



Compliance and Internal Control

**Guam Preservation Trust**

(A Component Unit of the Government of Guam)

*September 30, 2011*

Ernst Young

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

Reports on Compliance and Internal Control

September 30, 2011

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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, 2011, and have issued our report thereon dated February 8, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

Management of the Trust is responsible for establishing and maintaining effective 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 that 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 2011-1. 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 of other matters that are required to be reported under *Government Auditing Standards*.

The Trust's response to the finding identified in our audit is 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.

We noted certain matters that we reported to management of the Trust in a separate letter dated February 8, 2012.

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 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 8, 2012

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Schedule of Findings and Responses

September 30, 2011

**Finding Number 2011-1**  
**Completeness of Revenues**

Criteria:

Generally accepted accounting principles require that 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 utilized unnumbered, manually prepared, Routing Slips to evidence that building permit fees are paid for prior to issuance of the permit. The Routing Slip indicates the amounts to be paid and the account number that should be credited, for tracking purposes by DOA. It should be noted that two fees are paid for in obtaining a building permit – the plan checking fee and the building permit fee. The Trust is only entitled to receive the building permit fee.

To record revenues, the Trust, through its accounting service provider, reviews all Routing Slips filed and records the building permit fees on a monthly basis. Based on the results of our audit, DOA confirmed building permit fees for fiscal year 2011 that were approximately \$46,000 more than what the Trust had recorded.

Cause:

We noted that TOG continues to have inconsistent procedures in marking the Routing Slips after receiving payment. Such inconsistencies include having only a manual stamp “received” with an initial. We noted however that there is a space for signature by the Building Permit Administrator for their concurrence, but this signature is not always obtained.

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Schedule of Findings and Responses, continued

**Finding Number 2011-1**  
**Completeness of Revenues, continued**

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 within DOA and TOG/DPW, the completeness of building permit fees reported continues to be a concern.

Recommendation:

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

- Request TOG to consistently 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 proper accounts. Once these procedures are satisfied then DPW should attach the TOG receipt to the Routing Slip and issue the Building Permit. For payments made prior to the completion of the Building Permit application process, the TOG receipt and routing slip should be attached to the application and then transferred to the Building Permit upon issuance to show proper payment has been received.
- Continue to request for a monthly or quarterly confirmation of revenues from DOA to allow for a 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 Routing Slips to ensure all permits have been properly paid for.
- Inquire with DPW as to the reason for significant variations in building permit fees recorded and consider accumulating data to analyze the number of permits issued to allow for a better projection of future revenues.

Auditee Response:

Although the Trust does not have direct jurisdiction over the Building Permit & Inspection (BP&I) Section of the DPW, the Trust will continue to make every attempt to ensure corrective action is taken to assure that all building permit fee receipts are recorded thereby reducing the risks for errors, fraud, and illegal acts.

The Trust will continue to conduct monthly compilations of building permits and review DOA's monthly collection of building permit fees collected by TOG. As recommended, the Trust will adopt periodic tests to ensure proper procedures and accountability.

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Schedule of Findings and Responses, continued

**Finding Number 2011-1**  
**Completeness of Revenues, continued**

Auditee Response, continued:

On August, 2011, a Performance Audit Report of the DPW's BP&I Section was released. The report cited the BP&I Section's ineffective supervision, monitoring, and collection of fees: *"The lack of supervisory review, ineffective monitoring, and the lack of good internal controls have cost the department \$271,098 in lost revenues, \$55,965 in over-assessment of fees, and \$548,063 in lost opportunity in potential revenues over the past three years."*

The Trust is hopeful that the leadership at the DPW will improve the BP&I's revenue assessment and collection and record management processes, by taking action on the following recommendations by the Guam Office of Public Accountability:

1. Take corrective action to collect all unpaid and undercharged projects, totaling \$199,657.
2. Re-assess the justification and decisions on waived and partially waived projects, totaling \$71,441, and take corrective action to collect on unmerited waivers.
3. Require independent verification, i.e. a copy of the construction contract, and the construction/renovation costs when the building permit application is submitted with the applicant's acknowledgement that the amount is true and correct and enforceable under penalty of perjury.
4. Establish formal criteria for waiving fees and require an approval signature from the Director or his/her designee on all waivers.
5. Implement Excel or other software applications specific to monitoring and tracking permit applications and issuance (to include numeric assignment of permits), types of fees and assessment amounts and payment collection by date for monthly reconciliation with DOA.
6. Meet regularly with the DOA and the Trust to reconcile records and ensure revenues are accurate and complete.
7. Establish a communication protocol with the Guam Department of Revenue and Taxation to ensure proper assessment of real properties.

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Summary Schedule of Prior Audit Findings

September 30, 2011

Findings in the prior year Audit Report dated February 5, 2011 are as follows:

**2010-1**

**Completeness of Revenues**

Finding repeated for fiscal year 2011.

**2009-1**

**Completeness of Revenues**

Finding repeated for fiscal year 2011.