

Compliance and Internal Control

Guam Preservation Trust

Year ended September 30, 2007

Guam Preservation Trust

Reports on Compliance and Internal Control

Year ended September 30, 2007

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 <i>Government Auditing Standards</i>	1
Schedule of Findings	3
Summary Schedule of Prior Audit Findings	5

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, 2007, and have issued our report thereon dated February 23, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These significant deficiencies are Findings 2007 – 1 and 2007 – 2.

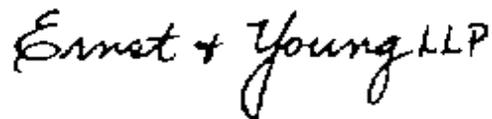
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

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 responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Trust's responses 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 Auditor of Guam, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

February 23, 2008

Guam Preservation Trust

Schedule of Findings

September 30, 2007

Finding Number 2007 – 1 **Revenue recognition**

Criteria:

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

Condition:

Department of Public Works (“DPW”), who handles the receipt of building permit fees, is currently utilizing unnumbered manual Inter-Office memorandums, in place of pre-printed sequentially numbered forms, as a reference for payments made to One Stop. Proper internal controls are lacking over the number of memorandums issued by DPW.

Cause:

The change to unnumbered memorandums, rather than pre-numbered receipts, resulted in the absence of controls over receipt issuances.

Effect:

Because of DPW’s inability to track all revenue, the Trust may not be recognizing the full revenues that should be made available for its use. Until DPW’s internal controls are improved, under reporting of building permit fees continues to be a concern.

Recommendation:

To ensure all receipts are recorded and to reduce the risk of misstatement, error, fraud and illegal acts, the use of forms containing pre-printed control numbers is recommended.

Auditee Response:

A briefing was conducted with the DPW Director and Building Official regarding the use of pre-numbered Inter-Office memorandums prior to the start of the audit. DPW was in agreement, however the form must be submitted and approved by the Department of Administration. No update on the status of implementing the receipts was received as of February 23, 2008.

Guam Preservation Trust

Schedule of Findings

September 30, 2007

Finding Number 2007 – 2

Lack of consistency and supporting documentation

Criteria:

DPW should have adequate supporting documentation (such as copies of field receipts or a cash receipt summary report with references to issued field receipts) to support the revenues recorded.

Condition:

DPW's process of issuing and filing of receipts were inconsistent and supporting documents were not attached.

Cause:

There is a lack of adequate internal controls to ensure that all building permit fees paid are accounted for. There is no audit trail evidencing payments received by One Stop for the Treasurer of Guam ("TOG") that relate to building permits issued by DPW.

DPW does not receive or file a copy of the field receipts issued by TOG. Instead, DPW files an Inter-Office memorandum, which is presented to One Stop to indicate the amount to be paid for the building permit fee and returned to DPW. These Inter-Office memorandums are not pre-numbered, as such we cannot determine if all payments made to One Stop are properly recorded by DPW.

Effect:

Since there is no population control and no confirmation of receipts from TOG, completeness of recorded revenue cannot be verified. Also, when the Inter-Office memorandums are filed without an attached TOG receipt, it is not possible to verify that the funds were deposited with the TOG. Therefore, the Trust may not be recognizing the full revenues that should be able for its use.

Recommendation:

Inter-Office memorandums with pre-printed sequential numbers should be used for all transactions filed with TOG cash receipts and an issuance log should be maintained to record the physical location of the memorandums, and if possible, copies of the receipts should be attached.

Auditee Response:

Same comment as in Finding Number 2007 – 01. By revising the pre-numbered Inter-Office memorandum, supporting documentation for revenues will be improved.

Guam Preservation Trust

Summary Schedule of Prior Audit Findings

September 30, 2007

Findings in the prior year Audit Report dated June 8, 2007 are as follows:

2006 – 01

Revenue recognition

Finding repeated for fiscal year 2007.

2006 – 02

Lack of consistency and supporting documentation

Finding repeated for fiscal year 2007.