

**Guam Professional Engineers,
Architects and Land Surveyors Board
Funds and Financial Practices**

**Performance Audit
October 1, 2007 through December 31, 2010**

**OPA Report No. 11-07
October 2011**



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EXECUTIVE SUMMARY

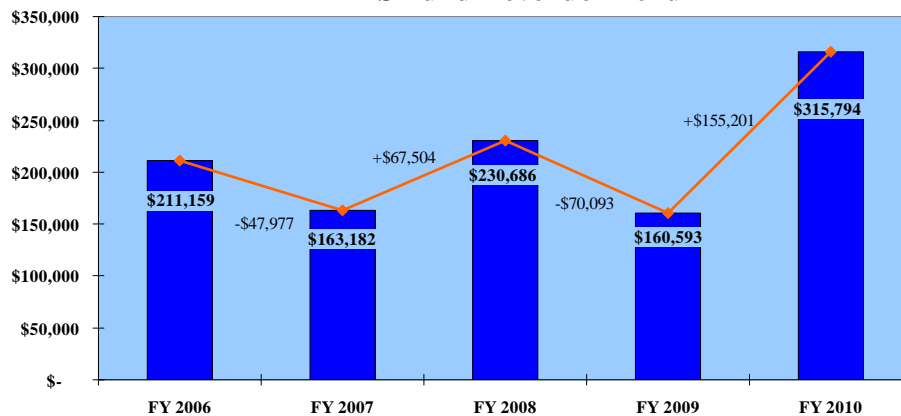
Guam Professional Engineers, Architects and Land Surveyors Board Funds and Financial Practices Report No. 11-07, October 2011

The Guam Professional Engineers, Architects and Land Surveyors (PEALS) Board did not provide oversight or adequately monitor its finances, operations or the actions of its employees, relying instead on the integrity of its former Chairperson and Administrator, whose actions were questionable. As a result, funds were mismanaged, misspent and misappropriated from October 1, 2007 to December 31, 2010. The Board's inattention allowed significant revenue fluctuations to go unquestioned, inappropriate management actions to go unaddressed, and misappropriation of cash to occur and remain undetected.

PEALS Fund Revenue Fluctuations Unnoticed

Board members were unaware of suspicious fluctuations in PEALS Fund revenues from fiscal years (FY) 2006 to 2010 and did not investigate the causes. Revenues decreased by \$47,977, from \$211,159 in FY 2006 to \$163,182 in FY 2007. The following year, revenues rose by \$67,504 to \$230,686, but dropped by \$70,093 to \$160,593 in FY 2009, then doubled to \$315,794 in FY 2010. Monitoring revenues would help the Board in managing fraud risks and identifying areas of financial irregularities.

PEALS Fund Revenue Trend



Our analysis of revenues showed shortages between documented receipts and actual cash deposits from October 2008 through November 2009 in the amount of \$12,806. The Board's inattention and deficient controls allowed a PEALS employee to misappropriate more than \$5,000. Records showed that shortages in the employee's deposits began in October 2008, but the Administrator did not detect them until November 2009. In December 2010, the Superior Court ordered the employee to repay \$5,250 at 6% interest per annum. Since then, the Board has stopped receiving cash payments.

We also found discrepancies of \$3,945 and \$881 associated with two other employees. But because four employees collected payments and fees, we could not determine who was responsible for the remaining \$2,555 of the \$12,806 shortage. We found no evidence that the Board or the Administrator investigated these matters or sought to recoup the missing funds other than from the one employee noted above. Given the revenue fluctuations, undetected shortages may have occurred as far back as 2007.

Mismanaged Revolving Fund

The Board was authorized by Public Law a Revolving Fund in 1998; however, a separate checking account was not opened until March 2008 with only the former Chairperson and Administrator as signatories. Because the other Board members were not aware of the account and did not establish governing procedures for it, the former Administrator arbitrarily decided how to manage this fund and account. Between March 2008 and September 2010, \$25,481 was deposited. While appropriations to the PEALS Fund were duly reported, revenues and expenditures in the Revolving Fund were not, nor were detailed reports made to the full Board of this Fund and account's activities.

We found unauthorized Revolving Fund disbursements totaling \$13,487 that were not reported to the Board until September 2010. The transactions lacked sufficient documentation and did not comply with applicable procurement regulations. In one transaction, a check described in the register as "not used" was actually cashed for \$5,685 and may have been associated with inappropriate transfers of funds to an unknown individual in the Philippines. As further evidence of the Board's over-reliance on the integrity of the former Chairperson and Administrator, even after learning of the Fund and account, the Board members simply ratified the two officials' actions in October 2010 without investigation or further review into the Fund and account's activities.

Additional Checking Account Discovered

Without full Board knowledge and approval, a "private organization" was granted a \$300 loan from the Revolving Fund and opened a checking account under the name "PEALS Board". According to the former Administrator, the organization was made up of volunteer PEALS professionals who organized the PEALS Board's 50th Anniversary celebration in August 2010. However, we later learned that the former Administrator was also a signatory on the account. The organization's Treasurer informed us the checking account was intended to be a temporary one, but at the time of our review, the account was still active. The Board has a duty of oversight to ensure that activities conducted in its name are appropriate. The Board should immediately notify the private organization to cease the unauthorized use of the PEALS Board name.

Compensatory Time-Off

The Board allowed the use of compensatory time off (CTO) without appropriate policies established and without seeking DOA guidance as to its proper use. As a result, Board employees used such time off liberally, charging 475 hours to CTO and drawing \$8,558, to which they may not have been entitled, thus avoiding loss of their annual and sick leave credits.

Conclusion and Recommendation

The PEALS Board did not perform its fiduciary duty to safeguard the funds entrusted to it by failing to ensure those funds were accurately accounted for and duly reported and managed in accordance with applicable laws, regulations and best practices. In addition to ensuring the caliber and credentials of fellow professionals, Board members must also better understand and monitor its financial operations and related risks and controls.

To this end, we make several recommendations to include: (1) close the Revolving Fund checking account and transfer the balance to the PEALS Fund, and (2) immediately cease fee payments and collections at the PEALS Board office and require payments be made at the Treasurer of Guam. The Board concurred with all of our recommendations except recommendation 2. We recognize the Legislature's authority to establish checking accounts for small entities, but respectfully urge the policy be disallowed and instead designate DOA to account for all such funds.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our audit of the Guam Professional Engineers, Architects and Land Surveyors (PEALS) Board's funds and financial practices between October 1, 2007 and December 31, 2010. The audit was initiated at the request of a Senator of the 30th Guam Legislature, who as Oversight Chair of the PEALS Board, had concerns that Board revenues were being understated. Our objective was to determine whether PEALS funds and revenues were properly reported, deposited and managed in accordance with applicable laws, regulations and best practices.

The audit scope, methodology and prior audit coverage are detailed in Appendix 2.

Background

The PEALS Board was created by law in August 1960 to regulate the professions of engineering, architecture and land surveying by establishing standards of practice, ensuring competency, education and experience through examination, and enforcing the laws governing the practice of these professions. The law is codified as Chapter 32, Title 22 of the Guam Code Annotated (GCA) and is cited as the PEALS law.

The PEALS Board consists of seven members appointed by the Governor. The Board is authorized to employ in the classified service an Executive Board Administrator, an Administrative Assistant and an Investigator. The Department of Administration (DOA) regulates the salaries and terms of classified employment. Three people have filled the Administrative Assistant Position within the scope of our audit.

PEALS Fund

The PEALS Board is authorized by Section 32111(a) of the PEALS law to collect fees for applications, exams, license clearances, certification renewals, fines, etc., and to deposit such fees into the PEALS Fund via the Treasurer of Guam. See Appendix 3 for the PEALS Board fee schedule.

The Fund is the Board's primary source of revenue and expenditures from it are processed by DOA for salaries, rent and other operational expenses. This includes expenditures for maintaining membership in the National Council of Examiners for Engineering and Surveying and the National Council of Architectural Registration Boards, and the costs of Board delegates to attend meetings of these organizations. The Board also receives a legislative appropriation which may be expended for any purpose the Board approves as reasonable and necessary for performing its duties. For Fiscal Year (FY) 2010, the appropriation was \$193,235.

Revolving Fund

Prior to 1998, the Board had no authority over its funds, thus payments to vendors and dues to the national councils were sometimes delinquent. Public Law (P.L.) 24-263 established the PEALS Revolving Fund as a remedy in August 1998. The law required the non-appropriated Revolving Fund be maintained apart from government funds to manage day-to-day financial obligations “within the cognizance of the members of the Board.” The Chairperson and Board members are responsible for maintaining, recording and accounting for the Fund, which is subject to annual independent audit.

In March 2008, a checking account in the name of “PEALS Board” was opened on the Revolving Fund. The only signatories were the former Chairperson and Administrator. Other Board members were unaware of the checking account until September 2010, nearly three years after it was opened.

Results of Audit

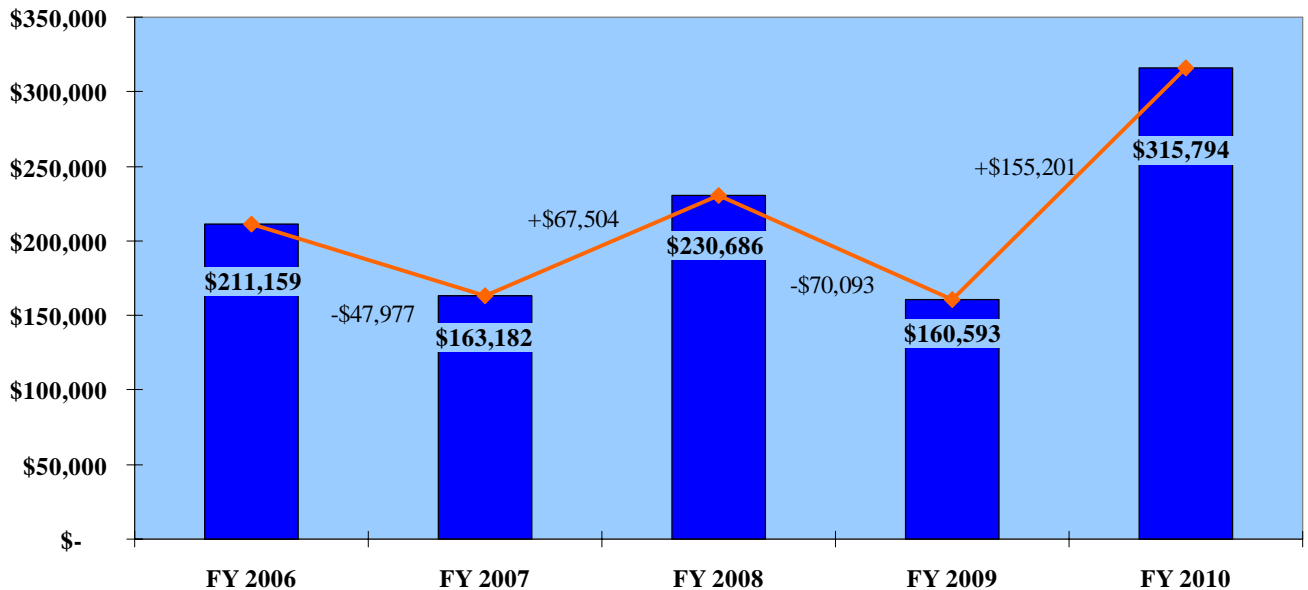
The PEALS Board did not provide oversight or adequately monitor its finances and staff operations. Instead the Board relied on the integrity of its former Chairperson and Administrator, whose actions were questionable in many cases. As a result, funds were mismanaged, misspent and misappropriated between October 1, 2007 and December 31, 2010. The Board's lack of attention allowed significant and suspicious revenue fluctuations to go unquestioned and inappropriate management actions to be uncorrected.

PEALS Fund Revenue Fluctuations Unnoticed

Between fiscal years (FY) 2006 and 2010, we noted significant fluctuations in PEALS Fund revenues of which Board members were not aware. In FY 2006, revenues totaled \$211,159, but fell to \$163,182 in FY 2007, then jumped again to \$230,686 in FY 2008. In FY 2009, revenues dropped to \$160,593, but doubled to \$315,794 in FY 2010. The chart below illustrates the unexplained fluctuations. When brought to the attention of the current Chairperson, she was surprised and unaware.

The Chairperson then explained that the former Administrator, who retired in May 2011, provided the Board only with AS400 reports of appropriations and encumbrances, which Board members never questioned. The minutes provided to us had no discussion about revenues. Since financial reports that included revenues were not regularly reviewed, Board members did not see the fluctuations or know the true condition of the Fund. The Chairperson has since made efforts to determine the causes of the revenue fluctuations. By monitoring revenues, the Board could have identified anomalies earlier and prevented or detected fraud.

PEALS Fund Revenue Trend



\$12,806 May Have Been Misappropriated by More than One Employee

The Board's failure to monitor revenues allowed misappropriation of cash to occur by a former employee. In November 2009, the then-Administrator questioned the employee whose bank deposit shortages totaled more than \$5,000 since October 2008 (Employee 2 in Table 1 below). The theft was brought before the Board in December 2009 and by mutual agreement, the employee would:

- Be terminated and have until January 23, 2010 to secure another job;
- Replace the missing cash, which would not be considered an admission of guilt.
- Be reported to the proper authorities if he failed to comply with the agreement.

The employee did not transfer to another government agency until April 2010 and failed to replace the missing money. In December 2010, the PEALS Board filed charges and in January 2011, the court ordered the employee to pay \$5,250 at 6% interest per annum. As of the date of this report, the Board has not followed-up on the restitution payments. We recommend the Board follow-up on the status of restitution payments to be made by the former employee.

Using the same methodology the former Administrator used to identify deposit shortages between October 2008 and November 2009, we detected shortages between documented receipts and actual deposits amounting to \$12,806. While the Administrator focused only on the former employee's deposits, our reconciliation uncovered significant variances in the deposits made by other PEALS employees. See Table 1.

Table 1: Deposit Variances per Employee

Summary by Employee:	Total Variance
Employee 1	\$ 3,945
Employee 2	\$ 5,450
Employee 3	\$ 881
Employee 4	\$ (25)
Unknown	\$ 2,555
Total	\$ 12,806

Although the court ordered Employee 2 to pay back \$5,250, our analysis showed the discrepancy of his deposits totaled \$5,450. We also found discrepancies of \$3,945 and \$881 in deposits made by two other employees who have since left the PEALS Board. As for the \$2,555 in Table 1, we could not determine which employee was responsible for those funds or whether the funds were actually deposited. Appendix 4 is a comparison of our deposit reconciliation and the PEALS Board. Appendix 5 is a breakdown of the variances by employee based on our reconciliation. Because the Board relied without question on the Administrator's reconciliation of differences, charges were not brought against the other employees.

Lack of Internal Control Design and Implementation

Deficiencies in the design and implementation of internal controls permitted these conditions, including the misappropriation. Control weaknesses include storing cash in a plastic drawer that could not be locked, not regularly reconciling and monitoring cash receipts and deposits, not properly segregating duties and allowing employees to collect and record funds and make deposits on their own. See Appendix 6 for an expanded list of internal control deficiencies. Since the misappropriation, the Board has changed its policy and no longer accepts cash. All payments are required to be made by check or money order.

We also found that information system controls over the Board's web-based receipts were lacking. Although Board policy requires payments to be recorded in consecutively numbered-receipts, and most were recorded in that manner, voided numbers were often reused. Also, no mechanisms were in place to ensure the input of correct and required information in receipt fields. We found receipts dated "0000-07-07" with no customers named. We recommend the PEALS Board establish effective information system controls over the recording and issuance of receipts and related deposits.

Mismanaged Revolving Fund

The establishment of a Revolving Fund for the PEALS Board was authorized by P.L. 24-263 in August 1998. In March 2008, the then-Board Chairperson and Administrator opened a checking account in the name of the Fund and made themselves its only signatories. Our review of Board minutes showed that the full Board never approved the opening of the checking account or established governing procedures for the Revolving Fund. Without such guidelines, the Administrator arbitrarily decided what revenues to deposit and expenditures to pay from the Fund and account. Between March 2008 and December 2010, \$25,381 was deposited into the account.

The activities of the Revolving Fund were not reported to the full Board and remained the purview only of the former Chairperson and Administrator. The Board was made aware of the Revolving Fund in September 2010 based on an inquiry by the Legislative Oversight Chairperson of the PEALS Board, 30 months after the checking account was opened. At that time, the Board simply ratified the actions of the then-Chairperson and Administrator, without further investigation or review.

The revenues and expenditures related to the regular appropriation (PEALS Fund) were duly reported in accordance with quarterly reporting requirements between October 1, 2007 and September 30, 2010, but revenues and expenditures in the Revolving Fund were not.¹ P.L. 29-19 and 29-113, the budget acts for fiscal years 2008 and 2009, required "every director, administrator, or head of a government of Guam agency...regardless of the source of the entity's appropriations and revenue, shall submit a report making full disclosure of **ALL** (emphasis added) funds under his/her purview and administration for the preceding quarter." Bank statements of the Revolving Fund were provided by the PEALS Board and a summary statement is included as Appendix 7.

Unsupported and Unauthorized Cash Disbursements from Revolving Fund

Between March 2008 and September 2010, 29 checks totaling \$13,487 were issued from the Revolving Fund purportedly for various Board expenses. As the law required the Revolving Fund to be maintained "within the cognizance of the members of the Board," we question the disbursements because they were made before the Board knew of the Revolving Fund. After learning of its existence, the Board merely ratified the disbursements without investigation or review.

From a list of 29 expenditures provided to us by the former Administrator, we reviewed six checks and found that 1) two had supporting documentation but were not approved by the Board; 2) the

¹ OPA Reports on Compliance with Quarterly Reporting Requirements (Nos. 08-05, 08-07, 09-01, 09-02 and 09-05) found the PEALS Board in compliance, but this was before the Board and OPA knew about the Revolving Fund.

Chairperson approved expenses for himself; 3) a loan was made for an activity not related to day-to-day financial obligations; and 4) a reportedly unused check was actually cashed for \$5,685. See Table 2 for details.

Table 2: Revolving Fund Tested Disbursements

Disbursement No.	Date	Check No.	Payee	Amount	Reported Use
1	1/14/09	104	Individual	\$ 126.00	Frames, engineering posters
2	4/14/09	108	Newspaper	\$ 48.00	Advertisement Notice
3	9/22/09	116	Travel Agency	\$1,718.06	ABET Conference (2008 Chairperson's airfare)
4	10/15/09	119	Chairperson	\$ 169.40	Meals: 10/9/09 and 10/15/09 meetings (for 2008 Chairperson)
5	2/3/10	124	"Private Organization"	\$ 300.00	Loan to open a checking account.
6	7/13/10	126	Unknown ²	\$5,685.00	PEALS Board & "Private Organization's" printed materials and souvenir items
Total				\$8,046.46	

No Prior Approval or Authorization of Disbursements

Disbursements 1 and 2 had supporting documentation, but were not presented to the entire Board for approval. Disbursements 3 and 4, aside from by-passing the full Board, the Chairperson may have overstepped his authority by approving travel related expenses for himself.

Funds Not Used for Board Operations

Contrary to the law limiting the Revolving Fund to day-to-day financial obligations, Disbursement 5 was a \$300 loan to a "private organization" for use as start-up money for the PEALS Board's 50th Anniversary celebration. The former Administrator explained that the organization was comprised of individuals in the PEALS community who volunteered to plan the celebration. We found that \$200 was subsequently paid back, but \$100 remains outstanding.

Unknown Payee

The former Administrator indicated to us that the check for Disbursement 6 was "not used." However, the July 2010 bank statement indicated that the check was cashed in the amount of \$5,685. When asked to see the canceled checks, the Administrator said copies of checks were not kept. All the disbursements we reviewed had check vouchers attached, but the voucher for this one did not indicate a payee. The quotation attached to the voucher was for 261,800 Philippine Pesos (equivalent to US \$5,679), but there was no explanation why the check was for \$5,685.

² The voucher did not name a payee.

We subsequently received copies of three wire transfer receipts amounting to \$6,131 to an individual in the Philippines between July 13 and August 13, 2010. The receipts did not name the payee but identified the Administrator as the sender. We found no explanation as to why \$5,685 was paid in separate transfers or why the transfers totaled \$446 more than the check. The variance may indicate skimming or the theft of the cash. See Table 3.

Table 3: Wire Transfers Made to Philippines

Date	Transfer Amount	Transfer Fee	Total Amount
7/13/2010	\$ 3,496.20	\$ 5.00	\$ 3,501.20
8/3/2010	\$ 2,174.00	\$ 6.00	\$ 2,180.00
8/13/2010	\$ 445.29	\$ 5.00	\$ 450.29
Total	\$ 6,115.49	\$ 16.00	\$ 6,131.49

Disbursements Non-Compliant with Guam Procurement Regulations

The former Administrator explained that the “unused” \$5,685 check was paid for printed materials and souvenirs purchased in the Philippines. The purchase violated the Local Procurement Preference rule (Title 2 of the Guam Administrative Rules and Regulations Div. 4 Section 1104(d)), which allows off-island procurement only when the sought-after goods or services are not locally available or are 15% higher in cost than off-island prices. The quote we reviewed was for four reams (2,000 sheets) of printed letterhead at 8,000 Philippine Pesos or \$173.54. There were no local quotes to justify the off-island purchase. The documentation indicated that \$1,708 was for items purchased for the PEALS Board and \$3,977 was for the printed materials and souvenir items for the private organization. We found evidence that the private organization repaid the \$3,977.

The six transactions we tested were not properly authorized or supported with appropriate documentation and were in violation of applicable procurement regulations and/or the PEALS Public Law. Since Guam Procurement Law applies to the expenditure of all public funds, regardless of source, rules and regulations should have been followed, even though the transactions were for less than \$15,000. Other than the one quote attached to Disbursement 6, there were no price quotations for any of the selected disbursements.

Lack of Supporting Documentation Still Observed

The Board did not implement policies and procedures for purchases under \$200 until October 2010, although procurement regulations require them. However, we observed continuing inadequate internal controls: a transaction executed in October after the adoption of policies and procedures was written to “CASH.” The voucher indicated the check was for \$80 for carpet cleaning.

Additional Checking Account Discovered

Without full Board knowledge and approval, a private organization used the \$300 loan from the Revolving Fund to open a checking account under the name “PEALS Board.” As mentioned, the organization was made up of PEALS professionals who volunteered to commemorate the Board’s 50th anniversary in August 2010. Members were not appointed by the Board and the organization was not registered with the Department of Revenue and Taxation. The organization’s treasurer informed us that the checking account was intended to be temporary and only for the anniversary celebration. We later learned that the former Administrator was also a signatory on the checking account and that it remains active. As of December 31, 2010, the account balance was \$31, 129.

The financial documents provided by the organization’s treasurer were in disarray. Deposit records were not available, making the determination of the money being deposited difficult. Disbursements appeared to support anniversary activities, as well as a conference dealing with the updated building and fire codes. According to the treasurer, the first checks were written under the name of the organization, but subsequent checks were written under the PEALS Board name. We found no evidence to support that claim.

Because the private organization used the Board’s name improperly, we recommend the Board notify the bank of the unauthorized use of its name and direct this private organization to cease using the checking account under the guise of the PEALS Board.

Questionable Use of Compensatory Time Off

Compensatory time off (CTO) is leave with pay in lieu of overtime pay. Instead of time-and-a-half compensation for overtime work, 1 and ½ hours for each hour of overtime worked is granted. CTO is by mutual agreement between management and its employees before overtime work is performed. A record of the agreement must be filed with the DOA Payroll Office.

According to OPA hotline tips, it was alleged that PEALS employees were using CTO suspiciously. We found the allegations had merit; employees were using CTO thus preserving their annual and sick leave balances. Although the Administrator position is not entitled to CTO, the former Administrator claimed 252.5 hours of CTO and received \$5,868. Altogether, the five PEALS employees drew \$8,558 for 475.25 CTO hours to which they may not have been entitled. (See Table 4 below and Appendix 8 for CTO details.)

Table 4: CTO Hours per Employee

Employee #	Total Hours	Total Amount Questioned
Employee 1	41.5	\$ 237.15
Employee 2	96.25	\$ 1,474.23
Employee 3	252.5	\$ 5,867.60
Employee 4	47	\$ 534.05
Employee 5	38	\$ 445.36
Total	475.25	\$ 8,558.39

Each employee (except the Administrator) had records indicating when, how and why their workday exceeded eight hours, we believe CTO was used improperly, because the employees gave themselves CTO credit each time they stayed beyond office hours. CTO credit should commence after 40 work hours a week. Additionally, all the leave forms were kept internal and were not processed through DOA Payroll.

Among the former Administrator's leave forms, six initially requested annual leave, but were later altered to reflect CTO. We could not ascertain whether the former Chairperson or current Chairperson, who is responsible for approving leave, authorized the alteration.

The former Administrator's use of CTO instead of annual and sick leave must certainly have factored in the high amounts annual and sick leave credited to her upon retirement in May 2011. DOA Payroll records indicate that she retired with 332 hours of annual leave, of which 320 hours (the maximum allowed) were cashed out as a lump-sum payment of \$7,680. The remaining 12 hours were transferred to sick leave, bringing the total to 2,373 hours, which were credited as service time toward retirement. Generally, employees in management and administrative positions are not entitled to overtime or CTO. We found no justification as to why the salaried Administrator qualified for such benefits.

The Board allowed the use of CTO without examining DOA's regulations for it. We recommend Board members familiarize themselves with DOA policies concerning CTO and develop appropriate policies for accrual and use by Board employees.

Conclusion and Recommendations

The PEALS Board did not perform its fiduciary duty to safeguard the funds entrusted to it by failing to ensure those funds were accurately accounted for and duly reported and managed in accordance with applicable laws, regulations and best practices. Additionally, the Board did not monitor the activities of its employees, thus allowing misappropriation of cash and questionable practices to occur and remain undetected. The Board members, educated professionals in their field, abdicated their duty to the public trust by relying on the integrity of an Administrator who took inappropriate advantage of her position and the Board's inattention. The Board also did not establish adequate accounting controls to protect PEALS funds. It is the Board's responsibility to provide oversight and effectively monitor not only the credentials and caliber of fellow professionals, but also monitor the financial activities carried out in its name. Having a better understanding of its financial operations and related risks and controls will help Board members identify and address areas of fraud risk related to financial reporting and misappropriation of assets.

We recommend the PEALS Board:

- Close the Revolving Fund checking account and transfer the balances to the PEALS Fund.
- Immediately require PEALS fees to be recorded and paid directly to the Treasurer of Guam.
- Follow-up on the status of restitution payments to be made by the former employee.
- Establish information system controls over the recording and issuance of receipts and related deposits.
- Notify the bank of the unauthorized use of the Board's name and direct the private organization to cease using the checking account under the guise of the PEALS Board.
- Become familiar with DOA policies concerning CTO and develop appropriate policies for accrual and use by Board employees.

We recognize the Legislature's prerogative to authorize entities to establish checking accounts for their non-appropriated funds, but respectfully urge a reconsideration of the policy and to disallow it for small entities which lack accounting expertise and instead designate DOA to account for all such funds.

Management Response and OPA Reply

A draft report was transmitted to the PEALS Board in September 2011 for their official response. A draft report was also provided to the Legislative Oversight Chair of the PEALS Board in response to the audit request regarding the Board. The Office of Attorney General was also provided a draft report of the audit in September 2011. We met with the Chairperson of the PEALS Board in September 2011 and with the Legislative Oversight Chair in October 2011 to discuss the findings and recommendations. See Appendix 10 for the PEALS Board's management response.

The Chairperson of the PEALS Board agreed with five of the six recommendations made by the OPA. Rather than requiring the PEALS fees to be paid directly to the Treasurer of Guam, the Board would like to implement accounting policies and procedures that would continue to assist the Board in tracking payments of the registrants. Of the five recommendations concurred, the PEALS Board has already begun to address two recommendations: (1) following up on the status of restitution payments and, (2) directing the private organization to cease using the checking account under the guise of the PEALS Board.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendations, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. We will be contacting the PEALS Board to provide the target date and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation given to us by the staff and management of the PEALS Board.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:
Classification of Monetary Amounts

	Finding Area	Questioned Costs	Other Financial Impact³
1	PEALS Fund Revenue Fluctuations Unnoticed	\$ -	\$ 25,381 ⁴
	\$12,806 Misappropriated by More than One Employee	\$ -	\$ 12,806
2	Mismanaged Revolving Fund	\$ -	\$ -
	Unsupported and Unauthorized Cash Disbursements from Revolving Fund	\$ 13,487 ⁵	\$ -
3	Additional Checking Account Discovered	\$ -	\$ 31,129 ⁶
4	Questionable Use of Compensatory Time-Off	\$ 8,558 ⁷	
	Totals	\$ 22,045	\$ 69,316

³ Other financial impacts are those amounts not necessarily expended or disbursed by the organization, but are amounts associated with the findings. See additional footnotes below for details.

⁴ This amount represents the revenues deposited into the PEALS Revolving Fund instead of the PEALS Fund and which were not reported in the quarterly reports required by P.L. 29-19 and 29-113.

⁵ Represents unsupported disbursements and other cost exceptions as the transactions should have transpired within the cognizance of its Board members.

⁶ This amount represents the bank balance as of December 31, 2010 for the checking account discovered to be operating under the auspices of the “PEALS Board” though claimed to be held under a “private organization”.

⁷ This amount represents the total cost of the 475.25 hours utilized by PEALS Board employees for which they may have not been entitled to.

Appendix 2:**Scope, Methodology, and Prior Audit Coverage**

The objective of this audit was to determine whether the PEALS Board's funds were properly reported and whether the PEALS Revolving Fund was managed in accordance with applicable laws, regulations and best practices by determining:

- (1) The accuracy and completeness of the financial reports of the PEALS Boards Funds;
and
- (2) Whether proper cash receipt and disbursement controls are in place over the PEALS Revolving Fund.

The audit scope included the review of pertinent laws, rules and regulations, policies, and transactions involving the PEALS Fund and PEALS Revolving Fund between October 1, 2007 and December 31, 2010. We interviewed the Administrator, the current Board Chairperson, the Administrative Assistant and other officials. The audit was conducted mainly at the PEALS Board office in Upper Tumon.

To accomplish our objective, we performed the following:

- (1) Analyzed PEALS Fund revenues reported in the financial statements contained in the GovGuam financial audit.
- (2) Reused and verified the former Administrator's methodology for reconciling the amounts misappropriated by an employee.
- (3) Performed a walkthrough of the collection process to assess controls.
- (4) Tested six of 29 Revolving Fund transactions for disbursement justification and compliance with procurement laws and regulations, and one transaction executed after the Board adopted policies for purchases under \$200. Expenditures from the PEALS Fund are processed by DOA and, thus were not reviewed.

Based on an OPA hotline tip regarding the questionable use of CTO by PEALS Board employees, we expanded our scope to include CTO related transactions as of June 30, 2011 and reviewed:

- (1) CTO records maintained by the PEALS Board.
- (2) DOA Payroll records.
- (3) DOA Personnel Rules and Regulations.

We conducted this performance audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Prior Audit Coverage

The PEALS Board was not aware of any prior audits that were conducted on the organization. Although the PEALS Fund is included in the Government of Guam annual financial audit, it is not necessarily audited because it does not meet the Independent Auditor's materiality threshold.

Appendix 3: PEALS Board Fees

APPLICATION FEE

	Engineer	Architect	Landscape Architect	Land Surveyor
A. Individual				
a. Comity Registration	\$120	\$120	\$120	\$120
b. Examination	\$120	\$120	n/a	\$120
c. Reinstatement	\$120	\$120	\$120	\$120
B. Certificate of Authorization (COA)	\$150	\$150	\$150	\$150

II. REGISTRATION

A. Renewal (annual)	\$225	\$225	\$225	\$225
B. COA (fees charged per type of service and/or engineering discipline provided)	\$225 (per disc)	\$225	\$225	\$225
C. Expired registration				
- for each annual year	\$225	\$225	\$225	\$225
- plus penalty for each month thereafter	\$25	\$25	\$25	\$25

III. INITIAL REGISTRATION

A. Initial, 6 months or less from renewal	\$125	\$125	\$125	\$125
B. Initial, 6 months or more from renewal	\$225	\$225	\$225	\$225
C. COA (fee charged per type of service provided)	\$225	\$225	\$225	\$225
D. Emeritus Status	\$50	\$50	\$50	\$50
E. Intern Certificates	\$25	n/a	n/a	\$25

*IV. EXAMINATION AND RE-EXAMINATION

A. Fundamentals (FE & LS)	\$100	n/a	n/a	\$100
B. Principles & Practice (PE & LS)	\$200	n/a	n/a	\$200
C. Structural, Vertical Forces	\$440	n/a	n/a	n/a
D. Structural, Lateral Forces	\$440	n/a	n/a	n/a
E. Special Civil Seismic	\$325	n/a	n/a	n/a
F. Guam Land Matters (GLM)	n/a	n/a	n/a	\$75
G. Architect Registration Examination (ARE)			to follow NCARB	
H. Proctor exam for other state Boards (for active military personnel only)	\$150	n/a	n/a	\$150

V. OTHER FEES

A. Temporary Permit (Individual only)	\$1,000	\$1,000	\$1,000	n/a
B. Replacement/Duplication of certificates	\$150	\$150	\$150	\$150
C. Annual Roster (non-member)	\$25	\$25	\$25	\$25
D. PEALS Board Law	\$30	\$30	\$30	\$30
Other public documents		\$1/first page and \$0.25 for the remaining page		
E. Rules and Regulations	\$30	\$30	\$30	\$30
F. Pocket Registration Card (Replacement)	\$30	\$30	\$30	\$30
G. Building Permit Application Clearance		\$15/plan application checking fee		

VI. The Board shall impose fine/penalty to violators of registration code.

*Subject to change without prior notice

Appendix 4:

OPA & PEALS Board Reconciliation Comparison Page 1 of 2

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	OPA Variance	Actual Deposits	PEALS' Sum of Receipts	PEALS' Variance
FY 09-7	Employee 1	\$ 1,735	\$ 1,635	\$ 100	\$ 1,735	\$ 1,755	\$ (20)
FY 09-9	Employee 1	\$ 890	\$ 990	\$ (100)	\$ 890	\$ 890	\$ -
FY 09-11	Employee 1	\$ 1,400	\$ 1,625	\$ (225)	\$ 1,400	\$ 1,400	\$ -
FY 09-12	Employee 1	\$ 1,460	\$ 1,475	\$ (15)	\$ 1,460	\$ 1,460	\$ -
FY 09-14	Employee 1	\$ 1,770	\$ 1,995	\$ (225)	\$ 1,770	\$ 1,770	\$ -
FY 09-29	Employee 1	\$ 5,055	\$ 8,370	\$ (3,315)	\$ 5,055	\$ 5,070	\$ (15)
FY 09-37	Employee 1	\$ 430	\$ 445	\$ (15)	\$ 430	\$ 430	\$ -
FY 09-38	Employee 1	\$ 1,065	\$ 1,215	\$ (150)	\$ 1,065	\$ 1,065	\$ -
FY 09-18	Employee 2	\$ 2,960	\$ 3,365	\$ (405)	\$ 2,960	\$ 3,350	\$ (390)
FY 09-22	Employee 2	\$ 1,240	\$ 1,285	\$ (45)	\$ 1,240	\$ 1,285	\$ (45)
FY 09-48	Employee 2	\$ 3,160	\$ 3,235	\$ (75)	\$ 3,160	\$ 3,205	\$ (45)
FY 09-47	Employee 2	\$ 2,960	\$ 3,020	\$ (60)	\$ 2,960	\$ 3,020	\$ (60)
FY 09-50	Employee 2	\$ 5,480	\$ 6,240	\$ (760)	\$ 5,480	\$ 6,360	\$ (880)
FY 09-51	Employee 2	\$ 920	\$ 1,160	\$ (240)	\$ 920	\$ 1,100	\$ (180)
FY 09-52	Employee 2	\$ 3,025	\$ 3,420	\$ (395)	\$ 3,025	\$ 3,420	\$ (395)
FY 09-55B	Employee 2	\$ 1,325	\$ 1,460	\$ (135)	\$ 1,325	\$ 1,460	\$ (135)
FY 09-56	Employee 2	\$ 1,215	\$ 1,290	\$ (75)	\$ 1,215	\$ 1,290	\$ (75)
FY 09-57	Employee 2	\$ 4,810	\$ 5,005	\$ (195)	\$ 4,810	\$ 4,880	\$ (70)
FY 09-58	Employee 2	\$ 2,075	\$ 2,090	\$ (15)	\$ 2,075	\$ 2,090	\$ (15)
FY 09-61	Employee 2	\$ 4,730	\$ 4,885	\$ (155)	\$ 4,730	\$ 4,885	\$ (155)
FY 09-63	Employee 2	\$ 4,930	\$ 4,820	\$ 110	\$ 4,930	\$ 4,820	\$ 110
FY 09-64	Employee 2	\$ 3,150	\$ 3,610	\$ (460)	\$ 3,150	\$ 3,610	\$ (460)
FY 09-65	Employee 2	\$ 4,170	\$ 4,370	\$ (200)	\$ 4,170	\$ 4,370	\$ (200)
FY 09-66	Employee 2	\$ 5,690	\$ 5,820	\$ (130)	\$ 5,690	\$ 5,695	\$ (5)
FY 09-67A	Employee 2	\$ 6,290	\$ 6,480	\$ (190)	\$ 6,290	\$ 6,455	\$ (165)
FY 09-68	Employee 2	\$ 9,640	\$ 9,670	\$ (30)	\$ 9,640	\$ 9,670	\$ (30)
FY 09-69	Employee 2	\$ 5,160	\$ 5,305	\$ (145)	\$ 5,160	\$ 5,305	\$ (145)
FY 09-70	Employee 2	\$ 3,555	\$ 3,615	\$ (60)	\$ 3,555	\$ 3,615	\$ (60)
FY 09-71	Employee 2	\$ 9,035	\$ 9,805	\$ (770)	\$ 9,035	\$ 9,685	\$ (650)
FY 09-72	Employee 2	\$ 4,790	\$ 4,875	\$ (85)	\$ 4,790	\$ 4,995	\$ (205)
FY 09-73	Employee 2	\$ 10,940	\$ 11,330	\$ (390)	\$ 10,940	\$ 11,330	\$ (390)
FY 09-74	Employee 2	\$ 3,645	\$ 3,910	\$ (265)	\$ 3,645	\$ 3,635	\$ 10

Appendix 4:

OPA & PEALS Board Reconciliation Comparison Page 2 of 2

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	OPA Variance	Actual Deposits	PEALS' Sum of Receipts	PEALS' Variance
FY 10-6	Employee 2	\$ 5,405	\$ 5,685	\$ (280)	\$ 5,405	\$ 5,685	\$ (280)
FY 10-3	Employee 3	\$ 380	\$ 355	\$ 25	\$ 380	\$ 380	\$ -
FY 10-13	Employee 3	\$ 725	\$ 848	\$ (123)			\$ -
FY 10-17	Employee 3	\$ 730	\$ 1,498	\$ (768)			\$ -
FY 10-21	Employee 3	\$ 1,205	\$ 1,220	\$ (15)			\$ -
FY 10-28	Employee 4	\$ 4,265	\$ 4,240	\$ 25			\$ -
N/A	Unknown	\$ -	\$ 4,420	\$ (4,420)			\$ -
N/A	Unknown		\$ 495	\$ (495)	\$ -	\$ 435	\$ (435)
TOTAL		\$ 204,689	\$ 219,855	\$(15,166)			\$(5,385)

Less AS400 deposits not noted in PEALS records \$ 2,360
 Total Variance per OPA \$ (12,806)
 Total Variance per PEALS Board \$ (5,385)
 OPA Variance vs. EBA Variance \$ (7,421)

Deposit Variance by Employee per OPA Reconciliation

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
FY 09-7	Employee 1	\$ 1,735	\$ 1,635	\$ 100
FY 09-9	Employee 1	\$ 890	\$ 990	\$ (100)
FY 09-11	Employee 1	\$ 1,400	\$ 1,625	\$ (225)
FY 09-12	Employee 1	\$ 1,460	\$ 1,475	\$ (15)
FY 09-14	Employee 1	\$ 1,770	\$ 1,995	\$ (225)
FY 09-29	Employee 1	\$ 5,055	\$ 8,370	\$ (3,315)
FY 09-37	Employee 1	\$ 430	\$ 445	\$ (15)
FY 09-38	Employee 1	\$ 1,065	\$ 1,215	\$ (150)
Total Variance				\$ (3,945)

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
FY 09-18	Employee 2	\$ 2,960	\$ 3,365	\$ (405)
FY 09-22	Employee 2	\$ 1,240	\$ 1,285	\$ (45)
FY 09-48	Employee 2	\$ 3,160	\$ 3,235	\$ (75)
FY 09-47	Employee 2	\$ 2,960	\$ 3,020	\$ (60)
FY 09-50	Employee 2	\$ 5,480	\$ 6,240	\$ (760)
FY 09-51	Employee 2	\$ 920	\$ 1,160	\$ (240)
FY 09-52	Employee 2	\$ 3,025	\$ 3,420	\$ (395)
FY 09-55B	Employee 2	\$ 1,325	\$ 1,460	\$ (135)
FY 09-56	Employee 2	\$ 1,215	\$ 1,290	\$ (75)
FY 09-57	Employee 2	\$ 4,810	\$ 5,005	\$ (195)
FY 09-58	Employee 2	\$ 2,075	\$ 2,090	\$ (15)
FY 09-61	Employee 2	\$ 4,730	\$ 4,885	\$ (155)
FY 09-63	Employee 2	\$ 4,930	\$ 4,820	\$ 110
FY 09-64	Employee 2	\$ 3,150	\$ 3,610	\$ (460)
FY 09-65	Employee 2	\$ 4,170	\$ 4,370	\$ (200)
FY 09-66	Employee 2	\$ 5,690	\$ 5,820	\$ (130)
FY 09-67A	Employee 2	\$ 6,290	\$ 6,480	\$ (190)
FY 09-68	Employee 2	\$ 9,640	\$ 9,670	\$ (30)
FY 09-69	Employee 2	\$ 5,160	\$ 5,305	\$ (145)
FY 09-70	Employee 2	\$ 3,555	\$ 3,615	\$ (60)
FY 09-71	Employee 2	\$ 9,035	\$ 9,805	\$ (770)
FY 09-72	Employee 2	\$ 4,790	\$ 4,875	\$ (85)

Deposit Variance by Employee per OPA Reconciliation

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
FY 09-73	Employee 2	\$ 10,940	\$ 11,330	\$ (390)
FY 09-74	Employee 2	\$ 3,645	\$ 3,910	\$ (265)
FY 10-6	Employee 2	\$ 5,405	\$ 5,685	\$ (280)
Total Variance				\$ (5,450)

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
FY 10-3	Employee 3	\$ 380	\$ 355	\$ 25
FY 10-13	Employee 3	\$ 725	\$ 848	\$ (123)
FY 10-17	Employee 3	\$ 730	\$ 1,498	\$ (768)
FY 10-21	Employee 3	\$ 1,205	\$ 1,220	\$ (15)
Total Variance				\$ (881)

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
FY 10-28	Employee 4	\$ 4,265	\$ 4,240	\$ 25
Total Variance				\$ 25

Deposit No.	Employee #	Actual Deposits	Sum of Receipts	Variance
N/A	Unknown	\$ -	\$ 4,420	\$ (4,420)
N/A	Unknown	\$ -	\$ 495	\$ (495)
N/A	Unknown	\$ 2,360	\$ -	\$ 2,360
Total Variance				\$ (2,555)

Note: The amounts noted under “sum of receipts” were recorded receipts that were not linked to any deposit forms provided by the PEALS Board. The amount under “sum of deposit amount” is deposits recorded in the AS 400 system and not linked to any deposit form provided by the PEALS Board.

Control Environment

The control environment is the foundation for all other components of internal control. Several findings were noted which exhibited the characteristics of a weak internal control environment. In order for internal controls to function effectively, management and the Board should continuously promote and manage internal controls by:

- Setting the tone at the top for the entire operation. If management illuminates the importance of internal controls, so will employees.
- Educating employees at all levels so they understand the purpose and importance of control procedures they are called upon to perform; and
- Providing the resources necessary to ensure the control structure is properly designed and maintained.⁸

Risk Assessment

Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans. The PEALS Board did not perform periodic risk assessments.

- The Board was not originally aware of the significant fluctuations in revenue trends.
- There is no indication that risk assessments were performed periodically by management resulting in the loss of cash due to the lack of basic controls over the handling of cash receipts.
- The Board did not address the risk of management override of internal controls. Much trust was placed on the former Administrator to handle the operations of the PEALS Board without any monitoring by the Board, including the ability to negotiate fines and penalties.

Control Activities

Control activities are the policies and procedures that aide the entity in meeting its objectives in consideration of risks and ensuring management directives are carried out. Controls involve a range of various activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, and security of assets, established to prevent or detect undesirable events. The following are some of the weaknesses and ineffective practices noted:

- *No segregation of duties* – proper segregation of duties will allow for different individuals to approve and make payments. Also, those who are signatories of the account should not record disbursements. In the case of the PEALS Revolving Fund, all the duties mentioned were performed by the former Administrator.

Improper documentation procedures – pre-numbered checks should be used and each check used must have an approved invoice. Two of the six disbursement transactions tested did not have proper invoices attached.

⁸ An Elected Official's Guide to Internal Controls and Fraud Prevention by Stephen J. Gauthier, 1994.

- *No independent internal verification* – proper internal verification includes comparing checks to invoices and performing monthly bank reconciliations. Copies of checks were not made to compare if check amounts matched its corresponding invoice and bank reconciliations were not performed.

Information and Communication

Information should be recorded and communicated to management and others within the entity that need it in a form and timeframe that enables them to carry out their internal control and other responsibilities. For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal and external events. The following examples indicate a breakdown of information and communication:

- The PEALS Board did not establish or maintain current, comprehensive policies and procedures manuals.
- Due to the lack of policies and procedures, the Board placed heavy reliance on the former Administrator who maintained sole knowledge of certain activities to operate the organization. Since the retirement of the Administrator in May 2011, the Board has realized the difficulty in transitioning others to carry out the duties for the Administrator position.
- The PEALS Revolving Fund was created without the knowledge and approval by all Board members. The existence of the account was brought to attention of other Board members two years later through an inquiry by a Senator.

Monitoring

Internal control monitoring should assess the quality of performance over time. Monitoring ensures that internal controls operate effectively as intended by management and allows management to take corrective actions, in a timely manner, if deficiencies or risks are identified. During our audit, we noted the following indications of weak control monitoring by management and the Board:

- The Board did not monitor the financial activity of the organization and was unaware of the significant fluctuation in revenues.
- The Board was not aware of the weaknesses in controls as much trust was given to the Administrator who had been managing the organization for more than 20 years. Our audit was the first audit that the Board is aware of to be conducted of the PEALS Board.
- In regards to the defalcation found, there were more than a dozen instances that indicated collections were not fully deposited. Regular monitoring may have prevented the amount to reach the level that it did. In addition, we found instances where other employees were responsible for deposits with discrepancies. It appears management and the Board was not aware of these situations as we found no evidence that the any action was taken to recuperate the un-deposited funds.

Appendix 7:

PEALS Revolving Fund Statement Summary

Month	Beginning Balance	Receipts	Disbursements	Ending Balance
Mar-08	\$ -	\$ 400.00	\$ -	\$ 400.00
Apr-08	\$ 400.00	\$ 670.00	\$ -	\$ 1,070.00
May-08	\$ 1,070.00	\$ 165.00	\$ -	\$ 1,235.00
Jun-08	\$ 1,235.00	\$ 295.00	\$ -	\$ 1,530.00
Jul-08	\$ 1,530.00	\$ -	\$ 100.00	\$ 1,430.00
Aug-08	\$ 1,430.00	\$ -	\$ 42.40	\$ 1,387.60
Sep-08	\$ 1,387.60	\$ 700.00	\$ -	\$ 2,087.60
FY 2008 Total		\$ 2,230.00	\$ 142.40	
Oct-08	\$ 2,087.60	\$ -	\$ -	\$ 2,087.60
Nov-08	\$ 2,087.60	\$ 1,500.00	\$ -	\$ 3,587.60
Dec-08	\$ 3,587.60	\$ -	\$ 145.53	\$ 3,442.07
Jan-09	\$ 3,442.07	\$ 176.00	\$ 126.00	\$ 3,492.07
Feb-09	\$ 3,492.07	\$ 3,575.00	\$ 76.85	\$ 6,990.22
Mar-09	\$ 6,990.22	\$ 170.00	\$ 200.00	\$ 6,960.22
Apr-09	\$ 6,960.22	\$ -	\$ 100.65	\$ 6,859.57
May-09	\$ 6,859.57	\$ -	\$ 138.66	\$ 6,720.91
Jun-09	\$ 6,720.91	\$ -	\$ 85.70	\$ 6,635.21
Jul-09	\$ 6,635.21	\$ -	\$ 50.00	\$ 6,585.21
Aug-09	\$ 6,585.21	\$ -	\$ -	\$ 6,585.21
Sep-09	\$ 6,585.21	\$ 25.00	\$ 1,718.06	\$ 4,892.15
FY 2009 Total		\$ 5,446.00	\$ 2,641.45	
Oct-09	\$ 4,892.15	\$ -	\$ 867.06	\$ 4,025.09
Nov-09	\$ 4,025.09	\$ -	\$ -	\$ 4,025.09
Dec-09	\$ 4,025.09	\$ -	\$ 33.58	\$ 3,991.51
Jan-10	\$ 3,991.51	\$ 2,500.00	\$ 203.68	\$ 6,287.83
Feb-10	\$ 6,287.83	\$ -	\$ 895.00	\$ 5,392.83
Mar-10	\$ 5,392.83	\$ 28.00	\$ -	\$ 5,420.83
Apr-10	\$ 5,420.83	\$ 5,000.00	\$ 2,600.00	\$ 7,820.83
May-10	\$ 7,820.83	\$ 2,500.00	\$ 364.40	\$ 9,956.43
Jun-10	\$ 9,956.43	\$ 3,500.00	\$ 54.00	\$ 13,402.43
Jul-10	\$ 13,402.43	\$ -	\$ 5,685.00	\$ 7,717.43
Aug-10	\$ 7,717.43	\$ 4,177.00	\$ -	\$ 11,894.43
Sep-10	\$ 11,894.43	\$ -	\$ -	\$ 11,894.43
FY 2010 Total		\$ 17,705.00	\$ 10,702.72	
Oct-10	\$ 11,894.43	\$ -	\$ -	\$ 11,894.43
Nov-10	\$ 11,894.43	\$ -	\$ 168.00	\$ 11,726.43
Dec-10	\$ 11,726.43	\$ -	\$ -	\$ 11,726.43
FY 2011 (1st Qtr) Total		\$ -	\$ 168.00	

Leave Date(s)	Hours	Hours Paid Per AS400	Rate	Total Questioned Cost
11/10/2008	8	Regular	\$11.03	\$ 88.24
11/12/2008	1.5	Regular	\$11.03	\$ 16.55
11/25/2008	1	Regular	\$11.03	\$ 11.03
12/9/2008	4	Regular	\$11.03	\$ 44.12
11/22/2008	1	Regular	\$11.03	\$ 11.03
1/9/2009	4	Regular	\$11.03	\$ 44.12
1/12/09 to 1/14/09	22	Regular = 2; LWOP = 20	\$11.03	\$ 22.06
Totals	41.5			\$ 237.15

Leave Date(s)	Hours	Hours Paid Per AS400	Rate	Total Questioned Cost
10/10/2007	3	Regular	14.34	\$ 43.02
10/15/2007	1	Regular	14.34	\$ 14.34
10/22/2007	8	Regular	14.34	\$ 114.72
10/23/2007	1	Regular	14.34	\$ 14.34
11/16/2007	1	Regular	14.34	\$ 14.34
11/20/2007	1	Regular	14.34	\$ 14.34
11/27/2007	0.75	Regular	14.34	\$ 10.76
12/21/2007	3	Regular	14.34	\$ 43.02
2/11/2008	1	Regular	14.34	\$ 14.34
6/12/2008	8	Regular	15.14	\$ 121.12
6/16/2008	8	Regular	15.14	\$ 121.12
11/4/2008	1	Regular	15.14	\$ 15.14
11/26/2008	1	Regular	15.14	\$ 15.14
11/26/2008	1.5	Regular	15.14	\$ 22.71
11/26/2008	3	Regular	15.14	\$ 45.42
11/28/2008	5	Regular	15.14	\$ 75.70
12/10/2008	1	Regular	15.14	\$ 15.14
3/24/2009	3	Regular	15.14	\$ 45.42
4/10/2009	4	Regular	15.14	\$ 60.56
10/5/2009				
-				
10/6/2009	16	Regular	15.94	\$ 255.04
11/3/2009	8	Regular	15.94	\$ 127.52
11/4/2009	4	Regular	15.94	\$ 63.76
11/27/2009	4	Regular	15.94	\$ 63.76
11/30/2009	1.5	Regular	15.94	\$ 23.91
12/2/2009	2.5	Regular	15.94	\$ 39.85
3/26/2010	5	Regular	15.94	\$ 79.70
Totals	96.25			\$ 1,474.23

Leave Date(s)	Hours	Hours Paid Per AS400	Rate	Total Questioned Cost
11/9/07 to 11/13/07	16	Regular	\$ 22.40	\$ 358.40
11/6/2007	2	Regular	\$ 22.40	\$ 44.80
1/2/2008	8	Regular	\$ 22.40	\$ 179.20
1/21/10 to 1/22/10	16	Regular	\$ 23.19	\$ 371.04
2/15/10 to 2/17/10	24	Regular	\$ 23.19	\$ 556.56
4/12/10 to 4/14/10	24	Regular	\$ 24.00	\$ 576.00
7/22/10 to 7/26/10	24	Regular	\$ 24.00	\$ 576.00
8/16/10 to 8/18/10	24	Regular	\$ 24.00	\$ 576.00
10/25/2010	8	Regular	\$ 24.00	\$ 192.00
10/22/2010	8	Regular	\$ 24.00	\$ 192.00
11/09/10 to 11/12/10	32	Regular = 24; Holiday = 8	\$ 24.00	\$ 576.00
12/20/10 to 12/23/10	32	Regular	\$ 25.84	\$ 826.88
1/31/2011	8	Regular	\$ 25.84	\$ 206.72
2/7/2011	4	Regular	\$ 24.00	\$ 96.00
2/22/2011	8	Regular	\$ 24.00	\$ 192.00
3/16/11 to 3/17/11	12	Regular	\$ 24.00	\$ 288.00
3/28/2011	2.5	Regular	\$ 24.00	\$ 60.00
Totals	252.5			\$ 5,867.60

Leave Date(s)	Hours	Hours Paid Per AS400	Rate	Total Questioned Cost
2/1/2010	1	Regular	11.03	\$ 11.03
3/17/2010	2.5	Regular	11.03	\$ 27.58
3/25/2010	1.5	Regular	11.03	\$ 16.55
4/2/2010	1	Regular	11.03	\$ 11.03
5/11/2010	3	Regular	11.03	\$ 33.09
6/4/2010	1.5	Regular	11.03	\$ 16.55
6/14/2010	0.5	Regular	11.03	\$ 5.52
7/15/2010	2.5	Regular	11.03	\$ 27.58
7/27/2010	2	Regular	11.03	\$ 22.06
8/16/2010	3	Regular	11.03	\$ 33.09
10/14/2010	1	Regular	11.03	\$ 11.03
11/17/2010	2	Regular	11.03	\$ 22.06
12/14/2010	2.5	Regular	11.03	\$ 27.58
12/16/2010	2	Regular	11.03	\$ 22.06
12/28/2010	2	Regular	14.94	\$ 29.88
1/6/2011	2	Regular	14.94	\$ 29.88
2/16/2011	2.5	Regular	11.03	\$ 27.58
3/4/2011	8	Regular	11.03	\$ 88.24
3/17/2011	1	Regular	11.03	\$ 11.03
5/5/2011	1.5	Regular	11.03	\$ 16.55
5/25/2011	4	Regular	11.03	\$ 44.12
Totals	47			\$ 534.05

Leave Date(s)	Hours	Hours Paid Per AS400	Rate	Total Questioned Cost
10/25/2007	3	Regular	11.72	\$ 35.16
10/30/2007	6	Regular	11.72	\$ 70.32
11/20/2007	2	Regular	11.72	\$ 23.44
11/23/2007	8	Regular	11.72	\$ 93.76
11/21/2007	8	Regular	11.72	\$ 93.76
12/4/2007	3	Regular	11.72	\$ 35.16
11/6/2007	8	Regular	11.72	\$ 93.76
Totals	38			\$ 445.36

Appendix 9:

Senator's Request Letter



Senator Thomas C. Ada

CHAIRMAN - Committee on Utilities, Transportation, Public Works, and Veterans Affairs
30th Guam Legislature • I Mina' Trenta Na Liheslaturan Guåhan

August 11, 2010

Doris Flores Brooks
Office of the Public Auditor
238 Archbishop Flores Street
Hagatna, Guam 96910

Re: PEALS Board Revolving Fund

Mrs. Brooks:

It has recently come to my attention that the PEALS Board is maintaining two separate fund accounts. One account is with a local bank to which deposits are made directly, and a second account is administered by the Department of Administration, with deposits made via the Treasurer of Guam.

Upon further inquiry, I came to find out that revenues deposited to the Treasurer of Guam are reported quarterly as required by law, but the revenues that are directly deposited to a second account are not reported. Hence, the revenues reported quarterly are understated. These are but a few examples of practices, which cause me concern.

As the oversight Chairman, I assert that the PEALS Board performs an important function for our government, and as such I want to ensure that the integrity of this entity is preserved. Hence, I request your assistance in conducting an audit of the organization's finances and related practices.

Should you have any questions, please do not hesitate to contact my Chief-of-Staff, Jay Sunga, at 473-3301.

Sincerely,

A handwritten signature in blue ink, appearing to read "T.C. Ada".

Thomas C. Ada

Attachments - (3)

CC: Liza Provido, Chairperson, PEALS Board

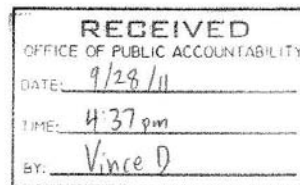
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The Guam Board of Registration for
PROFESSIONAL ENGINEERS, ARCHITECTS & LAND SURVEYORS
Inetnon Rihestrasyon Inheneron Prufisionat, Atketekto yan Agranensot Tano'

September 28, 2011

Doris Flores Brooks, CPA, CGFM
 Public Auditor
 Office of Public Accountability
 Suite 401, DNA Building
 238 Archbishop Flores Street
 Hagatna, Guam 96910



SUBJ: OPA Audit Report PEALS Response

Dear Ms. Brooks:

For well over 50 years, the PEALS board has effectively carried out its mandate to establish the licensing standards of the engineering, architecture, and land surveyor professions in the territory of Guam. It has been proactive in enforcing its licensing laws which have proven over time to have established the standards of professional practice which have been up to par or even more stringent in comparison with other state jurisdictions. By its very nature, it has been widely regarded as a model of integrity and accountability by the profession. From an administrative standpoint, the operations of the PEALS office had been managed extremely efficiently by an Executive Board Administrator who, in 24 years of service to the Board, had developed an in-depth institutional knowledge of the licensing laws, represented the Board during legislative budget hearings as well as lobbying for revisions to the laws, rules and regulations. Even as board members serve out their terms and new board members are appointed, the Executive Board Administrator maintained continuity without compromise to the PEALS mandate.

The Board's annual revenues had also been under the fiscal control of the Executive Board Administrator which usually exceeds its appropriated budget. This 2011 fiscal year alone, the Board collected \$328,158+ in revenues, while operating within an appropriated budget of \$236,835.00. Much of the Board's primary budget concerns had focused on the tight cash flow situation, delays in processing and approval of allotments, and loss of excess funds. The method of reporting financial activities had been based upon the AS400 allotment monthly statements and periodically, a summary of deposits would be provided. This reporting method had been generally adopted as the standard procedure for the Executive Board Administrator's report included in the monthly board meeting agenda. This system had become so well-established and integrated into the operations of the PEALS office that a system of checks and balances did not appear to be warranted prior to the audit.

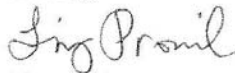
The audit findings reveal deficiencies in the handling of revenues due to a lack of proper accounting procedures and actions made without full authority of the Board. The Board acknowledges the need for accountability and transparency not only as a requirement in the ethical conduct of its registrants, but also in its fiscal responsibilities in the handling of public funds. As such, the Board has taken your recommendations to heart and will be immediately proceeding with a plan and procedures for implementation of changes. The Board has discussed and would like to put forth for your review and consideration the following responses to the audit recommendations that the Board will move forward on upon approval by your office:

- 1) **Close the Revolving Fund checking account and transfer the balances to the PEALS Fund.** The Board concurs with closing the revolving fund account, however proposes to invest the funds in purchasing of accounting software and retaining professional services of an accountant to implement proposed accounting policies and procedures (refer to Exhibit A). Remaining funds shall be transferred to the PEALS special fund.

- 2) **Immediately require PEALS fees to be recorded and paid directly to the Treasurer of Guam.** The Board proposes an alternative solution which as previously mentioned is the implementation of accounting policies and procedures to establish internal financial controls as per Exhibit A. It is critical that the PEALS office track the payments of its registrants in order to expedite the issuance of individual licenses and Certificates of Authority in a timely manner. The burden of proof of payment shifts to the Treasurer of Guam or the individual registrants and business firms. This would necessitate even tighter tracking controls, such as requiring all registrants to submit original receipts to the PEALS office, or alternatively coordinating with the Treasurer of Guam a copy of all receipts issued and type of deposits made. This method of collection had been done in the past where fees were allowed to be paid directly to the Treasurer of Guam. However, this had proven to be an administrative burden when deposits-out of the control of the PEALS office-were not applied towards renewals and the registrants' status had lapsed. Particularly more so for off-island registrants, who would be required to send applications to the PEALS office but payments to the Treasurer of Guam and then follow-up with sending the TOG receipt back to the PEALS office. The current tracking method of updating the website upon payment has not been problematic, as it provides immediate, up-to-date information for not only the registrants but for the general public as well, which is a critical function for the PEALS office.
- 3) **Follow-up on the status of restitution payments to be made by the former employee.** The Office of the Attorney General is currently scheduling a court hearing date for the garnishment of wages by the former employee.
- 4) **Establish information system controls over the recording and issuance of receipts and related deposits.** The Board concurs with establishing information system controls which will be addressed by the implementation of the accounting policies and procedures. Since the time of the audit, all deposits have been documented with copies of checks received attached to deposit slips. The FY11 revenues of \$320,000+ is in line with the previous revenue trend of FY10 of \$315,794 and is being verified with the AS400 special fund deposits.
- 5) **Notify the bank of the unauthorized use of the Board's name and direct the private organization to cease using the checking account under the guise of the PEALS Board.**
A letter was issued to this effect on September, 13th, 2011. Disbursements to the various professional societies have already been made to close out the account.
- 6) **Become familiar with DOA policies concerning CTO and develop appropriate policies for accrual and use by Board employees.** The Board concurs with developing CTO policies to be in compliance with DOA policies.

The Board and PEALS staff has been working in close cooperation with auditors from your office in order to provide full disclosure to the extent possible with regards to the operations and fiscal management of the PEALS office. Should you have any questions, please call Administrative Assistant Sylvia Leon Guerrero at 646-3115.

Sincerely,



Liza Provideo RA, AIA
PEALS Board Chairwoman

Appendix 11:

Status of Audit Recommendations

Audit Recommendation	Status	Action Required
To the Guam PEALS Board:		
1 Close the Revolving Fund checking account and transfer the balances to the PEALS Fund.	Management concurs. Additional Information Needed.	Provide evidence of the closure of the checking account and deposit made into the PEALS Fund.
2 Immediately require PEALS fees to be recorded and paid directly to the Treasurer of Guam.	Open.	Pending follow-up on the implementation of policies as suggested by the Board.
3 Follow-up on the status of restitution payments to be made by the former employee.	Additional Information Needed.	Provide evidence that the court hearing had occurred and whether the former employee's wages have been garnished.
4 Establish information system controls over the recording and issuance of receipts and related deposits.	Management concurs. Additional Information Needed.	Provide evidence that proposed accounting polices and procedures have been implemented.
5 Notify the bank of the unauthorized use of the Board's name and direct the private organization to cease using the checking account under the guise of the PEALS Board.	Additional Information Needed.	Provide evidence of the September 13, 2011 letter and the closure of the checking account.
6 Become familiar with DOA policies concerning CTO and develop appropriate policies for accrual and use by Board employees.	Management Concurr. Additional Information Needed.	Provide evidence of policies made based on proper guidance from DOA regarding CTO.



Guam Professional Engineers, Architects and Land Surveyors Board
PEALS Board Funds and Financial Practices
Report No. 11-07, October 2011

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
Rodalyn Marquez CIA, CGFM, CPA, CGAP, Audit Supervisor
Llewelyn Terlaje CGAP, Auditor-in-Charge
Rachel Field, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

MISSION STATEMENT

To improve the public trust,
we audit, assess, analyze, and make recommendations
for accountability, transparency,
effectiveness, efficiency, and economy of the government of Guam
independently, impartially, and with integrity.

VISION

Guam is the model for good governance in the Pacific.

CORE VALUES

Integrity Independence Impartiality
Accountability Transparency

REPORTING FRAUD, WASTE, AND ABUSE

- Call our HOTLINE at 47AUDIT (472-8348)
- Visit our website at www.guamopa.org
- Call our office at 475-0390
- Fax our office at 472-7951
- Or visit us at Suite 401, DNA Building in Hagåtña;

All information will be held in strict confidence.