



EXECUTIVE SUMMARY

Government of Guam Use Tax Exemptions and Collections

Report No. 15-01, March 15, 2015

Based on our assessment of the magnitude of incoming cargo documentation and internal controls over the exemption and collection of the Government of Guam's (GovGuam) Use Tax from Fiscal Year (FY) 2011 through FY 2013, we found the following:

- (1) Valuable sources of economic data needs to be assessed and better maintained;
- (2) Better record keeping is needed to ensure completeness of incoming cargo documentation;
- (3) Oversight and guidance are needed to ensure Use Tax exemptions are made in accordance with the law; and
- (4) Controls need to be established to ensure Use Tax collections and deposits are properly accounted for, recorded, and deposited in a timely manner.

For the two days tested, we found that \$3,700 in Use Tax revenues was not collected due to improper exemptions. There is also no assurance that Use Tax exemptions and collections were safeguarded against unauthorized use, loss, or abuse due to inadequate documentation and the lack of review and reconciliation.

Assessment of Valuable Sources of Economic Data Needed

The Customs and Quarantine Agency (CQA) does not have a complete record of cargoes coming in from Guam ports of entries as these are not logged. On average, CQA accumulates 28 boxes of stored documents per month, or over 300 boxes per year of manifests, airway bills, bills of lading, and other documentation accompanying incoming cargoes. GovGuam has not considered the significance and economic value of the data contained in the documents filed and stored in the CQA warehouse. If captured, the government can determine undocumented exemptions, the true value of Guam's imported goods, and goods for sale not reported under Gross Receipts Tax to name a few. Such data can also be used for economic, financial, and trade policy analysis. However, to capture all necessary data efficiently, the government would need to make a significant investment in electronic systems and manpower.

Better Record Keeping Needed to Ensure Completeness of Incoming Cargo Documentation

Due to voluminous and problematic Use Tax data, we chose two sampled testing dates in FY 2013, October 2, 2012 and December 4, 2012, which covered 448 invoices/bills of lading with a total value of \$20.1 million (M). However, there is no certainty as to the completeness of documents provided by CQA for the two tested dates. According to the Records Management Officer, documents provided were those they were able to retrieve from the boxes at the CQA warehouse.

Oversight & Guidance Needed to Ensure Use Tax Exemptions are made in Accordance with Law

CQA has been collecting Use Tax for taxable goods and exempting Use Tax for exemptible goods for over 18 years based on their professional judgment, interpretation of the Use Tax law, and other relevant information available. However, the Department of Revenue and Taxation (DRT) did not provide oversight for this function delegated to CQA. We also found that CQA did not have written procedures on the exemption process and guidelines as to how certain goods should be treated. As a result, of the 448 samples tested for October 2, 2012 and December 4, 2012, we found 10 bills of lading/invoices with a value of \$78,500 that should not have been exempted from Use Tax. Additionally, two businesses did not have valid business licenses at the time of the importation while one non-profit organization had no registration or certificate of tax exemption. Therefore, we question the exemptions granted to these businesses and the non-profit organization for the goods valued at \$13,900. Total uncollected Use Tax amounted to \$3,700. See below for details.

Classification of Goods	Total Landed Cost	Uncollected Use Tax
Non-resale Business Use	\$63,212	\$2,530
Construction Equipment	\$13,938	\$558
Personal Non-Business Exceeding \$1,000	\$1,350	\$14
Without Business License	\$7,937	\$318
Without Non-profit Registration/Exemption Certificate	\$5,940	\$238
Total	\$92,377	\$3,658

Controls Needed to Ensure Proper Accounting, Recording and Timely Deposits of Collections

We found the following deficiencies evident of CQA’s weak internal control system:

- **Use Tax payments and collections were not properly accounted for**
 1. (a) Invoices utilized by CQA were not sequentially issued; and (b) No one person is designated to account for all invoices issued daily. Consequently, CQA could not account for 12 missing invoices issued in October 2012.
 2. Instead of issuing receipts to document subsequent Use Tax payments, CQA reused copies of the invoice or the Form UST that were originally issued to the consignee. These payments could not be properly accounted for due to the lack of reconciliation of payments against the outstanding receivables. Per OPA Report 14-02, accounts receivable for Use Tax as of FY 2013 grew to \$4.9M. This amount was provided with 100% allowance and will be written-off.

- **Collections were not properly recorded, reviewed and reconciled**

From FY 2011 to FY 2013, CQA’s record of transmittals indicated 418 days where no Use Tax was collected or had questionable data. This translates to 38% of the 1,095 days in three years, which appears quite high considering that CQA is assessing and clearing incoming cargoes daily. The unreliable recorded data could have been avoided had CQA management monitored and reconciled its recorded Use Tax transactions. Additionally, of the 418 days, 297 days or 27% had no evidence of any Use Tax assessments made by CQA giving the appearance that all incoming goods for those days were exempted. CQA should conduct regular supervisory reviews of exemptions granted by clearing officers, especially on days when there are no Use Tax assessments as it is unlikely that all incoming goods for a day or consecutive days are not taxable.

- **Use Tax collections were not deposited in a timely manner**

Of the two days tested, Use Tax collections for \$5,509 in December 4, 2012 were deposited after eight days from date of receipt by CQA.

Recommendations

Based on our audit findings, we recommend that:

- CQA coordinate with the Governor’s Office to form a task force to address issues such as the viability of the current Use Tax assessment and exemption process, significance and economic value of the data contained in files stored at CQA’s warehouse, and whether an electronic system should be adopted to capture pertinent import data.
- CQA and DRT work together to establish written exemption procedures, including the conduct of independent reviews by DRT, to be incorporated in the Inter-Agency Cooperative Agreement.
- CQA conduct periodic supervisory reviews of exemptions granted by clearing officers.
- CQA implement the basic principles and procedures of internal control over Use Tax collections to provide reasonable assurance that collections are safeguarded from loss or misuse.

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