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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
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AUDIT REPORT
USAID/LAOS
PROJECT COMMODITIES PROGRAM
PROJECT NO. 439-11-995-080

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Reference Center
Room 1656 NS

Period Covered by Audit:
July 1, 1970 through August 31, 1973

Audit Report No. 8-439-74-20

Date Report Issued November 16, 1973

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AUDIT REPORT

USAID/LAOS

PROJECT COMMODITIES PROGRAM

PROJECT NO. 439-11-995-080

PART I - PURPOSE AND SCOPE

We have completed an interim, comprehensive audit of the Project Commodities Program, Project No 439-11-995-080, administered by the USAID/Laos Office of Management through its Supply Management Division (SMD). The objectives of the audit were to evaluate the effectiveness of the program and identify and report on any problems affecting program implementation.

The audit covered the period from July 1, 1970 through August 31, 1973, and included a review of project documentation and pertinent records maintained by USAID/Laos, discussions with responsible USAID and other officials, and visits to warehouses located at PhaKhao, Khao Lio and Ban Xon (LS 272). Due to the nature of the commodities involved, their wide variety, low unit cost, and broad usage throughout the Mission program, we did not conduct utilization or end-use checks. These checks are included as a regular procedure in our audits of other USAID projects and operations.

Significant matters disclosed by the audit are presented in Part IV, Statement of Findings and Recommendations. Major findings are summarized in Part III.

PART II - BACKGROUND

The Project Commodities Program was started in FY 1967 by USAID/Laos, with approval from AID/W, to establish centralized control and issuance for Mission commodities such as POL (Petroleum,

Oil & Lubricants), cement, and construction materials. Prior to the program, each technical division had its own supply and distribution system for such supplies, and as a result, numerous Project Implementation Order/Commodities (PIO/Cs) were being issued for these commodities on an individual project and subproject basis.

The Mission began centralizing all common-use (CU) supplies in January 1967 and issuing consolidated CU PIO/Cs in February 1967. In 1969, stocks of vehicle and equipment parts were transferred to SMD from USAID/Laos' Rural Public Works (RPW) and Motor Transportation Branch (MTB) inventories and incorporated into the central stock control system without benefit of physical inventory of RPW stocks.

From a funding viewpoint, the Project Commodities Program is a memorandum project under which the CU PIO/Cs are issued for consolidation purposes. The actual funding for the consolidated PIO/Cs is provided by the various Mission activities such as the Agriculture Development, Educational Development, and General Technical Support projects. The individual project agreements for the activities carry the obligation amounts for the CU commodities to be procured, and the CU PIO/Cs, in turn, contain consolidations of the commodities involved plus allocations of the total funding by projects. For accounting purposes, the Office of Finance (OFIN) treats the Project Commodities Program as a temporary project, or clearing account.

Separate project accounting records have been established for the consolidated PIO/C's; periodically, obligations and expenditures incurred thereunder are transferred to the actual projects involved based on SMD issuance reports which show the cost of common-use commodities issued to each activity.

PART III - SUMMARY

Basic elements of commodity management were not always properly adhered to in the past, resulting in resources not being effectively and efficiently utilized, and affecting present program implementation. Audit findings are discussed in detail in Part IV

of this report. We summarize below the findings we consider most significant.

A physical inventory of approximately \$4,500,000 of repair parts has not been completed for six years (Part IV, A, Page 4). The last physical inventory of \$2,300,000 general supplies was taken without adequate pre-inventory location survey (Part IV, A, Page 4).

About two-thirds of the \$4,500,000 repair parts inventories are reported inactive (Part IV, B, Page 8).

Two project warehouses are being operated outside the SMD supply system, reportedly, because service provided through SMD system was not fully responsive to project needs (Part IV, C, Page 10).

Gasoline field stocks were not adequately managed, resulting in thefts and alterations of records (Part IV, D, Page 13).

PART IV

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A - PHYSICAL INVENTORIES

1 - Repair Parts

A physical inventory of the 46,000 line items (approximately \$4,500,000) of repair parts for Mission vehicles and equipment has not been completed and reconciled to Stock Record Cards (SRCs) for six years. SMD, which took over responsibilities for such stocks in 1969, experiences large numbers of warehouse refusals (i. e., demands which cannot be filled although SRCs indicate that the parts are on hand). Records show many warehouse refusals and completed or pending inventory write-offs resulting therefrom. Also, there are items in stock which are not properly reflected on SRCs.

In FY 1973, CU stocks in the Vientiane area were transferred to a newly constructed central warehousing location at PhaKhao where SMD now maintains the SRCs for all its supply locations. The transfer involved relocating "active" vehicle and equipment repair parts from Khao Lio warehouses, leaving a substantial portion of stocks at Khao Lio with the intention of later disposal. SMD also holds CU stock at ten field subdepots and one pipe and fence storage yard. However, these stocks in total constitute only a small portion of the inventory value of stocks at the PhaKhao and Khao Lio locations.

The above problems can be attributed to three major causes, according to an SMD supervisor. These are (1) stocks not in proper location in warehouses, (2) inaccurate pick-up of SRC balances when the manual SRC system was converted to a partially computerized system in April 1971, and (3) theft.

Inventory write-offs totaled \$52,000 for the six-month period ended June 30, 1973. We estimated an additional \$90,000 in pending write-offs based on accumulated warehouse refusals at that date. However, we recognize that losses will be partially offset by inventory

gains as some other parts are subsequently located and properly identified.

Our limited test of 543 demands for stock (May and June 1973) disclosed that forty-three demands, or 8%, resulted in warehouse refusals. Fifteen of these were at PhaKhao, twenty-three at Khao Liew, and five were refused at both. The SRCs show the several storage locations for each line item, but do not indicate the quantity at each location.

We made another limited test by counting thirty-eight line items physically located at Khao Liew. We found that for thirteen line items, SMD personnel could not find SRCs. For five line items, SRCs were found but the location was not on the card. Twenty-five items for which there were SRCs were reported to be in forty-two locations - nine at PhaKhao and thirty-three at Khao Liew. Visual inspection of the forty-two locations showed that eleven had no stock on hand. Our physical counts of the twenty-five line items disclosed fourteen differences - six shortages and eight overages. Of course, the thirteen items for which there were no SRCs would be considered overages, so there was a total of twenty-seven differences out of the thirty-eight line items counted.

At present, about three hundred demands per month are sent to Khao Liew. We were told that about fifty percent of the demands are refused. This was borne out by a test of 145 demands made during the first half of July 1973 which showed that eighty (55%) resulted in warehouse refusals.

The warehouse refusal problem at Khao Liew has apparently existed for some time. The problem was diagnosed by SMD in February 1972 as a need for a location survey. The survey has not yet been completed, and the high percentage of warehouse refusals continues.

We were told that a physical inventory of about 20,000 line items transferred from Khao Liew to PhaKhao was taken, but not reconciled to SRC balances. The inventory slips (RMKs) were pre-laid starting in July 1971 at Khao Liew. Inventory teams started counting, listing and pulling one copy of the slips in December 1971. Items counted were placed in boxes for transfer to PhaKhao.

The opening of the latter warehouse, originally planned for April 1971, did not materialize until July 1972. The move of repair parts was started in September 1972 and completed in February 1973. Items were recounted and compared to RMK slips before being placed in new stock locations at PhaKhao.

A physical inventory is being taken of stocks remaining at Khao Lico. It was started in January 1973 and it is continuing. The purpose of the inventory was to make an accurate record for disposal of the "inactive" items. Smaller parts are being removed from the shelves and placed in cardboard boxes. Lists were prepared by the inventory teams of items so placed, showing the locations from which the stocks were removed and a number was assigned to each box. Although items in boxes appear to be correctly referenced to prior locations, our tests indicated that SRCs, in many cases, do not reflect the proper prior locations to which the boxed items are referenced. If the SRCs were correctly referenced, we believe that there would be a considerable increase in the demands that could be filled, including items in inventory which are not recorded on the SRCs also indicated by our test.

We noted that inventory count slips were being held by the inventory personnel and not being turned over to SMD so that SRCs stock locations could be corrected. This was brought to the attention of SMD officials and subsequently we learned that corrective action was initiated. The fact that stock issues and transfers were being made during the course of this inventory and that identical items are in locations at PhaKhao, we believe that this inventory, as recorded, will be of limited value to the Mission in terms of correcting the SRC balances. If, however, the items having activity (perhaps 1,000 to 2,000 items) were recounted in connection with a full inventory at PhaKhao, the results of the Khao Lico inventory could be effectively utilized.

Recommendation No. 1.

We recommend that USAID/Laos take action to (a) complete a physical inventory of repair parts at Khao Lico and PhaKhao locations, and reconcile such inventory to the SRCs; (b) correct all the stock location references shown on SRCs, eliminating locations which are no longer valid; (c) establish a regular procedure to accomplish a complete physical inventory and reconciliation of stocks on an annual

basis, and (d) assure that complete location information is maintained on SRCs of multi-location items.

2 - General Supplies

The last physical inventory of general supplies was taken in October 1972 without benefit of an adequate pre-inventory location survey. Audit tests in July 1973 indicate that sufficient stocks are mislocated or not recorded on SRCs so as to require a new location survey. Audit tests also show that the present 4,169 balances recorded on SRCs, valued at \$2,338,000, when compared to stocks on hand contain sufficient differences to warrant a new physical inventory.

As a test, we selected forty items listed on SRCs and compared card balances with stocks physically on hand. Of \$13,636 inventory value of card balances tested, we discovered \$1,257 in shortages and \$194 in overages. Five of the differences noted were in excess of \$100 each. The differences were referred to Stock Control Section and action was initiated to correct the deficiencies through inventory adjustment. Causes of the differences appeared to be theft in some cases, to improper locations recorded on SRCs, and to errors in recording the results of the prior inventory taken in October 1972.

In another test, we selected thirty-seven items physically in stock at PhaKhao. Four were not traceable to SRCs currently in file and six were found in locations not shown on SRCs. The total inventory value tested was \$9,737, disclosing shortages of \$919 and overages of \$383, excluding items not traceable to SRCs.

Recommendation No. 2

We recommend that USAID/Laos take action to complete a new location survey followed by a physical inventory of general supplies stocks on hand, and reconciliation to SRC balances.

B - INACTIVE STOCKS

About two-thirds of the \$4,500,000 in inventories of repair parts are reported as inactive stocks. Excess stocks have increased by \$254,000 in four and one-half months. Not all excess stocks have been referred to proper SMD channels so that disposal actions can be initiated.

Computer listings of excess stocks and long supply show the manufacturer's number or federal stock code, description, unit of issue, last date of issue, date of last receipt, unit price, quantity in excess or long supply, dollar value, and in the case of long supply, the average monthly or yearly usage of each item.

The excess stock report for March 29, 1973 contained 1,374 pages with approximately twenty-three lines to a page with a total value of \$2,602,328 of which \$2,439,858 was in repair parts. The long supply report contained 117 pages for a total of \$804,028 of which \$561,217 was in repair parts. We estimate that there were in excess of 30,000 line items of repair parts listed in these two reports of inactivity, reflecting an inventory value of \$3,000,000.

Excess stocks are those items for which there have been no issues processed by the computer for two or more years, or items that have been coded manually as excess. Long supply is stock that exceeds projected usage, defined as stock that has been in the computer system for at least six months and in excess of twenty months average usage.

The March 29, 1973 listing of \$2,439,858 excess repair parts compared to the last similar listing on November 15, 1972 of \$2,186,344 shows an increase of \$253,514 during a four and one-half month period.

Records at SMD/Central Parts (CEN) show that only 21,806 line items valued at \$1,939,240 have been referred to SMD's excess property unit for screening prior to disposal action. According to a SMD/CEN official, SMD/CEN stopped referring computer-listed excess stock to the SMD excess property unit, when it was learned that the data contained in the computer listing was inaccurate, i. e.,

(a) many line items appearing in the listing could not be located, and (b) quantities reported as excess were found to be erroneous.

Most of the excess parts are at Khao Liew. The Khao Liew stocks were originally procured with RPW project funds and in FY 1969 transferred to SMD in an effort to improve management and control. SMD operated the Khao Liew warehouse for about three and one-half years. In FY 1973, SMD transferred stocks considered to be active to PhaKhao warehouse, leaving what was believed to be inactive stocks at Khao Liew. As stated previously, about 300 demands per month have been going to Khao Liew, indicating that at least some of these stocks are still active. This was further substantiated by our limited test of twenty-five items physically in storage locations at Khao Liew, which disclosed that six items were also in locations at PhaKhao and that five items were not on SRC's.

Mission officials stated that the deficiencies discussed in this section will be corrected as other recommendations made in this report are fully implemented.

Recommendation No. 3

We recommend that USAID/Laos take action to (a) refer excess parts not previously screened through its established channels in preparation for disposal actions, (b) complete the disposal of excess parts, and (c) transfer Khao Liew stocks with activity to PhaKhao.

C - DUAL WAREHOUSING

Two project warehouses are being operated by RPW at LS-272 in close proximity to an SMD field warehouse, yet outside the SMD supply system. Such operations are costly, and provide less control. The real problem appears to be in determining which parts and what quantities SMD should have on hand to keep equipment downtime to a minimum.

Review of repair part issues from the SMD supply depot in Vientiane disclosed that issues were being made to and accumulated by RPW as stocks on hand, in separately operated field warehouses at LS-272. Some such issues were priority requested and obtained by SMD through emergency procurement in Bangkok at cost considerably in excess of like items obtained through regular procurement channels.

The recording of the issues to RPW stock caused the SMD records to indicate increased usage. There was, of course, no increase in usage - only a transfer from one Mission location to another. Under the current supply system, RPW is presumed to be using materials as drawn and not to be stocking them. Therefore, the SMD reordering system caused the apparent increased usage to be translated into higher requisition objectives, then into orders for larger quantities, and finally into what will become an overstocked position with all of the attendant costs of storage. More important than the storage costs will be the amount of money put into unneeded items that could be used more effectively for other Mission needs.

SMD operates a field warehouse at LS-272 within one hour's driving distance of two warehouses operated by RPW personnel. We were told that SMD stocks approximately 1,500 lines of repair parts valued at \$150,000. It is estimated by RPW personnel that RPW stocks between 700 to 800 line items, with estimated value of \$80,000, at one of its two warehouses. We learned that many identical items are stocked by both SMD and RPW at these LS 272 field locations.

Recently, RPW has acquired the services of a fourth direct-hire American Equipment Advisor to take charge of the requisitioning of required parts from SMD. SMD does not have such a

specialist on its staff. A considerable amount of the advisor's time is spent travelling between SMD and RPW warehouses in search of parts. A small helicopter has been provided by the Mission for the advisor to control road project operations, expedite parts, and reduce downtime on equipment.

Review of the issue procedures at the RPW and SMD supply warehouses at LS 272 and discussions with personnel disclosed that SMD has better trained personnel and tighter controls over repair parts issues and inventory on hand than does RPW. Audit tests indicated adequate procedures for audit trail for receipts and issues by SMD. Conversely, stocks issued to RPW are already charged off the Mission's inventory records. RPW mechanics are permitted to enter the RPW stock warehouses and remove parts from the shelves using a sign-out sheet posted by the door. Limited checks disclosed that stock record cards did not reflect proper locations and balances of stocks on hand. Although spare parts accumulation started in September 1972, we noted that stock record cards were not established until July 24, 1973 at the RPW location visited.

We conclude that dual operation of field warehouses by RPW is a more costly process in terms of inventory and requisition levels maintained, operating personnel needed, reduced controls of stocks and in locating parts. Further, we believe that SMD should have the services of an equipment advisor in order to serve the entire Mission's supply system.

Recommendation No. 4

We recommend that USAID/Laos take action to (a) consolidate the RPW field warehouses and stocks into the SMD supply system, and (b) provide SMD with the services of an equipment parts specialist.

The dual warehousing system was brought into being by RPW because RPW officials were of the opinion that service provided through the SMD system was not fully responsive to their needs. The RPW project funds about sixty percent of the common-use repair parts.

Specifically, RPW officials state that repair parts are not available on a timely basis and, as a result, vehicles and equipment are deadlined for extended periods. It is their belief that SMD has not done an adequate job of anticipating needs for repair parts and, for that reason, they have established their own stocks of some items. The fill rate for requisitions is one measure of how effectively a supply system is working. Our review of 543 requisitions presented to SMD during May and June 1973 disclosed that only 68% were filled from stock on hand.

In addition to the RPW stocks mentioned, one of their Khao I-ao equipment advisors is screening the SMD listings of excess parts and has selected approximately 4,500 line items to be placed in RPW stocks. This raises the question of why SMD has items on its excess parts lists when RPW is of the opinion that they are needed. It appears that there has been insufficient communication between SMD and RPW. The new Chief of SMD has moved to remedy the situation by requesting assistance from RPW to determine the repair parts needs for RPW equipment on hand. The RPW equipment advisor is devoting about half of his time to preparing a take-off, by piece of equipment, of parts which should be stocked and the maximum and reorder points for such parts. It is anticipated that it will take about one year for him to complete the review; however, interim reports will be forwarded to SMD as individual categories of items are completed.

It appears that little attention has been given to correlation of the repair parts inventory with equipment on hand. When new types of equipment have been acquired, an adequate supply of repair parts for that equipment has not been acquired simultaneously.

On the other hand, when old equipment has been disposed of, the related parts have not been put into the disposal process. Because disposal procedures were not initiated promptly, the Mission is paying storage and control costs on parts that are of no use to the Mission. This problem has been alluded to in the section of "Inactive Stocks".

Recommendation No. 5

We recommend that USAID/Laos take action to see that SMD is advised of (a) the requirement for spare parts support whenever procurement of new equipment is proposed and the means to acquire them, and (b) vehicle and equipment disposals so that the stocks of related repair parts may be reduced or disposed of.

D - PETROLEUM, OIL, LUBRICANTS AND RELATED PRODUCTS

1 - Gasoline

Not all field stocks have been inventoried monthly and reconciled to accountable balances; this resulted in thefts being concealed. Where controls do exist, computer-prepared reports designed to expose excessive consumption by vehicle did not result in effective actions by supervisors, and at one field station apparent alterations of issue records went undetected.

Gasoline and other POL products delivered to field stations are required to be inventoried monthly and reconciled to prior inventory, receipts, and issues, using Form Laos 152. Exceptions to these requirements were found to exist for field stations operated outside the SMD system - primarily certain road and construction projects managed by RPW or FHWA (Federal Highway Administration). Discussion with RPW personnel disclosed that tie-ins of inventory, receipts and issues was not made. At one location, KM-52, records of issues to vehicles and equipment were kept, but such records remained at field locations and were not captured by the computerized reports. The records maintained of gasoline issues, however, were only estimates since the location did not have a workable fuel gauge for its pump. We noted that thefts have gone undetected for many months, apparently due to laxity in reporting controls at one or more locations. These thefts have been referred to the Auditor General Inspections and Investigations Staff (IIS).

Field stations operated under the SMD system report issues by vehicles and equipment using Laos Form 140. Our review disclosed that at two field stations (Nam Tan and Savannakhet) the forms were altered or changed to reflect increased issues. The Nam Tan alterations were so primitive that they should have been easily detected by supervisory personnel approving the daily issues. The records reviewed indicated that the practice of altering gasoline issues had been going on for some period of time, dating at least back to April 1972. The Savannakhet forms showed that original issue figures had been altered, but less frequently or not as obviously as those noted for Nam Tan.

The alteration of forms resulted in a large number of high consumption vehicles being shown on computerized reports (POL 201 and POL 202). In some cases, the word "Excessive" was printed in the right margin of the report opposite the reported information. In many other cases, high-consumption vehicles were not so flagged. Mission manual order revision setting forth consumption standards for certain vehicles had apparently not been received by Systems Design Section (SDS) and, therefore, the computer program had not been updated.

The mileage readings and consumption figures were, however, shown on the reports. We compared the information so listed for MTB, Agriculture Division (AGR) and RPW project vehicles serviced through the SMD system with the standards set by the Mission for determining excessive usage. Our test was for the period from June 8 to July 19, 1973. Of 369 four or more wheeled vehicles reviewed, 131 (or 35.5%) were found to be using excessive gasoline by Mission standards. Another twenty-two vehicles for the RPW project were found to have broken speedometers. Seventeen of the twenty-two broken speedometer vehicles had been in this condition for two or more months as evidenced by prior POL 201 reports.

Five of the twenty Nam Tan vehicles showing the highest usage were vehicles which the Mission had disposed of by grant-in-aid to the Royal Lao Government.

The problems of control weaknesses, excessive usage of gasoline, altered records, "unflagged" computer report entries, and broken speedometers were referred to the Mission and certain remedial actions were taken.

Recommendation No. 6

We recommend that USAID/Laos take action to require that (a) receipts and issues of gasoline from all stations be reconciled to stocks on hand and reported monthly to the Mission, (b) all issues be identified ultimately to particular vehicles or pieces of equipment and periodically compared with usage standards set for such vehicles and equipment, (c) the computer program for flagging excessive usage of gasoline be updated to incorporate usage standards established for vehicles not yet incorporated, and (d) to curb the high incidence of excessive usage vehicles and equipment, to stop operation of those with broken speedometers, and to end support for grant-in-aid vehicles with unsatisfactory cost benefit ratio.

2 - Related Products

Issues of engine oil, lubricants and brake fluid to some field locations appeared excessive, which may indicate pilferage and/or serious maintenance problems. For example, our review of SMD brake fluid issues (excluding RPW and FHWA direct issues) from July 1972 to July 1973 disclosed the following:

<u>Field Locations</u>	<u>Vehicles Controlled by MTB</u>	<u>Quarts Issued</u>	<u>Average Quarts Per Vehicle</u>
Vientiane	326	640	2.0
Pakse	90	400	4.4
Savannakhet	80	480	6.0
Luang Prabang	65	176	2.7
Ban Houei Sai	37	116	3.1
Nam Tan	26	216	8.3
Sayaboury	21	100	4.8
Vang Vieng	20	136	6.8
Thakhek	18	96	5.3

From discussion with SMD officials, we learned that the Mission has recently (July 1973) completed a special study on brake fluid utilization. The report recognized excessive usage, possible pilferage and the need for tighter controls.

Recommendation No. 7

We recommend that USAID/Laos regularly compare issues, by locations, of non-gasoline petroleum products with related numbers of vehicles and equipment authorized to be serviced, to identify areas of excessive usage and/or maintenance deficiencies.

E - EXCEPTIONAL DEMANDS

Aperiodic and seasonal demands for certain general supplies cause rapid depletion of stocks and, as a result, some materials are not available when needed. This in turn causes problems in program implementation, particularly in the area of construction of facilities.

The CU system is so designed that quantities ordered for stock replenishment are based on average monthly usage (AMU). The system is similar to that used by the General Services Administration (GSA). GSA, however, has a large number of users, so peaks and valleys due to abnormal and seasonal demands are not so pronounced as they are in USAID/Laos' much smaller CU system. Further, those peaks and valleys are not so critical for GSA because they are some three months closer to their sources of supply.

Because of the long supply line and the small number of users having sometimes widely fluctuating demands, SMD should depart from the AMU system under certain circumstances. One such circumstance is the undertaking of large construction projects. There have been occasions when the Officer-in-Charge of Construction (OICC) has experienced delays in construction because SMD could not supply all of the government furnished material (GFM) called for by contracts with the builders. In order for SMD to provide, on a timely basis, quantities of materials

well in excess of normal usage, they should be provided with advance notice of material requirements and the funding necessary to acquire those quantities. If SMD were to maintain an inventory level capable of meeting all requirements - abnormal as well as normal - it would require a large investment of Mission funds that might be utilized more effectively elsewhere.

We believe there should be fuller communication between the Project Managers who conceive the facilities, OICC who designs them, and SMD who is expected to procure the necessary materials. After approval of the budget, planned construction for the ensuing fiscal year could be translated into material requirements. With this information and the planned construction schedule, SMD could plan for orderly and timely procurement. Also, SMD's knowledge of what materials are available and the length of time required to acquire them could be of assistance in the design of structures and the scheduling of their construction.

Another circumstance calling for departure from the AMU system is the existence of projects with known seasonal demands. The Education Project, for example, has a once-a-year demand for large quantities of chalk, pencils, and other school supplies. These should be ordered on the basis of Education Division forecasts, not on the basis of AMU.

During the course of our audit, the above was discussed with SMD officials. As a result certain corrective action was taken to assure better communication within the Mission for the purpose of coordinating needs and procurement of those general supplies having aperiodic and seasonal requirements. Accordingly, we are not making a formal recommendation.

F - RECORDS AND REPORTS

Several areas were noted in which procedures were not being followed or were in need of clarification and in which we believe that the effectiveness of management of SMD/Supply Branch could be improved. Many procedures and duties were not set forth in writing, including responsibilities of supervisory personnel for periodic follow-up.

1 - Issue Documents

Follow-up was not made of delays in filling of issue slips (Form 203s) resulting in due-out releases for priority demands being held in one case for an extended period of time after emergency shipments were received.

In connection with a review of 100 Form 203's for June 1973, we noted that several were not yet in the completed file as of July 27, 1973. Further review disclosed that five were due-outs issued on June 11, 1973 for priority parts due in on emergency procurement. The due-ins arrived from Singapore by June 4, 1973 and were placed into stock.

The practice was to prepare the due-out releases in advance of stock arrival and to hold these forms in the warehouse receiving office for match to incoming receipts to expedite issue to the requesting activity. In the case noted, however, since the priority items had been received and placed in stock before the due-out releases were prepared, match-ups were not possible and the documents remained in the Receiving Office until the time of our review, or fifty-two days after receipt.

A log book was being maintained in the SMD/CEN of Form 203's sent to and returned from warehouse, but bi-weekly follow-up was not made of uncleared items.

The above was brought to the attention of the Chief, Supply Branch, who re-established the procedure to investigate all uncleared items in the transaction log on a bi-weekly basis. Subsequently, the practice of holding due-out releases in the Receiving Section was also changed.

2 - Reconciliations

We noted cases where SMD/CEN was not promptly reconciling computer and manual postings to SRCs.

A computer-based Automated Inventory Management System (AIMS) was designed starting in July 1970 and completed in July 1971 for the purpose of providing management with reports and information to allow the timely and accurate determination of the status of major aspects of SMD.

In the SMD/CEN High Dollar Stock Control Unit, we noted thirty-six examples of unreconciled shortages (i. e. manual balances greater than adjusted computer SRC balances) totaling \$50,000 which were unidentified by the clerk. Some differences existed for more than one year.

In the SMD/CEN Federal Class Nos. 1055 to 2805 Stock Control Unit, we noted that more than 2000 SRCs prepared for the unit from the July 19, 1973 update had not yet been filed or reconciled by August 10, 1973 - approximately eleven working days after the updated SRCs were received by SMD/Supply Branch.

3 - Reorder Points

Calculations of reorder points under the AIMS program and those performed manually by SMD/CEN clerks were not on a consistent basis.

The AIMS lags behind the manual system by one to seven weeks and clerks have been instructed orally to use a method other than the computer method for calculating AMU and reorder points. The computer calculates AMU using a running average which weighs the current month's usage with the average brought forward from prior months. This computation causes the AMU to rise or lower very quickly depending on the most current month's usage. The manual system's AMU is calculated by SRC clerks using the simple monthly average of the most current twelve-month period and reordering is based on this computation. On the other hand, "Long Supply" and other reports are prepared by computer using the computer calculations.

We compared the two systems of computing AMU on a small test basis and noted a considerable variance between the two methods. To be consistent, we believe that the AIMS and the manual system should be on the same basis, thus, computer reports such as "Long Supply" will more closely reflect the manual reordering system in use.

4 - Demand/Order Processing Time

Processing time for new orders by SMD/CEN when out of stock conditions exist, ranged from three to fifteen workdays and averaged 9.2 workdays according to our test of such items in July 1973.

Request for new orders are prepared by SRC clerks using an internal office form provided for this purpose after determination that a substitute item is not available. Such forms are then edited by supervisory personnel and sent to the requirements section where purchase orders are prepared. We believe that five working days or less should be sufficient time to process orders for out of stock replacement.

5 - Supplier Cancellations

Report of Requisitions Cancelled (REQ 206) was not being reviewed by SMD Stock Control Section, thus necessary reorders were not always processed in a timely manner.

REQ 206 is a computer-prepared bi-weekly report of requisitions cancelled including those cancelled by suppliers. The report for the period July 6-19, 1973 disclosed seventy-two cancelled line items for repair parts and thirteen for general supplies. We reviewed twenty-three of the repair parts cancellations and noted seven that were cancelled by suppliers which should have triggered manual reordering. Notice of cancellation by Fed-Milstrip suppliers is received in punched card form from such suppliers, processed by the computer and reported bi-weekly to SMD/Supply Branch REQ 206. The information is again reported to SMD/Supply Branch through monthly SRC update. Bi-weekly review of the REQ 206 reports would save two weeks reorder time at midmonth and insure that reorder action is taken. The above was brought to the attention

of the Stock Supply Officer, who advised that action will be taken to see that REQ 206 reports are promptly investigated.

6 - Discrepancy Reports

Discrepancy reports for short shipments received had not been prepared by SMD/CEN from October 1972 until the time of our audit. However, we noted that short shipments had occurred during that period. The administrative assistant, SMD/CEN, stated that he was aware of the responsibility but was not being advised by section personnel when discrepancies occurred. This was discussed with the Supply Control Officer who advised that all repair parts receiving reports for the above period would be reviewed and discrepancy reports filed.

7 - Evidence of Receipt from Field Locations

We tested various types of common-use issues by SMD to field locations and noted that in many cases SMD had not as yet obtained signed copies of Lao Form 203s from the field locations outside Vientiane. The return of signed forms is required by Mission Manual Order No. 541.1.9, Requisitioning Centralized Repair Parts and Material, and by Supply Management Bulletin No. SM-042B, Lao Form 203, Supply Requisition/Issue and Return Document.

While action has been taken to correct most of the deficiencies discussed in this section, we believe that many of them would not have occurred had there been adequate written instructions for the guidance of employees and supervisors. Adequate written instructions which can be used by the employee as a working guide should reduce the amount of day-to-day supervision required, leaving the supervisor with more time for the detection and resolution of problems.

Recommendation No. 8

We recommend that USAID/Laos (a) prepare written instructions setting forth the duties and operating procedures for each SMD position, with specific reference to deficiencies discussed in this section, and (b) develop consistent systems for computer and manual determination of AMU, reorder points, and requisition objectives.

G - DUE-IN STATUS

In connection with our audit of the Project Commodities Program, we noted that the Mission's various procurement activities funneled through SMD have resulted in a reported \$17,600,000 commodity orders placed, but not yet received. Of this amount, \$3,600,000 were reportedly in the pipe-line for more than a ten-month period.

Mission computerized REQ 208, Due-In Status Report, for July 5, 1973 shows Mission Commodity due-ins of \$17,600,000 to be primarily composed of the following projects:

<u>Project</u>	<u>Total Due-In</u>	<u>Bangkok Procurement</u>	<u>Other Sources</u>
Refugee Relief	\$ 6,677,663	\$ 6,318,197	\$ 359,466
Military Support	3,592,372	3,213,533	378,839
Village Health	1,403,415	-	1,403,415
National Roads	1,128,990	-	1,128,990
Project Commo.	1,121,987	248,927	749,060
All Others	<u>3,672,210</u>	<u>685,931</u>	<u>3,110,279</u>
	<u>\$17,596,637</u>	<u>\$10,466,588</u>	<u>\$7,130,049</u>

Our finding was discussed with SMD officials during the course of the audit. We subsequently noted that SMD, on August 9, 1973, had initiated action by requesting applicable Mission offices to respond whether project commodities shown in the Due-In Status Report had been received. As of September 20, 1973, we noted that certain offices had responded. SMD officials stated that follow-up action is being taken.

Accordingly, we are not making a formal recommendation for corrective action.

H - ACCOUNTING

Accounting for the Project Commodities Program is complex. In the past, it has led to inaccurate reporting and confusion as to funds available for new commitments.

In theory, separate project accounting records are maintained for the program to record the consolidated obligations and expenditures. Periodically, these obligations and expenditures are transferred by journal vouchers to the actual projects involved on the basis of SMD issuance reports showing the inventory value of program commodities issued to each activity. In practice, the Mission has authorized non-project entities (including the Army and Air Force Attaches, American Community Association, and certain USAID contractors) to use the system on a bill and collection basis. The resulting collections are treated accounting-wise as offsets to expenditures to be spread to the various projects. Problems have arisen in the past as to which fiscal year various collections should apply, resulting in transfers of funds between fiscal years.

It has been generally recognized that the accounting procedures for the Project Commodities Program were in need of simplification and that better controls were needed. The Mission has recently devised a plan to meet these needs. It is understood that the plan will be put into effect within a few weeks. Because of the Mission's action, we make no recommendation.

PART V . GENERAL COMMENTS

On October 6, 1973, an exit conference was held with the Mission Director and eleven members of his staff present, including senior Office of Management and Supply Management Division officials. At the meeting, the findings and recommendations contained in this report were accepted. In the Mission's reply to the draft report, dated October 16, 1973, the Mission Director stated with respect to Recommendations Nos. 1 and 2: "... we are undertaking a staff study to determine the feasibility,

practicality, and timing of the conduct of a one-time, wall-to-wall inventory of the PhaKhao location which will include the inventory transferred from Khao Lio".

Prior Report of Audit No. 72-3, dated July 1, 1971, covering the Project Commodities Program contained two recommendations which were subsequently cleared.

Offshore procurement activities of USAID/Laos were reviewed by the Inspector General's Office (IGA) and a subject memorandum by IGA was issued dated November 14, 1972. We noted that certain recommendations cited by this inspection as relates to Project Commodities Project were acted upon. Others were referred to AID/W level for review of policy.

PROJECT COMMODITIES PROGRAM
PROJECT NO. 439-11-995-080

EXHIBIT A

Financial Summary of Project

<u>Period</u>	<u>Obligations</u>	<u>Expenditures</u>
Inception through 6/30/70	\$ 8,884,400	\$ 8,884,400
7/1/70 through 8/31/73	13,380,200	10,848,553
	<u>\$22,264,600</u>	<u>\$19,732,953</u>

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