



OFFICE OF THE PUBLIC AUDITOR

**EXECUTIVE SUMMARY**

Guam Public School System

Procurement of Construction and Air-Conditioning

Report No. 08-04, June 2008

The Guam Public School System (GPSS) is authorized to procure goods and services outside of the General Services Agency (GSA) pursuant to Title 5 Guam Code Annotated (GCA) §5125, but remains subject to Guam procurement law. From FY 2003 through FY 2006, GPSS issued 718 purchase orders (PO) totaling \$13.2 million (M) to air-conditioning and construction vendors. During the same period, 35 vendors were paid \$11.1M for goods and services related to air-conditioning and construction projects.

The GPSS procurement office did not award construction and air-conditioning contracts in accordance with Guam Procurement Law. Emergency procurement was used excessively and unnecessarily for non-emergencies. Additionally, purchase orders were artificially divided to remain within the small purchases range and procurements were poorly documented. These substandard procurement practices occurred because of the lack of appropriate separation of duties and monitoring and inadequately trained staff. In nearly three-fourths (totaling \$2,101,688) of the 26 POs tested, we found no evidence of delivery or performance inspections independent of the Procurement Division.

**Lack of Appropriate Separation of Duties**

Responsibility for GPSS procurement rests solely with the Supply Administrator, who also serves as head of the Procurement Division. As such, the Supply Administrator approves and authorizes purchase requests, inspects purchase deliveries or contract performance, and submits requests for payment. The performance of certain incompatible duties by one individual increases the risk of purchasing substandard goods and services and set the stage for procurement abuse. Without the appropriate separation of these duties, there are no checks and balances to ensure that purchases are made only for proper public purposes, procurement laws are followed, and the integrity of the procurement process is maintained.

**Excessive and Unnecessary Use of Emergency Procurement**

Of the 26 POs tested, 13 or half of the POs tested (totaling \$1,357,718) bypassed the normal competitive procurement process and were awarded via emergency procurement. Nine POs were for air conditioner maintenance, which is generally preventative in nature, and repairs. These services could have been procured through competitive bidding, providing all vendors an opportunity to submit quotes and compete for the contracts.

Seven of the POs tested were issued long after the 30-day emergency period allowed by law. For example:

- A PO for \$132,096 for roof repairs on a high school was issued 423 days after the Executive Order.
- Three POs for \$49,000 each for repairs and maintenance of air conditioners was issued 105 days after the certificate of emergency.

### **Artificial Division of POs**

We also found that 46 POs issued to six vendors appeared to be divided artificially in order to remain within the small purchase threshold of \$15,000 for goods and \$50,000 for construction. These POs were issued within one or two days for identical work, thus avoiding the competitive bid process and required approvals. Related payments totaled \$843,222. Examples include:

- Six POs totaling \$99,869 (\$9,800, \$20,610, \$19,880, \$21,280, \$6,300, and \$21,999) were issued to a single vendor on the same day for school repairs.
- Five POs totaling \$50,100 (\$8,200, \$10,500, \$15,300, \$3,150, \$12,950) were issued to a single vendor on the same day for air-conditioning units.

The same-day issuance of multiple POs to single vendors appeared to be a means to bypass the School Recovery Task Force's required approvals for purchases over \$50,000.

### **Unjustified Use of Indefinite POs and POs Increased Significantly**

'Indefinite quantity' POs were awarded without documented explanation as to why the normal procurement method did not suffice. These POs were increased as much as 140% and extended beyond the allowable 90 days. In addition, the amounts for six of the 26 POs tested were increased by as much as 211% from their original authorized amount.

### **Inefficient Procurement Processing and Insufficient Documentation**

The sheer volume of procurement needs at GPSS requires some form of automation. The operation of the GPSS Procurement Office is largely manual and results in inefficiencies. We concur with the 2005 Financial Management Improvement Plan, which recommended automation. We also found files that lacked essential bid documentation to comply with law or to facilitate proper reviews of vendor awards.

### **Conclusion and Recommendations**

Based on our review, we found \$2.9M in questionable procurement. We conclude that GPSS cannot effectively and efficiently process construction and air-conditioning procurements without significant improvements in internal control over procurement. Duties need to be better segregated and include others in the process, to provide verifiable inspections, secure proper approvals, and provide the checks and balances necessary to maintain integrity in the procurement process, reduce inappropriate procurements, and reduce findings and questioned costs. We recommend that GPSS automate its procurement process, establish written procedures to ensure appropriate separation of duties, continue periodic internal audits of the procurement function to ensure compliance to laws and regulations, and provided training to procurement staff. We also recommend that the GSA periodically monitor and provide oversight and review of procurements, and assist in providing appropriate training for GPSS Procurement staff.

The Superintendent of Education and the Chief Procurement Officer generally concurred with the audit findings and recommendations.



Doris Flores Brooks, CPA, CGFM  
Public Auditor