

**Department of Public Works
Heavy Equipment and Related Parts
Inventory Management**

**Performance Audit
October 1, 2012 through September 30, 2016**

**OPA Report No. 17-04
September 2017**



**Department of Public Works
Heavy Equipment and Related Parts Inventory Management**

**Performance Audit
October 1, 2012 to September 30, 2016**

**OPA Report No. 17-04
September 2017**

Distribution:

Governor of Guam
Lt. Governor of Guam
Speaker, 34th Guam Legislature
Senators, 34th Guam Legislature
Director, Department of Public Works
Director, Department of Administration
Director, Bureau of Budget and Management Research
Attorney General, Office of the Attorney General
Guam Media via E-Mail



Table of Contents

Introduction.....	3
Background.....	3
Results of Audit.....	6
Possible Ethical Violations	6
Physical Inspections Show Heavy Equipment Is Not Controlled.....	7
1994 Lowboy Trailer (License Plate #2271) Allegedly Missing Was Returned	8
Heavy Equipment Located at Unauthorized Locations.....	10
Unidentified Heavy Equipment Sighted on DPW Compound.....	14
DPW Equipment Loaned to Village Mayors without MOU.....	15
Unauthorized Cannibalization of Heavy Equipment.....	17
Expired Registrations	18
Inventory Data is Not Accurate and Reliable.....	18
DPW and DOA Purchase Reports Do Not Reconcile.....	19
Disposition of Surveyed Heavy Equipment Unknown	19
Parts Issued To Deteriorated, Cannibalized, and Idle Heavy Equipment.....	20
Blanket Purchase Orders Issued for Parts for Deteriorated, Cannibalized, and Idle Heavy Equipment	29
Unusual Repair Orders for Deteriorated, Cannibalized, and Idle Heavy Equipment.....	30
Conclusion and Recommendations	33
Classification of Monetary Amounts.....	35
Management Response and OPA Reply	36
Appendices:	
1. Objective, Scope, & Methodology.....	38
2. Prior Audit Coverage	39
3. Heavy Equipment with Inaccurate Status	41
4. Unidentified Heavy Equipment	42
5. Unauthorized Cannibalized Heavy Equipment.....	43
6. Heavy Equipment with Expired Registrations.....	44
7. Repairs for Deteriorated, Cannibalized, & Idle Heavy Equipment	45
8. DPW Management Response	47
9. Status of Audit Recommendations.....	53



EXECUTIVE SUMMARY

Department of Public Works Heavy Equipment and Related Parts Inventory Management OPA Report No. 17-04, September 2017

Our audit of the Department of Public Works (DPW) heavy equipment and related parts inventory management identified indicators of potential fraud and misuse. We identified \$4.9 million (M) in financial impacts and \$283 thousand (K) in questioned costs. DPW management did not institute basic internal controls, such as conducting physical inventories, reconciling purchase reports, and ensuring proper authorization for repair orders and parts. Our findings include:

- \$3.1M in equipment not included in DOA's inventory report.
- \$1.1M in equipment not included in DPW's inventory report.
- \$459K unreconciled in reported heavy equipment purchases.
- \$160K in unnecessary heavy equipment rentals to compensate for a missing lowboy and \$28K for other heavy equipment that was already available.
- \$47K spent on parts and \$43K on repairs for deteriorated and idle heavy equipment.
- \$6K in opportunities lost due to heavy equipment located in unauthorized locations.
- \$4K in unauthorized heavy equipment cannibalization and \$455K in other financial impacts.

We found most processes were manual with limited mechanisms to monitor and track heavy equipment use, disposals, and parts. DPW is currently implementing a new fleet management system funded by the Department of the Interior, which may improve controls. However, automation must be supported by a strong "tone at the top" where DPW management commits to ethical practices and requires integrity from all DPW staff.

Possible Ethical Violations

We learned of allegations that DPW heavy equipment and parts were used for personal purposes. We could not definitively confirm the allegations; however, our findings strongly suggest possible fraud and misuse due to significant internal control lapses. Ethical breaches may have occurred when the DPW Director accepted free heavy equipment rental services from a DPW employee's company because DPW periodically did not have adequate heavy equipment. The Director expressed his gratitude for the employee's "benevolence." This action may be perceived by others to favor the employee especially because the Director took specific action to clear allegations against the DPW employee by requesting the Governor to accept the contribution pursuant to 5 Guam Code Annotated (GCA) § 22408. We have referred this matter to the Attorney General.

This may be violating 4 GCA Chapter 15 Standard of Conduct for Public Officers and Employees of the Government of Guam.

Physical Inspections Show Heavy Equipment Is Not Controlled

From our physical inspections of 75 out of 76 heavy equipment units, we concluded that DPW's disregard for controls resulted in valuable heavy equipment that were not safeguarded. DPW assumed risks that exposed costly equipment to fraud and misuse, such as unnecessary wear and

tear, vandalism, and theft. For example, a “surveyed” lowboy trailer allegedly missing and used for personal purposes necessitated \$160K in rentals and was later found after our inquiries. In other examples, 5 units could not be located; the status of 13 units was incorrect; unauthorized cannibalization of parts for 11 units; 8 units, including federally funded equipment, were parked in unauthorized locations including private residences without justifications; 3 units were loaned to village mayors without a Memorandum of Understanding (MOU); and 25 units had expired registrations.

Parts Issued To Idle Nonworking Heavy Equipment

DPW’s manual parts inventory system does not effectively monitor parts drawn from the supply warehouse. We found \$47K in parts issued to 11 deteriorated and idle nonworking heavy equipment units and our sample of 21 parts showed they were not installed as intended. We question whether parts could or should have been issued for equipment in such poor condition. Shop repair orders issued 665 items (\$41K) to heavy equipment without proper signatures.

Unusual Repair Orders for Idle Nonworking Heavy Equipment

The repairs authorized for five idle nonworking heavy equipment units costing \$43K appeared unreasonable because the equipment had been deteriorated or idle according to maintenance card entries. We found two Purchase Orders (POs) from September 2016, which purchased two transmissions and two oil coolers for the same dump truck that was idle since 2014 for various defects including transmission replacement. One of the POs authorized transmission repair but was replaced with parts only – one transmission and one oil cooler for \$11K by a vendor who did not win the bid. The other PO, for a different vendor, purchased the same parts for \$2K less.

Conclusion and Recommendations

Valuable heavy equipment and parts were not safeguarded and we questioned \$282K in related costs. There may have been ethical violations when the DPW Director accepted free equipment rental services from a DPW employee. This action may be perceived to influence the Director to favor the employee and his company as a potential contractor.

Although we could not definitively confirm allegations of personal use of heavy equipment and parts, we found significant internal control lapses that created opportunities for misuse and fraud. We were told the allegations were reported to DPW management, but no action was taken. Any allegation, whether proven or not, deserves management’s attention. No action demonstrates tolerance of unethical behavior and discourages employees from reporting questionable practices.

We recommended DPW management conduct a heavy equipment physical inventory; investigate the missing lowboy, unauthorized heavy equipment usage, and cannibalization; parts issued to and unusual repair orders for nonworking heavy equipment; among others. The DPW Director agreed improvements are needed and will require managers and supervisors to take ethics and fraud awareness training as we suggested to encourage ethical behaviors. He disagreed that management disregarded its responsibilities. The response indicated that a Vehicle Abuse Committee was formed along with a “tip line” for complaints. DPW also submitted a corrective action plan to take effect within the next year.

Doris Flores Brooks, CPA, CGFM
Public Auditor

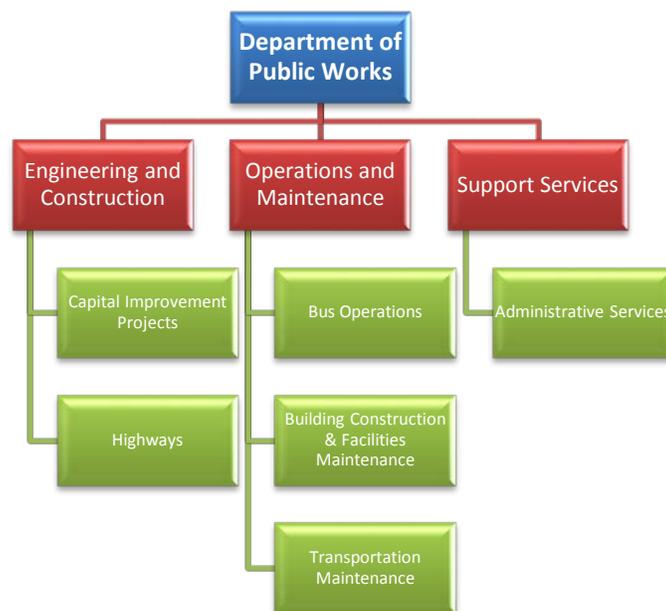
Introduction

This report presents the results of our performance audit of the Department of Public Works (DPW) Heavy Equipment and Related Parts Inventory Management from October 1, 2012 to September 30, 2016. The audit objective was to determine whether DPW heavy equipment and related parts inventories are adequately accounted for, identified, and safeguarded.

The objective, scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

DPW was established by Public Law (P.L.) 1-88 and provides five major services to the community of Guam: (1) public safety, (2) transportation, (3) highway maintenance, (4) government-wide support, and (5) capital improvement projects. These services are carried out by three divisions and several subdivisions. DPW's three divisions - Engineering and Construction, Operations and Maintenance, and Support Services - along with their respective subdivisions are illustrated below.



P.L. 16-57 (codified in Title 5 Guam Code Annotated (GCA) Chapter 57) known as the “Vehicle Maintenance and Repair Act of 1981” requires the DPW Director to maintain an inventory of all government of Guam (GovGuam) motor vehicles, including vehicles owned by autonomous and semi-autonomous agencies. DPW is also required to maintain and repair these vehicles.

The law requires the inventory to contain the following information on each vehicle:

- Description;
- Engine or serial number;
- Assigned entity;

- Acquisition date;
- Removal date and;
- Reason for removal.

DPW heavy equipment units include dump trucks, backhoes, graders, trailers, and skid steer loaders, among others. The Transportation Maintenance division maintains and repairs heavy equipment at the DPW Heavy Shop that is staffed by two mechanics as of September 30, 2016. Occasionally, the Heavy Shop workload is contracted to private repair shops. DPW outsources contractual repairs for heavy equipment because of the lack of manpower or repair complexities requiring better technology. A publicly advertised Invitation for Bid is required for repairs costing \$15,000 and above and three vendor quotes are required for those costing \$500 to \$14,999.

Parts to repair heavy equipment are obtained from the DPW Supply Warehouse or directly from vendors via Blanket Purchase Orders (BPOs).

Fleet Management Software System

DPW currently relies on largely manual processes to record heavy equipment parts, materials, and maintenance. In July 2016, DPW purchased RTA¹ Fleet Management Software System through a grant from the Department of the Interior (DOI). DPW expected full integration of the system in May 2017.

Prior to 2016, DPW utilized the Reflex system that was supported by an aged Microsoft Disk Operating System to track its fleet inventory. However, the Reflex system stopped working in July 2016, leaving the Department without a fleet management system for nearly a year.

DPW Heavy Equipment Inventories

DPW Transportation Maintenance retained DPW's fleet listing from the old Reflex system. This listing contained 582 heavy equipment, light vehicles, school buses, and other vehicles and equipment with total acquisition cost of \$27.8 million (M) as of June 2016. Of the 582 vehicles and equipment, 101 were heavy equipment with acquisition cost of \$8.4M² (inclusive of 25 surveyed units).

The most current inventory is dated February 1, 2016, which was submitted to the General Services Agency (GSA) to comply with Circular No. 2016-007. This inventory listing showed 300 vehicles and equipment acquired at \$15.7M, of which 54 were heavy equipment units acquired at \$5.2M. This inventory listing included vehicles and equipment dating back to 1989.

From FY 2013 to FY 2016, DPW purchased 30 units of 13 types of heavy equipment totaling \$3.6M. See Table 1. Of the \$3.6M, \$1.9M was funded by DOI and the remaining \$1.7M was funded by the Guam Highway Fund.

¹ Ron Turley Associates

² The acquisition value may be higher as not all acquisition costs were provided.

Table 1: FY 2013 – FY 2016 Heavy Equipment Purchases

Equipment Type	No. of Items	Acquisition Cost	Funding Source	
			Guam Highway Fund	DOI
Dump Truck	9	\$ 1,244,034	\$ 629,034	\$ 615,000
Backhoe Loader	7	862,203	733,680	128,523
Motor grader	1	356,392	-	356,392
Bucket Truck	1	249,796	-	249,796
Vibratory Soil	2	204,800	76,900	127,900
Track Excavator	1	169,900	-	169,900
Compact Tractor	2	125,118	-	125,118
Street Sweeper (with Schwarge Tornado)	1	119,780	119,780	-
Skid Steer Loader	1	113,400	-	113,400
Mini Excavator	1	94,990	94,990	-
Tractor Mower	2	89,454	89,454	-
Shorelander Trailer	2	8,960	8,960	-
Total	30	\$ 3,638,827	\$ 1,752,798	\$ 1,886,029

Equipment Disposal Survey

DPW disposes or “surveys” heavy equipment that can no longer be used because it is obsolete, damaged, deteriorated, or beyond its useful service life. However, salvageable parts from these equipment may be cannibalized and installed in other equipment. Division managers recommend equipment to survey to the Property Control Officer, Inventory Management Officer, the Controller, and the DPW Director for approval. A survey report listing the heavy equipment units approved for disposal is compiled and submitted to the Department of Administration (DOA) Director via GSA. The responsibility for surveyed vehicles and equipment is then transferred to GSA. Accordingly, GSA assigns a number for surveyed equipment. GSA may offer these surveyed heavy equipment for public bidding.

Shop Repair Orders

A Shop Repair Order (SRO) includes the heavy equipment unit needing repair, a description of the repair, required parts, requests for the necessary parts from the Supply Warehouse, and authorizing signatories. The form requires signatures of the shop supervisor who authorizes the work, the mechanics who complete the work to signify that the repair job was completed, and the Shop Supervisor and Controller to signify verification of work done.

Maintenance Cards

Maintenance cards are created for every vehicle and equipment in order to record equipment defects and repairs for historical reference. SROs are usually the basis for recording these repairs on the maintenance card. Currently, a bus driver or heavy equipment operator is assigned to record and file the maintenance cards.

Results of Audit

Our audit of DPW heavy equipment and related parts inventory found many indicators of potential ethical violations, fraud and misuse. DPW management did not institute basic internal controls, such as conducting annual physical inventories or ensuring proper authorization for repair orders and parts to reduce fraud risks. Internal controls provide assurance that equipment and parts were used for official, and not personal, purposes. As a result, heavy equipment was not safeguarded, thereby creating opportunities for misuse and fraud. We questioned \$283K in related costs and identified \$4.9M in other financial impacts. Our findings include:

- \$3.1M in heavy equipment not included in DOA's inventory report;
- \$1.1M in heavy equipment not included in DPW's inventory report;
- \$459K unreconciled in reported heavy equipment purchases;
- \$160K in unnecessary heavy equipment rentals to compensate for a missing lowboy and \$28K for two heavy equipment that were already available;
- \$47K spent on parts and \$43K on repairs for deteriorated and idle heavy equipment;
- \$6K in opportunities lost due to heavy equipment located in unauthorized locations; and
- \$4K in questioned costs and \$455K in other financial impacts for the unauthorized heavy equipment cannibalization

We found most processes are manual with limited mechanisms to effectively monitor heavy equipment use, disposals, repair orders, and parts purchases. DPW implemented a new fleet management system funded by DOI and a physical inventory is scheduled for some time in 2017. Although an automated system may improve controls over heavy equipment, it cannot be the only method for safeguarding. It must be supported by a strong "tone at the top" where DPW management commits to ensuring ethical business practices and requiring integrity from all DPW staff.

During our physical inspections, we learned of allegations that DPW heavy equipment and parts were used for personal purposes. While we could not definitively confirm the allegations, our findings strongly suggest possible fraud and misuse occurring from significant internal control lapses.

Possible Ethical Violations

Of considerable concern was the DPW Director's comments to us that a DPW employee had been providing heavy equipment from the employee's company at no charge because of DPW's inadequate heavy equipment availability. During this discussion, the employee claimed the services were valued in excess of \$40K and the Director expressed his gratitude for the employee's "benevolence." The Director told us he was concerned the employee might stop the contributions unless the Director acted to put an end to particular allegations about the employee. Therefore, to resolve and clear the allegations, the Director requested the Governor to accept the contributions pursuant to 5 GCA § 22408:

The Governor is authorized to accept monetary donations, from any individual or organization, which shall be deposited in a separate fund by the Treasurer of Guam. Such

donations shall, upon authorization by the Governor, be used and expended in accordance with the terms and conditions upon which they were made. Nothing herein shall be construed to prevent the Governor on behalf of the government of Guam from accepting donations of property from any individual or organization.

The Governor has yet to respond to the request.

These contributions may constitute a breach of the standard of conduct contained in 4 GCA Chapter 15 Standard of Conduct for Public Officers and Employees of the Government of Guam. Particularly, § 15201 Gifts, does not allow GovGuam employees to accept any gift in excess of \$200 in any form when a reasonable person would infer the gift is intended to influence the employee. We also caution that if the employee's company were participating or planning to participate in a GovGuam procurement, 5 GCA § 5630 (a) and (d) disallow favors and gratuities, even if intended for the department, by contractors and potential contractors to GovGuam employees.

This matter has been forwarded to the Attorney General for further investigation.

Physical Inspections Show Heavy Equipment Is Not Controlled – Total Questioned Costs – \$192,968

Of the 76 total heavy equipment units identified in DPW inventory listings, we sampled and inspected 75 units.³ We could not locate 5 units during our physical inspections between September 2016 and November 2016. We also found that the status of 13 units on DPW's inventory listings were incorrectly reported to OPA. For example, DPW declared 4 heavy equipment units "OK," but two were cannibalized and deteriorated (license plate #153 and #4706), one was idle at the DPW heavy shop (license plate #2360), and one was pending survey (license plate #EQ04-93). See Appendix 3 for details of all 13 incorrectly reported heavy equipment units.

From our inspections of 75 heavy equipment units, we concluded that DPW's disregard for controls over heavy equipment resulted in significant risks, as valuable equipment was not safeguarded in authorized locations. DPW has assumed risks that exposed the costly equipment to fraud and misuse, such as unnecessary wear and tear, vandalism, unauthorized use, and theft.

We identified several significant issues associated with equipment management:

- A lowboy trailer, allegedly missing, was later returned to the DPW compound and \$160K was expended for equipment rentals.
- 8 heavy equipment units were parked in unauthorized locations around the island.
- 17 unidentified equipment units were present on the DPW compound.
- 3 heavy equipment units were loaned to village mayors without an MOU.
- 11 heavy equipment units acquired at \$455K were cannibalized for parts without authorization.
- 25 heavy equipment units had expired registrations.

³ We did not include one unit in our sample because it was detailed to the Bus Transportation Division and was not available for inspection.

1994 Lowboy Trailer (License Plate #2271) Allegedly Missing Was Returned – Questioned Cost – \$160,470

At the beginning of our inspections in August 2016, we could not locate a lowboy trailer purchased in 1994 for \$71K, listed as “surveyed” until approximately one month later on September 23, 2016 when it was returned. This lowboy was alleged to be used for non-DPW purposes. This lowboy trailer, which attaches to a tractor truck to transport off-road heavy equipment, is the only trailer that DPW owns that can carry a 60-ton load. The lowboy was not included in the February 2016 inventory list sent to GSA.

The lowboy was allegedly missing for an undetermined number of years and DPW alternatively rented lowboy trailers. DPW management claimed the lowboy had been in poor condition stored on the DPW lot and covered in trash. However, we found maintenance cards documenting repairs for the unit in December 2009, and over four years later, a hydraulic repair (SRO#14-0449) in February 2014, and a battery replacement (SRO# 16-41) in October 2015.

Therefore, we determined that the 12 purchase orders (POs) DPW issued for lowboy rentals totaling \$258K between FY 2012 and FY 2016 might not have been necessary and we questioned the \$160K already paid against these POs.

Following OPA’s inquiries about the lowboy’s whereabouts with DPW staff, the lowboy was returned and we observed it on the DPW compound on September 23, 2016 and in poor condition (Images 1 and 2). In November 2016, the lowboy was repaired and repainted and used in a DPW project.



Image 1: Lowboy - side view (license plate #2271) seen on September 23, 2016 before repairs.



Image 2: Lowboy - rear view (license plate #2271) seen on September 23, 2016 before repairs.



Image 3: Lowboy - side view (license plate #2271) seen on November 4, 2016 at the DPW Heavy Shop after repairs.



Image 4: Lowboy - rear view (license plate #2271) seen on November 14, 2016 at a work site after repairs.

Despite the lowboy's return to DPW, we recommend that DPW management investigate how the lowboy was allowed to go missing for an undetermined number of years.

Heavy Equipment Located at Unauthorized Locations

DPW's practice has been to designate off-site areas to park non-road heavy equipment at the end of the workday during active projects. This saves time transporting the equipment to and from DPW at the beginning and end of every workday. DPW has designated space at the Guam Police Department (GPD), Guam Fire Department (GFD), and village mayors' offices as well as public school bus satellite stations as parking sites.

During our physical inspections, we found eight heavy equipment units parked in unauthorized locations, including private residences. We did not find authorization in DPW's Daily Job Reports (DJRs) explaining why the units were parked at these locations. DJRs indicate project details, location of heavy equipment, and the DPW staff using the equipment. We calculated \$6K⁴ (based on a seven-year estimated life) for the opportunity lost to use the equipment for DPW projects.

- We observed a backhoe (license plate #6350) parked near a private residence in the Mount Santa Rosa area in Yigo. Images 5 and 6 below show the John Deere backhoe parked by a field of tall grass near a private residence on November 14, 2016.



Image 5: John Deere backhoe (license plate #6350) seen parked unattended near a private residence in Mt. Santa Rosa in Yigo on November 14, 2016.



Image 6: John Deere backhoe – side view (license plate #6350)

⁴ This includes the opportunity loss of \$1,821, for the alleged use of the lowboy trailer for personal use.

- Images 7 and 8 show two farm tractors (license plate #EQ02-93 and #EQ16-93) at the residences of two DPW employees in Talofofu. According to one of the employees, the farm tractors had been parked at these residences for about two weeks and were used for clearing operations at the request of the village mayor. The EQ02-93 acquired at \$45K and EQ16-93 acquired at \$63K were funded by the Guam Highway Fund and the DOI, respectively.



Image 7: John Deere farm tractor (license plate #EQ02-93) was seen on November 18, 2016 at a DPW employee's residence in Talofofu.

Image 8: John Deere farm tractor (license plate #EQ16-93) was seen on November 18, 2016 at another DPW employee's residence in Talofofu.



- Images 9 and 10 show a John Deere farm tractor (license plate #EQ03-93) acquired at \$45K and a John Deere backhoe (license plate #6355) acquired at \$121K parked near Santa Teresita Church in Mangilao on November 18 and 19, 2016. The farm tractor and backhoe are funded by the Guam Highway Fund.



Image 9: John Deere backhoe (license plate #6355) seen on November 18 and 19, 2016 near Santa Teresita Church in Mangilao.

Image 10: John Deere farm tractor (license plate #EQ03-93) seen on November 18 and 19, 2016 near Santa Teresita Church in Mangilao.



- Image 11 shows a John Deere farm tractor (license plate #EQ15-93) parked at the Barrigada Library. We observed a Barrigada village official operating the farm tractor which was accordingly used in a village clean-up. This equipment is DOI-funded at a cost of \$63K.



Image 11: John Deere farm tractor (license plate #EQ15-93) seen on November 18, 2016 in Barrigada.

- On November 18, 2016, at the Santa Teresita Church in Mangilao, we observed a 2015 Bobcat skid steer loader (license plate #EQ14-93) loaded on a trailer. As shown in Image 12, the trailer was pulled by a dump truck (license plate #6585) that was driven by a DPW mechanic. We learned from the DPW mechanic that the skid steer loader was being transported to the DPW heavy shop for repairs after breaking down at a private residence in Mangilao.



Image 12: Bobcat skid steer loader (license plate #EQ14-93) was seen on November 18, 2016 at Santa Teresita Church in Mangilao.

- Image 13 shows a 2014 John Deere backhoe (license plate #5899) parked at the Barrigada Bus Satellite Station on November 3, 2016. We expected the backhoe to be located at the DPW Compound because there were no DJRs assigning it to a certain project. It is alleged that this backhoe was regularly used for personal purposes. The backhoe was purchased in April 2015 for \$129K with Guam Highway Funds.



Image 13: John Deere backhoe with license plate #5899 was seen on November 3, 2016 at the Barrigada Bus Satellite station.

Unidentified Heavy Equipment Sighted on DPW Compound

On September 22, 2016, we observed an end dump trailer that was not identified in the DPW inventory listings parked at the Yigo Bus Satellite Station. As shown in Image 14, the end dump trailer did not have a license plate or identifying logo and appeared to have been repainted black from its original red color. An end dump trailer is usually attached to a tractor truck or dump truck to carry and dump heavy loads such as coral and asphalt.

Upon further review, we noted an “end dump” with license plate #3546 was included in the Proposed Vehicles and Equipment for Survey dated August 23, 2006. However, there were no other end dumps surveyed or listed in subsequent survey reports from 2012 to 2015. This end dump has allegedly been used for personal purposes.



Image 14: Unidentifiable end dump was seen on September 22, 2016 at the Yigo Bus Satellite Station.

We also saw 17 other heavy equipment units on the DPW compound during our physical inspections that were not included in the inventory listings. As shown in Appendix 4, the equipment either lacked license plate numbers, were cannibalized for parts, or belonged to other GovGuam agencies.

We were able to identify two Shorelander trailers purchased in 2013 for \$8,960 by their vehicle identification numbers. These trailers did not have appropriate license plates attached to them (license plate #6075 and #6076) and government logos. Image 15 shows a Shorelander trailer that should have had license plate #6076 affixed.

Image 15: Shorelander trailer (license plate #6076) seen on November 14, 2016 at the DPW shop without an attached license plate.



DPW Equipment Loaned to Village Mayors without MOU

We located three heavy equipment units in Mangilao and Chalan Pago that were loaned to village mayors to prepare roads for private funerals without a Memorandum of Understanding (MOU). We estimated \$128 in financial impacts for this condition. An MOU is a means to safeguard heavy

equipment because it outlines the responsibilities for heavy equipment usage and holds the parties accountable for proper operation and maintenance.

Image 16 shows a DOI-funded backhoe of \$129K (license plate #6349) that was located in Chalan Pago. Image 17 shows a compactor (license plate #EQ07-93) and Image 18 shows another backhoe (license plate #6355) that were both located in Mangilao.



Image 16: John Deere backhoe (license plate #6349) seen on November 18, 2016 parked by Route 4 in Chalan Pago.



Image 17: Bomag compactor roller (license plate #EQ07-93) seen on November 14, 2016 in Mangilao.



Image 18: John Deere backhoe (license plate #6355) seen on November 14, 2016 in Mangilao.

We recommend DPW management develop an MOU with the Mayors Council to assign responsibilities and hold parties accountable for heavy equipment usage.

Other Unnecessary Heavy Equipment Rentals – Questioned Cost – \$28,064

From FY 2012 to FY 2016, DPW issued 116 purchase orders totaling \$2.3M to rent 16 types of heavy equipment. The top 5 purchase orders for rentals were for an excavator (\$488K), dump truck (\$436K), backhoe (\$382K), lowboy trailer (\$258K), and vacuum truck (\$134K).

In addition to the POs issued for lowboy rentals, we also found POs amounting to \$30K for other heavy equipment rentals may have been unnecessary and they could have been used to compensate for missing units.

In November 2015, PO# P166A00813 for \$15K (total payments of \$14,800) was issued for dump truck rentals although nine dump trucks were acquired from July to September 2015. Also, in November 2015, PO# P166A00671 was issued for \$15K (total payments of \$13,264) for one backhoe rental although seven backhoes were acquired from April to July 2015. As a result, there were a total of eight available backhoes. However, one new backhoe (License Plate#5899) was alleged to have been used for non-DPW projects.

We also found 3 POs totaling \$53K issued for lowboy trailer rentals for \$90 per hour although the company's bid price was only \$70 per hour. This resulted in an overpayment totaling \$8,530, which is included in the total questioned costs of \$160K for the lowboy rentals. In addition to the lowboy questioned costs, we questioned the \$28K in unnecessary rentals for the dump trucks (\$15K) and the backhoes (\$13K).

Unauthorized Cannibalization of Heavy Equipment

We found 11 heavy equipment units acquired at \$455K that were cannibalized for parts without written authorization. Nine of these equipment were finally surveyed in 2017. We were not able to determine the replacement value of the cannibalized parts, thus a financial impact of \$455K was based on acquisition cost.

Cannibalization refers to the removal of parts from government property for installation into other government property. Cannibalization is normally unauthorized for property considered beyond economical repair and in situations based on criticality or urgency of need.

As an example, in Images 19 and 20, we observed a 1992 dump truck (license plate #93-0639) with its front wheel axle removed and its tire concealing the removed part. It is alleged that the axle was removed and given to a DPW employee for personal use. The dump truck was not among the record of surveyed vehicles and equipment. The present replacement value of a wheel axle is approximately \$4K.



Image 19: Dump truck - front view (license plate #93-0639) seen sitting on wheel drums in order to keep it off the ground on September 26, 2016 at the DPW Heavy Shop.



Image 20: Dump truck (license plate #93-0639) seen on September 26, 2016 at the DPW Heavy Shop with missing front axle.

According to DPW mechanics, cannibalization occurs because of limited funding for parts and to make inoperative equipment road worthy. See Appendix 5 for details of the 11 cannibalized heavy equipment units.

Expired Registrations

Of the 75 heavy equipment units tested, 25 had expired registrations as of November 2016. These units are currently used in DPW's road maintenance and other projects and registrations should be updated to ensure equipment safety. DPW is in the process of updating expired registrations. See Appendix 6 for details of the 25 heavy equipment units.

Inventory Data is Not Accurate and Reliable

We were provided three inventory listings shown in Table 2 – two from DPW and one from DOA, but all these listings did not reconcile.

Table 2: DPW Inventory Listings

Description	Heavy Equipment Count	Heavy Equipment Value
Reflex System Recovered DPW Inventory	101	At least \$8.4M ⁵
February 2016 DPW Inventory	54	\$5.2M
September 2015 DOA Provided Inventory	25	\$3.1M

⁵ Reflex system listing did not contain acquisition costs for several heavy equipment units and the \$8.4M could be understated. Also, the 101 heavy equipment count included 25 documented surveyed units.

- DPW’s listing recovered from its old Reflex system did not include the acquisition cost of vehicles and equipment acquired from FY 2014 and FY 2015.
- DPW’s most current listing as of February 1, 2016, did not contain 22 heavy equipment with a total acquisition cost of \$1.1M, from the old Reflex system listing. Our physical inspection of these 22 heavy equipment are shown in Table 3.

Table 3: Summary of Heavy Equipment Not Contained in Feb. 2016 Inventory Listing

# of Units	Status	Acquisition Cost
8	Cannibalized	\$284K
5	Missing	\$26K
2	Pending Survey	\$251K
1	Good Working Condition	\$74K
1	Pending Contractual Repair	\$79K
1	Missing and Was Returned	\$71K
1	Transferred to Guam Waterworks Authority (without documentation)	\$130K
1	Transferred to Guam Power Authority (with documentation)	\$150K
1	Bad Condition	\$74K
1	Converted into Transport Trailer	\$11K

- DOA’s listing as of September 30, 2015 did not contain 49 heavy equipment units with total acquisition cost of \$3.1M from DPW’s Fleet Inventory. According to the DOA General Accounting Supervisor, these heavy equipment units were excluded because they had zero value and a reconciliation of the DOA RedBeam Fixed Asset System is ongoing.

Per the FY 2016 Government of Guam Single Audit Report, although the required comprehensive inventory of property was performed in January 2016, the required reconciliation was not completed. GovGuam has repeatedly been cited in the annual Single Audit Reports for not performing the required comprehensive physical inventories until FY 2016. The auditors recommended that a routine inventory and reconciliation against the fixed assets register should occur. DOA responded that they will perform timely reconciliation of inventory records.

We also learned that DPW reassigns old or surveyed equipment numbers to new acquisitions, making it difficult to monitor physical inventory.

DPW and DOA Purchase Reports Do Not Reconcile

Heavy equipment purchase reports provided by DOA and DPW did not reconcile. We found four heavy equipment purchases totaling \$459K that were not included in DOA’s or DPW’s report. We also found a 2014 John Deere Backhoe (license plate #5899) purchased for \$129K in April 2015 under PO# P146A00043 was not found in DOA’s September 2015 Fixed Asset Inventory.

Disposition of Surveyed Heavy Equipment Unknown

We reviewed DPW’s surveyed vehicles reports from 2012 and 2015 and could not locate 13 of 39 reported surveyed heavy equipment units. According to the DPW Automotive Repair Controller, it is difficult for DPW to monitor surveyed properties. These equipment have been sitting idle for years at the DPW compound and GSA does not inform DPW if surveyed heavy equipment is moved.

As indicated in OPA Report No. 07-12 Government of Guam Vehicle Fleet Inventory issued in October 2007, surveyed vehicles were stored on DPW's compound because GSA's storage space was limited. It appears this concern remains.

We also found multiple issues within the 39 surveyed heavy equipment, such as:

- 26 were assigned two GSA numbers.
- 14 were not included in DPW's inventory listings in the Reflex system
- 7 were not supported with Itemization of Needed Repairs and Justification Letters.
- 2 were not assigned GSA numbers.

We recommend a physical inventory be conducted immediately to locate and identify all heavy equipment, including surveyed and nonworking heavy equipment. The inventory should be based on accurate and reconciled equipment and purchases listings from DPW and DOA. Further, we recommend DPW management to investigate the unauthorized heavy equipment usage and unauthorized cannibalization of heavy equipment.

Parts Issued To Deteriorated, Cannibalized, and Idle Heavy Equipment – Total Questioned Cost – \$36,569

DPW's parts issuance reports from FY 2014 to FY 2016 indicated 34,250 parts valued at \$2.1M were issued from the Supply Warehouse for various maintenance and repair projects. Of the total, 2,431 parts (7%) or \$99K (5%) were issued to heavy equipment units. Of the parts issued to heavy equipment units, the reports showed that 1,132 (47%) parts valued at \$37K (37%) were issued to 11 inoperable heavy equipment units including 6 units awaiting repair.

Our physical inspection of these 11 inoperable heavy equipment units on November 4, 2016 showed they were in poor to deteriorated conditions and did not show any signs of improvement from the parts supposedly installed. In 2017, seven of the 11 equipment were finally surveyed confirming the deteriorated conditions of the equipment. Table 3 summarizes the parts issued for these 11 heavy equipment units.

Table 4: Summary of Parts Issued To Deteriorated, Cannibalized, and Idle Units

Dates	# of SROs	License Plate #	# of Parts	Total Value	HE Status/Condition	Image #	Included in DPW Inventory as of 2/1/16
Cannibalized and Deteriorated							
6/10/2015	1	622/4444	28	\$2,226	Cannibalized and deteriorated*	21	No
2/10/2014 - 1/2/2015	6	613	118	1,896	Cannibalized and deteriorated*	22	Yes
2/12/2014 - 5/28/2014	1	93-647/6499	10	1,834	Cannibalized and deteriorated*	23	No
1/14/2014, 6/29/2016	2	4706	9	633	Cannibalized and deteriorated*	24	Yes
4/30/2014 - 8/6/2015	3	153	7	203	Cannibalized and deteriorated*	25	Yes
Total for Cannibalized HE	13	5	172	\$6,792			
Pending In-House/Contractual Repair							
10/7/2013 - 12/16/2015	15	850	199	\$9,090	Pending transmission repair	26, 27	Yes
1/7/2014 - 5/11/2016	8	846	314	8,290	Pending transmission repair	28, 29	Yes
1/3/2014, 9/9/2015	4	630	236	3,386	Pending engine repair*	30, 31	No
10/23/2013 - 4/20/2016	13	612	151	4,299	Pending walk beam repair	32, 33	Yes
10/29/2013 - 12/21/2015	7	3806	34	2,761	Pending radiator repair	34, 35	Yes
5/22/2015	1	5656	26	1,951	Pending general recondition*	36, 37	No
Total for Idle HE	48	6	960	\$29,777			
Grand Total	61	11	1,132	\$36,569			

* These equipment were finally surveyed in 2017.

Because of DPW's lack of equipment controls, we physically inspected 21 parts issued to six heavy equipment units and confirmed that the parts were not installed as intended. We found that most of the 21 parts appeared old, discolored, and rusty. Moreover, parts requested and issued were unrelated to the equipment's defect indicated in the SRO or maintenance card. This shows DPW's lack of controls has presented opportunities to issue parts to deteriorated equipment without actually installing them and possibly misappropriating them.

We also found that in FY 2016, 12 parts totaling \$806 were issued to five heavy equipment units that were not in the two DPW's inventory listings (license plates #6009, #5530, #391, #2755, and #4850).

- Image 21 shows a deteriorated and cannibalized John Deere Farm Tractor (license plate #93-622/4444) located on the DPW compound on November 4, 2016. SRO #856 was prepared and processed for this cannibalized farm tractor on June 10, 2015 for a general checkup. A Heavy Shop mechanic drew 28 parts totaling \$2K based on this SRO. The tractor was not included in the DPW inventory listing as of February 1, 2016.



Image 21: Deteriorated John Deere farm tractor (license plate #93-622/4444) seen on November 4, 2016 at the DPW lot.

- Image 22 shows a deteriorated and cannibalized Kenworth Dump Truck (license plate #613) located on the DPW compound on November 4, 2016. This truck's maintenance card indicated that in October 2014, the dump truck was cannibalized to supply parts to another dump truck (license plate #612). The parts taken were not noted on the maintenance card of #613. We also noted parts valued at \$2K were issued to the dump truck via six SROs in FY 2014 and FY 2015.

Image 22: Deteriorated Kenworth dump truck (license plate #613) seen on November 4, 2016 at the DPW lot.



- Image 23 shows a deteriorated and cannibalized Kenworth dump truck (license plate #93-647/6499) located on the DPW compound on November 4, 2016. This truck is not included in DPW's inventory listing as of Feb 1, 2016. The truck's maintenance card indicated per SRO #0423, that a safety inspection was done. Ten parts totaling \$2K were also requested and issued in February 2014 and May 2014. The last maintenance card entry was in February 2014.



Image 23: Deteriorated Kenworth dump truck (license plate #93-647/6499) seen on November 4, 2016 at the DPW lot.

- Image 24 shows a deteriorated and cannibalized New Holland backhoe (license plate #4706) located on the DPW compound on November 4, 2016. The only information recorded in this backhoe's maintenance card is SRO #15-973 for a hydraulic leak in July 2015. However, we found SRO #776 and #366 issued nine parts (filter fuel, filter oil, filter air, filter hydrants, etc.) totaling \$600 in FY 2014 and FY 2016.

Image 24: Deteriorated New Holland backhoe (license plate # 4706) seen on November 4, 2016 at the DPW lot.



- Image 25 shows a deteriorated and cannibalized 1992 International tractor truck (license plate #153) located on the DPW compound on November 4, 2016. During FY 2014 and FY 2015, three SROs issued 7 parts (mud guards, light hoppers, flex hose, and oil) amounting to \$200 to this tractor truck.



Image 25: Deteriorated International tractor truck (license plate #153) seen on November 4, 2016 at the DPW lot.

- Image 26 shows a Kenworth T-800 dump truck (license plate #850) at the DPW Heavy Shop on November 4, 2016. The dump truck was awaiting transmission repairs as indicated in SRO #854 dated June 9, 2015. However, 2 days later on June 11, 2015, a radiator assembly costing \$2K was issued by the Supply Warehouse. It is alleged the radiator was given to a DPW employee for personal purposes. Our inspection could only see the top of the radiator, which appeared to be in good condition. Therefore, we could not determine why a radiator was requested for this dump truck. We also found that the dump truck's maintenance card indicated SRO #165 for a tire dated December 2, 2016; however, the issuing report showed 22 parts irrelevant to a tire (cylinder power steering, alarm, coolant, dryer air, and valve "trac") totaling \$3K. Subsequent issuances using the same SRO were not recorded in the maintenance card.



Image 26: Kenworth dump truck (license plate #850) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.

Image 27: Radiator on a Kenworth dump truck (license plate #850) seen on November 15, 2016.



- Image 28 shows a Kenworth dump truck (license plate #846) at the DPW Heavy Shop on November 4, 2016 awaiting transmission repairs. The dump truck's maintenance card indicated "tire" per SRO #16-164 dated December 2, 2015. However, we found that 24 unrelated parts (cylinder power steering, alarm, nozzle injector, etc.) totaling \$6K were issued based on this SRO. Image 29 shows our sample of the spring multi-leaf installed in May 2016 per SRO#16-615, which was irrelevant to the cooling system defect.



Image 28: Kenworth dump truck (license plate #846) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.

Image 29: Spring multi-leaf on Kenworth dump truck (license plate #846) seen on November 15, 2016.



- Image 30 shows a John Deere Backhoe (license plate #630) at the DPW Heavy Shop on November 4, 2016 awaiting an engine replacement. The backhoe was not in DPW's February 1, 2016 inventory listing. The last entry on the backhoe's maintenance card was on October 1, 2014, for an engine defect. However, per SRO #013, in FY 2015 and FY 2016, 222 parts (radiator, connector, nozzle injector, etc.) totaling \$3K were issued to this backhoe. Image 31 shows our sample of a rusty turbo located on the floor of the backhoe that should have been installed in January 2015 per the SRO.



Image 30: John Deere backhoe (license plate #630) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.



Image 31: Turbo on John Deere backhoe (license plate #630) seen on November 15, 2016.

- Image 32 shows a Kenworth dump truck (license plate #612) at the DPW Heavy Shop on November 4, 2016 awaiting repairs for a walk beam. Image 33 shows a rusty motor canvas installed in December 2015, less than a year prior to our physical inspection.



Image 32: Kenworth dump truck (license plate #612) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.



Image 33: Motor canvas on dump truck (license plate #612) seen on November 15, 2016.

- Images 34 and 35 shows a Caterpillar payloader (license plate #3806) at the DPW Heavy Shop in November 2016 awaiting radiator repairs. This payloader has been idle since 2014.



Image 34: Caterpillar payloader (license plate #3806) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.

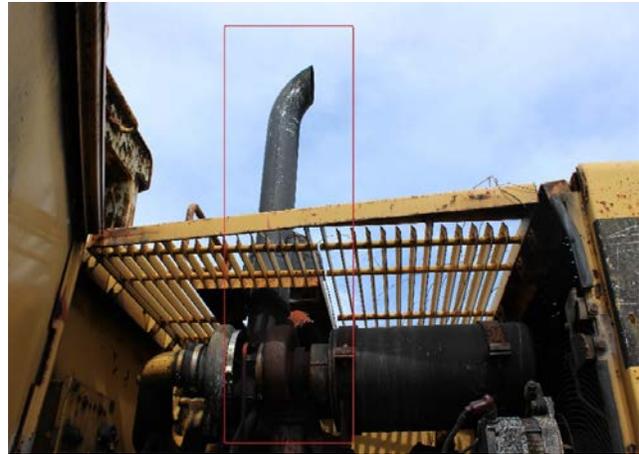


Image 35: Rusty pipe exhaust issued to a Caterpillar payloader in January 2015 (license plate #3806) and seen on November 15, 2016, although SRO states starter, electrical, muffler, and ignition defects.

- Images 36 and 37 shows a Kenworth dump truck (license plate #5656) at the DPW Heavy Shop on November 4, 2016 awaiting general reconditioning work.



Image 36: Kenworth dump truck (license plate #5656) seen on November 4, 2016 at the DPW Heavy Shop awaiting repairs.



Image 37: Old and rusty bracket exhaust on Kenworth dump truck (license plate #5656) installed May 2015 and seen on November 15, 2016.

These examples have shown that DPW's lack of controls has created opportunities to misappropriate parts. Our inspections showed:

- New parts were not installed.
- It is not reasonable to request for parts for deteriorated equipment units.
- The equipment's status did not appear to improve if any new parts were installed.

Therefore, we questioned \$36,569 for the cost of the parts issued to these inoperable heavy equipment.

DPW's paper-driven process to manage heavy equipment part requisitions, installations, and repairs does not adequately mitigate risks of misuse, errors, and even fraud. Heavy equipment maintenance cards also were hand written ledgers that are easily susceptible to errors and omissions. Stock cards were inaccurate and not maintained for all heavy equipment parts.

Out of 210 SROs per DPW FY 2014 to FY2016 issuing reports, we sampled 43 (20%) and found:

- SROs were not pre-numbered and tracked.
- The required SRO signatures were not obtained and parts were issued without proper authorization and accountability.
 - 36 SROs representing 665 items valued at \$40,505, were not signed by a Transportation Maintenance Supervisor or the Automotive Repair Controller.
 - 17 SROs were not signed by the mechanics to signify that repair work was completed.
 - 418 heavy equipment parts issued by the Supply Warehouse based on the SROs were not acknowledged by the mechanics who "supposedly" received the parts.

Alarming, we found instances where the SROs were photocopied and reused for subsequent parts requests. Generally, the SROs are simply used by mechanics to request parts from the Supply Warehouse and could be abused if not properly controlled and accounted for, including obtaining proper approvals and closing SROs when jobs are completed.

Of the nine heavy equipment maintenance cards tested, 61 SROs indicated issued parts, but the parts were not listed in the FY 2014 to FY 2016 issuing reports. However, these SROs were recorded in the appropriate vehicles' maintenance cards. This indicates the opportunity to issue parts for an SRO, but not recording in the issuing report.

Blanket Purchase Orders Issued for Parts for Deteriorated, Cannibalized, and Idle Heavy Equipment – Questioned Cost – \$9,625

From FY 2013 to FY 2015, DPW issued 77 Blanket Purchase Orders (BPO) totaling \$254K for supply-type parts, such as batteries and tires, and repairs for both light and heavy equipment. A total of \$10K was paid for parts, batteries, and tires for three deteriorated and cannibalized heavy equipment units (\$4K) and four non-working idle heavy equipment units (\$6K). Heavy Shop mechanics report they could not remember receiving the items after the Highway Division staff picked the parts up from the vendors. We question the \$10K cost of these parts purchased via BPOs.

DPW's standard practice authorizes DPW employees to receive these items directly from the vendor instead of direct delivery to the Supply Warehouse. This process does not ensure controls

over PO items purchased because it does not separate receiving from issuing and presents opportunities for fraud. Parts and supplies can bypass the Supply Warehouse and may not be recorded in parts inventory.

We recommend DPW management investigate the parts issued to deteriorated, cannibalized, and idle nonworking heavy equipment and also recommend changes to SOPs to require parts delivery to the Supply Warehouse for proper receiving.

Unusual Repair Orders for Deteriorated, Cannibalized, and Idle Heavy Equipment – Total Questioned Cost – \$42,538

DPW occasionally outsources contractual repairs for heavy equipment because of the lack of manpower or repair complexities requiring better technology. Currently, the DPW Heavy Shop is staffed by two heavy equipment mechanics and a supervisor.

From FY 2013 to FY 2016, DPW issued 31 purchase orders (POs) totaling \$252K for contractual repairs of 17 types of heavy equipment. As summarized in Table 3, 10 POs totaling \$43K were issued and paid for contractual repairs for five heavy equipment units that were deteriorated, cannibalized, or idle. We question the \$42K cost of these contractual repairs because we did not see any substantial improvements to these units that should have resulted from these repairs. See Appendix 7 for more details on the 10 purchase orders.

Table 3: POs Issued and Paid for Contractual Repairs for Non-Working Equipment

Equipment Type	License Plate	Image #	Status	# of POs	PO Amount	Amount Paid
Kenworth Dump Truck	613	22	Deteriorated	1	\$ 8,200	\$ 8,200
Kenworth Dump Truck	850	26	Idle	2	19,587	19,587
Kenworth Dump Truck	846	28	Idle	2	8,650	8,650
Kenworth Dump Truck	612	32	Idle	3	4,576	4,576
Caterpillar Wheel Loader	3806	34	Idle	2	1,525	1,525
Total				10	\$ 42,538	\$ 42,538

We further reviewed payments for the 10 POs issued for deteriorated, cannibalized, or idle units and found two POs from September 2016 each purchased a transmission with torque converters and an oil cooler for the same Kenworth dump truck (license plate #850). The contractual transmission repair authorized in PO #P166A05846 was not completed and was replaced with parts only – one transmission and one oil cooler for \$11K. Another transmission and oil cooler was purchased through PO #P166A05304 for \$2K less. Both POs and or stock cards indicated the services and parts were for the same Kenworth dump truck (license plate #850). The POs were issued to two different vendors, one of whom did not win the bid for these parts.

As shown in Image 38, during our physical inspection on February 3, 2017, we found the parts in the Supply Warehouse labeled for dump truck with license plate #850. Per the truck's maintenance card, this has been idle since 2014 for various defects including transmission replacement.

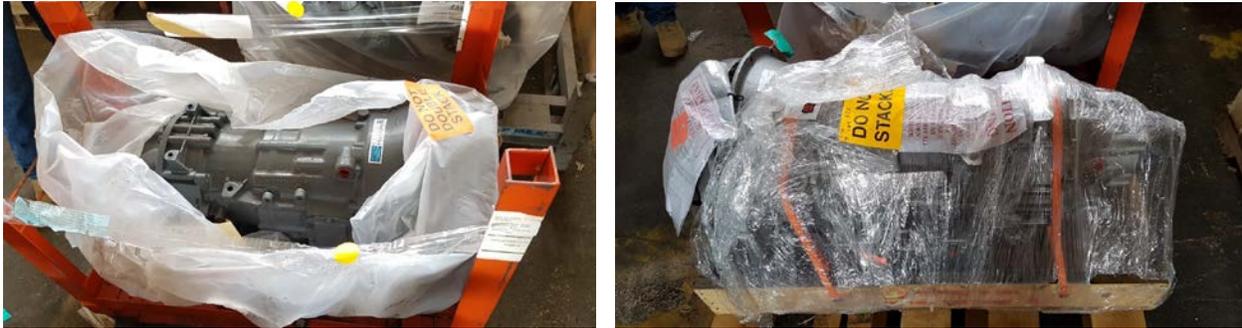


Image 38: Two transmissions seen on February 3, 2017 at the DPW supply warehouse for one dump truck (license plate #850).

PO# P166A05846 - Issued 9/15/2016 – Dump Truck (License Plate #850) Repair – \$10,978

- On September 15, 2016, PO# P166A05846 for \$10,978 was issued to a certain vendor for the contractual repair of a Kenworth dump truck (license plate #850). The repair work was to replace transmission, remove and install transmission assembly, replace torque converter, replace oil cooler, and replace transmission input and output hoses. The solicitation was procured as a small purchase under \$15,000 and cited 2 Guam Administrative Rules (GAR) Section 3111(c) Small Purchase of Supplies and Services.
- On September 13, 2016, this vendor was awarded IFB# GSA-064-16: Bid for Miscellaneous Parts for Heavy Equipment to supply canopy piping and a tarp only.
- On November 14, 2016, instead of repairing the dump truck, one transmission costing \$9K and one oil cooler costing \$2K, for a total of \$11K, were delivered to the DPW Supply Warehouse and received by the Property Control Officer.
- On December 22, 2016, DOA paid the vendor \$11K with check #0619132 for Invoice #P05906 dated September 30, 2016. The invoice was signed by the Highway Maintenance Supervisor.
- Among the payment's supporting documents was DPW's Invoice Payment Transmittal Acknowledgment addressed to DOA indicating "Replace Transmission" instead of "transmission" which was the item delivered and charged.

a. PO# P166A05304 - Issued 9/29/2016 – Dump Truck (License Plate#850) Parts – \$8,609

- On September 29, 2016, PO# P166A05304 for \$9K was issued to another vendor for one transmission with torque converter and one oil cooler for a Kenworth dump truck (license plate #850). The solicitation was procured under IFB# GSA-064-16 and cited 2 GAR 3109 Competitive Sealed Bidding.
- On September 13, 2016, this vendor was awarded IFB# GSA-064-16: Bid for Miscellaneous Parts for Heavy Equipment to supply 27 items including two transmissions and two oil coolers.

- On December 6, 2016, one transmission costing \$6K and one oil cooler costing \$3K were delivered to the Supply Warehouse and received by the Property Control Officer. These are the same part numbers delivered on November 14, 2016 for PO# P166A05846.
- On December 27, 2016, DOA paid the vendor \$9K with check #0619330 for Invoice #INVO-148405 dated October 28, 2016. We could not determine who acknowledged the invoice for DPW.

We recommend DPW management to investigate the unusual repair orders for deteriorated, cannibalized, and idle nonworking heavy equipment and the purchase of the transmissions and oil coolers.

Conclusion and Recommendations

We have concluded that valuable DPW heavy equipment was not safeguarded, thereby creating opportunities for misuse and fraud and we identified other financial impacts of \$4.9M and questioned costs of \$283K as follows:

- \$3.1M in equipment not included in DOA's inventory report.
- \$1.1M in equipment not included in DPW's inventory report.
- \$459K unreconciled in reported heavy equipment purchases.
- \$160K in unnecessary heavy equipment rentals to compensate for a missing lowboy and \$28K for other heavy equipment that was already available.
- \$47K spent on parts and \$43K on repairs for deteriorated and idle heavy equipment.
- \$6K in opportunities lost due to heavy equipment located in unauthorized locations.
- \$4K in unauthorized heavy equipment cannibalization and \$455K in other financial impacts.

DPW management has not prioritized internal controls to ensure that DPW heavy equipment and related parts are appropriately used for official government purposes

We could not confirm with certainty the allegations we learned of during the audit concerning heavy equipment and parts used by DPW employees for personal purposes. However, opportunities for misuse and fraud have been created by significant internal control lapses as suggested by our findings. DPW management did not act on these allegations, demonstrating its tolerance of unethical behavior, which discourages employees from reporting questionable practices.

Ethical breaches may have occurred when the DPW Director accepted free heavy equipment rental services from a DPW employee's company because DPW periodically did not have adequate heavy equipment. The Director expressed his gratitude for the employee's "benevolence." This action may be perceived by others to favor the employee, especially because the Director took specific action to clear allegations against the DPW employee by requesting the Governor to accept the contribution pursuant to 5 GCA § 22408. We have referred this matter to the Attorney General.

DPW's implementation of a new fleet management system funded by the Department of the Interior may improve controls, but must be supported by a strong "tone at the top" where DPW management commits to ensuring ethical business practices and requiring integrity from all DPW staff.

We recommend DPW management:

1. Conduct a heavy equipment physical inventory immediately to locate and identify all heavy equipment, including surveyed and nonworking heavy equipment. The inventory should be based on accurate and reconciled equipment and purchases listings from DPW and DOA.
2. Investigate the alleged missing lowboy, unauthorized heavy equipment usage, and unauthorized cannibalization of heavy equipment.

3. Investigate parts issued to and unusual repair orders for deteriorated, cannibalized, and idle nonworking heavy equipment, as well as the purchase of the transmissions and air coolers.
4. Amend SOPs to require parts delivery to the Supply Warehouse for proper receiving.
5. Develop an MOU with the Mayors Council to assign responsibilities and hold parties accountable for heavy equipment usage.

We also suggest DPW management consider fraud risk awareness and ethics training for DPW management and employees to encourage ethical behaviors in the work place.

Classification of Monetary Amounts

	Finding Description	Questioned Costs ⁶	Potential Savings	Unrealized Revenues	Other Financial Impact
1	Possible Ethical Violations	\$ -	\$ -	\$ -	\$ -
2	Physical Inspections Show Heavy Equipment is not Controlled				
	Rentals Paid for Missing 1994 Lowboy Trailer (License Plate #2271)	160,470	-	-	-
	Heavy Equipment Located at Unauthorized Locations	-	-	-	5,734 ⁷
	Unidentified Heavy Equipment Sighted on DPW Compound	-	-	-	-
	DPW Equipment Loaned to Village Mayors without MOU	-	-	-	128
	Unnecessary Heavy Equipment Rentals	28,064	-	-	-
	Unauthorized Cannibalization of Heavy Equipment	4,434	-	-	455,121
	Expired Registrations	-	-	-	-
	Inventory Data Are Not Accurate and Reliable				
	Equipment Not in the DPW Inventory Report	-	-	-	866,031 ⁸
	Equipment Not in the DOA Inventory Report	-	-	-	3,131,073
	<i>Subtotal for Inventory Data</i>	-	-	-	4,458,087
	DPW and DOA Purchase Reports Do Not Reconcile	-	-	-	459,031
	Disposition of Surveyed Heavy Equipment Unknown	-	-	-	-
	Subtotal	\$ 192,968	\$ -	\$ -	\$ 4,917,118
3	Parts Issued to Deteriorated, Cannibalized, and Idle Heavy Equipment	36,569	-	-	-
	Blanket Purchase Orders Issued for Parts for Cannibalized and Idle Heavy Equipment	9,625	-	-	-
	Parts Issued to Heavy Equipment Not in Inventory Listings	806			
	Subtotal	\$ 47,000	\$ -	\$ -	\$ -
4	Unusual Repair Orders for Deteriorated, Cannibalized, and Idle Heavy Equipment	\$ 42,538	\$ -	\$ -	\$ -
	Totals	\$ 282,506	\$ -	\$ -	\$ 4,917,118

⁶ Questioned costs are expenditures of funds that are unsupported, unallowable, or otherwise improper.

⁷ This includes the opportunity loss of \$1,821 for the alleged use of the lowboy trailer for personal use.

⁸ Although the amount identified was \$1,149,174, the \$254K for eight cannibalized equipment was already part of the unauthorized cannibalization of heavy equipment.

Management Response and OPA Reply

In June 2017, we transmitted a draft report to the DPW Director. In July 2017, we met with the DPW Director, management, and staff to discuss the findings and recommendations. During our exit meeting, the DPW Director clarified that surveyed equipment officially transferred to GSA is not under DPW's control, although the equipment is stored on DPW property. The Director also claimed the lowboy trailer was not missing. Therefore, we modified the draft report to reflect these statements.

The DPW Director also disclosed a DPW employee's contribution of equipment rental services from the DPW employee's company. The Director expressed his gratitude for the employee's "benevolence". These contributions may constitute a breach of the standard of conduct contained in 4 GCA Chapter 15 Standard of Conduct for Public Officers and Employees of the Government of Guam. This finding was added to the report.

In July 2017, we received an official response and corrective action plan from the DPW Director who agreed improvements were needed, but disagreed that management disregarded its responsibilities. The response indicated that a Vehicle Abuse Committee was formed along with a "tip line" for complaints of abuse. The Director agreed to our suggestion to consider ethics and fraud awareness training and will require managers and supervisors to take such courses.

In its corrective action plan, DPW disagreed that the lowboy and other equipment was missing and parked in unauthorized locations. DPW replied that equipment was never missing and rentals were necessary because of DPW's many projects and inadequate equipment inventory.

OPA response: DPW did not provide documentation that the alleged missing lowboy was used to move bus shelters for the Bus Transportation Division. The lowboy was returned to the DPW compound and repaired after our inquiries. There were also allegations about the personal use of the lowboy and we questioned the equipment rental costs that ensued from DPW's loss of use of the lowboy.

DPW also contends heavy equipment is routinely parked in various locations including personal residences to ensure safety. OPA's recommendation to conduct a heavy equipment physical inventory was to ensure the equipment was in authorized locations, such as secured GovGuam sites.

DPW also disagreed that parts were issued to deteriorating equipment and repairs orders were unusual for deteriorating equipment. DPW states that at the time parts were issued and repairs were done, the equipment became operable, but went down again.

OPA response: From our observations during the physical inspections, five units had been cannibalized since 2014 and per DPW issuing reports, parts were still issued from FY 2014 to FY 2016 for these deteriorating and inoperable equipment. The equipment were finally surveyed in May 2017 demonstrating the deteriorating and irreparable conditions.

Maintenance cards showed that six idle heavy equipment were continuously repaired from FY 2013 until FY 2016 and two were finally surveyed in May 2017 and the other four are being assessed for possible survey per the Transportation Maintenance Superintendent. DPW did not provide documentation to show that these equipment were restored to working condition after parts were issued for their repair.

See Appendix 8 for management response and Appendix 9 for the Status of Audit Recommendations.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendations, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. Accordingly, we will be contacting DPW to provide updates on the corrective action plan indicated in their official response.

We appreciate the cooperation and assistance from the staff and management of the Department of Public Works and the Department of Administration.

OFFICE OF PUBLIC ACCOUNTABILITY

A handwritten signature in black ink that reads "DF Brooks". The letters are stylized and cursive.

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Objective, Scope, & Methodology**

The audit objective was to determine whether the Department of Public Works heavy equipment and related parts inventories were adequately accounted for, identified, and safeguarded.

The scope of our audit was from October 1, 2011 through September 30, 2016 (FY 2012 through FY 2016) and other periods deemed necessary. The audit scope encompassed the equipment and purchase listings provided by DPW and DOA and related Shop Repair Orders, Maintenance Cards, and other documentation.

To accomplish our objective, we completed the following:

- Conducted interviews and walkthroughs with key DPW staff involved with the inventory process as well as heavy equipment management, control, repair, and maintenance staff to gain an understanding of DPW's organization and operations.
- Performed physical inventories of 75 of 76 heavy equipment identified in inventory listings.⁹
- Performed inspections and photographed sampled heavy equipment and related parts.
- Performed inspections of locations, such as DPW repair shops, DPW compound, public school bus stations, and the Supply Warehouse to locate heavy equipment, including those surveyed and idle.
- Evaluated and assessed the components of internal control to identify potential risks and discussed among the audit team about possible fraud.
- Obtained, analyzed, and tested inventory and purchase data from DPW and DOA to determine accuracy and completeness.
- Obtained, analyzed, and tested parts purchased via BPOs and parts issued by the Supply Warehouse for heavy equipment repairs and maintenance to determine appropriateness.
- Obtained, analyzed, and tested data on heavy equipment rentals and contractual repairs to determine appropriateness.
- Obtained, analyzed, and tested SROs and maintenance cards for appropriateness.
- Reviewed available data and documents for surveyed heavy equipment to determine compliance with DPW and GSA policies.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁹ We did not include one unit in our sample because it was detailed to the Bus Transportation Division and was not available for inspection.

OPA-Report No. 07-12 Government of Guam Vehicle Fleet Inventory issued October 2007

The audit found that DPW did not maintain a current, accurate, and complete inventory for the government of Guam. DPW did not

- Reconcile their master inventory with records kept by other entities.
- Fully monitor the complete process and documentation to support acquisitions, transfers, and survey or disposal of government vehicles.

The audit also noted a concern not related to the audit objectives wherein a common area to house surveyed vehicles was not designated due to space limitations at the General Services Agency. Our current audit found that this concern remains.

According to the DPW Automotive Repair Controller, it is difficult for DPW to monitor surveyed properties. These equipment have been sitting idle for years at the DPW compound and GSA does not inform DPW if surveyed heavy equipment is moved.

All but two of the six recommendations made to DPW, Department of Revenue and Taxation, and DOA have been closed. Recommendations to DRT that are still open are:

- Isolate the vehicle data from public tax records to permit a cost-effective and efficient review and reconciliation process.
- Enhance vehicle records database to include an appropriate archive system.

Government of Guam Single Audit Reports (SAR)

Findings related to our audit objectives include:

SAR FY 2016 Finding No. 2016-09, Equipment and Real Property Management

The required comprehensive inventory was performed, but not reconciled. DOA responded that timely reconciliations of inventory records, capital asset ledgers, and the general ledger will continue.

SAR FY 2015 Finding No. 2015-007, Equipment and Real Property Management

The required comprehensive physical inventories of properties was not performed in FY 2015 or in the two prior years. However, subsequently in January 2016, the inventory was completed. Also, survey reports for \$668K worth of assets were not available. DOA responded that they continue to be proactive by training personnel and conducting physical inventories.

SAR FY 2014 Finding No. 2014-001, Equipment and Real Property Management

The required comprehensive physical inventories of properties was not performed in FY 2014 or in the two prior years. DOA responded that they have tagged 98% of equipment and are providing training and developing standard operating procedures for fixed assets.

SAR FY 2013 Finding No. 2013-001, Equipment and Real Property Management

The required comprehensive physical inventories of properties was not performed in FY 2013 or in the two prior years. Additionally, of 15 capital assets tested, 4 assets approximating \$536K represented surveyed or inoperable items, and 2 items, approximating \$1.7M could not be located. DOA responded that a hiring process for a Program Coordinator was in progress to address capital asset accounts.

SAR FY 2012 Finding No. 2012-001, Equipment and Real Property Management

The required comprehensive physical inventories of properties was not performed in FY 2012 or in the two prior years. DOA responded that a hiring process for a Program Coordinator was in progress to address capital asset accounts.

Appendix 3:**Heavy Equipment with Inaccurate Status**

	License Plate	Equipment Type	Year	Acquisition Cost	Per DPW	Per OPA Inspection
1.	153	Tractor Truck	1992	\$ 200	Highway. OK	DVR Lot. Cannibalized (Surveyed for parts)
2.	4706	Backhoe	2007	73,895	Coral Pit. OK	DVR Lot. Cannibalized (Surveyed for parts)
3.	154	Tractor Truck	1992	200	Highway. PS (Pending Survey)	Heavy Shop. Idle. Air system defect. Currently running
4.	2360	Forklift	1990	79,223	Heavy Shop. OK	Heavy Shop. Idle. Hydraulic leak on hydraulic tank.
5.	93-0630	Backhoe	1993	73,974	Heavy Shop. PS	Heavy Shop. Idle. Engine needs to be replaced. Rotting.
6.	93-0622	Farm Tractor	1992	18,361	Surveyed	DVR Lot. Cannibalized (Surveyed for parts)
7.	4705	Backhoe	2007	73,895	Surveyed	Good running condition
8.	93-5539	Tractor Truck	1997	-	Highway. PR (Pending Repair)	DVR Lot. Cannibalized (Surveyed for parts)
9.	93-5656	Tractor Truck	1992	78,724	Highway. PS	Heavy Shop. Proposed for contractual repair - general recondition.
10.	93-3327	Welding Truck	1992	11,150	Semi Heavy. PS	Light Shop (DPW Compound). Good condition. Converted to a tire transport trailer.
11.	EQ-04-93	Tractor Truck	1993	23,990	Light Auto. OK	Light Shop (DPW Compound). Pending survey
12.	EQ8-93	Forklift	1993	36,888	Surveyed	Cannibalized (Surveyed for parts)
13.	MR-1-93	Compactor	1991	24,465	Surveyed	Cannibalized (Surveyed for parts)

Appendix 4:**Unidentified Heavy Equipment**

License Plate #		Equipment Type	Remarks from the Mechanics
1.	6477	Street Sweeper	None
2.	5540	Tractor Truck	None
3.	1356	Ingersoll Compactor	None
4.	No License Plate	Unknown	Surveyed for parts for street sweeper (license plate #6477)
5.	No License Plate	20 ton lowboy (no color)	Uncertain if this will still be used.
6.	No License Plate	Tandem Trailer (T-17)	Grounded; not properly done by contractor.
7.	No License Plate	Sterling tractor	Owned by University of Guam.
8.	No License Plate	Loader 6	Owned by Guam Police Department.
9.	No License Plate	Backhoe	Owned by Yona Mayor for repair
10.	No License Plate	John Deere Farm Tractor	Cannibalized without license plate number; With engine #H4048D014210
11.	No License Plate	John Deere Farm Tractor	Cannibalized without license plate number; Product identification #M-01070A161354
12.	No License Plate	John Deere Backhoe	With engine # T-04039F455782
13.	No License Plate	Air Force Dump Truck	Cannibalized for same equipment in Merizo
14.	No License Plate	Loader	Owned by Department of Agriculture and pending repair.
15.	No License Plate	6335 A-7 Tornado	None
16.	No License Plate	Hyster 60 forklift	None
17.	7690	Equipment #66	With starter defect.

Appendix 5:

Unauthorized Cannibalized Heavy Equipment

	License Plate	Equipment Type	Year	Acquisition Cost per Reflex System	Per DPW
1.	153	Tractor Truck	1992	\$ 200	HWY. OK
2.	613	Dump Truck	1992	97,343	Pending Survey
3.	4706	Backhoe	2007	73,895	Coral Pit. OK
4.	5171	Truck Sweeper	1993	-	Pending Survey
5.	93-0622	Farm Tractor	1992	18,361	Surveyed
6.	93-0639	Dump Truck	1992	109,000	Pending Survey
7.	93-0647	Dump Truck	1992	94,969	Pending Survey
8.	93-5539	Tractor Truck	1997	-	Pending Repair
9.	Non Road	Compactor	1991	24,465	Surveyed
10.	93-4831	Tractor Truck	1992	-	Pending Survey
11.	Non Road	Forklift	1993	36,888	Surveyed
			Total	\$ 455,121	

Appendix 6:**Heavy Equipment with Expired Registrations**

	License Plate	Year	Make	Model	Expiration
1.	0890	1992	GMC	FLATBED	October 2015
2.	2750	1996	KENWORTH	DUMP TRUCK	October 2011
3.	3450	2001	INTERNATIONAL	BUCKET TRUCK	August 2012
4.	4840	1990	NAVSTAR	WRECKER TOW TRUCK	April 2016
5.	4841	1992	GMC	WRECKER TOW TRUCK	May 2010
6.	5544	1997	INTERNATIONAL	TANKER TRUCK	November 2010
7.	5899	2014	JOHN DEERE	BACKHOE	April 2016
8.	6075	2012	SHORLANDER	TRAILER	May 2015
9.	6076	2013	SHORLANDER	TRAILER	May 2015
10.	4705	2007	NEW HOLLAND	BACKHOE	April 2008
11.	5194	1992	INTERNATIONAL	WRECKER TOW TRUCK	April 2016
12.	6335	2016	FREIGHTLINER	STREET SWEEPER	June 2016
13.	6348	2015	JOHN DEERE	BACKHOE	July 2016
14.	6349	2015	JOHN DEERE	BACKHOE	July 2016
15.	6350	2015	JOHN DEERE	BACKHOE	July 2016
16.	6351	2015	JOHN DEERE	BACKHOE	July 2016
17.	6355	2015	JOHN DEERE	BACKHOE	July 2016
18.	6356	2015	JOHN DEERE	BACKHOE	July 2016
19.	6581	2016	FREIGHTLINER	DUMP TRUCK	September 2016
20.	6582	2016	FREIGHTLINER	DUMP TRUCK	September 2016
21.	6583	2016	FREIGHTLINER	DUMP TRUCK	September 2016
22.	6584	2016	FREIGHTLINER	DUMP TRUCK	September 2016
23.	6585	2016	FREIGHTLINER	DUMP TRUCK	September 2016
24.	6586	2016	FREIGHTLINER	DUMP TRUCK	September 2016
25.	2271	1994	OMNI	LOWBOY TRAILER	September 2016

Appendix 7:

Repairs for Deteriorated, Cannibalized, & Idle Heavy Equipment Page 1 of 2

PO #	PO Date	PO Description	PO & Payment Amount	Vendor	Details per AS400
------	---------	----------------	---------------------	--------	-------------------

License Plate #613 - 1992 Kenworth T-800 Dump Truck (Cannibalized * Deteriorated)

P136A03230	3/18/2013	Repair of dump bed	\$ 8,200	VENDOR A	REPAIR DUMP TRUCK BED /PAINTING LIC#613
------------	-----------	--------------------	----------	----------	---

Total: \$ 8,200

License Plate #850 - 1992 Kenworth T-800 Dump Truck (Transmission defect)

P166A05846-	9/15/2016	Replace transmission	\$10,978	VENDOR B	TRANSMISSION REPLACEMENT OFF#850 DUMP TRUCK *
-------------	-----------	----------------------	----------	----------	---

P166A05304	9/29/2016	Transmission w/torque converter (for #850 & 846)	\$ 8,609	VENDOR C	TRANSMISSION W/TORQUE CONVERTERS#2420110920, OIL COOLER *
------------	-----------	---	----------	----------	---

Total: \$19,587

*Not a repair. Transmission parts were issued instead.

License Plate #846 - 1992 Kenworth T-800 Dump Truck (Transmission Defect)

P146A02478	3/19/2014	Repair of dump bed	\$ 8,250	VENDOR A	REPAIR OF(DPW)DUMP BED,OFF.VEH#846 1992 KENWORTH MODEL T800 FOR DPW HIWAY DIVISN
------------	-----------	--------------------	----------	----------	--

P156A04311	7/10/2015	Rebuild steering cylinder (1 line item)	\$ 400	VENDOR A	REBUILD STEERING CYLINDER REPAIR
------------	-----------	---	--------	----------	----------------------------------

Total: \$ 8,650

Appendix 7:

Repairs for Deteriorated, Cannibalized, & Idle Heavy Equipment Page 2 of 2

PO #	PO Date	PO Description	PO & Payment Amount	Vendor	Details per AS400
------	---------	----------------	---------------------	--------	-------------------

License Plate #612 - 1992 Kenworth T-800 Dump Truck (Walk Beam Suspension Defect)

P166A02041	1/14/2016	Springs (frt) p/m HK1073200	\$ 1,001	VENDOR B	U-BOLT STEEL (4 QTY)
P166A02042	1/14/2016		\$ 2,389	VENDOR D	SPRINGS, NUT RETAINER, BUSHINGS, ADAPTER KIT FOR 1992 KENB WORTH T800 OFF#612
P166A05845	9/15/2016	Replace walk beam bushing	\$ 1,186	VENDOR B	DUMP TRUCK PARTS/EQUIPMENT OFF#612

Total: \$ 4,576

License Plate #3806 - 1992 Caterpillar Wheel Loader (Transmission Defect)

P166A03490	4/29/2016	V-belt p/n 2W8952	\$ 225	VENDOR E	V-BELT ITEM#2W8952 (2)@ \$112.50 LIC#3806 PAYLOADER MODEL#966F
P156A04313	7/10/2015	rebuild steering cylinder left & right side (1 line item)	\$ 1,300	VENDOR A	REBUILT STEERING CYLINDER LEFT/RIGHT REMOVE/REINSTALL NEW PISTONS

Total: \$ 1,525

Grand Total: \$42,538



The Honorable
EDDIE BAZA CALVO
Governor

The Honorable
RAY TENORIO
Lieutenant Governor



GLENN LEON GUERRERO
Director
FELIX C. BENAVENTE
Deputy Director

July 20, 2017

Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of Public Accountability
Suite 401, DNA Building
238 Archbishop Flores Street
Hagåtña, Guam 96910

RECEIVED
OFFICE OF PUBLIC ACCOUNTABILITY
BY: [Signature]
DATE: 7/20/17
TIME: 4PM AM PM

Subject: Draft Audit Report – Department of Public Works Heavy Equipment and Related Parts Inventory Management

Buenas yan Håfa A'dai Ms. Doris Brooks,

Transmitted herewith is DPW's response to your July 19, 2017 revised draft audit. As mentioned in our July 7, 2017 meeting, DPW is grateful for the report and agrees there are improvements our department must make to become better stewards of our government's assets. The attached matrix addresses your findings and our actions to comply.

Although, not included in the matrix but discussed in our July 7, 2017 meeting, we disagree with allegations pertaining to management's disregard for its responsibilities. The following are the steps taken prior to your audit release:

1. Beginning in May 2017, DPW put in place a "Vehicle Abuse Committee" that is tasked to review all allegations of vehicle abuse by personnel assigned vehicles for specific use. DPW will use its normal contact point or the Directors office and we will use our office as a "tip line". All complaints of abuse will be logged and followed-up. This contact number is 646-3131.
2. DPW recently implemented RTA electronic fleet management system during FY 2017. This system tracks all repair work on each fleet and accounts for parts inventory and all vehicle listing. The full implementation of the RTA system will enable us to manage and track all our assets.

DPW will require its Managers and Supervisors to take ethics and fraud awareness training and would like to tak this opportunity to request for your agency to conduct annual audits of DPW.

Page 2 of 2
Doris Flores Brooks
Public Auditor
Draft Audit Report

Should you have any questions, please do not hesitate to contact me at (671) 646-3131.

Un Dangkulo Na Si Yu'us Ma'ase!



GLENN LEON GUERRERO

Attachment DPW's Corrective Action Plan (CAP) to OPA Audit Report on DPW's Heavy Equipment and Related Parts
Inventory Management

cc: Honorable Governor Eddie Baza Calvo
Bureau of Budget and Management Research (BBMR)
General Services Agency (GSA)
Department of Administration (DOA) – Division of Accounts
General Services Agency (GSA)
Mayors' Council of Guam (MCOG)
Speaker BJCruz, 34th Guam Legislature
Senators, 34th Guam Legislature

DEPARTMENT OF PUBLIC WORKS

Draft OPA AUDIT Report – DPW Heavy Equipment & Related Parts Inventory Management

OPA Audit Report: I. Physical Inspections Shows Heavy Equipment is Not Controlled						
Division	Agree / Disagree	OPA Finding	OPA Recommendations	DPW Corrective Action Plan (CAP)	Responsible Person	Target Date
TM / GSA	Disagree	a. Missing Surveyed heavy equipment totaling \$689K	Conduct heavy equipment physical inventory immediately to create and identify all heavy equipment including surveyed and non-working.	<ol style="list-style-type: none"> DPW has requested GSA to provide the various Bill of Sale(s) of their sold assets and to ensure that these assets are removed from the DPW Compound. MOU w/GSA releasing any and all responsibilities from DPW 	Paul Cepeda, TMD Supt. & GSA	Sept. 30, 2017
TM	Agree	b. Unauthorized cannibalization of heavy equipment for \$468K	Investigate unauthorized cannibalization of heavy equipment.	TM will ensure proper documentation should the need cannibalize obsolete equipment. Normal policy is not to cannibalize parts except in emergency situations	Paul Cepeda, TMD Supt.	Aug. 31, 2017
HMC	Disagree	c. Unnecessary heavy equipment rentals amounting to \$159K to compensate for a missing lowboy and \$38K for equipment that was already available	Conduct heavy equipment physical inventory immediately to locate and identify all heavy equipment including surveyed and non-working	The Lowboy in question was never missing. It was in poor shape but was utilized by Bus Operations for the movement of the School Bus Shelters. The Lowboy has now deteriorated to a point which it should be surveyed. It should be noted that rentals of equipment is necessary due to the number of Projects that HMC performs. A single Lowboy is not sufficient to accommodate all the various Projects that HMC performs.	Joaquin Blaz, Hwys. Adm.	None
TM	Disagree	d. Missing heavy equipment from inventory of \$516K	Conduct heavy equipment physical inventory immediately to locate and identify all heavy equipment including surveyed and non-working	<ol style="list-style-type: none"> Conduct inventory on all fleet Implement controls on surveyed assets Work Order shall record asset location & accountability Develop an MOU with the outside agencies who loaned DPW the asset and hold parties accountable for heavy equipment usage 	Paul Cepeda, TMD Supt. & GSA	Dec. 31, 2017
HMC	Disagree	e. Heavy equipment is not controlled. We found several issues, including heavy equipment units that were missing and parked in unauthorized locations, among other anomalies and questioned \$28K in related costs	Assign responsibilities and hold parties accountable for heavy equipment usage	<p>The Heavy Equipment in question was never missing. HMC does park equipment at various locations all over the island, depending on the location of the Project. We question the OPA's finding of \$28,000 as it does not provide a breakdown. HMC routinely parks its heavy equipment at secured locations to ensure its safety. The DPW also loans equipment to various Mayor's as requested and approved by the Director. We understand that an MOU should be in place and we will work with the MCOG to enter into an MOU.</p> <ol style="list-style-type: none"> Use of the Daily Job Report (DJR) for recording of asset location and accountability. Establish a control log on all fleet usage and location. Implement GPS tracking system. Equipment will be parked and secured at approved government locations / government satellite areas 	Joaquin Blaz, Hwys. Adm.	Aug. 31, 2017

Appendix 8:

DPW Management Response

TM	Disagree	f. Parts amounting to \$46K were issued for non-working cannibalized and idle heavy equipment	Conduct heavy equipment physical inventory immediately to locate and identify all heavy equipment including surveyed and non-working	<p>At the time of the issuance of the parts, the heavy equipment was repaired to operable condition. Since then the equipment has gone down again and is awaiting further repair or survey</p> <ol style="list-style-type: none"> 1. DPW will ensure proper documentation such as a service work order will be used. Our current fleet management software system requires a work order to be completed and employee verifies information is correct 2. DPW will attempt to repair heavy equipment in any way possible due to budget restraints. 3. RTS weekly reports will be submitted for review 	Paul Cepeda, TMD Supt.	Aug. 31, 2017
TM	Disagree	g. Unusual repair orders of \$68K for non-working cannibalized and idle heavy equipment	Conduct heavy equipment physical inventory immediately to locate and identify all heavy equipment including surveyed and non-working	<p>At the time of the issuance of the parts, the heavy equipment was repaired to operable condition. Since then the equipment has gone down again and is awaiting further repair or survey</p> <ol style="list-style-type: none"> 1. DPW will ensure proper documentation and approval on a service work order are prepared and validated by TM Supervisor beforehand. 2. DPW will attempt to repair heavy equipment in any way possible due to budget restraints. 	Paul Cepeda, TMD Supt.	Aug. 31, 2017
WHSE	Agree	h. Inaccurate and unreconciled inventory data between DPW and DOA of \$3M	Inventory should be based on accurate and reconciled equipment and purchases from DPW and DOA	<p>The difference of \$3M between DPW and DOA Fleet vehicle inventory listing is based upon the DOA's accounting practice that all fully depreciated vehicles are written off their ledgers. Whereas, DPW maintains these assets in our report listing because the vehicles are still being used for current operations and are not written off by DPW.</p> <ol style="list-style-type: none"> 1. DPW will work with DOA on creating a master record listing and perform reconciliation procedures – DPW reflex system became inoperable and a new fleet management system was recently implemented in FY 2017. DPW has updated their reports during the fiscal year and will work with DOA. We will request from DOA a listing of fixed assets on a quarterly basis rather than annually. 2. Barcodes on the RTA System will be implemented 3. DPW will perform internal physical inventory observation and inspection once a year, and will perform reconciliation procedures based on RTA, Reflex and DOA systems on a quarterly basis 4. DPW Administrative Division will work with DOA Division of Accounts and HR for training in fixed assets ethics and fraud awareness classes to all DPW employees. 	Arleen Pierce, Controller, Admin. & DOA Fixed Assets Section	June 30, 2018
WHSE	Agree	i. Unreconciled heavy equipment purchase reports from DPW and DOA amounting to \$523K	Inventory should be based on accurate and reconciled equipment from DPW and DOA.	<p>DPW maintains an Excel spreadsheet for all purchases based upon actual purchase orders. The Excel spreadsheet was maintained because the Reflex fleet management system can no longer be used and updated causing the variance between DPW and DOA reports.</p> <ol style="list-style-type: none"> 1. DPW will work with DOA on creating a master record listing and perform reconciliation procedures – DPW reflex system became inoperable and a new fleet management system was recently implemented in FY 2017. DPW has updated their reports during the fiscal year and will work with DOA. We will request from DOA a listing of fixed assets on a quarterly basis rather than annually. 	Arleen Pierce, Controller, Admin. & DOA Fixed Assets Section	June 30, 2018

				<ul style="list-style-type: none">2. Barcodes on the RTA System will be implemented3. DPW will perform internal physical inventory observation and inspection once a year, and will perform reconciliation procedures based on RTA, Reflex and DOA systems on a quarterly basis4. DPW Administrative Division will work with DOA Division of Accounts and HR for training in fixed assets ethics and fraud awareness classes to all DPW employees.		
--	--	--	--	--	--	--

**DEPARTMENT OF PUBLIC WORKS
OPA AUDIT – DPW Heavy Equipment & Related Parts Inventory Management**

<i>OPA Audit Report: II. Parts Issued To Idle Non-working Heavy Equipment</i>						
<i>Division</i>	<i>Agree / Disagree</i>	<i>OPA Finding</i>	<i>OPA Recommendations</i>	<i>DPW Corrective Action Plan (CAP)</i>	<i>Responsible Person</i>	<i>Target Date</i>
ALL	Agree	a. Blanket purchase orders issued for parts for cannibalized and idle heavy equipment	Amend Standard Operating Procedures (SOP) to require parts delivery to the Supply Warehouse for proper receiving	<ol style="list-style-type: none"> 1. Current S.O.P. requires that each Division provide the purchase order, receiving reports and items purchased are given to Supply Warehouse for their physical inspection and receipt. A circular will be given to all Divisions for their compliance and for reinforcement. 2. DPW Admin Division will provide a fixed asset training to all DPW property officers to enforce the SOP and the Procedures Manual. 	Arleen Pierce, Controller, Admin. & All Division Managers	Sept, 30, 2017

<i>OPA Audit Report: III. Unusual Repair Orders for Idle Non-working Heavy Equipment</i>						
<i>Division</i>	<i>Agree / Disagree</i>	<i>OPA Finding</i>	<i>OPA Recommendations</i>	<i>DPW Corrective Action Plan (CAP)</i>	<i>Responsible Person</i>	<i>Target Date</i>
TM	Disagree	a. Unusual repair orders for idle non-working heavy equipment	Conduct heavy equipment inventory immediately to locate and identify all heavy equipment including surveyed, non-working and idle	<p>At the time of the issuance of the parts, the heavy equipment was repaired to operable condition. Since then the equipment has gone down again and is awaiting further repair or survey</p> <ol style="list-style-type: none"> 1. DPW will ensure proper documentation and approval on a service work order are prepared and validated by TM Supervisor beforehand. 2. DPW will attempt to repair heavy equipment in any way possible due to budget restraints 	Paul Cepeda, TMD Supt.	Aug. 31, 2017

Appendix 9:**Status of Audit Recommendations**

No.	Addressee	Audit Recommendation	Status	Action Required
1	Paul Cepeda, TMD Superintendent	Conduct a heavy equipment physical inventory immediately to locate and identify all heavy equipment including surveyed and nonworking heavy equipment. The inventory should be based on accurate and reconciled equipment and purchases listings from DPW and DOA.	Open	Corrective action plan has been provided and will take effect in 0-12 months.
2	Joaquin Blaz, Highway Administrator	Investigate the alleged missing lowboy, unauthorized heavy equipment usage, and unauthorized cannibalization of heavy equipment.	Open	Corrective action plan has been provided and will take effect in 0-12 months.
3	Paul Cepeda, TMD Superintendent	Investigate parts issued to and unusual repair orders for deteriorated, cannibalized, and idle nonworking heavy equipment, as well as the purchase of the transmissions and air coolers.	Open	Corrective action plan has been provided and will take effect in 0-12 months.
4	Arleen Pierce, Controller & All Division Managers	Amend SOPs to require parts delivery to the Supply Warehouse for proper receiving.	Open	Corrective action plan has been provided and will take effect in 0-12 months.
5	Joaquin Blaz, Highway Administrator	Develop an MOU with the Mayors Council to assign responsibilities and hold parties accountable for heavy equipment usage.	Open	Corrective action plan has been provided and will take effect in 0-12 months.



**Department of Public Works
Heavy Equipment and Related Parts Inventory Management
Report No. 17-04, September 2017**

ACKNOWLEDGEMENTS

Key contributions to this report were made by:

Ira Palero, Audit Staff
Maria Thyrsa Bagana, Auditor-In-Charge
Yuka Hechanova, CPA, CIA, CGFM, CGAP, CGMA, Audit Supervisor
Doris Flores Brooks, CPA, CGFM, Public Auditor

MISSION STATEMENT

**To ensure public trust and assure good governance,
we conduct audits and administer procurement appeals,
independently, impartially, and with integrity.**

VISION

**The Government of Guam is the model for good governance in the Pacific.
OPA is a model robust audit office.**

CORE VALUES

Objectivity: To have an independent and impartial mind.

Professionalism: To adhere to ethical and professional standards.

Accountability: To be responsible and transparent in our actions.

REPORTING FRAUD, WASTE, AND ABUSE

- **Call our HOTLINE at 47AUDIT (472-8348)**
- **Visit our website at www.opaguam.org**
- **Call our office at 475-0390**
- **Fax our office at 472-7951**
- **Or visit us at Suite 401, DNA Building in Hagåtña;**

All information will be held in strict confidence.