collected by the Treasurer of Guam (TOG) for the Department of Administration (DOA) at the One Stop office. DPW utilizes unnumbered, manually prepared, inter-office memorandums to evidence that building permit fees are paid for prior to issuance of the permit. The memorandum indicates the amounts to be paid and the account number that should be credited for tracking purposes by DOA. The memorandum should be stamped and initialed by the TOG cashier.

To record revenues, the Trust, through its accounting service provider, reviews all inter-office memorandums filed and records the building permit fees on a monthly basis. Based on the results of our audit, we noted that the DOA confirmed building permit fees that were approximately \$21,000 more than what the Trust had recorded.

Cause:

We selected one month's transaction and noted the following upon review of the inter-office memorandums:

- There were differences between the date of the inter-office memorandum and the TOG stamp date of receipt.
- There were inconsistencies in the stamping of inter-office memorandums by TOG; stamps were either electronically or manually stamped and not all cashiers initialed the stamp.

We noted no difference between the amount recorded by the Trust and the DPW's records. Thus the problem may be with the recording of payment by TOG. We also noted the Trust did not take into consideration interest earned and fines received, which totaled approximately \$9,000 based on DOA's confirmed balance.

Effect:

The Trust may not be recognizing all the revenues that should be made available for its use. Until additional internal controls are put into place, the completeness of building permit fees reported continues to be a concern.

Guam Preservation Trust

Schedule of Findings and Responses, continued

September 30, 2009

Finding Number 2009-1 Completeness of Revenues, continued

Recommendation:

To increase assurance that all receipts are recorded and to reduce the risk of misstatement, error, fraud and illegal acts, we recommend that the Trust perform the following:

- Request TOG to provide DPW with a copy of the receipt they issue. DPW should then review the TOG receipt to ensure that TOG credited the fees collected into the Trust's account. Once these procedures are satisfied then DPW should attach the TOG receipt to their inter-office memorandum and issue the building permit.
- Continue to request for a monthly confirmation of revenues from DOA to allow for timely review of variances between DPW's records, payments received by TOG and amounts recorded by DOA.
- On a test basis, review building permits issued and match them against DPW's inter-office memorandums to ensure all permits have been properly paid for.

Auditee Response:

The Guam Preservation Trust recognized the need to reduce the risk of misstatements, error, fraud, and illegal acts, and have contracted an accounting service to conduct a monthly review and compilation of building permits paid and filed by the Guam Department of Public Works. With the monthly review and compilation of building permits and the confirmation from the Department of Administration, the Guam Preservation Trust and the Guam Department of Administration were able to identify discrepancies and corrective measures have been acted on a timely basis.

The recommendation to review receipts of paid permit fees at the point of permit issuance will be discussed with the Guam Department of Public Works and the Treasurer of Guam.

Guam Preservation Trust

Summary Schedule of Prior Audit Findings

September 30, 2009

Findings in the prior year Audit Report dated March 17, 2009 are as follows:

2008 - 1

Completeness of revenues

Finding repeated for fiscal year 2009.

2007 - 1

Revenue recognition

Finding repeated for fiscal year 2009.

2007 - 2

Lack of consistency and supporting documentation

Finding repeated for fiscal year 2009 (included with Finding 2009-1).