



EXECUTIVE SUMMARY

Department of Public Works Building Permits and Inspection Section

Report No. 11-05, August 2011

The Department of Public Works (DPW) Building Permits and Inspection (BP&I) Section continues to process and issue building permits manually, and does not effectively supervise, monitor or collect building permit and plan checking fees. DPW also does not reconcile its records with the Department of Administration's (DOA) financial management system (AS400), increasing the risk for errors. Specifically, we found:

- Inconsistencies in the assessment and application of fees, resulting in lost revenues of \$199,657, consisting of \$112,645 from an unpaid construction project and \$87,012 in undercharged construction projects;
- Overassessment of \$55,965 in construction project fees due to the utilization of the wrong fee schedule;
- Instances in which fees were partially or entirely waived without explanation or acknowledgment from management resulting in lost revenues of \$71,441;
- A lack of independent verification on the value of the construction projects submitted by the contractors in the building permit application;
- A significant decline of \$903,278 in building permit and plan checking fees in Fiscal Year (FY) 2010 to \$791,029 when compared to the FY 2009 of \$1.7 million (M), and FY 2008 of \$1.6M;
- No link to the Department of Revenue and Taxation (DRT) to ensure the update of real property tax values; and
- No fees or other benefits from military-related construction activities because DPW does not have any oversight over these projects.

These conditions exist because of ineffective supervision, monitoring, and the outdated manual processing of building permit fees.

Ineffective Supervision, Monitoring, and Collection of Fees

Title 21, Guam Code Annotated (GCA) § 66408(a) grants DPW the authority over public and private construction and to charge building permit fees as set in the Uniform Building Code and to remit those fees to the Treasurer of Guam. We found instances where fees were not collected, were undercharged, or were waived partially or entirely with no explanation. The lack of revenue reconciliation between DPW and DOA allowed for these deficiencies to occur. Communication between DPW and DRT regarding adjustments in real property tax values was also deficient.

Unpaid Construction Project

The building permit for a \$24M project was approved but fees of \$112,645 were not collected and construction was allowed to start prior to the issuance of the permits. Upon conducting a site visit, the Guam Environmental Protection Agency discovered that the contractor had exceeded

its ground permit, had not paid for the ground permit and had proceeded with construction anyway.

Undercharged Construction Projects

Building permits for 179 projects were issued, but fees totaling \$87,012 were either incorrectly assessed or undercharged. Based on the project cost schedule, we estimate that fees should have totaled \$865,820, but only \$778,508 was collected. DPW's use of an incorrect fee schedule led to the undercharges. In addition, we found no evidence that construction and/or renovation cost estimates were verified as reasonable and accurate.

Overassessment of Construction Project Fees

Building permits for 505 projects were overassessed fees totaling \$55,965. DPW had assessed residential applicants the non-residential rates. DPW cited the residential and non-residential fee schedules as looking identical to each other and may have played a role in the overcharging as staff may have utilized the incorrect fee schedule.

Arbitrary and Inconsistent Fee Waivers

We found 16 projects for which permit and plan checking fees of \$71,441 were waived. All files with full or partial fee waivers lacked sufficient documentation to justify the waivers. DPW BP&I Administrator could not explain the short, hand-written words, "waived," "waived by DPW Director," or "waived – DPW project" on the files. None of the files contained the Director's signature or other verification of approval.

We also identified lost opportunity of up to \$548,063 for a building permit issued in July 2010 estimated at \$124M to erect a building shell. This project was amended twice decreasing the value to \$90M and then to \$3.2M. Had DPW assessed the initial \$124M, building permit fees would have totaled \$566,396. DPW instead only collected \$18,223 based on the lower value of \$3.2M. There was no independent verification or rationale for the significant decrease in the cost valuation to \$3.2M.

Outdated Manual Processing of Building Permits

The BP&I Section's permitting process is done manually and staff is barely able to keep up with the task. Permits are logged into ledgers, which the BP&I Administrator admits, are not reconciled against DOA's AS400. At fiscal year's end, the Administrator prepares a summary of the permits issued and submits it to the Bureau of Statistics and Plans. DPW's manual process is time consuming and susceptible to error. Inputting data onto computer spreadsheets could identify and help resolve discrepancies and ensure that (1) permit applications and permits comply with rules and regulations; (2) permits are numbered for proper tracking and monitoring; (3) relevant fees are assessed and full or partial waivers are justified; and (4) reconciliation with DOA is performed.

Conclusion and Recommendations

DPW's lack of supervisory review, ineffective monitoring and other internal control deficiencies have cost \$271,098 in lost revenues, \$55,965 in overcharged fees and \$548,063 in lost opportunity. The figure may be higher due to the potential for understated project values. Good internal controls and proper checks and balances are critical for ensuring that revenues are accurately assessed, collected, processed, and recorded. An electronic system, as simple as an

Excel spreadsheet, would do well to preclude errors. Among the seven recommendations to DPW are to:

- Collect unpaid and undercharged fees totaling \$199,657 and re-assess the decisions on waived projects of \$71,441 and establish formal criteria for waivers;
- Require independent verification of the construction amount upon which building permit fee are assessed; and
- Implement Excel or other electronic tracking and monitoring software for the building permit application and issuance process.

A draft report was transmitted to the DPW Director and Deputy Director in June 2011. In a joint response, they provided a detailed response and indicated general concurrence with our findings and recommendations. To address our findings and recommendations, DPW has entered into a Memorandum of Agreement with DRT and the Department of Land Management to upgrade the Building Permitting System utilizing American Recovery and Reinvestment Act funding. See Appendix 5 for DPW's management response.

Doris Flores Brooks, CPA, CGFM
Public Auditor