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March 30, 2022

Mr. John Burch  
Executive Director  
Guam Ancestral Lands Commission  
P.O. Box 2950  
Hagatna, GU 96932

Dear Mr. Burch:

In planning and performing our audit of the financial statements of the Guam Ancestral Lands Commission (GALC) as of and for the year ended September 30, 2021 (on which we have issued our report dated March 30, 2022), 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 GALC'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 GALC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GALC'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 GALC's internal control over financial reporting and other matters as of September 30, 2021, that we wish to bring to your attention.

We have also issued a separate report to the Board of Commissioners, also dated March 30, 2022, on our consideration of the GALC'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 GALC for their cooperation and assistance during the course of this engagement.

Very truly yours,

**SECTION I - DEFICIENCIES**

We identified, and have included below, control deficiencies involving the GALC's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

(1) Leases Receivable

As of September 30, 2021, the GALC recorded \$2,368,242 for lease rental receivables, which included \$977,764 in deferred rental payments and \$805,496 in delinquent lease rental payments. Accordingly, an audit adjustment was proposed to recognize a corresponding allowance for uncollectible accounts in the amount of \$1,783,260. We recommend the GALC, through the Guam Economic Development Authority (GEDA), timely follow up with tenants regarding deferred rental and delinquent lease rental payments.

(2) Roof Repair

During the year ended September 30, 2021, GEDA incurred costs of \$121,068 on behalf of the GALC for roof repairs to a tenant occupied building. Contractor invoices, underlying service contract and supporting documentation indicating compliance with applicable procurement requirements was not made available by GEDA. We recommend management require retention of documents to support expenditures. Furthermore, we recommend documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor or vendor selection.

**SECTION II - OTHER MATTERS**

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Security Deposit

On February 22, 2013, the GALC with GEDA as the GALC's agent, entered into a Memorandum of Understanding for the lease of Land Bank Trust property known as Wettengel Junction. The MOU required a \$10,000 earnest deposit, of which 50% was to be retained by the GALC and the remaining \$5,000 is considered a down payment for the security deposit upon entering into a lease.

On December 20, 2013, the GALC entered into a lease for Wettengel Junction, which required a security deposit of \$27,197. A payment of \$17,197 was received from the lessee and, together with the \$5,000 down payment, the recorded security deposit amounted to \$22,197.

We recommend the GALC, through GEDA, require compliance with the MOU and the lease and follow up with the lessee as to the remaining \$5,000 security deposit. In addition, we recommend that management verify the completeness of recording of lease security deposits.

(2) Office Lease

The GALC is occupying certain space, however, terms and conditions stipulating the agreed specifications in the lease were not formalized into a contract agreement. We recommend management formalize the lease terms and conditions.

**SECTION II - OTHER MATTERS, CONTINUED**

(3) Bank Transfers

During the year ended September 30, 2021, the GALC transferred cash of \$4,511,039 from the Survey and Infrastructure Development Fund to the Land Bank Trust Fund. The purpose of such transfer was to reimburse the Land Bank Trust Fund for net proceeds from a tenant together with net lease base rental revenues representing rental collections for fiscal year 2020. The net proceeds of \$4,196,493 along with the net lease base rental revenues of \$235,908 were initially deposited in 2020 to the Survey and Infrastructure Development Fund bank account. The cash transfer of \$4,511,039 exceeded the required reimbursement amount of \$4,432,401 by \$78,638. We recommend management rectify this matter through a cash transfer from the Land Bank Trust Fund bank account to the Survey and Infrastructure Development Fund bank account.

**SECTION III - 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 GALC'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.