



Compliance and Internal Control

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

September 30, 2008

Ernst & Young

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Guam Preservation Trust

Reports on Compliance and Internal Control

Year ended September 30, 2008

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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, 2008, and have issued our report thereon dated March 17, 2009. 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. We described the significant deficiency as Finding 2008-1.

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. However, this report is also a matter of public information.

Ernst + Young LLP

March 17, 2009

Guam Preservation Trust

Schedule of Findings

September 30, 2008

Finding Number 2008-1 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. It is our understanding that 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 was approximately \$80,000 less than what the Trust had recorded.

Cause:

We selected one month's transaction and noted the following upon review of the interoffice 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.

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, under reporting of building permit fees continues to be a concern.

Guam Preservation Trust

Schedule of Findings, continued

September 30, 2008

Finding Number 2008-1 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.
- 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:

Subsequent to learning about the difference between DPW's records and DOA's building permit fee balances, the Trust contacted DOA to discuss the variances. Initial review by DOA revealed that a particular TOG cashier was posting building permit fees received to an incorrect account. The Trust then obtained copies of the inter-office memorandums for selected months during FY2008 with significant variances between DOA and the Trust for DOA to reconcile. TOG was informed of the situation so that corrections can be made to ensure proper posting of payments received.

Guam Preservation Trust

Summary Schedule of Prior Audit Findings

September 30, 2008

Findings in the prior year Audit Report dated February 23, 2008 are as follows:

2007 – 1

Revenue recognition

Finding repeated for fiscal year 2008.

2007 – 2

Lack of consistency and supporting documentation

Finding repeated for fiscal year 2008 (included with Finding 2008-1).