



EXECUTIVE SUMMARY

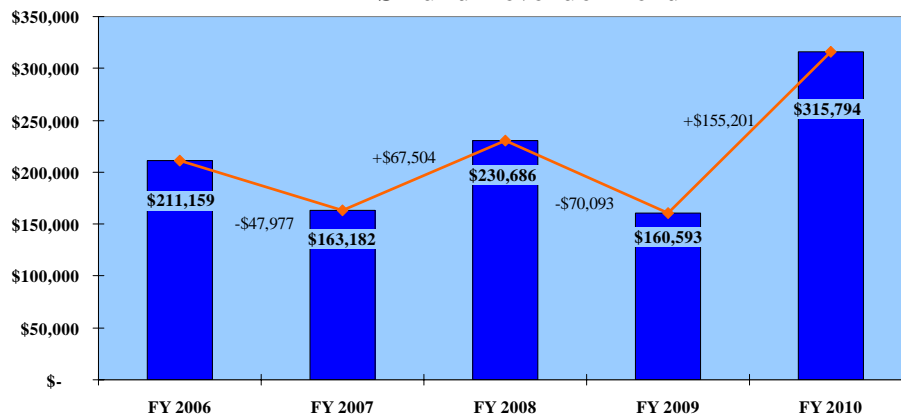
Guam Professional Engineers, Architects and Land Surveyors Board Funds and Financial Practices Report No. 11-07, October 2011

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.

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