



Guam Department of Education
Internal Audit Office
IAO Advisory
Review of Direct Payment Request to
Marianas Gas dba Island Equipment Company

Issued January 4, 2024



K. ERIK SWANSON, PHD.
Superintendent of Education

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**FRANKLIN
COOPER-NURSE**
Chief Internal Auditor

January 4, 2024

MEMORANDUM

TO: Joann G. Camacho, Deputy Superintendent of Finance and Administrative Services

CC: K. Erik Swanson, Ph.D., Superintendent of Education
Guam Education Board Audit Committee

FROM: Franklin Cooper-Nurse, Chief Internal Auditor

SUBJECT: Direct Payment for Marianas Gas DBA Island Equipment Company

Hafa Adai Deputy Camacho,

On December 22, 2023, you requested the Internal Audit Office (IAO) to review files and provide guidance relative to direct payments to vendors. Specifically, you requested for the IAO to prioritize a review of prior year unpaid invoices for Marianas Gas dba Island Equipment Company as the Facilities & Maintenance (F&M) Manager has stated the vendor will no longer honor any future Guam Department of Education (GDOE) purchase orders until payment is made for outstanding invoices, totaling \$11,166.

On December 23, the IAO initiated a limited scope review of the issued purchase order (PO), budget certification, contract, invoices, indirect cost fund balances, public law (P.L.), and relevant correspondences and memos on file. Based on IAO's review, we found:

- On October 29, 2020, the GDOE executed the first renewal of its contractual agreement with Island Equipment Company for the annual inspection and certification, hydrostatic testing, recharging and replacement of school fire extinguishers pursuant to IFB 028-2019. The total agreed compensation for the renewal was \$76,519 certified against Fiscal Year (FY) 2021 local appropriation. The renewal would term through November 30, 2021. By September 30, 2021, GDOE expended only \$31,048.50 of the full contract amount leaving an open balance of \$45,470.50 on PO 20210029.
- On November 1, 2021, the vendor issued invoices for services performed between September and October 2021, totaling \$11,166. On the same day, GDOE F&M signed invoices to acknowledge that services were received. However, F&M did not record the services as received in the Munis system.

- On November 11, 2021, the vendor forwarded invoices and supporting documents to Accounts Payable staff for payment of completed services.
- On November 15, 2021, Accounts Payable staff inquired with F&M if services were rendered relative to the invoices for PO 20210029. On the same day, F&M staff emailed the invoices that were signed as received by F&M for payment processing. However, a receiving record was not created in the Munis, and there was no action to process any payment for the invoices on file.
- On November 18, 2021, the GDOE Budget Office sent an email to F&M seeking concurrence to close open POs, to include PO 20210029, as part of the year-end process. F&M staff concurred stating, all invoices received by F&M were submitted to the Business Office. PO 20210029 was liquidated and closed on November 19, 2021 with no payment for the November 1st invoices.
- In November 2021, GDOE executed a second renewal of IFB 028-2019, which was funded by American Rescue Plan funds¹.

Although F&M staff acknowledged receipt of services and provided signed invoices to Accounts Payable, no Munis receiving record was created by F&M or Business Office staff in line with established SOP 200-034. Additionally, as part of the fiscal year-end process, PO 20210029 was liquidated and closed without accounting for the unpaid invoices.

The failure for GDOE to receive/record invoices in the system, combined with the closure of the properly issued and certified PO, resulted in the open purchase order balance of \$45,470 reverting to General Fund available balances, which contributed to a FY 2021 operational surplus of approximately \$615 thousand. The breakdown of not properly recording and paying these invoices, resulted in GDOE not utilizing funds appropriated and certified for this contract in FY 2021.

IAO, concludes that GDOE remains legally and fiscally obligated to provide due compensation for the services that were provided as part of its agreement with Island Equipment Company. Outstanding invoices need to be received, recorded and paid in the time period funding is made available. Additionally, as a compensating control, GDOE's year-end process needs to be improved to ensure that all outstanding invoices are identified and addressed prior to officially closing the books.

In light of the PO being closed, and with the expiration of the FY 2021 appropriations, the Superintendent has the option to identify available funds from the FY 2024 general fund appropriation and examine using said funds to cover the prior year obligation, provided that it does not affect current year operations, as provided in P.L. 37-42 Chapter II Part 1 Section 17.

¹ Moving forward, adequate funding to sustain services is available through federal funding for the renewal period.

Alternatively, the Superintendent could also utilize carryover funds appropriated from FY 2023 that were not expended and are available for FY 2024 expenditures per P.L. 37-42 Chapter II Part I Section 23.

Although requested by F&M, IAO does not recommend utilizing indirect cost to fund the prior year obligation to Island Equipment Company. Our review of indirect cost balances as of January 4, 2024, indicates insufficient funds for the prior year obligation, and any available indirect cost balances should be restricted for personnel costs.

Per government auditing standards and the IAO Audit Charter, the IAO is restricted from taking on a management role and making management decisions. As such, the IAO provides this memo as general guidance for GDOE management.

Should you have questions or concerns, please contact me at (671)300-1273 or fjtcooper-nurse@gdo.net.

Best Regards,

A handwritten signature in blue ink, appearing to read "Franklin J. Cooper-Nurse".

Franklin Cooper-Nurse
Chief Internal Auditor

Attachments:

1. IFB 028-2019 Executed First Renewal
2. Purchase Order 20210029
3. IFB 028-2019 Executed Second Renewal
4. Memorandum – Request for Payment – Marianas Gas dba Island Equipment Company
5. Marianas Gas dba Island Equipment Company Invoices
6. Public Law 37-42 Chapter II Part I Section 17 & Section 23