

Compliance and Internal Control

Guam Preservation Trust

(A Component Unit of the Government of Guam)

September 30, 2014



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

Report on Compliance and Internal Control

September 30, 2014

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Report of Independent Auditors 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, 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, the financial statements of the Guam Preservation Trust (the Trust), which comprise the statement of net position as of September 30, 2014, and the related statement of activities for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be material weaknesses. This finding is listed as 2014-1.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Trust's Responses to Findings

The Trust's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The Trust's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

February 24, 2015

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Schedule of Findings and Responses

Finding No. 2014-1

Criteria or specific requirement:

Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Condition:

The Trust did not record receipt of land that was donated in February 2014. Accordingly, we determined that capitalized assets and related contribution income of the Trust were understated on the Statement of Net Position and Statement of Activities, respectively.

Context:

We reviewed certain grant/project expenditures and noted payments for the cost of environmental studies related to acquisition of land. Upon further inquiry, we discovered that the land was donated to the Trust and that the donation was executed on February 18, 2014.

Fair market value of the land was estimated as \$9.9 million based upon an appraisal report dated October 14, 2014. The appraisal report was neither reviewed nor confirmed by the Board of Directors until the February 12, 2015 board meeting.

Effect:

The Trust did not record the donated land at its fair market value as of the date of the donation. As a result the capitalized assets and related contribution income were understated by \$9.9 million.

Cause:

The Trust did not record the donated land at its fair value as management was awaiting Board approval of the appraisal report.

Recommendation:

An audit adjustment was proposed and agreed upon by the Trust to record the donated land at fair market value.

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Schedule of Findings and Responses, continued

Views of responsible officials and planned corrective action:

In an effort to report capital assets accordingly, the Guam Preservation Trust contracted an appraiser to provide informed analysis and market value of the Atantano property for the Guam Preservation Trust Board to make sound policy decisions. The appraisal report was conducted by Micronesian Appraisal Associates, Inc. and completed on October 14, 2014. Subsequently, the Architecture Committee reviewed the appraisal report on February 10, 2015 and on February 12, 2015 the GPT Board of Directors approved the report for recordation.

Conclusion:

Our finding remains. We noted the Trust approved the audit adjustment to record the land donated to them.