

Compliance and Internal Control

**Guam Preservation Trust**

(A Component Unit of the Government of Guam)

*September 30, 2010*

*Ernst & Young*

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

Reports on Compliance and Internal Control

September 30, 2010

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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, 2010, and have issued our report thereon dated February 5, 2011. 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***

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.

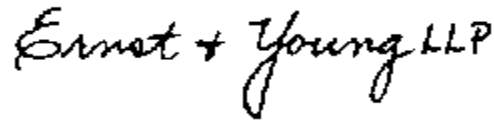
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify 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 2010-1. 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 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.

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.

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

February 5, 2011

Guam Preservation Trust  
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Schedule of Findings and Responses

September 30, 2010

**Finding Number 2010-1**  
**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. The Routing Slip should be stamped and initialed by the TOG cashier.

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 fiscal year 2010 building permit fees that were approximately \$11,000 more than what the Trust had recorded.

Cause:

We selected one month's transactions and noted the following upon review of the Routing Slips and Building Permits, with the related Application forms filed:

- No routing slip was filed or referenced for Building Permit No. B10000928. The permit stated that the total permit fee is for \$103.95 (Plan Checking Fee: \$40.95, Building Permit Fee: \$63.00). The Application says that it has been paid, but no date was indicated, as such we cannot be certain of when the payment was made.

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Schedule of Findings and Responses, continued

September 30, 2010

**Finding Number 2010-1**  
**Completeness of Revenues, continued**

Cause, continued:

- No building permits were found for the following receipts:

<u>Date</u>	<u>Total permit Fee</u>	<u>Building Permit Fee</u>	<u>Permit No.</u>
9/3/10	\$227.70	\$138.00	G10000109
9/8/10	\$80.00	\$40.00	B10000911
9/10/10	\$117.00	\$94.50	G10000111
9/13/10	\$192.00	\$162.00	G10000132
9/20/10	\$80.00	\$40.00	B10000940
9/24/10	\$372.08	\$225.50	G10000140

We noted this could be due to prepayment of the building permit prior to issuance of the actual permits (i.e. the permit fee could have been paid while the proper approvals are still pending). Upon completion of all the approvals from the different agencies, the permit could be issued at a later date, however we cannot be certain since there is no indication of when the permit was actually issued.

Additionally, we noted the following inconsistencies in the processing of payments for the Routing Slips:

- There were differences between the date of the Routing Slip and the TOG stamp date of receipt.
- There were inconsistencies in the stamping of the Routing Slips by the TOG – stamps were either electronically or manually stamped and not all cashiers initialed the stamp.
- For most Routing Slips, there was no concurrence in the space provided by the Building Permit Administrator of the Chief Inspector.

We noted no material difference between the amount recorded by the Trust and DPW's records. Thus the problem may be with the recording of payment by TOG.

We have noted that the Trust has taken additional steps to reconcile account balances with DOA on a quarterly basis to identify significant differences on a timely basis.

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Schedule of Findings and Responses, continued

September 30, 2010

**Finding Number 2010-1**  
**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, DPW and TOG, 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.
- 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:

The Guam Preservation Trust, recognizing the need to reduce the risks of misstatements, error, fraud, and illegal acts, have contracted an accounting service provider to conduct monthly calculations of building permits paid and filed by the Guam Department of Public Works. This action however does not fully ensure the completeness of the permit process in its entirety. To fully address this concern requires changes to the building permit procedures mandated to the Guam Department of Public Work; the collection of payments of building permit fees mandated to the Treasury of Guam; and the reporting summary mandated to the Guam Department of Administration. The Guam Preservation Trust, in recognizing the need, will take the initiative to lead in planning and developing the changes necessary to address the completeness of the building permit process.

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Summary Schedule of Prior Audit Findings

September 30, 2010

Findings in the prior year Audit Report dated February 10, 2010 are as follows:

**2009-1**

**Completeness of Revenues**

Finding repeated for fiscal year 2010.

**2008-1**

**Completeness of Revenues**

Finding repeated for fiscal year 2010.