



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**FEDERAL GRANTS ADMINISTRATION,
GUAM COMMUNITY COLLEGE**

**REPORT NO. 95-I-1202
AUGUST 1995**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUG 23 1995

MEMORANDUM

TO: **The Secretary**

FROM: **Wilma A. Lewis**
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Federal Grants Administration, Guam Community College" (No. 95-I-1202)

Attached for your information is a copy of the subject final audit report.

The Community College did not allocate salaries based on actual work load distribution for full-time employees, and it incorrectly charged overtime wages to Federal grants. The College also paid and charged Federal grants for part-time wages that were unallowable under Federal grant regulations, were in excess of employment contract rates, or were not supported. This resulted in questioned personal services charges of \$157,204.

Based on the College's response, we considered two recommendations resolved. The recommendations pertained to: (1) ensuring that charges to Federal grant programs are made in accordance with Office of Management and Budget Circular A-21, "Cost Principles for Educational Institutions"; and (2) ensuring that policies related to dual employment are implemented. However, the College was requested to reconsider the recommendation regarding questioned costs and either provide the supporting documentation for the costs incurred or advise the grantor agencies as to how it intends to resolve the questioned costs."

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Headquarters Audits
1550 Wilson Boulevard
Suite 401
Arlington, VA 22209

AUG 22 1995

Dr. Richard G. Tennesen
Chairman, Board of Trustees
Guam Community College
P.O. Box 23069
GMF, Guam 96921

Dear Dr. Tennesen:

Subject: Final Audit Report on Federal Grants Administration, Guam Community College (No. 95-I-1202)

This report presents the results of our review of Federal grants administration by Guam Community College. The objective of the review was to determine whether Guam Community College administered Federal grants (other than Federal student financial assistance programs) in accordance with grant agreements and applicable laws and regulations. Our review covered expenditures charged to Federal grants in fiscal years 1992 and 1993.

Our audit disclosed that the Community College did not allocate salaries for full-time employees on the basis of actual work load distribution and that it incorrectly charged overtime wages to Federal grants. Further, the Community College paid and charged to Federal grants part-time wages that were unallowable under Federal grant regulations, in excess of employment contract rates, or not supported. These conditions occurred because the Community College did not have procedures that would ensure compliance with Federal and local requirements pertaining to personal services charges. As a result, we questioned personal services charges of \$157,204.

To correct the conditions noted, we recommended that your office request the Community College President to ensure that charges to Federal grant programs for personal services are in accordance With-Office of Management and Budget Circular A-21 and Title 4, Guam Code Annotated.

Based on the response (Appendix 3) to the draft report from the Chairman, Board of Trustees, Guam Community College, we consider one recommendation resolved and implemented, one recommendation resolved but not implemented, and one recommendation unresolved (see Appendix 4). Also based on the response, we revised two recommendations and did not include the discussion of equipment that was contained in our draft report.

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by October 20, 1995. The response should provide the information requested in Appendix 4. A copy of your response should also be provided to our North Pacific Region, 238 Archbishop F.C. Flores Street, Suite 807; Pacific News Building; Agana, Guam 96910.

Sincerely,

A handwritten signature in black ink, appearing to read "Marvin Pierce". The signature is fluid and cursive, with the first name "Marvin" being more prominent than the last name "Pierce".

Marvin Pierce
Acting Assistant Inspector
for Audits

cc: President Guam Community College
Director, Bureau of Budget and Management Research

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INTRODUCTION

BACKGROUND

Guam Community College, an autonomous entity of the Government of Guam, was established by Guam Public Law 14-77 on November 11, 1977. The Community College consists of three instructional divisions. The Secondary Division operates Guam's vocational-technical high school. The Post Secondary and Continuing Education Division provides degree and nondegree vocational-technical and career programs. The Apprenticeship Training Division was established to develop apprenticeship training programs in view of the local needs for employees skilled in various crafts and trades. In the fall 1993 semester, enrollment in the Community College was as follows: the vocational high school, 1,441 students; the adult high school, 329 students; the post secondary school, 2,217 students; the Criminal Justice Academy, 138 students; and the apprenticeship program, 352 students. The Community College is administered by a seven-member Board of Trustees appointed by the Governor subject to confirmation by the Legislature. Day-to-day operations are managed by the President of the Community College, who is appointed by the Board of Trustees.

The Community College maintains its records and accounts separate and apart from other Government of Guam accounting activities. For fiscal years 1992 and 1993, the Community College had revenues of \$20 million and \$15.4 million, respectively (including Government of Guam subsidies of \$16.4 million and \$13.6 million, respectively), and expenditures of \$19.8 million and \$17.8 million, respectively. The Community College charged expenditures of \$1.8 million to 16 Federally funded programs in fiscal year 1992 and \$1.02 million to 11 Federally funded programs in fiscal year 1993 (see Appendix 2).

The criteria for administering Federal grants are contained in Office of Management and Budget Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Nonprofit Organizations," and Office of Management and Budget Circular A-21, "Cost Principles for Educational Institutions." In addition, Title 4 of the Guam Code Annotated contains the criteria applicable to employees of the Government of Guam, and Title 5 of the Guam Code Annotated contains the criteria for the procurement of goods and services.

OBJECTIVE AND SCOPE

The objective of our audit was to determine whether Guam Community College administered Federal grants (other than Federal student financial assistance programs) in accordance with the grant agreements and applicable laws and regulations. Our grant audit covered Federal grant expenditures that occurred during the period October 1, 1991, through September 30, 1993. Audit work was performed at the Community College and the Guam Department of Education.

Our review was made, as applicable, in accordance with the “Government Auditing Standards,” issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our audit, we evaluated the system of internal controls related to the administration of Federal grant programs at the Community College. We did not review the internal controls relating to travel charges because these controls were included in the Office of Inspector General’s audit report on the Government of Guam’s travel practices (see Prior Audit Coverage). We found internal control weaknesses in the charging of costs for personal services. This weakness is discussed in the Finding and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls *in* this area. Also, based on the Community College’s response to the draft report, we did not include in this report the discussion of equipment that was contained in our draft report.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the U.S. General Accounting Office nor the Office of Inspector General has issued any reports that addressed the administration of Federal grants at the Community College. However, the Office of Inspector General issued a report in November 1993 entitled “Travel Practices, Government of Guam” (No. 94-1-106), which included the Community College. The report concluded in part that the need for travel was not adequately justified and per diem was not limited to amounts authorized by law for travel expenditures of \$1,456. In addition, the Community College did not require travelers to file travel documents after they completed travel.

A certified public accounting firm issued a single audit report on the Community College for fiscal years 1987 and 1988. The report stated that no material instances of noncompliance were identified and that the Community College had complied, in all material respects, with requirements applicable to major Federal financial assistance programs. However, the report stated that the financial status reports used to claim grant expenditure reimbursements did not agree with the financial

statements, resulting in unreimbursed Federal grant expenditures of \$526,000. In addition, the report questioned expenditures of \$5,012 that were incorrectly charged to Federal grants.

FINDING AND RECOMMENDATIONS

PERSONAL SERVICES COSTS

In charging personal services costs to Federal grant programs, Guam Community College: (1) did not allocate employees' salaries on the basis of actual work load distribution and incorrectly charged overtime wages; (2) included additional part-time wages (paid to full-time employees), which was not allowable under Federal grant regulations and was contrary to local law;¹ and (3) included part-time wages that either were in excess of employee contract rates or were not supported for the Federal programs for which they were charged. These conditions occurred because the Community College did not have procedures to ensure: (1) that charges to Federal grants for personal services were based on a system of work load monitoring or personnel activity reports; and (2) that the College's employment practices complied with the restrictions imposed by Federal grant regulations and local law. As a result, for fiscal years 1992 and 1993, we questioned personal services costs of \$157,204: payroll wages, \$94,958; additional wages, \$39,355; excess wages, \$1,799; and unsupported wages, \$21,092.

Payroll Wages

The Community College charged full-time and overtime wages to Federal grant programs that were not allocable to those programs. This occurred because the Community College did not base charges for personal services on either a system of monitored work load or a system of personnel activity reports. As a result, the Community College charged, to Federal grant programs, personal services costs of at least \$94,958 (\$51,178 for fiscal year 1992 and \$43,780 for fiscal year 1993) that were not allocable to those programs.

Circular A-21 provides that a cost is allocable to a Federal program if it is incurred solely to advance the work under the program. The Circular also provides that these costs may not be shifted to other grant programs in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the grant or for other reasons of convenience. In addition, the Circular requires that Federal grant charges for compensation for personal services be based on either a system of monitored work load or a system of personnel activity reports.

In fiscal years 1992 and 1993, the Community College charged wages to Federal grant programs as follows: full-time wages, \$873,319 (\$512,634 in fiscal year 1992

¹Office of Management and Budget Circular A-21 contains the cost principles applicable to Federal grants, and Title 4 of the Guam Code Annotated contains provisions applicable to all employees of the Government of Guam.

and \$360,685 in fiscal year 1993); part-time wages, \$384,681 (\$220,753 in fiscal year 1992 and \$163,928 in fiscal year 1993); and overtime wages, \$20,439 (\$447 in fiscal year 1992 and \$19,992 in fiscal year 1993).

We reviewed documentation supporting full-time wages of \$850,626 charged to Federal grants for 30 employees, and we interviewed 23 of these employees to determine whether their wages were charged to the proper grants. We determined that \$76,433 of the \$850,626 was not charged to the proper grant programs. For example, our review of one employee's full-time salary for fiscal year 1992 indicated that 99 percent of his \$53,872 annual salary was charged to the Vocational Education Program and 1 percent was charged to the Adult Education Program, both Federally funded programs. There was no documentation to support the Community College's basis for allocating the employee's wages between the two programs. In addition, the employee stated that he performed services for the Vocational Education grant only 50 percent of the time but that the majority of his salary was charged to the Vocational Educational Program because more funds were available in that program. This resulted in the Vocational Education grant being overcharged by \$26,397 and the Adult Education Program being undercharged by the same amount.

Of the \$850,626 in full-time wages we reviewed, we were not able to determine whether full-time wages of \$188,266 were charged to the proper Federal grant programs because the Community College did not maintain the required activity or confirmation records and the employees were not available for interview.

The Community College did not have documentation to support that \$18,525 charged to Federal grants for overtime work directly benefited Federal grant programs. Also, the Community College did not document why the cost of overtime work was charged to Federal grant programs while the cost of work performed during the employees' base salary period was charged entirely to local programs. As a result, we questioned overtime charges of \$18,525.

During the last 3 months of fiscal year 1993, the Community College charged Federal grant programs overtime costs of \$3,575 that were paid to a procurement section administrative assistant to the Federally funded Drivers Education Program, although the employee's regular salary, as well as \$6,153 in overtime paid during the preceding 8 months, was charged to local funds. The Community College could not provide documentation to support the allocation of the overtime to a Federal grant program. Further, the employee stated that his regular duties included responsibility for coordinating the maintenance of the Community College's fleet of cars, including Drivers Education Program cars, and that he was regularly paid overtime. Therefore, based on the duties performed by the employee, the amounts paid represent an indirect cost and are not allowable as a direct cost of the grant. Accordingly, we questioned overtime costs of \$3,575 charged to the grant.

Additional Wages

The Community College charged at least \$39,355 (\$18,739 for fiscal year 1992 and \$20,616 for fiscal year 1993) to Federal grant programs for part-time wages paid to employees in addition to their full-time salaries. Both Circular A-21 and Title 4 of the Guam Code Annotated contain restrictions on compensation in excess of base salary for personal services not related to teaching activities. This occurred because the Community College did not have procedures to ensure that its employment practices complied with the restrictions imposed by Federal grant regulations and local law.

For example, a financial aid office employee whose regular full-time wages were charged to local program funds was paid additional wages of \$4,509 in fiscal year 1992 and \$9,378 in fiscal year 1993 that were charged to a Federally funded program. According to the Community College Assistant State Director, the Community College knew that paying part-time wages to this employee in fiscal year 1992 was prohibited “dual compensation.” The Community College subsequently discontinued the part-time pay. However, in fiscal year 1993, the Community College paid the same employee overtime wages in lieu of part-time wages, apparently to avoid a violation of Guam law. Accordingly, we questioned both the part-time wages paid in fiscal year 1992 and the overtime wages paid in fiscal year 1993.

Excess and Unsupported Compensation

The Community College charged Federal grant programs for part-time wages that either were in excess of employment contract wage rates or were unsupported. Specifically, of the part-time wages reviewed, we determined that the Community College charged \$1,799 (\$996 in fiscal year 1992 and \$803 in fiscal year 1993) more to Federal grants than the amount specified in the employees’ teaching contracts. In addition, the Community College could not support whether part-time wages of \$21,092 (\$14,890 in fiscal year 1992 and \$6,202 in fiscal year 1993) paid to full-time employees benefited the Federal grant programs for which they were charged.

Recommendations

We recommend that the Chairman, Board of Trustees, Guam Community College, request the President of the Community College to:

1. Ensure compliance with the requirement in Office of Management and Budget Circular A-21 that the allocation of personal services charges to Federal grant programs should be based on either a system of monitored work load or a system of personnel activity reports.

2. Ensure implementation of the Community College's policies and procedures related to "dual employment."

3. Advise the grantor agencies of the questioned costs and either resolve questioned costs with the grantor or arrange for repayment.

Guam Community College Response

The November 9, 1994, response (Appendix 3) to the draft report from the Chairman, Board of Trustees, Guam Community College, cited written procedures that are in place to address Recommendations 1 and 2 and did not concur with Recommendation 3.

Recommendation 1. The Community College stated that it had used a monitored work load system before the end of 1992. The College further stated that the system had been "revised and modified and made even more specific," including the incorporation of nonregulatory guidance provided by the U.S. Department of Education on time distribution for entities governed by Office of Management and Budget Circular A-87.

Recommendation 2. The Community College stated that it already has regulations and procedures "that would stop any questionable practices with regard to 'dual employment,'" and it included information in its response that it said supported this statement. The College further stated that the Personnel Services Administrator will be requested to ensure that issues regarding dual employment are made a part of the College's Personnel Policies and Procedures.

Recommendation 3. The Community College stated that "there should be no questioned costs" for the three examples cited in our report as follows: First the work load related to grant assignments was being documented by the College "within the parameters of the Federal requirements for the period audited." Second, since management is authorized by the Guam Code to assign duties that may require overtime, the report's conclusion that overtime costs for the Drivers Education Program employee should have been indirect costs and therefore not charged to Federal grants was "incorrect." Third, since the "fundamental tasks" in the agreement for the Women's Program relate to "counseling and instruction," it therefore "appears" that this activity is covered by that part of the law that "clearly allows" for dual employment when the second employment relates to instructional activities, which is indicated as a duty in the position description of the Financial Aid Officer. The Community College also stated that it could not respond to the section "Excess and Unsupported Compensation" because "specifics were not mentioned."

Office of Inspector General Comments

Based on the response from the Community College, we consider Recommendation 1 resolved and implemented, Recommendation 2 resolved but not implemented, and Recommendation 3 unresolved (see Appendix 4).

In its response to Recommendations 1 and 2 in our draft report, the Community College said that it did have written procedures in place to address these recommendations. Therefore, we revised these recommendations for our final report so that compliance with these written procedures would be ensured.

Regarding Recommendation 3, even though we accept the Community College's statement that it has the necessary systems, regulations, and procedures to provide adequate supporting documentation for the costs incurred (Recommendations 1 and 2), adequate documentation was not provided during the audit or in the Community College's response for the questioned costs discussed in this finding. Therefore, we request that the Community College reconsider its response to the recommendation and either provide the supporting documentation or advise the grantor agencies as to how it intends to resolve the questioned costs. Also, Community College officials can review, upon their request, specific information on the questioned costs that is contained in our working papers.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Questioned Costs*</u>		
	<u>Fiscal Year 1992</u>	<u>Fiscal Year 1993</u>	<u>Total</u>
Personal Services	<u>\$85,803</u>	<u>\$71,401</u>	<u>\$157,204</u>

*Amounts represent Federal funds.

SCHEDULE OF CHARGES TO FEDERAL GRANT PROGRAMS

<u>Program</u>	<u>FY 92 Amount</u>	<u>FY 93 Amount</u>
Vocational Education	\$395,936	\$513,376
Adult Education	231,415	100,392
Cooperative Education	32,440	14,903
National Literacy Workplace	123,045	N/C
Engineer Achievement	4,100	N/C
Federal Endowment	500,000	N/C
Project 3-D	8,528	N/C
Drivers Education	20,550	29,153
Technology Education	114,171	36,670
Special Education	251,182	204,449
Drug Free Program	26,002	22,116
Career Outreach	3,528	N/C
Title III	91,050	N/C
Facility Grant	7,588	N/C
Headstart	1,129	1,803
Suicide Intervention	1,035	N/C
Manhita Todo	N/C	48,363
Child Care and Development	N/C	4,029
Pacific Vocational Educational Improvement	<u>N/C</u>	<u>47,914</u>
Total	<u>\$1,811,699</u>	<u>\$1,023.168</u>

N/C - No charge to the program.



November 9, 1994

BOARD OF TRUSTEES

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North Pacific Region
238 Archbishop F. C. Flores Street
PDN Building, Suite 807
Agana, Guam 96910

Re: Letter of September 27, 1994; assignment N-IN-GUA-011.93.

Dear Mr. Gillentine:

Guam Community College (GCC) is in receipt of your draft audit and letter dated 9/27/94. This letter represents GCC's response to various recommendations made in the audit plus comment about the findings.

A. PERSONAL SERVICES FINDINGS AND RECOMMENDATIONS

Recommendation 1

Develop and implement written procedures with regard to the charging of personnel activity to Federal grant programs.

Prior to the end of 1992, GCC utilized a monitored work load system whereby a limited number of personnel were assigned to grants and if necessary personnel costs were transferred to/from the grants to reflect the assignment and activity of the employees. On November 25, 1992, Winifred Warnet, Director of Vocational-Technical Education for the Federal Government issued "Non-Regulatory Guidance Regarding Time Distribution Records." (Emphasis added; see Appendix A-A). This document provided information on additional suggested ways of recording record keeping on employees who worked on grants. GCC immediately reviewed the memo (see Appendix A-B) and also distributed Dr. Warnat's memo. During the rest of FY 93, during the time that the memo was being studied and implemented, documentation on grant effort was handled as noted in the memo to the file from the Administrative Services Officer (ASO) (See Appendix A-C). In that memo the ASO notes that during that period

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time keepers and employees were contacted to verify the proper allocation of time and effort. Starting with FY 94, GCC put into place a time and effort reporting system (See Appendix A-D). This system has been revised and modified and made even more specific. It has been discussed with federal personnel who have visited GCC and it has been additionally revised in accord with certain of their suggestions (See Appendix A-E).

Per this review it can be clearly said that GCC has in place a system for tracking the allocation of personal services charges to Federal grant programs. Based on this review it can also be said that GCC has been responsive to even the "non-regulatory guidance" of the federal government with regard to tracking personal activity on formula and other grants. It has been and continues to be the policy of the Board of Trustees and the management of GCC to follow the federal rules and regulations that apply to grants and contracts at GCC. While the DOI Auditor may not like the level of documentation that was available in FY 92 and FY 93, GCC believes that at that time it was being responsive to the requirements of the federal government for formula and other grants. This is especially so because the memo from the Federal government suggesting additional documentation requirements (Appendix A-A) clearly indicates that it is "non regulatory" and it did not cite other federal regulations for its suggestions. It should also be noted that formula grants do not allow for indirect costs to be charged to them in any way.

Recommendation 2

Develop and implement written procedures to ensure that GCC does not hire personnel contrary to the "dual employment" rule in Guam law.

The memo from GCC's Personnel Services Administrator indicates that GCC put in place regulations and procedures that would stop any questionable practices with regard to "dual employment." See Appendix A-F. In addition the Personnel Services Administrator will be asked to make sure that issues with regard to dual employment are made part of GCC's Personnel Policies and Procedures.

Recommendation 3

Advise grantor agencies of questioned costs and resolve any related issues.

Response. Questioned costs fundamentally relate to three items. Item one is

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documenting work load related to grant assignments. Based on the discussion in recommendation one noted above, GCC believes that they were documenting workload within the parameters of the Federal requirements for the period audited. Therefore there should be no questioned costs with regard to that item.

Item two relates to the charging of overtime work to federal grants. The only example the audit cites is the instance of the Driver's Education Program. The employee cited was interviewed. He indicated that the statement in the audit was incorrect. During the period mentioned his regular duties did not include "responsibility for coordinating the maintenance of the Community College's fleet of cars." This was also confirmed by the employee's vice president. Therefore the conclusion in this section of the audit about "indirect cost [s]" is incorrect. Appendix A-G notes the authority of management in GovGuam to assign additional or collateral duties (p 15). This includes the authority to assign duties that may require overtime. Because management may legitimately make such assignments there should be no questioned costs with regard to this item.

Item three relates to the payment of part-time employment for employees who are also working full-time at the college. The example cited was of an financial aid office employee who also had responsibility for running the Women's Program. The Assistant State Director was quoted in this section of the audit. He has been interviewed and he indicates that quote is incorrect in that it implies that he knew of a problematic situation in FY 92. In any case the task requirements of the grant have been reviewed. A summary is included as Appendix A-H. It indicates that the fundamental tasks in the program agreement relate to counseling and instruction. Given this fact, it appears that this activity comes under that part of the law that clearly allows for dual employment when the second employment relates to instructional activities. Also see Appendix A-1 which shows that counseling activities are considered a subset of inspection activities (see section C.2). See also the memo of the Financial Aid Officer indicating the instructional and counseling nature of the position (Appendix A-J). In any case in FY 93 GCC switched to the use of overtime based on the analysis done by the Personnel Services Administrator (see Appendix A-K and Appendix A-G). It is clear that the use of overtime is correct and falls within the parameters of GovGuam law. Therefore there should be no questioned costs with regard to this item.

The final section covers *Excess and Unsupported Compensation* (p 9). Since specifics were not mentioned, it is not possible to respond specifically except to

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mention that this appears to be a continuation of the issues noted in recommendation one above. Those concerns were dealt with in that recommendation. Therefore it there should be no questioned costs with regard to this item.

B. EQUIPMENT RECOMMENDATIONS AND FINDINGS

Recommendation 1

Develop and implement procedures to ensure that procurements funded by Federal grants comply with grant terms and conditions and prior grantor approval.

As noted in Recommendation one under PERSONNEL it has been and continues to be the policy of the Board of Trustees and the management of GCC to follow the federal rules and regulations that apply to grants and contracts at GCC as well as any related GovGuam rules and regulations. However it should be noted that there has been a fundamental error made in this audit. Please review the faxed letter from the Office of Vocational and Adult Education (Appendix B-A). It clearly indicates that any need for prior approval for equipment purchases has been waved by the Office of Vocational and Adult Education for their formula grants. Since the great bulk of the findings relate to an incorrect audit assumption, significant revision of the audit findings is necessary. In addition it should be noted that it was pointed out to the auditors while they were at GCC that formula grants such as VEA and ABE did not require prior approval.

The audit indicates that 90 out of 91 purchases did not have prior approval from the federal granting agency (p 12). Based on the notification above, this is clearly an incorrect statement.

In the same section the audit questions the purchase of a greenhouse for lack of prior approval and for the fact that the greenhouse was not mentioned in the state plan. Since prior approval is not necessary, specific mention of items in the State plan is not necessary. However it should be noted that the Annual Plan for Horticulture for FY 93-94 includes the purchase of a greenhouse (Appendix B-B). In addition the approved Guam State Plan (Appendix B-C) includes the objective of providing "direct program support in terms of staff and material." The postsecondary program agreement (Appendix B-D) under which the greenhouse was purchased

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includes as an objective the purchase of “necessary materials, books, and equipment for the start-up of new courses and programs.” Horticulture was a new program and GCC’s standard process of review includes the review of departmental annual plans. Therefore it can be clearly said that the purchase of the greenhouse was within parameters of the requirements of the formula grants involved and the required planning processes including the state plan.

[In the section *Grant Related Use* (p 13) the audit criticizes GCC for purchasing furniture for the library because such purchase was not in the state plan and because the furniture “benefits all of the Community College Programs.” First a review of the paragraphs above clearly show that specific mention in the state plan *is* not required. The relevant section of the approved state plan notes the following: “GOAL: The goal of the vocational program renovation activities is to improve the College’s instructional stations and laboratories (Appendix B-E).” The same plan also notes the objective to “renovate existing vocational and technical education facilities...” Therefore the purchase was within the parameters of the formula grants involved. In addition it should be noted that formula grants provide for supplementing state funds in support of programs that are related to grant outcomes (Appendix B-F). The Perkins II act itself says “Funds made available under title ii shall be used to supplement, and to the extent practicable increase the amount of State and local funds that would in the absence of such Federal funds be made available to the uses specified in the application, and in no case supplant such *State* or local funds.” Since the funds involved supplemented GovGuam funds, it is clear that it is appropriate that *in* many cases the outcome benefit all the Community College’s programs.

The same section also criticizes GCC for purchasing a van to support the activities of the Nursing Assistant Program. As part of the criticism, the act quotes the minutes of the departmental meeting of Allied Health. The audit states that the Dean of the School of Technology and Allied Health made a statement about the use of the van during that meeting and based on that statement, GCC is being criticized. It should be noted that the minutes of the meeting show that the dean was not present at the meeting and therefore could not have made a statement about the van. Further there is nothing in the minutes (Appendix B-G, p 2) that supports the quotation noted. The quote is from the Department Head for Allied Health. At that point the Department Head is speaking to the other members of the same department. Therefore there can be no implication drawn about the van being purchased for some other reason than for the needs of Allied Health.

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However it should be clearly noted that the audit also incorrectly assumes that equipment items may only be directly used for the purposes directly allowed by the grant. First of all as noted above, it is the intention of the Perkins Act that its funds supplement available GovGuam funds. As part of such a supplement it is clear that such funds may benefit purposes which are also benefited by GovGuam funds. Otherwise the supplement statement could have no meaning. In addition it should be noted that *Edgar* (80.32 c2) states: "The grantee or subgrantee shall also make equipment available for use on other projects or programs currently or previously supported by the Federal Government, providing such use will not interfere with the work on the projects or program for which it was originally acquired." (Appendix B-H). In addition the Perkins Act itself, under which the van was purchased, says: "Equipment purchases pursuant to sections 231 and 232, when not being used to carry out the provisions of this Act, may be used for other instructional purposes if

- (A) the acquisition of the equipment was reasonable and necessary for the purpose of conducting a properly designed project or activity under this title;
 - (B) is used after regular hours or on weekends; and
 - (C) such other use is
 - i incidental to the use of that equipment under this title, and
 - ii does not interfere with the use of that equipment under this title;
 - iii and
 - does not add to the cost of using that equipment under this title
- (Appendix B-1)

This van was purchased because it was necessary for the purposes of conducting a properly designed project. It is available to be used by other departments only when it is not needed by Allied Health; its use is incidental to its use for Allied Health and does not interfere with Allied Health's needs and does not add to the cost of using that equipment under this title. The recorded use of this van falls entirely within the parameters of the grant.

Recommendation 2

Develop and implement procedures to ensure that procurements are conducted competitively in accord with appropriate law.

It has been and continues to be the policy of the Board of Trustees and the

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management of GCC to follow the applicable GovGuam procurement rules and regulations as well as any Federal rules and regulations that may additionally apply to grants and contracts at GCC. The most recent evidence of this is from the revised BOT Policy Manual (Appendix B-J). GCC is in the process of revising these rules and regulations in accord with the changes that have already been approved for the GovGuam Department of Education as well as those changes that are currently under review for the GovGuam Department of Administration. These revisions include the upward revision of purchasing limits in accord with the limitations already approved by the Federal government for Guam. These include the new limit of \$25,000 for sealed bid procurements.

With regard to the purchase of eight computers for \$22,970 it *should* be noted first of all that the audit is incorrect. The vendor from which the computers were purchased has a Guam business license. It is not correct to say that the company involved was an off-island business. Second the machines ordered came with the three year warranty, That warranty was significantly longer than that offered by any other vendor. Third this warranty is honored on-island, something that was not true of other companies and machines reviewed. Fourth, GCC had bad experience with other on-island vendors in terms of their performance and follow through after winning bids. In some cases specified items were not delivered or were delivered very late. At other times items were delivered without appropriate configurations or went bad very quickly.

In order to meet these problems, GCC went on a search for a local vendor who could supply proven brand name product(s), could warrant those products and repair them on-island, and could demonstrate some level of deliverability and reliability. Because GCC had also experienced severe problems with a lack of comparability between computer brands, it was also determined to be important that GCC standardize on a limited set of PC brands. A number of vendors were reviewed and price quotes were obtained from them. Initially GCC issued the attached memo (Appendix B-K) Subsequently Digital Equipment Corporation and its reps were added to the list. The review indicated that at the time the only vendors who could come close to meeting the established standards were Digital Equipment Corporation (DEC) and Computerland. Even Computerland had demonstrated a lack of follow through on some of the bids they had won. However their performance appeared to be adequate overall. Therefore since that time GCC has standardized on both DEC computers from Digital Equipment Corporation and NEC computers from Computerland. Periodically GCC checks with other suppliers

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to see if the situation has changed.

As part of this analysis the files related to Computerland and DEC were reviewed. It was determined that during the period in question twelve quotes and evaluations were obtained from nine different companies. Given the number of quotes obtained, the extensive evaluation of purchasing alternatives, and the need for standardization, GCC believes that it was entirely within parameters in purchasing the machines noted. The same is true of the purchase totaling \$1,970.00. As part of the review of this process, the purchase for \$22,970 was reviewed with a federal employee sent to help GCC review its grant management practices. That employee noted that it is entirely within parameters to accept higher bids if that represents legitimately established standards or meets other important needs. This is no different than the federal government itself settling on a limited set of PC brands.

Periodically GCC management reviews purchasing procedures with GCC employees (Appendix B-L). A review of it and GovGuaM purchasing law indicates that it is the purpose of purchasing regulations to ensure that the procurement regulations exist to "promote economy, efficiency and effectiveness in the procurement of supplies, services, and construction (Appendix B-M)." While part of that process is to ensure that GovGuam receive a fair price for what is purchased, price is only one part of the purchasing process. The purchasing process allows discretion at key points including consideration of quality, ability to deliver, and repairability. This even extends to the use of sole source under a number of circumstances including "the compatibility of equipment, accessories, or replacement parts is the paramount consideration (Appendix B-N)".

While the auditor may not agree with the decision made, it is requested that the auditor understand that appropriate efforts are being made at GCC to follow the rules and regulations that apply to all purchasing efforts including the ones noted.

Recommendation 3

Establish a property management system that ensures that property acquired with Federal funds is accounted for and controlled appropriately.

Guam Community College has been without the services of a property management officer for several years. Despite the severe budget cuts in the last two years, GCC hired a new property management officer in 11/93. As part of the initial efforts of

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this person an initial inventory has been taken. In addition, equipment has been purchased to allow for better tagging and tracking of equipment. This latter process is just starting and should be completed as of 07/95. Included in this is the tracking and controlling of equipment by the source of funds that purchased the equipment. This includes tracking what federal funds purchased what items.

Recommendation 4

Advise grantor agencies of the questioned costs and resolve any related issues.

The analysis in items B-1 and B-2 indicates that the fundamental questions with regard to purchases of equipment with federal funds have been answered. Therefore there should be no questioned costs to be resolved.

If there are any other questions, please let me know. Given the thoroughness of the response, GCC formally requests that this proposed audit be corrected and changed to a management letter similar to what was done for the University of Guam.

Thank you for your help and consideration as well as that of your staff.

Sincerely,



RICHARD G. TENNESSEN, Ed.D.
Chairman

RGT:JJT/jjt

c John Cruz, President GCC

[APPENDICES TO RESPONSE NOT INCLUDED BY OFFICE OF INSPECTOR GENERAL.]

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1	Implemented.	No further action is required.
2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary - Policy, Management and Budget for tracking of implementation.
3	Unresolved.	Reconsider the recommendation. If concurrence is indicated, provide an action plan that includes a target date and the title of the official responsible for advising grantor agencies of questioned costs and documentation on how issues were resolved.

**ILLEGAL OR WASTEFUL ACTIVITIES
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THE OFFICE OF INSPECTOR GENERAL BY**

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