



EXECUTIVE SUMMARY

OPA Report No. 03-07 August 2003

General Services Agency Performance Audit of Tendan Gobetnu October 1, 2001 to December 31, 2002

At meetings in December 2002 the Director of the Department of Administration (DOA) and the Chief Procurement Officer opined that Tendan Gobetnu (Tenda) should be closed due to pilferage, inventory loss, and shortage of personnel to manage the operations. Because of these statements, the Office of the Public Auditor initiated a performance audit of the operations of Tenda from October 1, 2001 to December 31, 2002. The objective of our audit was to determine whether the current services and operations rendered by Tenda are beneficial to the Government of Guam.

Tenda was established in July 1981 to provide increased economy in procurement by maximizing the purchasing value of public funds. In 1983 the Legislature appropriated one million dollars from the General Fund for the initial purchase of supplies inventory. The fund is replenished from reimbursements of government agencies that obtain supplies from General Services Agency (GSA).

We have concluded that continued operation of Tendan Gobetnu is not cost effective and recommend its closure. The business landscape on Guam has changed since the creation of Tenda back in 1981. There are now many warehouse-type businesses selling supplies at discounted bulk prices. GSA can negotiate supply purchases for various government agencies through Blanket Purchase Agreements or Indefinite Quantity Indefinite Delivery Contracts. This process eliminates the need to warehouse supplies because office supply requirements of each agency will be bid out to vendors; agencies can then obtain supply items from successful vendors on an "as needed" basis. This type of arrangement will provide savings through the elimination of personnel working specifically for Tenda, the proportionate time spent by DOA personnel to perform accounting work for the GSA Fund, and the stockpiling of large quantities of supplies.

Our findings to support the closure of Tendan Gobetnu:

- Tenda operations had a loss of over \$183,000 for FY 2002 when we include proportionate administrative expenses. These overhead expenses, which include personnel costs and utilities, have been absorbed by DOA and not factored into the selling prices of Tenda supply items sold. Our price testing of 38 non-statistically selected items revealed that if overhead is allocated to these supplies, 18 items are available at a lower price from local vendors than from Tenda.
- Delayed billings by DOA and non-payment by autonomous agencies have resulted in receivables of \$2.2 million. The largest receivable was from Guam Telephone Authority at \$622,681 or 29% of total receivables. Other delinquent agencies were Guam Waterworks Authority \$314,329 or 14%, SPIMA \$224,218 or 10%, Port Authority of Guam \$196,377 at 9% and Department of Education \$186,642 also at

9%. Superior Court with a balance of just over \$6,000 was not billed for almost two years. Guam Mass Transit Authority (now a part of the Department of Administration) owes \$137,189 as of February 2003; it was last billed in December 2001. For other agencies, a range of two to 15 months lapsed between billings.

- The Inventory Revolving Fund financial statements showed a decline of revenue from \$5.4 million in 1995 to \$1.8 million in 2002. Our audit revealed that agencies purchased supplies from outside vendors due to unavailability or lower prices offered by outside vendors.
- Inadequate controls over inventory resulted in inventory loss of over \$48,000 or 3%. Large variances between the year-end physical count and perpetual inventory record were not investigated. This loss is six times greater than local retail businesses' acceptable loss of 0.5%.
- Existence of obsolete and slow moving items of over \$440,000. We found nine Guam flags, 20 feet by 38 feet, at a cost of \$1,995 each or \$17,955, that have been in inventory since October 2000. Ten flags were purchased, yet only one has been sold. This flag size is flown only during national and Guam holidays and special occasions.
- Insufficient staffing and no formal training have been provided to employees assigned to Tenda. GSA employees budgeted to work at Tenda did not have defined job functions and were assigned to other divisions. We were not able to identify an employee that is knowledgeable of the inventory system.
- Tenda supplies damaged during Typhoon Cha'taan and Pongsona were not documented, resulting in lost federal reimbursement from FEMA.
- Tenda employs a manual and bureaucratic system of purchasing supplies. Customers are not afforded the convenience of leaving the Tenda premises with the needed supplies in one trip. Agencies are required to make two-trips to Tenda prior to obtaining the supplies they requested.

In addition to the closure of Tenda, we recommend that DOA aggressively pursue the collection of the \$2.2 million in receivables from the autonomous agencies.

An independent assessment by a USDA Graduate School Consultant supports the closure of Tenda Gobetnu. The report states "GSA operates Tenda at considerable expense in assigned personnel and inventory maintenance."

During our audit, we found that the Treasurer of Guam performs functions that fundamentally should be separate - the handling of cash and verification of transactions. Segregation of duties has been comprised. We recommend that different individuals within the Treasurer's office perform the receipt, custody, verification, and recording functions.

The DOA Director generally concurred with our findings and recommendations.



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