



## **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 \$46K 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