



**EXECUTIVE SUMMARY**  
**Department of Revenue and Taxation**  
**Gross Receipts Tax Exemptions**  
**OPA Report No. 13-01, May 2013**

Our audit of the Department of Revenue and Taxation's (DRT) gross receipts tax (GRT) exemptions revealed that DRT has not processed GRT forms and assessed taxes and exemptions since March 2011. This occurred because of a breakdown in DRT's system and optical image scanner, along with the expiration/termination of the service agreement with the contracted vendor. As a result, the Government of Guam (GovGuam) is at risk of losing revenue due to possible non-reporting and under reporting of GRT. DRT has no system in place to track the number and amount of exemptions being claimed by Guam taxpayers; therefore, the financial impact on GovGuam revenue is unknown. GRT and exemption data is incomplete, possibly unreliable, and lacking necessary information for management and elected leaders to make sound decisions related to GRT. Without DRT effectively monitoring, reporting, and collecting GRT and reviewing exemptions claimed, there is no assurance that all GRT revenues are being collected and reported completely and accurately.

**System Breakdown and Termination of Service Agreement**

In March 2011, DRT was no longer able to utilize its optical scanner and system interface for processing GRT forms. As a result, for two years the Business Privilege Tax (BPT) branch did not scan or input GRT tax and exemptions data from tax forms into its system. Specifically, 24,694 GRT forms were not processed in calendar year (CY) 2011 and 55,006 GRT forms in CY 2012, a total of 79,700 for the two years. According to DRT Management, CY 2013 forms are being processed and GRT forms for CY 2011 and 2012 will be processed by May 2013.

**Unprocessed Gross Receipts Tax Forms**

DRT did not have contingency procedures for handling the system failure, and reverted to a manual recording process in the interim. The issue of DRT's inability to process and assess gross receipts taxes is an urgent matter that must be addressed by management and elected leaders. As stated in 11 GCA § 26102 (e), the limitation of time to assess these taxes is three (3) years after the return is filed. As of the date of this report, reliable information related to gross receipts taxes and exemptions is unavailable because of the backlog of tax processing. While information for CY 2006 through 2010 was subsequently provided, we did not test the completeness and reliability of this information. Without GRT and exemption data, we are unable to quantify GRT exemptions and determine its financial impact on Government of Guam revenue.

**Compensating Controls at Department of Administration**

Although DRT has not processed two years of GRT forms into its system, the Department of Administration (DOA) and the Treasurer of Guam (TOG) have compensating controls through the recording of GRT payments. Only GRT taxpayers who submit payments to the TOG are recorded at the point-of-sale and in the DOA AS400 system. However, non-cash transactions, zero-balance transactions, and electronic filing transactions are not recorded in DOA's AS400 system. Therefore, complete GRT data does not exist in any one system.

The TOG's point-of-sale system at one point was integrated into DRT's AS400 system; however when the lack of integration occurred between TOG and DRT is unknown. Both AS400 systems at DOA and

DRT are stand alone systems, independent of each other, and are not integrated or interface with each other.

### **Electronic Filing and Improved Financial Management System**

The DRT Director stated that transitioning to electronic filing (e-filing) will improve efficiency and reliability of processing GRT forms. E-filing presents benefits such as efficient recording of data into DRT's system and does not rely on a system interface between TOG, DOA, and DRT.

GovGuam can no longer afford to operate with such old legacy systems<sup>1</sup> that are independent and not integrated. GovGuam should begin the process to move to a more efficient financial management system at both DRT and DOA that are fully integrated with technological software appropriate for the 21<sup>st</sup> century to include such aspects as online and e-filing capability.

### **Conclusion and Recommendations**

Guam tax collection problems are not new, having been in existence for over two decades. The problems we found are similar to findings reported by the U.S. Department of Interior Office of Inspector General audit report on *Guam's Tax Collection Activities* issued in November 2008. The challenges noted in the OIG report include: the lack of adequate funding and staff, an inability to hire and retain qualified tax enforcement staff, an ever increasing workload, and reliance on manual processes and outdated equipment. These challenges still remain with respect to DRT processing of gross receipts taxes.

By failing to address long standing tax collection deficiencies, GovGuam has allowed its tax system to fall into disrepair and has suffered tax revenue losses estimated in the millions of dollars annually. This deprives Guam of the revenues it desperately needs to fund public education, health, safety, and other programs for the people of Guam.

To improve the recording, reporting, collecting and monitoring of gross receipts tax and exemptions, we recommend the Governor, the Legislature, and DRT Director and DOA Director:

1. Establish a tax administration task force to develop an action plan for revitalizing DRT and ensuring complete filing and payment of all taxes due to Guam.
2. Establish a financial management task force to develop an action plan for the acquisition of updated financial management systems at both DRT and DOA.
3. Establish and meet a target date to fully transition to e-filing of GRT taxes and other related taxes.

DRT management did not disagree with OPA's audit findings. The Director further stated that: "(1) The inability for your office to test reliable data was already an issue that DRT has been trying to resolve since the discontinuance of the point of sale system previously maintained by the private vendor and (2) DRT currently is trying to resolve data integrity by updating and correctly posting to taxpayer accounts, all payments, credits and assessments. By the time the draft audit was discussed, DRT already made significant updates to GRT but was not included in the audit report."

This is the first OPA audit conducted of DRT. We appreciate the cooperation and assistance shown during the course of this audit by DRT, the Treasurer of Guam, and the DOA Division of Accounts.



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<sup>1</sup> DOA's accounting software system was originally acquired in the late 70s and early 80s known as BACIS (Budget Accounting Information System) which was developed by IBM for the city of Burbank, California. Over the years DOA and its primary consultant reprogrammed and modified the BACIS system.