



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Dededo Buffer Strip Revolving Fund
Department of Administration
Government of Guam
Report No. 04-13, December 2004

This report represents the results of our audit of the Dededo Buffer Strip (DBS) Revolving Fund. The audit was completed as part of our overall review of Special Revenue Funds administered by the Department of Administration (DOA). Our audit objective was to determine whether the Fund was utilized and accounted for in accordance with its intended purpose. In conjunction with our audit, we performed a cursory review of the Dededo Municipal Planning Council (MPC) Revolving Fund.

The DBS Revolving Fund was created in 1993, to receive proceeds from the lease of the Dededo Buffer Strip (DBS). The DBS is the area of land between Marine Drive and the commercial business buildings, situated between Harmon Loop and I Sengsong Road, in the village of Dededo.

Public Law (P.L.) 22-40 authorized the Department of Land Management (DLM), the Dededo Municipal Planning Council (MPC), and the Department of Parks and Recreation (DPR) to enter into negotiated commercial leases with businesses and individuals in the DBS. Two-thirds and one-third of proceeds generated by these leases are earmarked to the municipalities of Dededo and Yigo, respectively. Further, P.L. 23-45 authorized the Dededo Mayor to issue vendor permits to individuals requesting use of a temporary stall for the weekend swap meet, now commonly referred to as the Dededo Flea Market. All these proceeds are earmarked to the municipality of Dededo. In 1997, P.L. 24-97 repealed the DBS Revolving Fund, re-directing all DBS proceeds into the MPC Revolving Funds of Dededo and Yigo.

DOA records show that the DBS Revolving Fund has remained open and continues to receive payments from a single DBS commercial lease. The DBS Revolving Fund shows an ending balance of \$130,815, as of September 30, 2003, which should have been transferred to the Dededo and Yigo MPC Revolving Funds. Based on our review, the Government of Guam would have difficulty in repaying the \$130,815 debt to the MPC Revolving Funds because of the General Fund's current financial deficit.

The Legislature, through P.L. 24-97, mandated the Dededo and Yigo Mayors, along with all village Mayors to regularly report their respective MPC Revolving Funds to the Mayor's Council of Guam (MCOG). The Legislature, through P.L. 24-237, also mandated that the MPC's of Dededo and Yigo promulgate rules for the expenditure of DBS proceeds. We found that the Dededo and Yigo Mayors had not submitted the required annual financial reports to the MCOG and have not promulgated any rules or regulations on the use of DBS proceeds. Since one-third

of the DBS commercial lease proceeds have not been remitted to Yigo, we did not conduct an assessment of the Yigo MPC Revolving Fund.

In our preliminary assessment of the Dededo MPC Revolving Fund, we identified cash management deficiencies, such as the absence of monthly bank reconciliations and separation of duties for cash custody, recordkeeping, and transaction authorization. Annual revenues from DBS Flea market activities may range from \$67,000 to \$124,000. We estimated that in the past four years \$328,000 in Flea Market vendor permits has not been reported to the MCOG as required. We do recognize that the Dededo Mayor Office has made efforts to document revenue and expenditure transactions and prepare monthly financial reports to its village MPC.

We also found that the Dededo MPC has not actively promoted nor controlled the use of the DBS property for commercial lease. Our physical observation of the land available for commercial lease showed several commercial businesses using the area for parking and general advertisement rent-free. Department of Land Management (DLM) records show that only one DBS commercial lease agreement has existed since the DBS became available for lease in 1993. When businesses are allowed to continue using the area without entering into lease agreements, it means lost income for the Government of Guam. We projected that the Dededo MPC may not have realized an estimated \$1 million in potential revenues over the past 11 years.

We made eight recommendations to correct these deficiencies, including:

- Continue to withhold the \$8,591 in lease rent for FY 2004 from the Dededo and Yigo MPCs until the Dededo and Yigo Mayors submit the required financial reports to the MCOG.
- Comply with legislative mandates and submit quarterly financial reports to the MCOG, the Guam Legislature, DOA and OPA.
- Work in conjunction with DLM to initiate plans to actively promote the DBS, establish lease agreements, and prohibit the unauthorized use of the DBS.
- Establish accounting procedures to provide appropriate separation of duties among the staff and perform monthly bank reconciliations.
- Amend P.L. 24-97 to allow the General Funds to retain the balance of \$130,815 owed to the Dededo and Yigo MPC Revolving Funds.

We received responses from the Director of Administration and the Dededo and Yigo Mayors, dated December 20, 2004, in which they generally concurred with the findings and recommendations. However, the Dededo and Yigo Mayors disagreed with our recommendation to allow the General Fund to retain the balance of \$130,815 owed to the Dededo and Yigo MPC Revolving Funds. We believe that because of the Government of Guam's current financial deficit and the need to prioritize government operations, the General Fund should retain the \$130,815.

Doris Flores Brooks, CPA, CGFM
Public Auditor