



EXECUTIVE SUMMARY

General Services Agency Small Purchases Procurement Follow-Up Audit Report No. 11-12, December 2011

The Government of Guam (GovGuam) has tremendous buying power, yet does not take full advantage of its bargaining potential. Rather than consolidate similar procurement requests, especially for recurring supplies and services, and buying in bulk, the General Services Agency (GSA), GovGuam's procurement arm, increasingly uses small purchase procurement. According to GSA's Chief Procurement Officer (CPO), agencies are ultimately responsible for planning their purchases and GSA simply processes requisitions as long as they are within the dollar threshold of the corresponding procurement authority.

Our audit from October 1, 2007 to September 30, 2010 revealed that small purchase procurement is continually increasing, from 2,812 purchase orders (POs) (\$4.9M) in FY 2008 to 3,770 (\$6.9M) in FY 2009 and 4,247 (\$8.3M) in FY 2010. This equates to 10,829 POs worth \$20.1M in the three fiscal years, purchased without advertisement. GSA's failure to plan purchasing for line agencies and consolidate procurement of recurring items led to artificially dividing and/or not consolidating purchases totaling \$3.1M that should have been procured through competitive sealed bids. We also found that GSA processed three small purchase POs, ranging from \$15,401 to \$35,390 which exceeded the \$15,000 small purchase limit and that the Mayor's Council of Guam (MCOG) did not comply with procurement regulations in expending \$95,843 purportedly on small purchases.

Small Purchases Used in Lieu of Competitive Sealed Bidding

GSA routinely issues small purchase POs on behalf of all line agencies for recurring items, circumventing the competitive sealed bidding process which requires advertisement. The departments of Public Health and Social Services (DPHSS) and Public Works (DPW) are consistently the two highest users of small purchase procurement, issuing the most POs every fiscal year.

Small purchase procurement is piecemeal, uncomplicated, and convenient, limits competition, stifles fairness, is inherently inefficient and costly, and does not require advertisement. In requiring only three price quotes from vendors, small purchase procurement closes the doors to those vendors, not selected who may offer better products, services and/or prices. GSA routinely decides and not the agencies which three vendors to solicit quotes from. This adds further to the speculation of "who you know" in government in order to do business. Small purchase procurement leaves the wider vendor market untapped.

The fundamental objective of government procurement is to provide departments and agencies with the goods and services they need to carry out their duties to the public efficiently and effectively. Those goods and services must be of the right quality and quantity at the lowest overall cost, and delivered and available on a timely basis. To these ends, the procurement process should involve as much competition as possible, to ensure that the opportunity to compete is open and fair to all who choose to do business with their

government. Small Purchase limits competition to only the select or preferred three vendors.

Small Purchases by Agencies

The top three recurring procurements were for (1) office supplies and equipment; (2) medication, medical supplies and services; and (3) computers and associated equipment. DPHSS was the largest purchaser using small purchase procurement in all three categories for all three years. Of the \$3.1M in artificially divided and/or non-consolidated purchases, we identified \$1.4M (47%) resulting from DPHSS' poor procurement planning and GSA's lack of oversight. Our analysis revealed that:

- Purchases for office supplies and equipment increased by 163%, from \$760K in FY 2008 to \$2M in FY 2010. The number of POs rose by 108%, from 711 in FY 2008 to 1,476 in FY 2010. DPHSS' purchases amounted to \$779K. Questioned costs totaled \$621K for all agencies for all three years.
- Of the total \$2.9M expended for medication, medical supplies and services, DPHSS spent \$2.4M, issued in 804 small purchase POs. Procurement in this category increased from \$714K in FY 2008 to \$1.1M in FY 2010. Questioned costs totaled \$1.6M for all agencies, of which DPHSS accounted for \$1.2M for the three years.
- Procurement of computers and associated equipment increased by 72%, from \$566K in FY 2008 to \$975K in FY 2010. The top five agencies issued 1,138 POs totaling \$2.3M. Of these, DPHSS issued 247 POs totaling \$627K. Questioned costs totaled \$884K for all agencies, of which DPHSS accounted for \$229K.

Small Purchase POs Processed Despite Exceeding \$15,000

There were four POs totaling \$90,015 that exceeded the \$15,000 threshold, which were issued by GSA, GPD and DPW to four vendors for copier paper, computer equipment, software installation, and security services.

MCOG Did Not Follow Small Purchases Procurement Laws

We tested 20 POs totaling \$95,843 issued by the Mayors' Council and found that none complied with Guam Procurement Law. The required quotations were absent, awards were not made to the lowest bidder and purchases appeared to be artificially divided.

Conclusion and Recommendations

In order to obtain the best possible price, GovGuam should procure recurring goods or services through advertised competitive sealed bidding process i.e. indefinite quantity and indefinite amount bids instead of by small purchase authority. Small purchase procurement requires the solicitation of no less than three price quotes, which inherently limits competition to other vendors who may wish to participate and could offer a better product or service and/or price. Small purchase procurement also stifles fairness. In requiring only three quotes, GSA may lead to expediency and limit itself only to the first three vendors they prefer, leaving the wider vendor market untapped.

Both the DOA Director and the CPO disagreed with our findings. The CPO stated "Different agencies and departments submit their requisitions at different times and usually with differentials in their needs. Unless, GSA had taken the time to get an agencies procurement needs for a particular item, then the government does not have the capability to determine when a particular request comes in. Buyers handle specific agencies and do not know what

other agencies are requesting at any time. Some requests are grant time sensitive and cannot wait for other agencies submittal to be included even if we knew about it.” The DOA director and CPO contend that purchases of similar items from individual agencies can be awarded individually as small purchases. We disagree with this contention as it does not consider consolidation of similar items. What value added does GSA provide, if it merely processes individual POs from individual agencies? All other findings remain.

The MCOG Executive Director disagreed with our findings and maintains that it has met the goal to follow all procurement regulations set forth by Guam law, stating a quote that comes back with “no quote” or “does not accept government PO” is indeed a quote, and is sufficient enough to meet the 3 quote requirement for small purchase. However, we found that MCOG did not make an effort to seek additional quotations when one of the solicited vendors either did not respond or responded with a “no quote”, thus limiting competition. Therefore the findings remain.

In this time of declining budgets every effort should be made to maximize and stretch procurement dollars to enable our government to receive the lowest possible price with commensurate value.

We made several recommendations to include establishing IT controls so that small purchase POs exceeding \$15,000 will be rejected; analyzing recurring small purchases of line agencies and consolidate procurement of these requirements through competitive sealed bidding; reestablishing credit and buying relationships with federal agencies and other low cost vendors to take advantage of lower prices for medications.

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