

**General Services Agency  
Tendan Gobetnu**

**Performance Audit  
October 1, 2001 through December 31, 2002**

**OPA Report No. 03-07  
August 2003**



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## **EXECUTIVE SUMMARY**

OPA Report No. 03-07 August 2003

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### **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.



Doris Flores Brooks, CPA, CGFM  
Public Auditor



**General Services Agency  
Performance Audit of Tenda Gobetnu's Operations**

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## **Introduction**

In December 2002, the Office of the Public Auditor (OPA) initiated a performance audit into the operations of the Government Store known as Tendan Gobetnu of the General Services Agency (GSA).

## **Jurisdiction to Investigate**

The Public Auditor is required to annually audit “all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam.”<sup>1</sup>

## **Background Information**

One of the elements of GSA’s mission is to “provide increased economy in procurement by maximizing the purchasing value of public funds.”<sup>2</sup> Tendan Gobetnu (Tenda) was established in July 1981 to achieve this end.<sup>3</sup> Tenda was appropriated one million dollars (\$1,000,000) from the General Fund in 1983 for the initial purchase of supplies inventory. The fund is replenished from reimbursements of governmental agencies that obtain supplies from GSA.

Before the Government Store was created, supplies were being purchased on a low volume basis from local small office supply stores. Tenda was created to save money by purchasing in bulk supply items for the government to take advantage of discounted prices and economies of scale.

The supplies inventory is managed and warehoused under the purview of the General Services Agency



Inside view of Tenda.

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<sup>1</sup> 1 GCA § 1908

<sup>2</sup> 5 GCA § 1

<sup>3</sup> Executive Order 81-3 now codified as 5 GCA §5115.

(GSA)<sup>4</sup> while the accounting of transactions and records of the GSA Inventory Revolving Fund (Fund) is maintained by the Division of Accounts of the Department of Administration (DOA). The Fund is divided into two categories - fuel and supplies. GSA Procurement section administratively arranges purchases for both fuel and supplies. Due to a local law favoring local procurement, supplies are purchased most of the time from businesses licensed in Guam.<sup>5</sup> Government line agencies are generally required to obtain supplies at Tenda while autonomous and semi-autonomous agencies are allowed to purchase their supplies from outside vendors. Fuel, on the other hand, is obtained directly by the agencies at contracted gasoline stations.

## **Objectives**

During our December 2002 meetings with the Director of the Department of Administration and the Chief Procurement Officer, both officials opined that Tenda Gobetnu should be closed due to pilferage, inventory loss, and shortage of personnel to manage the operations. Because of these statements, we determined that our audit objective should be to determine whether current services and operations rendered by Tenda are beneficial to the Government of Guam.

## **Scope and Methodology**

The scope of our audit was limited to the examination of the management and operations of Tenda Gobetnu for the 15-month period from October 1, 2001, to December 31, 2002. We did not review the fuel inventory aspect of the GSA Inventory Revolving Fund.

Our methodology included gaining an understanding of laws, policies, and procedures affecting Tenda. We evaluated the efficiency of the management of Tenda's operations; specifically inventory system, revenue system, accounting, and staffing.

Our audit was conducted in accordance with generally accepted government auditing standards applicable to performance audits. Accordingly, we obtained an understanding and performed an evaluation of internal controls at Tenda. We included tests of records, price comparisons, and other auditing procedures that were considered necessary under the circumstances.

## **Prior Audit Coverage**

We reviewed the General Purpose Financial Statements and the Single Audit Reports for FY 2001, 2000 and 1999<sup>6</sup> and identified three repeat findings related to the Inventory Revolving Fund. These findings indicated that inventory items selected could not be

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<sup>4</sup> Managed by DOA; one of the eight divisions under DOA.

<sup>5</sup> 5 GCA § 5008

<sup>6</sup> FY 1999 Finding No. 99-53, FY 2000 Finding No. 2000-69, FY 2001 Finding No. 2001-65

verified to supporting invoices. The value of unsupported inventory items was \$211,798 (29 items) in FY 2001, \$168,728 (21 items) in FY 2000, and \$185,195 (5 items) in FY 1999. As a result, the external auditors could not verify the accuracy of the items purchased in inventory.

### **Overall Evidentiary Conclusion**

We have concluded that continued operation of Tendan Gobetnu – the Government Store - is not cost effective and recommend its closure for the following reasons:

- Availability of lower priced supplies offered by outside vendors and the Federal GSA;
- Costly operation resulting in over \$183,000 loss after application of administrative costs such as personnel costs and utilities;
- Delayed billings by DOA and non-payment by autonomous agencies resulting in receivables of \$2.2 million and the inability by Tenda to replenish inventory;
- Decline in sales revenue of the Inventory Revolving Fund from \$5.4 million in 1995 to \$1.8 million in 2002 due to insufficient or unavailable supplies when needed by agencies;
- Existence of obsolete and slow moving items of over \$440,000;
- Over \$48,000 or 3% net inventory loss arising from discrepancies in the physical count and perpetual inventory records;
- Availability of supplies from warehouse type vendors eliminating waiting time;
- Current manual and bureaucratic system of purchasing supplies would require major overhaul to upgrade and automate the entire system; and
- Insufficient training provided to Tenda personnel.

Procurement savings can still be achieved without operating Tenda because supplies are available locally at competitive bulk prices. GSA personnel can negotiate the lowest price possible for the agencies and supplies can be delivered by outside vendors on an as needed basis. The Government of Guam is also entitled to purchase supplies at the federally negotiated GSA prices.<sup>7</sup> GSA will not have the cost of personnel and the costs of maintenance, control, warehousing, deterioration, and obsolescence of supplies.

### **Specific Findings and Conclusions**

#### **Decline in Revenue**

Total unaudited sales of Tenda during FY 2002 were \$1,174,968 and \$121,566 for the three months ending December 2002, exclusive of fuel purchases. Line agency sales were \$1,075,738 while \$220,797 was generated from inventory sales to autonomous agencies.

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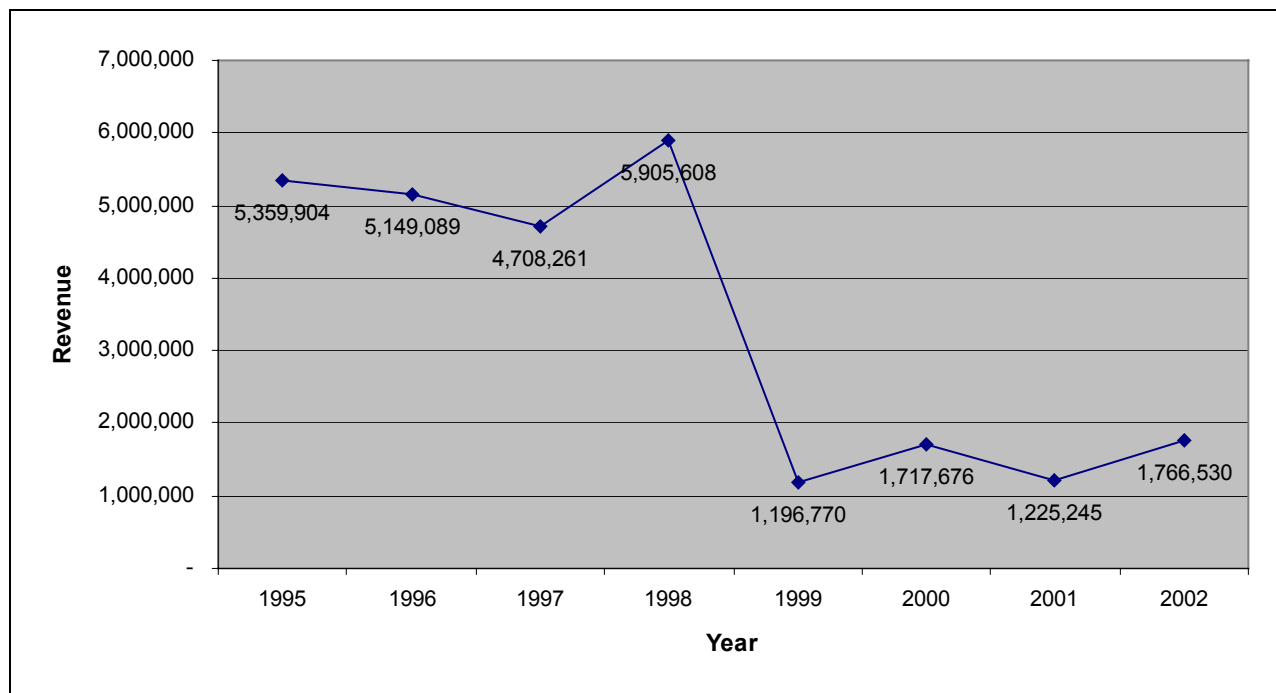
<sup>7</sup> 48 USCA §14231



As shown in **Chart 1**, the revenues of the Inventory Revolving Fund have declined in the last seven years, from \$5.4 million in 1995 to \$1.2 million in 2001. When we asked the Chief Procurement Officer (CPO) and the DOA Controller what factors accounted for the decline in revenue, both attributed the decrease to the decline in economy and reduction of budgets of government agencies. However, further inquiries from at least five agencies indicated that these agencies purchase their supplies from outside vendors for two other reasons - lower prices and quicker availability of supplies.

From 1995 to 1998 Fund revenues were over \$5 million except 1997, which was \$4.7 million. In 1999, revenues dropped dramatically to \$1.2 million from a high of \$5.9 million. Since 1999, revenues have fluctuated from \$1.2 million to \$1.8 million. DOA was unable to provide an explanation for the dramatic drop in revenue in 1999. See **Chart 1** for revenue history.

**Chart 1: GSA Inventory Revolving Fund Revenues from 1995 – 2002**



Note: FY 1995 to 2001 audited revenue amounts obtained from the General Purpose Financial Statement Report. FY 2002 revenue represents unaudited information obtained from DOA.

### **Delayed Billings by DOA**

We requested a copy of an aged Tenda accounts receivable listing but were advised by the Accounts Receivable Supervisor at DOA that no such listing is maintained and that accounts receivable is tracked manually. We then reviewed the manual receivables ledgers and noticed that some agencies had not been billed for more than two years while other autonomous agencies had not paid their GSA billed charges in months.

The billing process for a line and autonomous agency differ. A line agency's purchase of inventory supplies is directly charged against its budget and collected internally

through coordination between Bureau of Budget and Management Research (BBMR) and DOA. On the other hand, DOA bills autonomous agencies for supplies purchased.

We found that DOA does not bill autonomous agencies on a monthly or regular basis for supplies purchased from Tenda. For example Superior Court owed \$6,051, but was not billed for almost two years and Guam Mass Transit Authority, who owed \$137,189 as of February 2003, was last billed in December 2001. Other agencies listed in **Table 1** show a range of 2 to 15 months, with an average of over eight months, before an agency received its next billing from DOA. When we asked why Tenda billings were sent late to the agencies, DOA employees said it was due to staff shortages.

**Table 1: Delayed Billings**

	AGENCY	Update of A/R Balance <sup>8</sup>	Last Invoice Issued by DOA	Month(s) Lapsed from last invoice and last update	A/R Balance <sup>9</sup>
1	Superior Court	2/6/2003	5/8/2001	20.6	\$6,051.94
2	UOG	2/7/2003	10/18/2001	15.4	\$1,213.40
3	GIAA	2/6/2003	10/29/2001	15.0	\$80,748.92
4	GMTA	2/7/2003	12/3/2001	13.9	\$137,188.58
5	GHC	2/5/2003	3/13/2002	10.6	\$29,227.97
6	GMHA	2/3/2003	3/22/2002	10.3	\$114,501.54
7	DOE	2/3/2003	4/11/2002	9.6	\$186,641.70
8	SPIMA	2/3/2003	6/3/2002	7.9	\$224,218.03
9	GWA	2/7/2003	6/19/2002	7.5	\$314,328.50
10	GEDCA	2/7/2003	7/19/2002	6.6	\$10,000.42
11	Washington Office	2/6/2003	8/5/2002	6.0	\$375.57
12	GCC	2/7/2003	9/18/2002	4.6	\$41,131.08
13	GTA	2/3/2003	9/25/2002	4.3	\$622,680.61
14	Legislature	2/3/2003	10/11/2002	3.7	\$30,566.92
15	GHURA	2/7/2003	10/23/2002	3.5	\$2,945.10
16	GPA	2/5/2003	10/23/2002	3.4	\$171,972.26
17	Retirement	1/20/2003	10/17/2002	3.1	\$13,553.82
18	PAG	2/5/2003	11/25/2002	2.4	\$196,377.30
19	GVB	2/7/2003	None provided	Cannot determine	\$2,320.41
	Total		Average	8.24	\$2,186,044.07

### Delinquent Receivables due to Delayed Billings

As discussed in page 4, DOA does not maintain an aged accounts receivable for the Tenda receivables. As of February 2003, various autonomous agencies owed Tenda about \$2.2 million, with the largest receivable from Guam Telephone Authority at

<sup>8</sup> DOA provided these amounts after OPA requested an updated accounts receivable listing. Some of these amounts have not been billed to the autonomous agencies reflected by the differences in the recorded payable amount by the agencies in **Table 2**.

<sup>9</sup> Autonomous agencies are not required to purchase supplies from Tenda. Amounts either reflect only fuel transactions or fuel and supplies transactions.

\$622,681 or 28% 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%. Refer to **Table 2**.

**Table 2: Accounts Receivable from Autonomous Agencies**

	<b>AGENCY</b>	<b>A/R Balance As of Feb. 2003</b>	<b>A/R % Of Total</b>	<b>A/P recorded by Agency</b>	<b>Difference<sup>10</sup></b>
1	GTA	\$ 622,680.61	28.48%	\$ 695,518.00	\$ 72,837.39
2	GWA	\$ 314,328.50	14.38%	\$ 142,033.76	\$ (172,294.74)
3	SPIMA	\$ 224,218.03	10.26%	\$ 378,428.51	\$ 154,210.48
4	PAG	\$ 196,377.30	8.98%	\$ 250,000.00	\$ 53,622.70
5	DOE	\$ 186,641.70	8.54%	\$ 500,000.00	\$ 313,358.30
	<b>Subtotal</b>	<b>\$1,544,246.14</b>	<b>70.64%</b>	<b>\$1,965,980.27</b>	<b>\$421,734.13</b>
	Other Agencies	\$641,797.93	29.36%	Did not obtain	N/A
	<b>Total</b>	<b>\$2,186,044.07</b>	<b>100.00%</b>	<b>Did not obtain</b>	<b>N/A</b>

We inquired of the DOA Controller why the Tenda receivables have been allowed to accumulate to over \$2 million. The Controller indicated that “there is an order of priority that DOA follows” in addressing tasks. Among the problems cited that had impaired DOA’s ability to bill on a current basis were Oracle conversion and staff shortages.

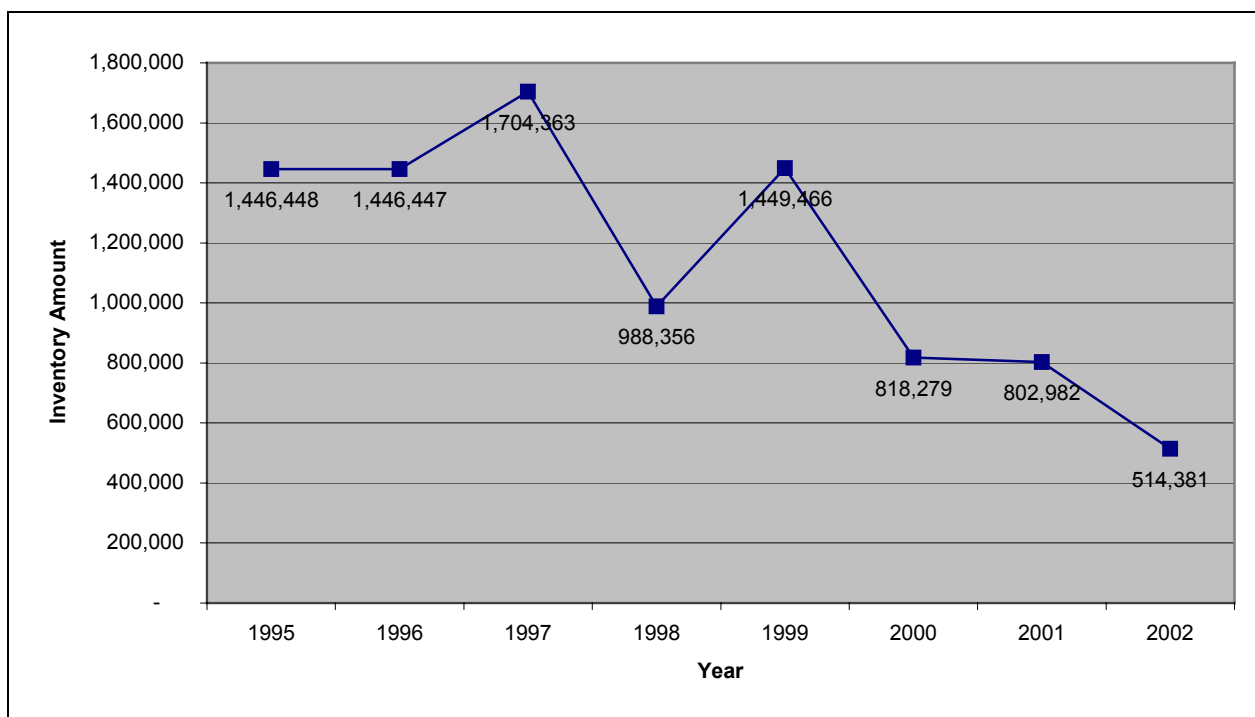
We obtained the payable amount from the autonomous agencies and found that the amounts recorded on their books do not correspond to the amounts reported by DOA. Refer to **Table 2**. When we inquired with five autonomous agencies why the amounts do not reconcile with DOA, we were told unanimously that DOA has not billed them for supplies and/or fuel purchases as far back as 2001. Although DOA bears greater responsibility with the increase in receivables, the autonomous agencies contributed by failing to demand an invoice. This equates to free supplies for autonomous agencies.

Another factor contributing to the delinquent receivables is that agencies are not penalized for late payments. No interest is imposed on agencies that do not pay after 30 days of the date on the invoice, so there is no incentive for an autonomous agency to pay timely. Without cash infusion, GSA is unable to acquire more inventory for sale. Tenda’s inventory has decreased from a high of \$1.7 million in 1997 to a low of \$514,000 in 2002, see **Chart 2** for details.

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<sup>10</sup> See Footnote 8.

**Chart 2: GSA Inventory Revolving Fund Inventory**

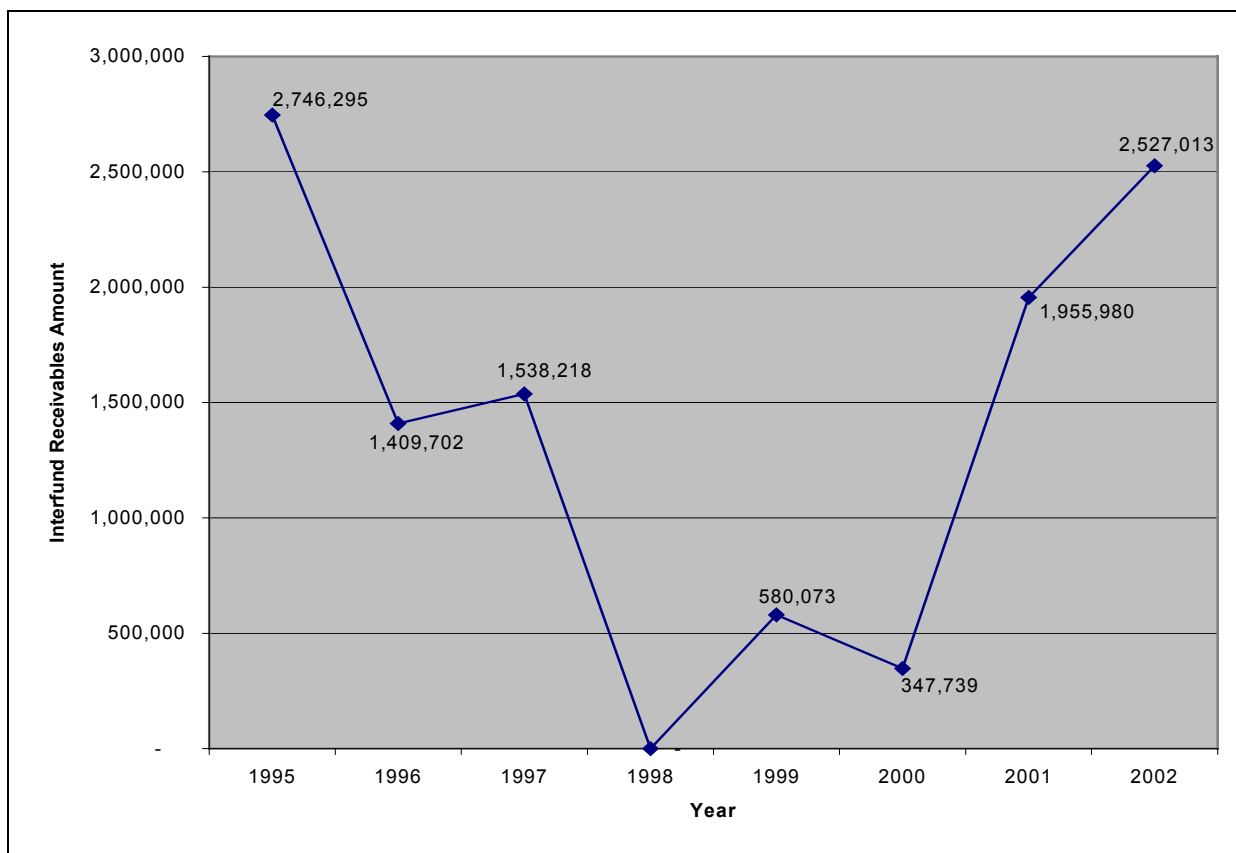


Note: FY 1995 to 2001 audited inventory amounts obtained from the General Purpose Financial Statement Report. FY 2002 inventory represents unaudited information obtained from DOA.

### **Interfund Receivables**

According to the audited financial statements of the Government of Guam for FY 2001, Tenda reported net interfund receivables of \$1,955,980. For FY 2002, the unaudited interfund receivables were \$2,527,013 - an increase of \$571,033. We asked for a detailed listing of the Tenda receivables but DOA was not able to provide us with the composition of the interfund amounts. Discussions with DOA accounting staff again indicated that the Oracle system had limitations in its interfund accounting capability and would require substantial amount of time to obtain details of the agencies or fund owing Tenda. Interfund receivable balances have had significant fluctuations beginning with \$2.7 million in 1995 dropping to \$0 in 1998 then climbing back up to \$2.5 million in FY 2002. See **Chart 3** for a history of Tenda interfund receivables.

**Chart 3: History of Tenda Interfund Receivables**



Note: FY 1995 to 2001 audited interfund receivables amounts obtained from the General Purpose Financial Statement Report. FY 2002 amount represents unaudited information obtained from DOA.

### **Availability of Supplies at Federal GSA**

Federal and local government agencies can acquire products and services at best value through the U.S. General Services Administration (US GSA).<sup>11</sup> Our review of the local GSA supplies requisition log showed only three purchases came from the US GSA. The total amount from US GSA was only \$12,445 (.003%) out of over \$4,604,000 purchase orders issued during our scope; nearly all purchases came from local vendors. Although Guam Procurement Law favors local procurement, 5 GCA §5122 allows the local GSA to procure supplies from the US GSA when the cost is less by ten percent (10%) than from other contractors. US GSA offer supplies at best value, the local GSA should avail itself of US GSA catalogs at least from a price comparison basis.

### **Customer Satisfaction**

We surveyed all Government of Guam agencies to determine the level of customer satisfaction they have toward Tenda. The majority of respondents indicated overall satisfaction with the level of customer service received from Tenda and they generally found transactions with Tenda to be a pleasant experience. However, there were a few

<sup>11</sup> [www.gsa.gov](http://www.gsa.gov)

agencies that were dissatisfied with the service received from Tenda. Highlights of the survey are found at **Appendix C**.

### **Inventory Not Always Available**

Of the 47 agencies that responded to our survey, one agency stated supplies are “always out of stock,” five agencies stated supplies are “hardly available (25% availability),” 13 agencies stated supplies are “available 50% of the time,” and 22 agencies stated supplies are “usually available (75% of the time).” Six agencies gave no comment. Six agencies indicated that when stocks are not available, they purchase supplies from outside vendors.

In our survey, we asked Government agencies if there were any supplies that were not available on island from private businesses. The survey results indicated five items that were noted by the agencies as available only at Tenda, which included 5 ¼” diskettes, fuel requisition forms with control numbers, pre-printed purchase order forms with agency name and logo, pre-printed field receipts, and direct payment forms. We reviewed these items listed by the agencies and found comparable items available from other vendors for most of the five items.

### **Results of Price Testing**

We performed a price testing on a sample of items from Tenda and compared the prices charged to Government customers with those charged at office supply vendors. Of the 38 items tested (selected non-statistically), we found that only six of the products were available for a lower price in the private companies. That is because GSA selling price is landed cost, which is purchase and shipping costs (if any) to bring the supplies to Guam. GSA selling price does not include any markup for overhead such as personnel costs for receiving, warehousing, selling, billing, utilities, or other inventory or operational costs.

In order to calculate total cost of Tenda products, we reconstructed a financial statement for Tenda as of September 30, 2002, attempting to capture a greater portion of the true or full costs of operating Tenda. We then applied an overhead factor to the landed costs to determine a revised cost reflecting the full cost of operation. We then compared this revised GSA price to the shelf prices available at office supply stores on island. This comparison indicated that 18 of the 38 items tested were available at a lower price when purchased from local vendors than the revised GSA price or full cost price. See **Appendix D** for details.

We reconstructed a statement of revenues and expenditures for Tenda for FY2002 (see **Appendix A**) to include the proportionate administrative expenses allocated to Tenda. This reconstructed financial statement reports a loss from operations of \$183,483. As stated above, these overhead expenses are not factored into the selling price of Tenda but instead are absorbed by DOA.

## Inefficient and Antiquated Manual Operations

Another aspect that we attempted to quantify but were unable to is the full cost of obtaining supplies at Tenda. Tenda's revenue system is an entirely manual operation.

In order to purchase supplies from Tenda, agencies type information in a seven-copy requisition form approved by the certifying officer and agency head. Items ordered must have a stock number. A designated person then travels to Tenda, located in Piti, to drop off the order form at Tenda. Tenda staff then retrieve the requisition items being purchased from inventory and manually look up the price by stock number. When all items are gathered, the agencies are contacted that their supplies are ready for pick-up. The agency staff then travels back to Tenda to pick up the supplies. Tenda store hours are from 8AM to 4PM on Monday and Thursday. Tenda has not updated its selling and inventory process to provide customers the convenience of acquiring needed supplies in one trip.



Tenda staff set aside the inventory items for the agencies, requiring the agencies to make a second trip to pick-up items.

## Inaccurate Inventory Count

An important internal control procedure is for physical inventory counts to be scheduled on a monthly, quarterly, or annual basis to determine the accuracy of the inventory records. Differences between the physical count and the inventory records should be immediately investigated and resolved.

Tenda's inventory is tracked on the AS400 computer system. A physical inventory count is taken at the end of the fiscal year. After the physical inventory count is taken, it is compared to the perpetual inventory listing generated from AS400. Adjustments are then made to the perpetual inventory records to balance them with the actual physical count.

We reviewed the adjustments made for the physical inventory count at the end of FY2002 and found a negative variance of \$121,027 on certain items and a positive variance of \$72,292 on other items, for a net negative variance of \$48,734, representing 6,561 (3%) out of 250,938 items.

The negative variance results from the physical inventory count being less than the perpetual inventory records quantity. The positive variance results when the physical inventory count is greater than the system record. Large fluctuations in variances in either direction raise concern as to the accuracy of the physical inventory counts, the



accuracy of the perpetual inventory records, the manner in which the inventory is stored and secured and the update of the perpetual inventory in AS400. Large fluctuations in either direction are indicators that internal control over supplies is inadequate.

We asked the acting CPO for explanations for these variances. He told us that the causes of the variances were not investigated. In a separate interview with the former CPO he indicated that theft or pilferage exists within GSA. We found no evidence to indicate whether the large differences between physical and perpetual records were investigated or resolved.

We surveyed some local retail businesses to determine an acceptable level of inventory losses. The vendors we contacted indicated that 0.5% appears to be an industry standard for acceptable losses. If representative of the entire inventory, the net negative variance of \$48,734 noted from our tests equates to a potential inventory loss of 3.3%. If we were to use the standard of 0.5%, Tenda's level of inventory losses are six times greater than the acceptable industry standard.

### BBMR Inventory Observation

We inquired of Bureau of Budget and Management Research (BBMR) about their observation of inventory counts at Tenda. The BBMR auditor present during the FY2002 physical inventory count indicated that discrepancies have been identified every year, but no research is being done by GSA to account for the large variances. BBMR identified a net variance of 2,999 items during FY2002. See **Table 3** for variances.

**Table 3: Inventory Count Variances**

<i>Item no.</i>	<i>Description</i>	<i>Physical Count</i>	<i>System Records</i>	<i>Variance</i>	<i>Extended cost</i>
S751000450	Xerox Dry Ink	252	84	168	\$ 11,088.00
S751000353	Tape Transparent	4,261	1,957	2,304	10,529.28
S019500770	Form Field Receipt	3,847	2,847	1,000	3,690.00
S751000253	Marker See Thru Pink	264	46	218	1,604.48
S751000052	Paper Clips	880	2,938	(2,058)	(308.70)
S751000255	Marker See Thru Green	70	424	(354)	(2,878.02)
S751000256	Marker See Thru Yellow	101	462	(361)	(2,888.00)
S751000529	Lift Off Tape IBM	84	1,237	(1,153)	(2,894.03)
S751001106	Post It Lined	37	220	(183)	(3,747.84)
S751000864	Xerox Dry Ink	14	116	(102)	(8,217.12)
	Other 159 Items, Net	39,437	41,915	(2,478)	(5,430.98)
	Total	49,247	52,246	(2,999)	547.07
	Positive Variances			5,788	\$37,201.01
	Negative Variances			(8,787)	(\$36,653.94)
	Total			(2,999)	\$547.07

While the value of the net variance is only \$547, there were wide fluctuations between quantities counted and recorded by item. As stated earlier, these differences in physical counts and perpetual records have not been investigated.



## Obsolete or Slow-Moving Inventory Not Monitored

We asked for a listing of obsolete or slow-moving inventory supplies. GSA was unable to provide us with the requested information. According to the former Chief Procurement Officer, no procedures existed to identify obsolete or slow-moving items. Our observation of the Tenda store showed signs of shelf wear and dust accumulating on the inventory items. In our review of the December 31, 2002, inventory report there were 112 items (or 10,995 total quantities) with purchase dates between 1996 and 1999. The December 31, 2002 inventory reports identified 237 slow-moving items at a value of \$230,495 and 111 obsolete items at \$211,145.

We saw nine Guam flags, 20 feet by 38 feet, at a cost of \$1,995 each or \$17,955, that have been in inventory since they were purchased in October 2000. The size of the flag was mandated by Executive Order 2000-23 and this flag size is flown on national and Guam holidays and special occasions. When we asked why so many large size flags were bought, GSA current acting CPO indicated that the former CPO directed the purchase of ten flags for no apparent reason. According to our inquiry with GSA's current acting CPO, only the Governor's Office purchases this flag size.



A Guam garrison flag, 20 feet by 38 feet.

A tour of the store and further discussions with Tenda staff identified other potential obsolete or slow-moving items. These items had very little to no movement from FY 2001 to 2003. We found an absence of monitoring efforts to identify and dispose these slow-moving or obsolete items resulting in the loss of potential revenues.

Our discussion with the CPO revealed that inventory levels are monitored on a manual basis. According to the CPO, a staff member is sent daily to the

warehouse to visually determine supply items with low levels of inventory, prepare a listing of these items, and then submit the listing to the CPO for approval to purchase. When we viewed the computer system utilized by Tenda staff, we noted that the AS400 inventory module contains a feature that provides a notification when a reorder point is reached. We inquired of GSA staff whether this feature was being utilized and found that the staff was unaware the feature was available.

## Damaged Inventory

During our audit, we found damaged inventory supplies. We were told by GSA staff that the damage resulted from typhoon Pongsona which hit Guam in December 2002. We

asked for a listing of the damaged inventory supplies but GSA indicated none was prepared. A review of the claim reports by GSA from the Federal Emergency Management Assistance (FEMA) indicated damages incurred were only for structural damages to the office and none for supplies. When we inquired why, GSA indicated damaged inventories are transferred to the Surplus division of GSA.

Guam suffered devastation from another typhoon (Cha'taan) in July 2002. Our review of the FEMA report only showed claims for structural but no inventory damages.

No claim for damaged inventory was made for these two typhoons. GSA did not take the initiative to claim for damaged supplies identified during our audit. This is an example of a foregone opportunity to receive Federal assistance to help alleviate the cost to the General Fund.



Unclaimed damaged inventory from Typhoon Pongsona in December 2002.

## Staffing Issues

We requested a copy of the organizational chart for the General Services Agency. We were told that there is no organizational structure and that each employee at the Agency reported directly to the former Chief Procurement Officer.

Our review of the GSA staffing pattern indicated that Tenda operations did not have a supervisor or Operations Branch Administrator since fiscal year 2001. The former CPO assumed the responsibilities of this position. We also found that GSA employees budgeted to work at Tenda did not have defined job functions and were assigned to other divisions. We were told that there was a constant rotation of employees at GSA. Rotation of employees disrupts daily activities and requires training staff that will only be there temporarily. Constant rotation is not conducive to building institutional knowledge and developing the skill sets of employees.

Other testimonial evidence from employees indicated an autocratic management style by the former CPO. Yet despite these comments on several occasions while we were on location, we observed that most employees were not productive.

Tenda was augmented by staff from a federally funded job-training program that provided seven trainees in 2002 and five trainees in 2003.

**Table 4** illustrates a comparison of employees budgeted at Tenda and the actual employees assigned at Tenda.

**Table 4: Tenda Staffing Pattern**

	2001		2002		2003	
	Budget	Actual	Budget	Actual	Budget	Actual
Storekeeper	2	-	2	-	2	-
Supply Clerk	3	3	3	2	2	2
Administrative Aid	-	-	-	-	-	1
<b>Total Tenda Employees</b>	<b>5</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>3</b>
<b>Salaries</b>	<b>\$128,447</b>	<b>\$98,987</b>	<b>\$128,447</b>	<b>\$39,240</b>	<b>\$101,684</b>	<b>\$81,549</b>
Trainees	-	2	-	7	-	5
Cost	\$-	\$2,678	\$ -	\$27,570	\$ -	\$20,531
Detailed Employees	-	1	-	2	-	2
Cost	\$-	\$13,634	\$-	\$27,036	-	\$30,364
<b>Total # Employees</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>11</b>	<b>4</b>	<b>10</b>
<b>Salaries</b>	<b>\$ 128,447</b>	<b>\$ 115,299</b>	<b>\$ 128,447</b>	<b>\$ 93,846</b>	<b>\$ 101,684</b>	<b>\$ 132,444</b>
<b>Benefits<sup>12</sup></b>	<b>\$ 34,704</b>	<b>\$ 31,131</b>	<b>\$ 34,704</b>	<b>\$ 25,338</b>	<b>\$ 26,104</b>	<b>\$ 35,760</b>
<b>Total Payroll Cost</b>	<b>\$ 163,151</b>	<b>\$ 146,430</b>	<b>\$ 163,151</b>	<b>\$ 119,184</b>	<b>\$ 127,788</b>	<b>\$ 168,204</b>

Inquiries with staff indicate that no formal training has been offered to Tenda employees. We were not able to identify an employee that is sufficiently trained with the inventory system. The acting warehouse manager and a supply clerk claim that they learn most of the things they know when they get to the area in which they are assigned.

### **Inefficient Payment Process for Supplies**

Autonomous agencies can make payments for Tenda purchases at the Division of Accounts, Treasurer of Guam (Treasurer), or Tenda store in Piti. The payment process is laborious and cumbersome.

A GSA administrative assistant is the only individual that administers and understands the process of receiving payments at GSA. Inquiries with the acting CPO revealed little understanding of the process. When an autonomous agency brings a check payment to GSA, the administrative staff prepares a manual official receipt in triplicate. The original, which should be given to the agency, is instead kept on file together with the duplicate copy. No copy is provided to the paying agency leaving the agency no record of their payment except their cancelled check. The third copy, along with the payment, is transmitted to the Treasurer of Guam usually the next day.

An autonomous agency can also make payment at Division of Accounts. A DOA accounts receivable staff prepares the manual official receipt in triplicate – original to the autonomous agency, a second (yellow) copy to the agency to be forwarded to the Treasurer, and the third (pink) copy retained by DOA. Division of Accounts has the

<sup>12</sup> From staffing pattern, we calculated the average benefits equal 27% of salaries. For analysis purposes, benefits under “Actual” column were calculated at 27% of actual salaries.

responsibility of indicating the appropriate account information on the official receipt so the appropriate agency or fund can be credited. The agency is then sent to the Treasurer, located in the first floor of same building, to receive the agency payment and Treasurer's yellow copy of the official receipt.

Autonomous agencies that go directly to the Treasurer to make payments are sent back to Division of Accounts to obtain the account information on the official receipts and then they are required to return to the Treasurer to make their payment. We find this two-step process in receiving payment inefficient and cumbersome.

## **Other Findings**

### **No Procedures Manual or AS400 Inventory User Manual**

Tenda has been in operation since 1981, but up to now does not have any procedures manual where duties or functions are outlined to facilitate management and operations of Tenda. As discussed in the **Staffing Issues** (page 13), Tenda employees appeared uninformed about their job functions.

Tenda also does not have an AS400 user's manual for the inventory module. Our discussion with a systems analyst from the DOA Data Processing department indicated that a user manual could be created for the inventory module. However, this process will require some time to develop.

### **Tenda Employees Not Trained to Operate AS400 Inventory Module**

Because the Tenda information is maintained in a financial management system (AS400), employees involved in its operations should be computer literate and have an understanding of the AS400 inventory module. Tenda employees indicated that they were not provided training on the use of the inventory module. Only two people have access to the Tenda inventory module and were limited to entering information for purchases and sales. Recently, Tenda employees have obtained training in generating inventory re-order point and not-in-stock reports.

### **Lack of Segregation of Duties at Treasurer of Guam**

During our audit, we found that the Treasurer of Guam performs functions that fundamentally should be separate—the handling of cash and recording of transactions. A separate report, addressing controls over cash at the Treasurer of Guam, will be issued.

### **Conclusion: Procurement savings can be realized without operating Tenda**

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. Because supplies are purchased locally, the Government of Guam can still

achieve its mission of saving money without carrying inventory. GSA can negotiate supply purchases for various government agencies through Blanket Purchase Agreements or Indefinite Quantity Contracts. With this process, office supply requirements of each agency will be bid out to vendors then agencies will obtain items from the successful vendors on an “as needed” basis. This type of arrangement will provide savings from personnel cost through elimination of personnel working specifically for Tenda and the proportionate time spent by DOA personnel to perform accounting work for the GSA Fund. It will also reduce the need for GSA to warehouse supplies.

Substantially all of the supplies available at Tenda are available at lower or similar prices from outside vendors. Large inventory losses, obsolete inventory, lack of minimum order quantities, lack of full inventory system utilization, delayed or unbilled sales, large outstanding receivable balances, overhead costs not reflected in Tenda pricing, and rotating employees are indicative of the lack of commitment to maintain a “Government Store” efficiently and effectively. Tendan Gobetnu has outlived its usefulness and should be closed.

### **Independent Assessment by USDA Graduate School**

A USDA Graduate School consultant who performed an independent assessment of GSA expressed conclusions consistent with the OPA’s finding. Particularly that money can be saved and better service provided with the closure of Tendan Gobetnu. See **Appendix E** to view excerpts from the letter.

### **Recommendation**

Given the inefficient and costly operation of Tendan Gobetnu and that savings for purchasing supplies can still be realized without the existence of Tenda, we recommend that the government store be closed. Government of Guam agencies should be directed to purchase their supplies through local businesses utilizing Blanket Purchase Agreements or Indefinite Quantity Contract. GSA should also avail itself of the US GSA from a price comparison perspective.

We urge the Department of Administration to increase the level of priority in collecting \$2.3 million in receivables from autonomous agencies.

### **Management Response**

We provided a draft copy of our report to DOA management for review and comment. The DOA Director generally concurred with the findings and recommendations of the report. Her letter response is attached as **Appendix F** of this report.

In another letter from the DOA Director dated July 31, 2003, DOA provided documents indicating steps have been undertaken to collect receivables from various government agencies. See **Appendix G** of this report.

### **Limitations of the Report**

The period covered by our report was the 15-month period from October 1, 2001 through December 31, 2002. Our audit was conducted in accordance with generally accepted government auditing standards.

This report has been released to the Governor of Guam, the Speaker and members of the 27<sup>th</sup> Guam Legislature, the Director of the Department of Administration, the Director of the Bureau of Budget and Management Research and the U.S. Department of Interior Guam Office. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations.

### **OFFICE OF THE PUBLIC AUDITOR**



Doris Flores Brooks, CPA, CGFM  
Public Auditor

## **Appendices**

## Appendix A: Reconstructed Tenda Statement of Revenues and Expenses, Year Ended September 30, 2002

Sales	\$ 1,174,968
Cost of Goods Sold (Note 1 below)	<u>1,174,968</u>
<b>Gross Margin</b>	<b>0</b>
Salaries and Wages (refer to Table 3)	119,184
Shrinkage (Note 2 below)	48,734
Utilities (Note 3 below)	<u>15,565</u>
<b>Total Expenses</b>	<b>\$ 183,483</b>
<b>Net Loss</b>	<b>\$ (183,483)</b>

### OPA Notes:

1. Supplies inventory are carried at a moving average cost and sold without a mark-up, thus, sales equate to cost of goods sold.
2. Adjustments identified during year-end. See "Inaccurate Inventory Count" finding on page 9 of this report.
3. Total utilities for FY 2002 is \$38,913. GSA is composed of 5 divisions and 2 divisions (Control and Operations) are directly related to the operations of Tenda. For purposes of determining utilities expense, Tenda is allocated 2/5 of \$38,913.
4. We are unable to determine a basis to derive the Administrative Cost with operating Tenda. The reconstructed statements presented does not include expenses such as administrative and overhead, accounting services, audit fees, etc.



## Appendix B: Excerpts from the 2001 Audited General Purpose Financial Statements, GSA Inventory Revolving Fund

### BALANCE SHEET

Interfund receivables, net	1,955,980
Inventories	<u>802,982</u>
<b>Total assets</b>	<b>2,758,962</b>

Liabilities	0
Restricted retained earnings	1,449,466
Unrestricted retained earnings	<u>1,309,496</u>
<b>Total liabilities and fund equity</b>	<b>2,758,962</b>

### STATEMENT OF REVENUES, EXPENSES AND FUND EQUITY

Investment earnings & interest	16,487
Other (Note 1 below)	<u>1,225,245</u>
<b>Total operating revenues</b>	<b>1,241,732</b>

General and administrative expenses (Note 2 below)	<u>(741,315)</u>
<b>Operating income</b> (Note 3 below)	<b>500,417</b>
Beginning retained earnings	<u>2,258,545</u>
<b>Ending retained earnings</b>	<b>2,758,962</b>

#### OPA Notes:

1. Amount inclusive of supplies inventory and fuel transactions.
2. Represents supplies inventory and fuel purchases during the year. Matching of revenues and expenses is reflected in this statement.
3. Operating income reflected in this statement because administrative expenses such as salaries and wages, utilities, and other overhead cost are not reflected. Refer to **Appendix A** for a reconstruction of Tenda statement of revenues and expenses for 2002.

## Appendix C: Results of Survey

We surveyed 55 Government of Guam agencies (autonomous and line) to determine their assessment of Tenda. Of the 55 agencies, 47 responded to our questionnaires while 8 chose not to participate by not returning our survey form. The questions asked and the responses received are summarized below.

1. *Are you required by your agency to purchase supplies from Tenda?*

<b>YES</b>	39	
<b>NO</b>	8	<ul style="list-style-type: none"> <li>- Guam Council on the Arts and Humanities (CAHA)</li> <li>- Guam Educational Telecommunication Corporation (KGTF)</li> <li>- Guam Visitors' Bureau (GVB)</li> <li>- Medical Referral Offices</li> <li>- Office of the Public Auditor (OPA)</li> <li>- Public Defender Services Corporation</li> <li>- Supreme Court of Guam</li> <li>- University of Guam</li> </ul>

2. *The quality of the products sold at Tenda is \_\_\_\_\_ compared to private stores.*

<b>Same</b>	27
<b>Lower</b>	14
<b>Better</b>	1
<b>N/A</b>	5

3. *Supplies at Tenda are \_\_\_\_\_.*

<b>Always Available (100%)</b>	0
<b>Usually Available (75%)</b>	22
<b>Available Half the Time (50%)</b>	13
<b>Hardly Available (25%)</b>	5
<b>Never Available (0%)</b>	1
<b>N/A</b>	6

4. *Are there items at Tenda that cannot be sold elsewhere? If yes, please list.*

<b>YES</b>	5	Field Receipts, Requisitions, Fuel & Lube Requisitions, Official Receipts, and 5 ¼ diskettes.
<b>NO</b>	36	
<b>N/A</b>	6	

5. *Do Tenda's hours of operation meet your needs?*

<b>YES, keep store hours</b>	18
<b>NO, hours are too limited</b>	22
<b>NO, hours should be shortened</b>	1
<b>N/A</b>	6

6. *Rate Tenda's customer service.*

<b>Good</b>	21
<b>Fair</b>	17
<b>Poor</b>	2
<b>Bad</b>	1
<b>N/A</b>	6

7. *How does your agency order from Tenda and describe Tenda.*

<b>AS400</b>	10	<b>Describe Tenda:</b> Organized, Maintained, Clean, and Safe
<b>Manually &amp; AS400</b>	29	
<b>Manually</b>	1	
<b>N/A</b>	7	

8. *Rate your Overall Satisfaction with Tenda services.*

<b>Very Satisfied</b>	1
<b>Moderately Satisfied</b>	28
<b>Satisfied</b>	8
<b>Moderately Dissatisfied</b>	4
<b>N/A</b>	6

9. *Rate Tenda's Delivery Period for Items purchased.*

<b>Usually on Time</b>	26
<b>Usually Late</b>	7
<b>N/A</b>	14
<b>Additional Comments</b>	Items are not delivered; they are picked-up from Tenda.

10. *How are billing disputes handled?*

<b>1.</b>	Reconcile GSA statements to purchase orders.
<b>2.</b>	Reconcile with DOA Accounting.
<b>3.</b>	GSA makes adjustments and works directly with DOA Division of Accounts
<b>4.</b>	Bills are paid accordingly and on-time to avoid any disputes.
<b>5.</b>	Six (6) agencies responded that they have not experienced any billing disputes with GSA.
<b>6.</b>	Nineteen (19) agencies chose not to answer the question by indicating with "N/A" or leaving it blank.

## Appendix D: Price Comparisons

	Item Description:	Tenda w/ Mark-Up	Vendor 1 Price			Vendor 2 Price			Vendor 3 Price		
			Vendor 1 Price	\$ Tenda savings	% Tenda savings	Vendor 2 Price	\$ Tenda savings	% Tenda savings	Vendor 3 Price	\$ Tenda savings	% Tenda savings
1	Alcohol	\$1.65	\$ 2.00	\$ 0.35	17%	\$1.15	\$ (0.50)	-44%	n/a	n/a	n/a
2	Binder with Pocket 2 1/2" Black	\$2.17	\$4.40	\$2.23	51%	\$2.80	\$0.63	22%	n/a	n/a	n/a
3	Boot Hot Weather Canvas Black	\$94.39	N/a	N/a	N/a	N/a	N/a	N/a	n/a	n/a	N/a
4	Calculator Tape 2 1/4"	\$0.57	\$ 0.56	\$ (0.01)	-1%	\$0.76	\$0.19	25%	\$0.58	\$0.01	2%
5	Card Index Ruled- White	\$0.82	\$ 0.95	\$0.13	14%	\$1.08	\$0.26	24%	n/a	n/a	n/a
6	Cartridge Deskjet Black HP51645A	\$38.15	\$31.96	\$ (6.19)	-19%	\$33.56	\$ (4.59)	-14%	n/a	n/a	n/a
7	Clipboard Letter Size	\$2.07	\$1.80	\$ (0.27)	-15%	\$1.92	\$ (0.15)	-8%	n/a	n/a	n/a
8	Computer 3.5" Blank Disk DS/HD	\$0.58	\$0.88	\$0.30	34%	\$1.12	\$0.54	48%	\$0.35	\$ (0.23)	-65%
9	Computer Stackable Trays	\$9.91	\$10.00	\$0.09	1%	\$4.76	\$ (5.15)	-108%	n/a	n/a	n/a
10	Construction Paper (D. Blue) 12" x 18"	\$3.07	\$3.19	\$0.12	4%	\$5.72	\$2.65	46%	n/a	n/a	n/a
11	Construction Paper (Orange) 36"x1000' Roll	\$87.02	\$79.20	\$ (7.82)	-10%	n/a	n/a	n/a	n/a	n/a	n/a
12	Correction Fluid White Out For Everything	\$1.70	\$1.80	\$0.10	6%	\$1.56	\$ (0.14)	-9%	n/a	n/a	n/a
13	Cutting Line 10 lbs. Roll	\$103.98	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
14	Dust Mop 24" w/ Handle	\$30.00	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15	Envelope White #10 Self/Seal (500/Bx)	\$27.44	\$32.00	\$4.56	14%	\$25.32	\$ (2.12)	-8%	n/a	n/a	n/a
16	Eraser Staedtler Mars Plastic	\$0.83	\$1.00	\$0.17	17%	\$0.76	\$ (0.07)	-10%	n/a	n/a	n/a
17	Fine Pt. Pen Pilot Red	\$8.89	\$10.36	\$1.47	14%	\$12.00	\$3.11	26%	n/a	n/a	n/a
18	Flag Guam Garrison 20"x38' Single Sided	\$2,306.22	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
19	Fluorescent Lamp 48" DB Pin (40w)	\$1.45	N/a	n/a	n/a	n/a	n/a	n/a	\$1.65	\$0.21	12%
20	Folder Manila 2-Pli End Tab	\$20.69	\$8.60	\$ (12.09)	-141%	\$ 29.08	\$8.39	29%	n/a	n/a	n/a
21	Garden Hose 1/2"x 50ft.	\$14.35	N/a	n/a	n/a	n/a	n/a	n/a	\$21.99	\$7.64	35%
22	Glove Knit Stretchable Red Palm	\$0.75	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
23	Hand Soap Liq. Lotion Gal. Size	\$8.38	N/a	n/a	n/a	n/a	n/a	n/a	7.59	\$ (0.79)	-10%

	Item Description:	Tenda w/ Mark-Up	Vendor 1 Price			Vendor 2 Price			Vendor 3 Price		
			Vendor 1 Price	\$ Tenda savings	% Tenda savings	Vendor 2 Price	\$ Tenda savings	% Tenda savings	Vendor 3 Price	\$ Tenda savings	% Tenda savings
24	Ink Roll On Stamp Pad Black	\$1.95	\$2.00	\$0.05	2%	\$2.36	\$0.41	17%	n/a	n/a	n/a
25	Label Folder Self-Adh. Blue	\$1.17	\$2.80	\$1.63	58%	\$2.36	\$1.19	51%	n/a	n/a	n/a
26	Legal Ruled Pad-White	\$10.35	\$9.60	\$ (0.75)	-8%	\$17.76	\$7.41	42%	n/a	n/a	n/a
27	Light Bulb (100 w) 2 per pkg.	\$1.45	n/a	n/a	n/a	n/a	n/a	n/a	\$1.00	\$ (0.45)	-45%
28	Marker Chart 6000 Black (China)	\$5.55	\$11.52	\$5.97	52%	n/a	n/a	n/a	n/a	n/a	n/a
29	Masking Tape 3M 1/2"x60 yds.	\$0.96	\$2.39	\$1.43	60%	\$2.48	\$1.52	61%	n/a	n/a	n/a
30	Mechanical Lead Pencil 0.5MM Lead	\$3.16	\$4.40	\$1.24	28%	\$2.39	\$ (0.77)	-32%	\$2.50	\$ (0.66)	-26%
31	Paper Clips Standard #1 (100/bx)	\$0.17	\$0.30	\$0.13	42%	\$0.20	\$0.03	13%	\$0.25	\$0.08	31%
32	Pencil #2 American	\$1.47	\$1.32	\$ (0.15)	-11%	\$1.35	\$ (0.12)	-9%	n/a	n/a	n/a
33	Pencil Sharpener Electric	\$27.12	\$27.60	\$0.48	2%	\$33.67	\$6.55	19%	n/a	n/a	n/a
34	Post-It Notes 2"x3" 656 Yellow (12/pg)	\$8.67	\$8.16	\$ (0.51)	-6%	\$9.12	\$0.45	5%	n/a	n/a	n/a
35	Rain suit (3 pcs. Per pkg.) Medium Yellow	\$16.37	\$15.96	\$ (0.41)	-3%	n/a	n/a	n/a	n/a	n/a	n/a
36	Scissors All Metal 6"	\$3.41	\$3.16	\$ (0.25)	-8%	\$13.56	\$10.15	75%	n/a	n/a	n/a
37	Scouring Powder (21 oz. Can)	\$1.49	n/a	n/a	n/a	n/a	n/a	n/a	0.25	\$ (1.24)	-496%
38	Stamper Rubber "RECEIVED"	\$4.66	\$5.56	\$0.90	16%	\$8.40	\$3.74	45%	n/a	n/a	n/a
39	Stapler Desk 6 1/2" 310D Black	\$14.97	\$7.16	\$ (7.81)	-109%	\$17.56	\$2.59	15%	n/a	n/a	n/a
40	Staples 1/2" SF13 (1000/bx)	\$6.79	\$4.76	\$ (2.03)	-43%	\$3.80	\$ (2.99)	-79%	n/a	n/a	n/a
41	Tacky Finger Fingertip Moistener	\$1.94	\$1.80	\$ (0.14)	-8%	\$2.15	\$0.21	10%	n/a	n/a	n/a
42	Toner IBM Laser Printer 4019/29 1380520	\$227.15	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
43	Transparent Tape 3/4"x72 Magic 10	\$4.89	\$4.12	\$ (0.77)	-19%	\$4.34	\$ (0.55)	-13%	\$5.49	\$0.60	11%
44	Xerox Copy Paper 8-1/2x11 3R2047 (10 rm/cs)	\$28.44	\$28.00	\$ (0.44)	-2%	\$33.60	\$5.16	15%	\$26.99	\$ (1.45)	-5%
45	Xerox Dry Ink 1075 90 4050 5388 6R3	\$76.30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

## **Appendix E: Excerpts from the July 9, 2003 letter by USDA Graduate School Consultant**

### ***From Letter by Ralph Capio:***

“GSA operates a government supplies store (Tenda) at considerable expense in assigned personnel and inventory maintenance. There seems to be a myriad of problems in its operation (e.g., pilferage, out-of-stock issues, out-of-date items, time required to fill requisitions, etc.). While it may be argued that procuring certain commodity items in bulk produces government-wide savings, this can be accomplished without incurring the obligation of operating a government “store.” If Tenda were eliminated, most likely better results could be achieved by entering into Indefinite Quantity Indefinite Delivery (IQID) contracts or Blanket Purchase Agreements (BPA’s) with vendors. This would free up personnel presently assigned to operate Tenda, would eliminate the cost of maintaining a supplies inventory, would ensure the availability of state-of-the-art and fresh supplies to using agencies, and eliminate the requisition system altogether (i.e., using agencies could place delivery orders directly, without going through GSA), thus saving time and money.”

## Appendix F: Management Response



Felix P. Camacho  
Governor  
Kaleo S. Moylan  
Lieutenant Governor

### Department of Administration

(DIPATTAMENTON ATEMENSTRASION)

#### DIRECTOR'S OFFICE

(UFISINAN DIREKTOT)

Post Office Box 884 Hagåtña Guam 96932  
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



Lourdes M. Perez  
Director  
Joseph C. Manibusan  
Deputy Director

July 30, 2003

Ms. Doris Flores Brooks  
Public Auditor  
Office of the Public Auditor  
Suite 401 Pacific News Building  
238 Archbishop Flores Street  
Hagåtña, Guam 96910

Rec'd: CHRIS duenas  
7/30/03 4:15 PM

**RE: Management Response to Draft OPA Report No. 02-07 (GSA Performance Audit)**

Dear Ms. Brooks:

**Hafa Adai!** Thank you for affording the Department of Administration a time extension in providing a Management Response to the subject Draft Audit - OPA Report NO. 02-07. The Department's response to the audit findings discussed in your report are as follows:

**Decline in Revenues:** The Department concurs with the OPA in regards to its findings of a decline in revenues. Several factors including a reduction in government budgets, a decline in the economy, and the increasingly competitive prices of outside vendors have attributed to this decline in revenue. The OPA's finding of a dramatic drop in revenues for the year 1999 can be attributed to delayed billings to government entities due to the conversion by the Department from the AS400 system to the Oracle operating system.

2. **Delayed Billings by DOA:** In December 1999 the Department converted operating systems from the AS400 to the Oracle operating system. This new Oracle system did not feature an inventory module or any other system component for tracking, ordering, purchasing and reconciling inventory commodities procured and issued through GSA. As a result, GSA was forced to revert to a manual system of inventory and accounts receivables management. The Oracle system's inability to serve this specific function and the results of the early out program in which ten (10) senior accounting employees retired, both directly attributed to the delays in billing by the Department. The Department has since converted back to the former AS400 system and has increased major reconciliation efforts due to conversion and manual operations to bring current accounts receivables. The Department has as of May 2003 brought its timeline for the billing of receivables back to a monthly basis. Outstanding receivables for the period audited has been reduced to \$1,999,187. Our collection efforts will be aggressive and we are optimistic that we can collect an additional \$385,198 of the outstanding accounts receivable balance by August 1, 2003. To further enforce collections, DOA will discontinue issuance of additional purchases until such time collections are successful. We have provided a schedule of our most recent accounts receivable schedule for your perusal.

3. **Delinquent Receivables Due to Delayed Billings:** See Response No. 2.



4. **Interfund Receivables Increasing:** The Department does not dispute this finding by the OPA and continues its efforts to correct deficiencies caused by the implementation of the Oracle system, as this interfund accounts are performed independently as a stand along program from the new FMS.
5. **Customer Satisfaction:** The Department is pleased with the level of customer satisfaction surveyed by the OPA. GSA and the Department as a whole continually strive to improve customer service. The survey results of the OPA have been noted and corrective action plans will be put in place to address consumer concerns where applicable.
6. **Lack of Inventory:** Although the heading of this finding by the OPA may be misleading, the Department is satisfied with the OPA's survey findings. The Department makes every attempt to fill the procurement needs of all government entities. Our efforts however, do not preclude an entity from procuring a specific item when not available through GSA.
7. **Results of Price Testing:** The Department acknowledges that overhead expenses are not factored into GSA's pricing and therefore pricing is understated. The Department is currently in the process of developing a fee schedule for the purpose of obtaining compensation by government entities for support services provided by the Department. This fee schedule will in part address the current under-pricing of items provided by GSA.
8. **Inefficient and Antiquated Manual Operations:** With the Department's reversion to the AS400 system, government entities who have access to the AS400 system can input their requisitions directly. Once inputted into the system (AS400) the requesting entity is afforded five (5) working days to pick-up their supplies. For entities without access to the AS400 system, the manual requisition method is available. The Department is currently working on electronic methods of processing requisitions to include email and facsimile transmission to expedite the process and to enhance the billings and collections module with an interface capability between the inventory and the accounts receivable modules.
9. **Inaccurate Physical Inventory Count:** The Department has instituted internal control procedures to address the management of inventory. These measures include limited access to the AS400 system, restricted and designated access to supplies, and random inspection and physical inventory counts. The Department is confident that these measures will bring our current loss rate close to that of the industry average of 0.5%.
10. **Obsolete and Slow-Moving Items Not Monitored:** Current efforts to address this finding include the return of outdated and slow-moving items to vendors for credit towards new merchandise. Recently, the Department was able to receive approximately \$288,000 in credit from a vendor for the return of outdated ink cartridges. Additional measures include the assessment of inventory history and the survey of projected needs by government entities as the basis for ordering and stocking inventory.
11. **Staffing Issue:** Currently the Department has instituted a functional staffing pattern that is strictly enforced by the new Acting Chief Procurement Officer. Adherence to this specific functional chart will aide the Department in providing greater efficiency as well as provide quality assurance for the management of inventory.



12. **Payment of Supplies Cumbersome:** The Department is working to improve the system and procedures of payment by government entities.
13. **General Comments:** DOA is kindly requesting for a pre-exit conference meeting between OPA's Chief Auditor, DOA's Controller and the Acting Chief Procurement Officer prior to the issuance of a draft report as these preliminary findings were never fully discussed.

The Department is in agreement with the recommendations of the OPA that a more efficient and cost savings approach to the procurement of supplies by government agencies exists. In the interim, the Department will continue to strive to improve the efficiency and manner in which services are procured and government entities are serviced. The Department also concurs with the OPA's recommendation to procure supplies utilizing Blanket Purchase Agreements and Indefinite Quantity Contract.

***Si Yu'os Ma'ase!***

Sincerely,



LOURDES M. PEREZ  
Director of Administration

**Attachments**

- 1 Schedule of Accounts Receivable (Overview)
- 2 Schedule of Accounts Receivable (Detailed)
- 3 Memo issued for prompt collection
- 4 GTA collection memo

**GOVERNMENT OF GUAM  
DEPARTMENT OF ADMINISTRATION  
DIVISION OF ACCOUNTS  
TENDA GOBETNU REPORT  
AS OF JULY 2003**

	AGENCY	BEGINNING A/R AS OF 02/28/03	BILLINGS	PAYMENTS	ENDING BALANCE AS OF 07/31/03	PERCENT DISTRIBUTION	COMMENTS	DOA CORRECTIVE ACTIONS	
								TASK ASSIGNED TO	COMPLETION DATE
1	Superior Court	6,051.94	-	-	6,051.94	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
2	UOG	1,213.40	25.66	-	1,239.06	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
3	GIAA	91,102.72	36,356.42	-	127,459.14	5%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
4	GMTA	137,188.58	33,412.96		170,601.54	7%	PENDING ACCOUNT NUMBER TO BE CHARGED	DOA DEPUTY CONTROLLER	August 1, 2003
5	GHC	29,549.96	491.75		30,041.71	1%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
6	GMHA	114,501.54		22,399.38	92,102.16	4%	OFFSET (R&T) TAX OFFSET - PENDING GMH CONTROLLER'S DECISION	*GAS, GENERAL LEDGER BRANCH	August 8, 2003
7	DOE	186,641.70	69,471.22	-	256,112.92	11%	PER DOA ACCT'G DEPUTY CONTROLLER, WILL OFFSET BY 08/01 DOE ALLOTMENT	DOA DEPUTY CONTROLLER	August 1, 2003
8	SPIMA	224,217.93	28,935.44	117,457.76	135,695.61	5%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
9	GWA	314,328.50	68,682.26	-	383,010.76	16%	PER CONVERSATION W/ GWA, CONTROLLER DTD 072603 OKAY TO OFFSET FROM WATER BILLS (NEED LETTER -DOA)	*GAS, GENERAL LEDGER BRANCH	August 8, 2003
10	GEDCA	10,027.83	1,967.44	12,415.90	(420.63)	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
11	Washington Office	86.69	-	-	86.69	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
12	GCC	21,479.96	2,026.35		23,506.31	1%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
13	GTA	622,680.71	83,665.47	4,873.45	701,472.73	32%	AWAITING GTA'S CONTROLLER DECISION FOR OFFSET	*GAS, GENERAL LEDGER BRANCH	August 8, 2003
14	Legislature	29,250.49	5,944.49		35,194.98	1%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
15	GHURA	2,945.16	151.13	1,280.11	1,816.18	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
16	GPA	171,972.26	10,840.02	12,137.11	170,675.17	7%	PER GPA AP SUPERVISOR, FUEL IS UNDER REVIEW (SHORT OF STAFF)	*GAS, GENERAL LEDGER BRANCH	August 8, 2003
17	Retirement	13,222.41			13,222.41	0%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
18	PAG	215,211.97	24,241.87	21,923.88	217,529.96	9%		*GAS, GENERAL LEDGER BRANCH	August 8, 2003
19								*GAS, GENERAL LEDGER BRANCH	August 8, 2003
TOTAL		\$ 2,191,673.75	\$ 366,212.48	\$ 192,487.59	\$ 2,365,398.64	100%			

**NOTE: AGGRESSIVE COLLECTION PROCEDURES**

- 1) Offsets to be applied
- 2) Suspension of future purchases at Tenda gobetnu

**BILLING PROCEDURES:**

- 1) Billing will be provided to customers regularly on a monthly basis.

Government of Guam  
Department of Administration  
Division of Accounts

GSA (Tenda Gubetnu) Accounts Receivable for the Period Ended July 31, 2003

	<u>Fiscal Year 2003<sup>1</sup></u>
Beginning Balance -	
Tenda Accounts Receivable	\$2,191,674
Less: Cash collections <sup>2</sup>	(192,487)
Subtotal	<u>1,999,187</u>
Add: Increase in expenditures/billings for the period	366,212
Ending Balance - Tenda	\$2,365,399
Less: Anticipated collections <sup>3</sup>	(\$385,198)
Anticipated Ending A/R Balance <sup>4</sup>	<u><u>\$1,980,201</u></u>

<sup>1</sup>See attached schedule for detailed breakdown.

<sup>2</sup>Collections made after audit report issued.

<sup>3</sup>Collections anticipated by August 1, 2003 under the direct purview of DOA (DOE \$214,597 and GMTA \$170,601)

<sup>4</sup>Aggressive collection procedures to be applied.

Government of Guam



*Controller*  
**ARLEEN U. PIERCE**  
475-1232

*Deputy Controller*  
**KATHRINE B. KAKIGI**  
475-1211

*Appropriation Accounting  
and Accounts Payable*  
**Kathrine Kakigi**  
Interim Supervisor  
475-1211

*Billing/Collections/Travel  
Receipts and Contracts*  
**Precy N. Andaya**  
Gen. Acct. Supervisor  
475-1114

*Fixed Assets, Revenue,  
Quality Control and Bonds (FS)*  
**Marianito C. Bautista, Jr.**  
Gen. Acctg. Supervisor  
475-1226

*Financial Statements  
Reporting/Audit Compliance  
and Bank Reconciliation*  
**Noe Bilgeria**  
Accounting Manager  
475-1150

*Federal Grants Branch*  
**Peter F. Aguon**  
Accountant III  
475-1283

*Payroll Accounting  
and Services*  
**Gaudencio "Goody" Rosario**  
Chief Payroll Officer  
475-1207

*System Wide Support  
and Controls*  
**Ken C. Borja**  
Management Analyst II  
475-1115

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Fax: (671) 472-8483

Department of Administration  
**DIVISION OF ACCOUNTS**  
Dibision Kuenta

July 30, 2003

**Memorandum**

To: Anthony Meno, Controller  
Superior Court of Guam

From: Precy Andaya, General Accounting Supervisor

Via: Arleen U. Pierce, DOA Controller

Subject: First Request; Outstanding Fuel and Supplies Accounts

Buenas yan Saluda

As of February 28, 2003 your outstanding unpaid balance due at GovGuam's Tenda Gobetnu for fuel and supplies is in the amount of six thousand fifty-one dollars and ninety-one cents (\$6051.94). Please be Advised that your accounts receivable balance is now over 120 days old. We require payments be made against your outstanding balance by Friday August 8, 2003. Failure to meet this timeline will result in the suspension of future purchases from tenda.

Your immediate attention to this matter is greatly appreciated.

*for Precy N. Andaya*  
**PRECY N. ANDAYA**

cc: Superior Court of Guam, Director  
DOA Director  
General Services Agency



FELIX CAMACHO  
Governor  
KALEO MOYLAN  
Lieutenant Governor

GOVERNMENT OF GUAM  
(GUBETNOMENTON GUAHAN)  
DEPARTMENT OF ADMINISTRATION  
(DIPATTAMENTON ATMENESTRASION)  
DIRECTOR'S OFFICE


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Tel: (571) 475-1101/1250 • Fax: (671) 477-6788



LOURDES PEREZ  
Director

July 27, 2003

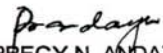
MEMORANDUM

To: Zeny Levitz, Controller Guam Waterworks Authority  
From: Precy Andaya, General Accounting Supervisor  
Via:  Arleen U. Pierce, Controller  
Subject: Guam Waterworks Authority – Accounts for fuel and Supplies  
(Offset against Line Agencies Outstanding Accounts)

Buenas yan Saluda

As of February 28, 2003 your outstanding balance for fuel and supplies in the amount of Three Hundred Fourteen Thousand Three Hundred and Twenty-eight dollars and Fifty cents (\$314,358.50). We are requesting to do an offset against line agencies outstanding accounts for Water bills with your accounts for fuel and supplies.

Your kindest consideration regarding this matter will be greatly appreciated.

  
PRECY N. ANDAYA

CC: DOA, Director  
General Services Agency  
General Manager, GWA



FELIX CAMACHO  
Governor  
KALEO MOYLAN  
Lieutenant Governor

GOVERNMENT OF GUAM  
(GUBETNOMENTON GUAHAN)  
DEPARTMENT OF ADMINISTRATION  
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LOURDES PEREZ  
Director

July 27, 2003

MEMORANDUM

To: Joseph C. Cavanagh, Finance Manager GTA

Precy Andaya, General Accounting Supervisor

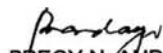
 Arleen U. Pierce, DOA Controller

Subject: **Offset against Line Agencies Outstanding Accounts**

Buenas yan Saluda,

Per our conversation dated July 28, 2003, We are still awaiting your response concerning the proposed offset for outstanding accounts. Please be advised that your accounts recievable **balance** is over 120 days old. We attempted to do an offset earlier, however your collection section did **not agree** and informed us that our telephone lines will be disconnected. We hope to hear from **your office** within one week.

Your immediate attention to this matter is greatly appreciated

  
PRECY N. ANDAYA

DOA, Director  
General Services Agency  
General Manager, GTA





**GUAM TELEPHONE AUTHORITY**  
**ATURIDAT TILIFON GUAHAN**

Post Office Box 9008 • Tamuning, Guam 96931

June 19, 2003

Fanhassuyan

Para: Department of Administration  
General Accounting Supervisor, Precy Andaya

Ginen: Finance Manager

Subetu: **Offset Against Line Agencies Outstanding Accounts**

Guam Telephone Authority is in receipt of your letter of June 16, 2003 regarding GTA's outstanding balance for fuel and supplies in the amount of \$538,999.71.

Although we have no problem with the offset; GTA needs time to review and reconcile the billings before we proceed any further. GTA will advise you when the reconciliation process is complete.

On a related note, GTA kindly requests monthly billings as opposed to annual billings. We believe that this will result in more timely payments to DOA and will eliminate a labor intensive reconciliation process at year end.

Should you have any questions or require clarification, I can be reached at 646-2145.

  
Joseph L. Cavanagh

xc: GTA Interim General Manager

