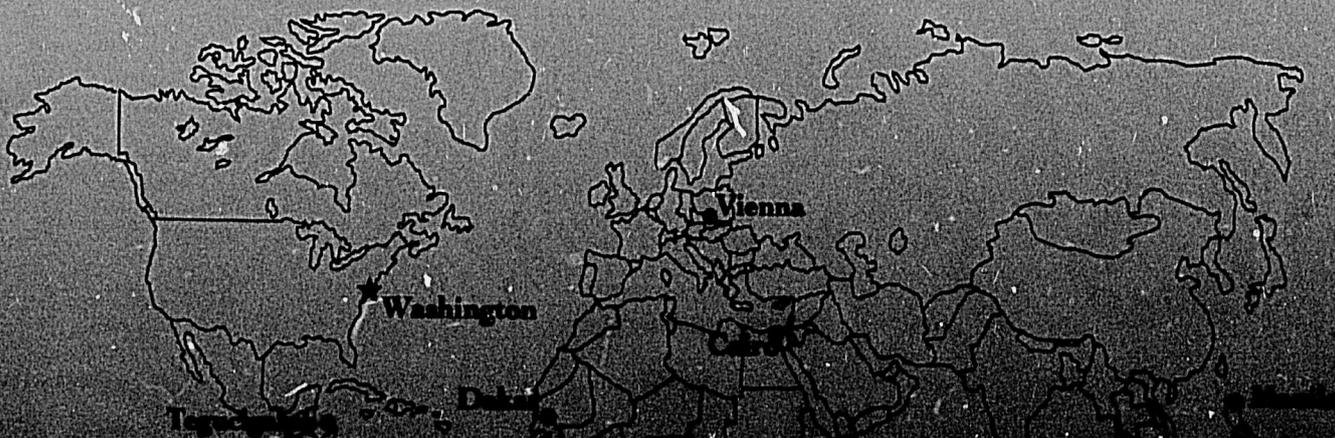


**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of
USAID/Guatemala's
Commodities Systems**

**Audit Report No. 1-520-93-005
December 31, 1992**



U. S. MAILING ADDRESS:
RIG/T
APO. MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4465

December 31, 1992

MEMORANDUM

TO: USAID/Guatemala Director, Terrence J. Brown

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of USAID/Guatemala's Commodities Systems

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of commodities systems at USAID/Guatemala. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report. A summation of your comments has been included in the Executive Summary and after the appropriate audit findings. Your comments are presented in their entirety in Appendix II.

Based upon your written comments, we consider Recommendation Nos. 4.2 and 4.3 to be unresolved, Recommendation Nos. 3 and 4.1 to be resolved, and Recommendation Nos. 1 and 2 closed upon issuance of this report. Please respond to this report within 30 days indicating any actions taken to implement the open recommendations.

I appreciate the cooperation and courtesies extended to my staff during this assignment.

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

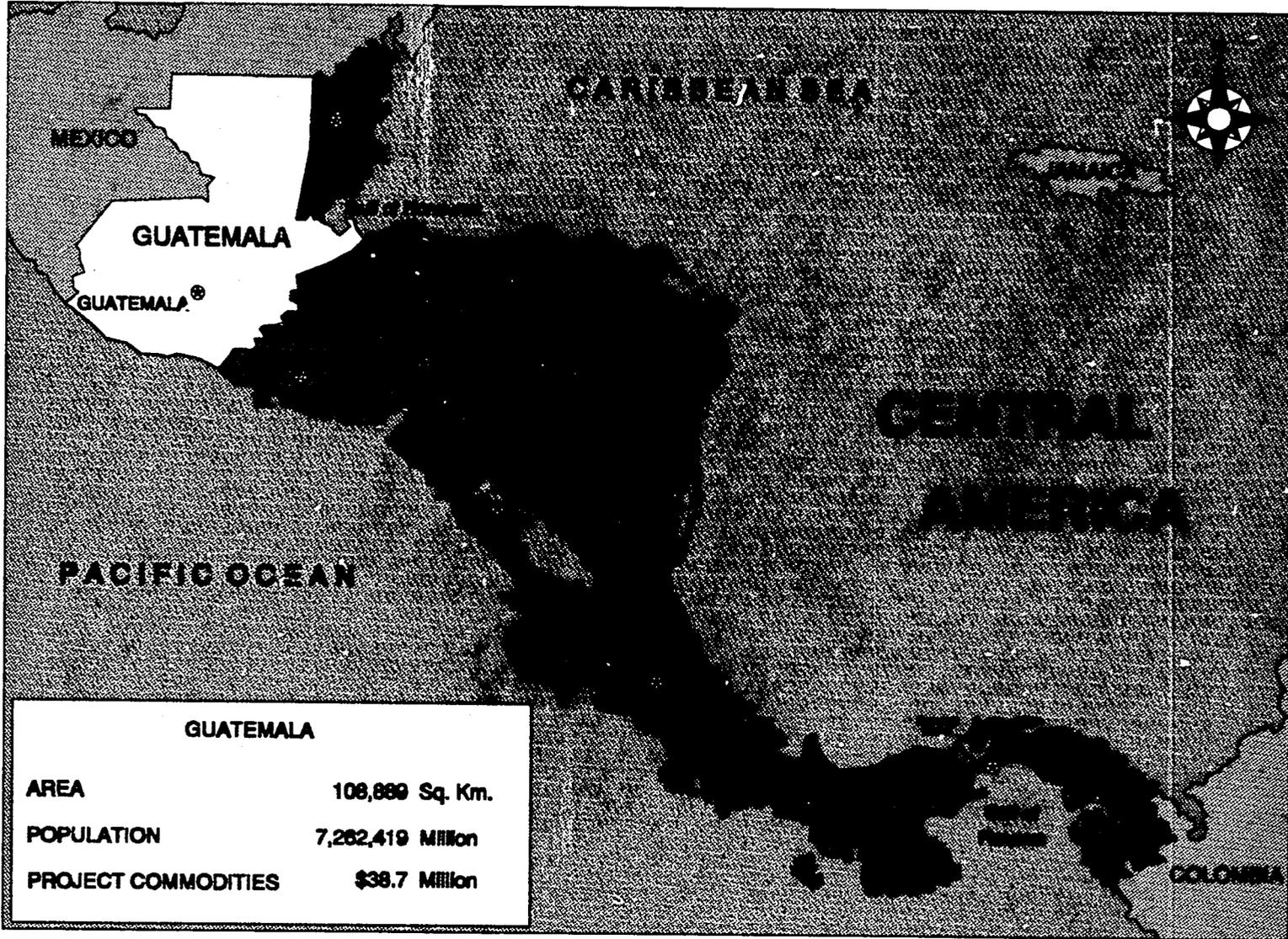
**Audit of
USAID/Guatemala's
Commodities Systems**

**Audit Report No. 1-520-93-005
December 31, 1992**

Table of Contents

	<u>Page</u>
EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Audit Objectives	2
REPORT OF AUDIT FINDINGS	5
Did USAID/Guatemala plan commodity needs in accordance with A.I.D. policies and procedures?	5
Mission Management Should Expand Its Planning Role Over Commodities	6
Did USAID/Guatemala procure commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures?	14
Analyses of Fair and Reasonable Price Should Be Documented	14
Did USAID/Guatemala monitor that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?	17
The Mission Should Establish Minimum Controls Over Commodity Monitoring	19
The Mission Needs To Establish Guidance for an Overall Commodities Utilization Plan	24

	<u>Page</u>
REPORT ON INTERNAL CONTROLS	31
REPORT ON COMPLIANCE	35
APPENDIX I - SCOPE AND METHODOLOGY	39
APPENDIX II -MANAGEMENT COMMENTS	45
APPENDIX III -REPORT DISTRIBUTION	51



EXECUTIVE SUMMARY

Background

As of March 1992, USAID/Guatemala had 29 active projects, plus 11 additional projects completed in the past two years, with \$387.3 million in life-of-project funds, of which \$65.0 million was obligated and \$38.7 million was expended for project commodities. These project commodities included numerous items such as vehicles, motorcycles, computers, road construction equipment, electrical distribution parts, water pipes and fittings, medical supplies, contraceptives, textbooks, and school furniture. (See page 1.)

Audit Objectives

We audited the systems for project commodities at USAID/Guatemala in accordance with generally accepted government auditing standards. (See Scope and Methodology, Appendix I.) As part of our annual audit plan, we conducted this audit from December 10, 1991, to April 3, 1992, to answer the following questions:

1. Did USAID/Guatemala plan commodity needs in accordance with A.I.D. policies and procedures? (See page 5.)
2. Did USAID/Guatemala procure commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures? (See page 14.)
3. Did USAID/Guatemala monitor that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures? (See page 17.)

Summary of Audit

The audit found that, for the items tested, USAID/Guatemala planned commodity needs in accordance with A.I.D. policies and procedures except that Mission management missed some opportunities to provide more oversight over project commodities planning, such as verifying the need for commodities when they exceeded the budget (see page 6). Second, the

audit found that, for the items tested, USAID/Guatemala procured commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures except that the Contracts Office should document its analysis' that the commodities price is fair and reasonable (see page 14). Finally, the audit found that for the items tested USAID/Guatemala monitored that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures except that the Mission can improve its system to monitor project commodities by defining minimum commodities controls for all projects and by implementing an overall commodity utilization plan for recipients, where applicable (see pages 19 and 24).

Audit Findings

Mission Management Should Expand Its Planning Role Over Commodities

USAID/Guatemala complied with A.I.D.'s policies and procedures on project commodities planning but could exercise more control over project commodities planning by assigning the responsibility for such planning oversight to a member of management. Instead, Mission management relied principally on discussions with the Mission staffs and periodic project reviews with project officers. We believe there are four areas of opportunity in which Mission management can expand its oversight role in planning for project commodities procurement. Specifically, commodity need should be documented and verified and should consider the intended recipient's commodity resources; follow-up on pre-project planning should review implementation of management advice and the procurement schedule; and post-project commodities utilization should be monitored (see page 6).

Analyses of Fair and Reasonable Price Should Be Documented

Although the USAID/Guatemala Contracts Office performed analyses to determine if a price was fair and reasonable, their analyses were not always documented for each contract. Federal Acquisition Regulations require such documentation for most types of contracts. Without documentation there is no assurance that the price analysis was performed and no basis from which to make subsequent analysis. For example, in the Rural Primary Education Improvement Project, the lack of documentation to support the Contracts Office's November 1990 price analysis of a \$522,080 contract for 28,000 school desks, which was later terminated, made it difficult to determine if its November 1991 replacement contract for \$737,240, which showed a 40 percent variance between the two prices, was reasonable (see page 14).

The Mission Should Establish Minimum Controls Over Commodity Monitoring

Due to a lack of specific guidance each Mission project officers determined the level of appropriate control for monitoring their projects. As a result we found that projects in our sample had different controls. For example, some projects required a daily trip logbook for each project vehicle, while other projects did not. Consequently, utilization analysis to justify additional vehicle purchases in certain projects cannot be made. In addition, none of the projects reviewed had established a written reimbursement policy covering the usage of project vehicles for nonproject purposes. The Mission needs to establish minimum controls by type of commodity for its projects to facilitate and improve commodity usage management (see page 19).

The Mission Should Establish Guidance for an Overall Commodities Utilization Plan

A.I.D. Handbook 15 suggests that recipients use an overall commodity utilization plan with measurable, interim levels of achievement. None of the projects we reviewed had established a utilization plan. We believe utilization plans would be useful to Mission management, especially in monitoring the consumption of expendable commodities in projects involving construction, for budgeting and monitoring procurement, and for monitoring project progress. For example, for both the Rural Electrification III and the Highlands Water and Sanitation Projects, we believe an overall commodity utilization plan would have identified approximately \$3.7 million resulting from residual materials from predecessor projects, and planned commodities not needed due to over-design of commodities required and delays in construction. This commodity savings can lead to less money needed for the projects and/or increased project outputs (see page 24).

Summary of Recommendations

This report contains four recommendations divided into eight parts to improve USAID/Guatemala's systems for planning, procuring, and monitoring commodities.

The main recommendations involve (1) assigning management staff the responsibility to improve commodities planning (see page 6), (2) providing guidance on the minimum commodity controls for each type of commodity (see page 15), (3) issuing guidance to recipients on an overall commodity utilization plan (see page 20), (4) transferring to the Rural Electrification III Project and Highlands Water and Sanitation Project the residual materials left from their predecessor projects (see page 25).

Management Comments and Our Evaluation

USAID/Guatemala management reviewed and commented on the draft audit report (see Appendix II) and those comments were considered in preparing the final report. Management agreed with the report recommendations, except for Recommendation No. 1.1 for which it undertook an alternative action to achieve the Recommendation's intent. Management, in general, concurred with the report findings and recommendations.

Office of the Inspector General

Office of the Inspector General
December 31, 1992

INTRODUCTION

Background

A.I.D. Regulation 1 defines commodity as any material, article, supply, goods, or equipment. As of March 1992, USAID/Guatemala had 29 active projects, plus 11 additional projects completed in the past two years, with \$387.3 million in life-of-project funds, of which \$65.0 million was obligated and \$38.7 million was expended for project commodities. These project commodities included 450 vehicles, 945 motorcycles, 246 computers, and numerous other items, such as road construction equipment, electrical distribution parts, water pipes and fittings, medical supplies, contraceptives, textbooks, and school furniture.

Guatemala is undergoing fundamental changes. Its government--democratically elected in 1986--has taken strong initial steps towards a fundamental reorientation of economic policy but still needs to pursue structural reforms. Accordingly, the USAID/Guatemala program has set as its strategic objectives:

- increased private investment and trade;
- smaller, healthier families;
- improved basic education;
- sustainable natural resource management; and
- sustained exercise of inalienable rights.

To carry out these strategic objectives, the U.S. Government through A.I.D. provided assistance to Guatemala in the forms of Public Law 480, Title I assistance; Public Law 480, Title II assistance; economic support funds (ESF); and development assistance (DA). The graph on page 2 shows the annual amounts of assistance since 1989. The source used for this graph was the USAID/Guatemala Program Objectives Document and Action Plan, January 1992.

To meet the objectives, A.I.D. planned and implemented various development assistance projects. Commodities is a major resource provided through these projects and thus comprises much of the assistance provided to Guatemala.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa, as part of its annual audit plan, performed an audit of USAID/Guatemala's commodities systems to answer the following audit objectives:

- Did USAID/Guatemala plan commodity needs in accordance with A.I.D. policies and procedures?
- Did USAID/Guatemala procure commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures?
- Did USAID/Guatemala monitor that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?

In answering these audit objectives, we performed limited tests of whether USAID/Guatemala followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Guatemala established and followed Agency procedures and complied with legal and regulatory requirements. When we found problems we performed work to (1) determine that USAID/Guatemala had not established or followed a policy and/or procedure, (2) identify the cause and effect of the problem noted, and (3) make recommendations to correct the condition and cause of the problem. Our conclusions are limited to the items actually tested.

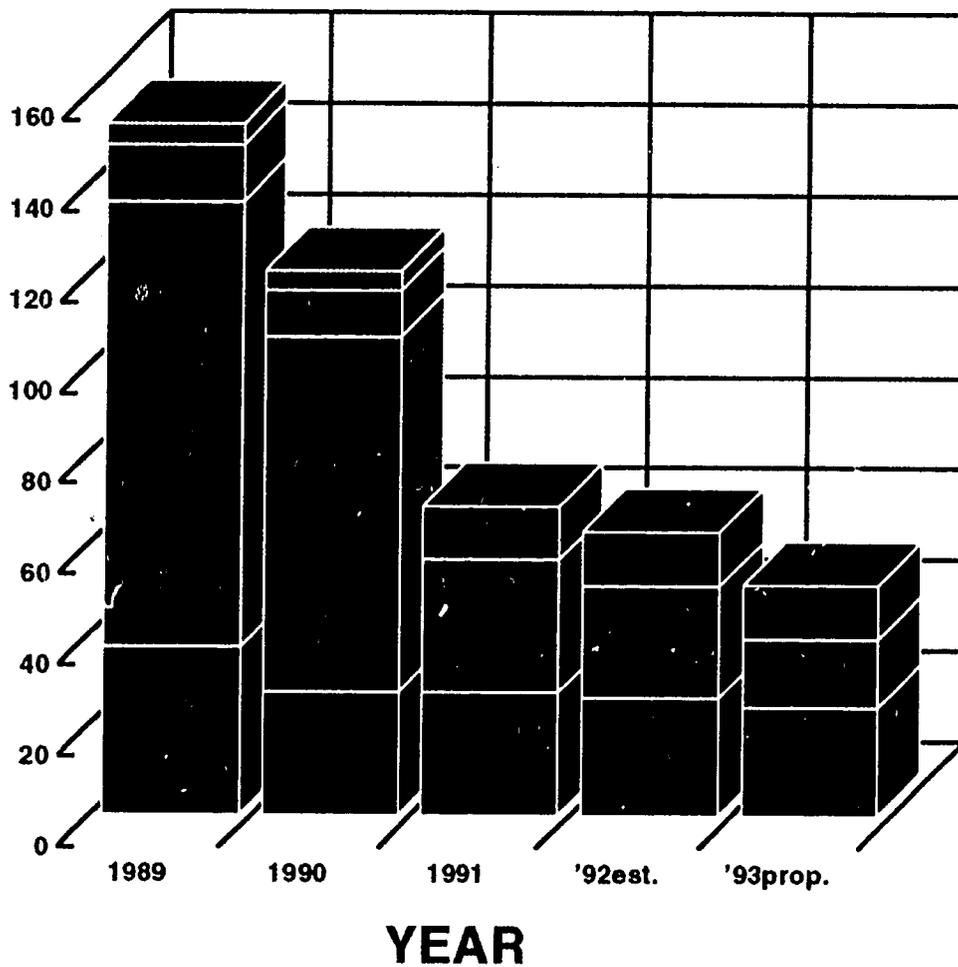
Appendix I contains a complete discussion of the scope and methodology for this audit.

ASSISTANCE LEVELS 1989-1993

USAID/GUATEMALA

(Unaudited)

\$ in millions



■ <i>Development Assistance</i>	■ <i>Economic Support Funds</i>
■ <i>Public Law 480 Title II</i>	■ <i>Public Law 480 Title I</i>

REPORT OF AUDIT FINDINGS

1. Did USAID/Guatemala plan commodity needs in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Guatemala planned commodity needs in accordance with A.I.D. policies and procedures. Nevertheless, there were opportunities to improve its project commodities planning.

USAID/Guatemala followed A.I.D. Handbook 3 for its policies and procedures on project planning for commodities. Normally, it considered project commodities as one of the resources for each project when its responsible technical office designed the project, with assistance from others where needed. Its Project Development and Support Office coordinated the project design efforts and presented an Issues Paper on the proposed project for review in coordination with the draft project paper. The Project Paper Review Committee, representing Mission management, reviewed the draft project paper and offered recommendations that were incorporated into the final project paper. This document contained a procurement plan, the contracting modes and procedures to be used, cost estimates, a multi-year schedule, and a designation of eligible commodities sources by geographic code. Up to August 1990, the Mission planned all the procurement from sources in the U.S., Guatemala, or other Central American countries. In August 1990, A.I.D. established a revised Buy America policy which limits purchases only from the U.S. except under certain circumstances which require a waiver. USAID/Guatemala has implemented this policy. Also, the Mission planned that it would buy (i.e. through direct procurement) all major items, except for certain commodities such as the project recipient's purchase of construction items (such as hand tools, cement, and wood) from local sources and A.I.D./Washington's purchase of contraceptives. Such pre-project planning was then followed by operational planning.

After the project agreements were signed, the project recipients performed operational planning which was submitted in the form of annual plans for the Mission to approve. An annual plan identified the resources needed, including commodities, to complete the tasks scheduled for the year. This detailed planning was also accompanied by the provision of the technical specifications for each commodity item, developed by the project recipients

or their technical assistance contractors. These specifications became a part of the Project Implementation Order/Commodities (the Order) and the resultant contract. The responsible Mission project officer prepared the Order, which responsible Mission officials cleared and certified as conforming to the project agreement and that funds have been reserved. Upon receipt of the approved Order, the Mission Contracts Office planned and processed all procurement on a competitive basis to the lowest-price offer.

While USAID/Guatemala complied with A.I.D.'s planning requirements, we believe that Mission management can improve its planning for commodities by expanding its planning role, as the following report section discusses.

Mission Management Should Expand Its Planning Role Over Commodities

A.I.D. Handbooks divide the Mission's planning responsibilities for project commodities between Mission management to provide oversight and Mission staff to design and monitor. In our review of five projects, we found that Mission management's role in commodity planning, was accomplished principally through frequent meetings and the semi-annual review reports. We believe there are four areas of opportunity in which Mission management can expand its oversight role in planning for project commodities procurement. Specifically, commodity need should be documented and verified and should consider the intended recipient's commodity resources; follow-up on pre-project planning should review implementation of management advice and the procurement schedule; and post-project commodities utilization should be monitored. Since the A.I.D. Handbooks set no specific control procedures for these four areas, we believe that the Mission management can provide more oversight by specifically assigning this responsibility to a member of management. Also, to correct a specific situation noted during our review we believe that the Mission should develop a procedure to inspect electrical materials upon receipt for contract specification compliance for the Rural Electrification III Project, as the Mission's plan for training warehouse personnel in this respect may not be accomplished before the delivery of about \$4 million of electrical materials.

Recommendation No. 1: We recommend that USAID/Guatemala:

- 1.1 assign to a member of management the responsibility to improve management's control over project commodities planning in: verifying and documenting such areas as needs assessments, including all resources of a project recipient in needs assessments; following-up on pre-project**

planning; and utilizing commodities after the project assistance completion date.

1.2 develop a procedure for the Rural Electrification III Project to ensure that the inspection of electrical materials includes determining that the commodities comply with contract requirements.

A.I.D. Handbooks divide the responsibilities for project commodities planning between Mission management to advise and approve the plan (A.I.D. Handbook 3, Section 8B.5.b. and Appendix 3H, Section B.1.) and Mission staff (usually the office chief and project officer) to devise the plan or to have it devised by others (A.I.D. Handbook 3, Section 8B.5.b. and Appendix 3H, Section C, and Appendix 9C, Section 4.b.(2)). Also, A.I.D. Handbook 3, Section 9A divides implementation planning into pre-project planning and operational planning; while A.I.D. Handbook 3, Appendix 9C, Section 1 describes procurement planning as a pre-project planning responsibility that should be refined as an operational plan.

To prepare the procurement plan for inclusion in the project paper, A.I.D. Handbook 3, Appendix 3H provides a list of 18 preliminary procurement planning considerations and another list of detailed considerations including seven considerations for direct commodities contracts. These criteria also suggest contacting commodity specialists and others located within the Mission or elsewhere in A.I.D. for specific guidance. A.I.D. Handbook 3, Sections 9A. and 9B.1. calls pre-project planning the initial planning which produces a project paper. Next, A.I.D. Handbook 3, Section 10D.1. explains planning as a pre-implementation action (i.e., prior to execution of the project agreement), which includes such planning actions as: preparation of the detailed implementation plan; setting up of appropriate measurement, communications and reporting systems; and design of specific data gathering systems and completion of the evaluation plan and arrangements. After the project agreement is signed, there is operational planning with operational plans reviewed and adjusted at least annually (A.I.D. Handbook 3, Section 9C), since they are intended for use by the Mission to monitor the project and by the recipient to manage the project. Therefore, an operational implementation plan must specify all actions to be taken to implement the project, indicate the times when actions are to begin and be completed, and identify the resources needed and the parties responsible to complete the tasks.

The Mission followed this planning process in performing the previously described planning procedures. Through this process the project officers, with help from others, planned and monitored their assigned projects and Mission management oversaw these efforts. To facilitate this oversight, Mission management established and/or conducted a number of

procedures, such as project reviews every four to six weeks and semiannually; weekly management meetings with each office chief and his/her staff; management field trips; and pipeline analyses.

These procedures combined to form the Mission management oversight system, which assured the implementation of required A.I.D. policies and procedures.

While we found the current oversight system at USAID/Guatemala to be basically sound, we believe the system could be expanded in four areas which will provide management more of an oversight role and, thereby, identify potential problem areas related to project commodities planning. The four areas identified for improvement are documentation and verification of the commodities needs assessment, consideration of all available resources of a recipient in the commodity needs assessment, follow-up on pre-project planning, and commodities utilization after the project assistance completion date.

The Commodities Needs Assessment Should Be Documented and Verified - A.I.D. Handbook 3, Appendix 3H provides some guidance on preliminary procurement planning, including an analysis of project commodity needs. While the Handbook does not explain what the analysis should encompass, we believe that, at a minimum the analysis should be documented and verified, especially if the intended recipient performed the analysis and/or the requested commodities will exceed the authorized estimate in the approved plan.

Mission officials assured us that as a part of the design process for each project, a needs assessment for commodities was performed and that the supporting documentation might have been misfiled. Such support is needed to document the Mission's commodity procurement decisions. For example, the Rural Electrification III Project files lacked a documented needs assessment to justify why the Government of Guatemala (GOG) needed to procure an additional 18 vehicles and 10 motorcycles at a cost of \$384,000 (bringing the total available to the Project, as of February 1992, to 573 vehicles and 61 motorcycles). Since the project paper does not explain the need for additional vehicles, other than to state that the GOG demonstrated the need and the need was evaluated, Mission management should ensure that its decision to fund additional commodities are documented and verified.

In another example, although the implementing agency had a documented needs assessment, it was not verified by the Mission. The Rural Primary Education Improvement Project funded about 34,000 school desks more than the approximate 52,000 desks planned in the original 1984 project paper and its 1986 amendment (the approved plan). The justification for

these additional desks, costing about \$900,000, was based on a GOG 1989 survey of furniture at 972 schools. However based on our review of Mission site visits reports, the responsible Mission officials had not verified this survey or determined why the GOG submitted a procurement request based on a survey of more schools than the 800 planned for the project. Since the GOG implementing agency that performed the survey was also the recipient of the commodities, Mission management should ensure that the commodity need is verified.¹

We did note that in terms of vehicles procurement planning, however, the Mission has, in most instances, taken aggressive action. Requests to buy project vehicles were reviewed closely by the Mission principally because of past experience with recipients using A.I.D.-funded vehicles for nonproject purposes. For example, the GOG requested additional vehicles for the natural resources component of the Highlands Agricultural Development Project. To analyze the validity of this vehicle request, the Mission instructed the technical assistance contractor to perform a survey of all vehicles held by the various entities implementing this Project. After receiving the results of this May 1991 survey, the Mission decided against additional purchases and later notified the GOG that it needed to re-evaluate the distribution and effective use of its vehicles.

Since there may be other types of commodities that could benefit from similar review by the Mission, we recommend that the Mission designate a management member to oversee the documentation and verification of commodity needs assessments.

The Commodities Needs Assessment Should Include All of a Recipient's Commodity Resources - A.I.D. Handbook 3, Appendix 3H provides guidance on preliminary procurement planning, which includes technical, political, administrative, and cost considerations and the capability or capacity of the participant organizations. However, the Handbook does not differentiate between the participant's A.I.D.-funded and non-A.I.D. funded resources in the discussion of project commodities planning.

While not explicitly stated, project commodities inputs are usually those needed to accomplish a project's activities. However, recipient owned commodities, including equipment, should be considered as a resource for project outputs. For example, the Farm-to-Market Access Roads Project planned to procure an additional \$3 million of heavy road construction

¹ In its comments on the draft audit report, the Mission stated that it ensured that these commodities were needed by the schools when the Mission approved the reprogramming plan for 1989. However, later project documents such as semiannual reports and implementation letters did not reflect this change in project objective for 800 schools.

equipment and vehicles. However, a June 1991 RIG/A/T audit report of this Project found that existing A.I.D.-funded equipment may not be fully utilized. Consequently, the Mission delayed the procurement and required the GOG to produce a utilization plan in order to justify the need for the procurement.

Although two quarterly utilization reports have been provided, they were incomplete as most non-A.I.D. funded equipment and vehicles were not included.²

At one GOG regional road construction office we observed non-A.I.D. funded equipment and vehicles parked at the office in lieu of being utilized.) The responsible GOG official explained that since the Mission did not permit A.I.D.-funded equipment and vehicles to be used to construct and maintain non-A.I.D. funded roads, his office did not use non-A.I.D. funded equipment and vehicles on A.I.D.-funded roads. This restriction on a recipient's commodity resources could lead to more project funds being expended on commodities than warranted.

We believe that the Mission should consider in its project commodities planning all of a recipient's commodities. This consideration should include not only the underutilization of non-A.I.D. funded commodities but also their maintenance and repair costs. For example, at one GOG regional office, according to the responsible GOG official, two non-A.I.D. funded dump trucks only needed new tires to be fully operational. Such maintenance costs would be decidedly less than the purchase of a new dump truck. Consequently, we recommend that the Mission designate a member of its management to oversee that all of a recipient's resources are included in performing a project needs assessment.

Pre-Project Planning Follow-up Should Include the Implementation of Management Advice and the Procurement Schedule - A.I.D. Handbook 3, Chapter 3, Section 3E.5.b. requires a review of project papers and the establishment of formal guidance resulting from the review. USAID/Guatemala's procedure is for a management committee to review draft project papers and incorporate its advice in the approved project paper.

However, we noted that in one project the committee's advice was not implemented, which resulted in a two and one-half year delay in addressing the commodity-related training needs of the GOG's implementing agency and may have exposed commodities to loss. Specifically, for the Rural

² According to the responsible project officer, some non-A.I.D. funded equipment and vehicles are used on A.I.D. roads as part of the required GOG counterpart contribution.

Electrification III Project the review committee advised that a letter of understanding be formalized between the Mission and the Regional Office for Central American Programs (ROCAP) in order to have a ROCAP project address a number of identified training needs. The letter was not formalized. While the ROCAP project did provide a variety of training, it did not address the identified need for warehousing and inventory control training in the Rural Electrification III Project. Subsequently, a USAID/Guatemala financial review identified that this training was still needed and that Mission action addressing this need was still in process. As of our review, however, the implementing agency's seven warehouses, which as of December 1991 held about \$3 million in electrical materials with about \$4 million more expected, are in the custody of personnel who have not received warehousing and inventory control training.

Project papers contain procurement plans and schedules, which if delayed can affect the progress of a project. Also, A.I.D. Handbook 3, Appendix 9C, Section 4.b.(2) states that when consultants develop detailed lists of commodities, the consultants are to be retained during the early implementation phase of the project.

The Improved Administration of Justice Project, a three year project originally scheduled to end September 1991, planned the purchase of about \$500,000 of computers for three systems--legal reference service, courts' caseload management, and courts' financial management. The systems were to be installed by a technical assistance firm under a two-year contract. However, about one-third of the computer equipment was delivered in November-December 1991, after the technical assistance firm's contract had ended and after the project's planned completion (later extended to December 1991). In March 1992, although the responsible Mission officials stated that the systems were tested and operational, about 25 computer terminals and other peripherals had not been installed and placed into operation. A GOG official stated that the final installation would be made when it receives its budget to fund the installation. We found that the equipment was not installed as planned due to a series of events:

- one year was expended in contracting the technical assistance firm which was to develop the procurement specifications for the computer equipment,
- eight months were needed for the firm to develop the specifications, and
- ten months were expended between the Mission's approval of the procurement and the contract award.

The above time periods do not include the Mission approval time for the purchase request nor the vendor delivery time for the computer equipment.

Mission officials noted that buying computers, especially a mainframe which occurred in the Improved Administration of Justice Project, involves a complex, lengthy process compared to buying other commodities. That is, this contract, which was advertised and was an open competition award in the U.S. to an American firm, took a long time due to multiple requirements. Also, as of June 1992 they noted that the stored equipment had been distributed throughout the Judicial Branch units, leaving only peripheral equipment to be distributed.

We believe a follow-up on the procurement plan and schedule could have helped minimize delays in procurement and thus, been beneficial to the implementation of the project.

We recommend that the Mission designate a management staff to follow up on commodities planning in such areas as implementing management's advice and procurement schedules. In addition, we recommend for the Rural Electrification III Project that the Mission develop a procedure to ensure that inspections of commodities for compliance with contract requirements are performed upon receipt as the Project staff trained for this task had resigned during the time of this audit and since about \$4 million of electrical materials will be purchased in 1992 and 1993.

Utilization of Commodities After the Project Assistance Completion Date - A.I.D. Handbook 3, Chapter 6, describes model project agreements, including standard provisions on the utilization of goods and the inspection of goods during and for three years after the completion of a project. Mission project agreements require commodities to continue to be used for project purposes after the completion of the project. This standard provision precludes the use of commodities for nonproject purposes, but may also have unintended effects such causing commodities not to be used. For example, the Election System Support Project ended in March 1991. After using project computers at various municipalities in the 1990 national election and the subsequent January 1991 run-off election, the main office of the GOG implementing agency placed over 30 project funded personal computers in storage.

The GOG did not intend to use these computers again until the 1993 national elections. The responsible GOG agency official explained that the computers would have been used to assist in the on-going revisions of the voter's registration list, but were not used since telephone lines were not available to connect them to the mainframe computer. Even though other officials had requested the loan of these computers for other applications, this official decided that they could be used only for project purposes

regarding elections and were therefore kept in storage. Mission officials stated that the storage of these computers was proper since they were intended for elections held periodically and a replacement was very unlikely for any computer damaged or not returned from a loan. Although this may be sound reasoning, we could not locate any documentation showing that the Mission was aware of the status of these computers, had determined what constituted to be their proper utilization between elections, and had concurred that they be placed in storage.

Accordingly, we recommended that the Mission designate a management staff to ensure that commodities planning includes the consideration of the utilization of commodities after the project assistance completion date.

As the preceding examples illustrate, we believe Mission management can strengthen its control over the planning of project commodities by assigning specific responsibility to oversee commodities planning and the implementation of those plans to a management official. This would provide management a focal point on project commodities rather than the current organizational diffusion of management's supervision over project commodities. Besides planning, the procuring and monitoring of project commodities could also benefit from this change in organizational focus.

Management Comments and Our Evaluation

In response to our draft report, the Mission commented that the implementation of Recommendation No. 1.1 would be duplicative and impractical and that the only required action is the strict application of its Mission Order 14.7. However, the Mission reported it formed six sectorial committees to provide more project-level oversight. Committees are an acceptable alternative as long as they achieve the intent to improve management's control and can be implemented within resource constraints. The successful application of Mission Order 14.7, A.I.D. policies and procedures, and internal control objectives to effect a rationale commodity system is more likely when another control is implemented to focus more attention on commodities. In this sense, we believe that performing only the required action will not suffice, but providing more oversight through the sectorial committee may result in taking timely actions when needed.

The Mission concurred with Recommendation No. 1.2. It developed procedures to ensure that the inspection of electoral materials includes a determination that the commodities comply with contract requirements. A person was also trained to perform hardware inspection.

Based on the actions taken by USAID/Guatemala Recommendation No. 1.1 and No. 1.2 are closed upon report issuance.

2. Did USAID/Guatemala procure commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Guatemala procured commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures; however, it needed to document its analysis of fair and reasonable price.

USAID/Guatemala's Contracts Office, with the support of ROCAP, processes direct contracts for USAID/Guatemala and several other missions. For procurement of \$100,000 or more, the Contracts Office observed the following process in performing its responsibilities. First, after receiving a Mission approved purchase request in the form of a Project Implementation Order/Commodity (PIO/C), the Contracts Office notified A.I.D./Washington to advertise the procurement in the Commerce Business Daily. Then, in response to inquiries about the procurement, it sent solicitation packages requesting a proposal from each interested vendor. Next, the vendors' offers were evaluated by a Technical Evaluation Committee, which included an evaluation of the vendors' qualifications. If the top-rated offers needed clarification, the Contracts Office negotiated and requested a second revised offer. Finally, the Contracts Office, after checking the price for fairness and reasonableness, made an award for a commodities contract at a fixed price to the offeror with the lowest price.

This process assured fair-priced contracts were competitively awarded to qualified suppliers in a timely manner with one possible exception previously discussed under commodities planning. Also, with regard to competition, the Contracts Office is now trying to determine if the Mission's requirement for suppliers to deliver to a specific address (usually in Guatemala City) is limiting competition, since suppliers may need a local representative to ensure delivery.

Although USAID/Guatemala procured commodities in accordance with A.I.D. requirements, we noted that its price analyses were not documented. For example, there was one procurement in our review resulting from a contract termination and a subsequent replacement contract which was awarded at a substantially higher price. In our opinion, price analyses should have been documented to support these awards.

Analyses of Fair and Reasonable Price Should Be Documented

The Federal Acquisition Regulation (FAR) requires the Contracting Officer to ensure that a price offered is fair and reasonable. The USAID/

Guatemala Contracts Office used a variety of analyses performed by Mission staff to determine if a price was fair and reasonable but did not document its analyses. We believe that such documentation is a control procedure to ensure that price analyses are performed. Contracting officials stated that there was no price analysis documentation as the large number of offers for each advertised procurement indicated competition and each award was made to the lowest-priced offer. While the lowest price may be a fair and reasonable price, the possibility exists that it is not. For example, a terminated contract for \$522,080 and its replacement contract for \$737,240 have a price variance of over 40 percent. Without price analysis documents, how both prices were determined to be fair and reasonable could not be demonstrated.

Recommendation No. 2: We recommend that USAID/Guatemala:

2.1 instruct the Contracts Office to document for all contracts awarded its analysis that a contract price is fair and reasonable; and

2.2 unless corrected, report this as a weakness in its next internal control evaluation.

A.I.D. Handbook 1, Supplement B, Section 12B.2.a.(2) and A.I.D. Handbook 14, Section 701.402 adopt FAR requirements as A.I.D. policy. FAR 15.805-1(b) requires the Contracting Officer to make a price or cost analysis to ensure that the overall price offered is fair and reasonable for contracts--under the negotiated method of contracting--and FAR 15.608(a)(1) requires the Contracting Officer to document a cost or price evaluation based on a cost or price analysis. Similarly, FAR 14.407-2 and 14.407-7 require the Contracting Officer to determine that the price offered is reasonable before awarding the contract and to document the reason for the bid accepted--under the sealed bidding method of contracting. Even for small purchases of \$2,501 to \$25,000, when the determination that a proposed price is reasonable is based on competitive quotations, FAR 13.106 (c) (1) requires that when only one response is received or when the price variance between multiple responses reflects lack of adequate competition, a statement shall be included in the contract file giving the basis of the determination of fair and reasonable price.

The USAID/Guatemala Contracts Office performed a determination of fair and reasonable price and a price analysis before awarding the contract, according to its officials, but usually did not document who made the determination or how the analysis was performed. We did not find any evidence to indicate that a price analysis was not performed. The Mission Contracting Officer and the ROCAP Regional Commodity Management Officer stated that the determinations are based on such price analyses as

comparison to prior contracts, comparison to catalog prices, telephone discussions with A.I.D./Washington Procurement Office personnel, and personal knowledge of the offeror's performance on other contracts. Such analyses were performed by either officer and/or one of five staff contract negotiators. They noted that the determinations and analyses were usually not documented due primarily to the large number of offers whose prices indicated a relatively close competitive range and the practice of awarding to the lowest-priced offer. However, one officer noted that such documentation was made when one or very few offers were received. Our sample of seven contract files confirmed that there was no documentation of price determinations and analyses. We believe that such documentation is needed as a control procedure to ensure that each staff has performed a price analysis for each contract.

Since the Mission contracts involved full and open competition, the Contracts Office's belief that contract award price was fair and reasonable is a natural evolution. However, there exists the possibility that the lowest price is not fair and reasonable. It could be too low and thus unfair to a vendor who underestimated the costs, or the lowest price could be too high and thus unfair to the U.S. Government to pay a high profit. The following is an example of these possibilities.

USAID/Guatemala terminated a November 1990 contract for 28,000 school desks at a fixed price of \$522,080 for the Rural Primary Education Improvement Project because the local vendor wanted a higher price adjustment. Following full and open competition, the terminated contract was replaced one year later with a contract to a different vendor at the price of \$737,240--a 40 percent increase. The contract file included a list of the prices of each offer and their ranking from lowest to highest price, which a contracts official considered to be a comparison of prices and thus an acceptable technique of price analysis in accordance with FAR. However, documentation for both contracts lacked information on how the prices were analyzed or determined to be fair and reasonable.

To strengthen its internal controls over the contracting process, the Mission should ensure that its contract officials document their analyses of fair and reasonable prices. Such documentation would then serve as a control procedure over the analysis of prices. This improvement may also help avoid such undesirable effects as the one-year delay in the Rural Primary Education Improvement Project's procurement of school desks.

Management Comments and Our Evaluation

USAID/Guatemala concurred with Recommendation No. 2.1. The contracting officer developed a new form for documenting how prices are

considered fair and reasonable and instructed his staff to use it. We agree with this approach and consider Recommendations No. 2.1 and 2.2. to be closed.

3. Did USAID/Guatemala monitor that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Guatemala monitored that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures. However, we believe the Mission system to monitor project commodities can be improved by defining minimum controls for all projects and by adding the use of overall commodity utilization plans.

A.I.D. Handbooks 3 and 15 contain guidance on project monitoring that can be applied to monitoring project commodities. For example, three levels or systems of monitoring are mentioned: the Mission Director or management (A.I.D. Handbook 3, Section 8B.5.b.), the project officer (A.I.D. Handbook 3, Section 11B), and the implementing agency or project recipient (A.I.D. Handbook 15, Section 10B. 2.a.). In addition, four monitoring methods are cited in A.I.D. Handbook 3, Section 11E.2.: reviews of the recipient's project reports, physical inspections via site visits, consultations with project participants, and reviews of project documents. Finally, various monitoring techniques are also mentioned such as commodity arrival control (A.I.D. Handbook 15, Appendix 10A, page 10A-4) port checks (A.I.D. Handbook 15, Section 10D.3.), end-use checks (A.I.D. Handbook 15, Section 10D.4.), and recipient's commodity arrival and disposition system responsibilities (A.I.D. Handbook 15, Section 10E.).

In implementing this Agency guidance the Mission issued in August 1991 a local order on monitoring project commodities. USAID/Guatemala Mission Order No. 14.7 requires the monitoring of project commodities principally through (1) an evaluation and approval of the recipient's commodity arrival and disposition system (recipient system) and (2) project officers' end-use verifications at least every six months covering commodities' receipt, storage, maintenance, and utilization.

As of March 1992, the Mission was still in the process of implementing this Mission Order. For recipients' systems, the Mission had yet to evaluate any recipient system.

With regard to end-use verifications, the Mission had conducted two such verifications. As an example, one Mission project officer with a team of colleagues performed an end-use verification in October 1991 which included visits to a large number of GOG implementing organizations

participating in the Immunization and Oral Rehydration Therapy Services for Child Survival Project. During this verification the team visited 13 of 24 health area offices, 11 of 35 hospitals, 73 of 220 health centers, and 57 of 785 health posts. The verification found that: the commodities were used for project purposes; a few equipment items had not been used appropriately; there were common problems with equipment such as maintenance, availability of spare parts, and lack of fuel for refrigerators and vehicles; the uses of four-wheel motorcycles varied from acceptable to inappropriate; and oral rehydration salt packets and syringes donated by A.I.D. were not identifiable from those donated by others.

Although Mission Order 14.7 had not been fully implemented, the Mission has monitored the receipt, storage, maintenance, and utilization of project commodities and thereby followed the A.I.D. Handbook in employing the four monitoring methods. Typically, monitoring has been performed by using: consultations and reviews of recipients' progress reports by project officers, project site visits by Mission staff and management, financial audits by local CPA firms, physical inspections and surveys by contractors, surveys and reviews of recipients' project documents by Mission financial analysts, and count verifications of newly-delivered commodities by both recipient and Mission staffs. The following examples illustrate the Mission's monitoring efforts.

Rural Electrification II and III Projects - A financial analyst's review in March and April 1991 of A.I.D.-funded materials in seven warehouses found that (1) A.I.D.-funded materials were used in non-A.I.D. construction; (2) warehouse records contained errors; (3) there were no written procedures on materials controls; and (4) there was a lack of storage space. Subsequent to this review, the GOG implementing agency took corrective action on the first two problems and asked the Mission for assistance to address the last two problems. The Mission was in the process of authorizing technical assistance and funds for construction materials to correct these problem areas.

Expansion of Family Planning Services Project - The Mission contracted a U.S.-based organization which in January 1991 performed a study of the Guatemala retail market for A.I.D.-funded contraceptives by conducting 295 pharmacy interviews. This study found that A.I.D.-funded oral contraceptives, vaginal tablets, and condoms (except for an insignificant percentage) were not being marketed commercially, except as authorized. Subsequent to the study, the Mission took the precautionary measure of having the manufacturer remove the brand name from the condom packaging in order to reduce their commercial salability.

Rural Primary Education Improvement Project - A local CPA firm's December 1989 audit of the GOG implementing agency reported control

deficiencies over vehicles, warehouse inventories, office furniture, and school equipment. Subsequently, the Mission contracted a CPA firm to devise accounting and administrative procedures for the GOG agency, which were issued in March 1991.

Highlands Agricultural Development Project, Natural Resources Component - A Mission project officer's concerns about the GOG implementing agency led to a Mission financial analyst's survey in March 1992, which identified problems such as: (1) A.I.D.-funded computers not listed in the recipient's records; (2) a computer being used for a non-project money-earning purpose; and (3) excessive charges for vehicle maintenance and repairs. Subsequently, the Mission suspended all reimbursements to the GOG for this project as of March 1992.

As the above examples indicate, the Mission has performed a variety of monitoring actions, utilized the A.I.D. Handbook's four monitoring methods, and thereby monitored commodities receipt, storage, maintenance, and utilization. Nevertheless, we believe there are areas for improvement in the Mission's monitoring of recipients' systems. The A.I.D. Handbook is not clear on what all constitutes a recipient's commodity arrival and disposition system, especially on how the disposition part of the system relates to maintenance and utilization in terms of efficiency and economy. Consequently we believe the Mission should provide clarifying guidance in this area. Two opportunities for improvement are discussed in the following report sections concerning establishing (1) minimum controls over each type of commodity and (2) an overall commodity utilization plan in a project.

The Mission Should Establish Minimum Controls Over Commodity Monitoring

USAID/Guatemala should establish minimum commodities controls over similar commodities for all projects in order to facilitate both recipient and Mission management controls. Due to the lack of guidance, especially in the A.I.D. Handbooks, each project officer determined the appropriate commodities controls necessary for each project recipient, which resulted in different controls for the same type of commodity in each project. For example, some projects required a daily trip logbook for each project vehicle, while other projects did not; consequently, an utilization analysis of all vehicles in each project could not be made to show the rate of vehicle utilization. Such analysis could simplify the decision of whether to purchase additional vehicles when requested. We believe the Mission should define the minimum controls expected in all projects with the same type of commodities and thereby facilitate management controls over commodity usage.

Recommendation No. 3: We recommend that USAID/Guatemala provide written guidance on the minimum commodity controls to be required for each type of commodity--beginning with vehicles--procured under its projects.

A.I.D. Handbooks on project commodities do not provide guidance on the specific controls appropriate for different types of commodities. However, A.I.D. Handbook 3, Section 9.C.2a, states that a measurement and reporting system must be set up to keep the project recipient's management informed. A.I.D. Handbook 3 also states in Section 11.E. that, at the least, Mission systems must have monitoring procedures or methods which enable project officers and others to satisfy general needs, such as the recipient's efforts on the effective utilization of resources and accurate forecasting of future problems. Thus, the Mission should design its system to be in tune with the recipient's measurement and reporting system which, in turn, could implement specific controls required by the Mission.

Due to the lack of guidance, especially in the A.I.D. Handbooks, each project officer determined the appropriate commodities controls necessary for each project recipient, which resulted in different controls for the same type of commodity in each project. The Mission should define the minimum controls expected in all projects with the same type of commodities and thereby facilitate management controls over commodity usage.

What specific controls are needed can be determined by the Mission from a variety of sources, such as A.I.D. Handbook 23 on Mission commodities, the collective experience of the Mission staff, and various audit reports. For example, applicable laws and Agency policies and procedures for acquisition, utilization, recordkeeping, reports, replacement, and disposal of Mission vehicles are found in A.I.D. Handbook 23, Chapter 6. The required controls are:

- acquisition records which include such items as ownership, vehicle description, acquisition cost, import documents, host country registration, and license;
- daily vehicle usage record (i.e., trip logbook);
- operational cost records for each vehicle on fuel and oil consumption, spare parts, and general operating expenses;
- preventive maintenance schedule and maintenance and repair records for each vehicle (i.e. costs and downtime);
- utilization records showing hours of operation and miles or kilometers traveled;

- management's quarterly review of vehicles records for irregularities in fuel or oil consumption, misuse of spare parts, and other circumstances indicating poor maintenance practices or malfeasance;
- spare parts controls such as old parts turned-in and an old parts check for usability;
- accident procedures;
- replacement standards; and
- reimbursement cost policy for non-official vehicle use.

Our review of eight projects indicates that the recipients' systems for project vehicle management differed widely, as follows.

Maintenance Schedules and Records Are Needed - Recipients' maintenance and repair records basically consisted of costs for spare parts used in maintenance and repairs. We reviewed the eight projects to determine maintenance and repair requirements. Three projects required both a preventive maintenance schedule and a record of every maintenance and repair action; the other five projects lacked such maintenance requirements. Of the eight projects, we reviewed the records for two and found that they did not facilitate a determination of whether vehicles were properly maintained. One reason was that a preventive maintenance schedule, based on the manufacturer's service manual, had not been established for one project and was not used in the other project. Consequently, there was no basis to use to determine if actual maintenance was adequate. Another reason was that the recipients' use of maintenance/repair cost records may not indicate the actual work performed. For example, in the Rural Electrification II and III projects the implementing agency had calendar year 1991 maintenance/repair cost records for 7 of the 36 vehicles funded by the two projects. Assuming the purchase of oil or a filter indicated an oil change, then four of the seven vehicles, driven from 18,000 to 37,000 kilometers in 1991 had an oil change after five months; one of the seven vehicles, driven about 19,000 kilometers, had an oil change after six months; one of the seven vehicles, driven about 12,000 kilometers during the year, had only one oil change during the year; and one of the seven vehicles was received in November 1991 and thus, may not have needed an oil change in 1991. Based on the above records it appears that preventive maintenance, such as an oil change every three months, was not conducted on 6 of the 7 vehicles. If preventive maintenance was conducted, then the recipient should establish a system which documents it adequately.

Daily Use Records Are Needed - A logbook should accompany every vehicle to record each trip, its destination, distance traveled, time, purpose, passengers, etc. This logbook serves as a basic control to distinguish project use from nonproject use and in the event of possible nonproject use serves to explain the trip in question. Such a record is required by the Mission on all contractors' use of project vehicles but not on recipients' use.

USAID/Guatemala projects use different methods to record recipient's or implementing agency's vehicle use. Of eight projects reviewed, three projects did not have a logbook for each of their vehicles; three are planning to require a project logbook for each vehicle; one started using vehicle logbooks in August 1991; and one has started recording each A.I.D.-funded vehicle's daily usage on a limited basis.

We believe the Mission should ensure that a logbook with data on each trip is required and maintained by all recipients of A.I.D.-funded vehicles.

Reimbursement Policy Is Needed - Each recipient should establish a reimbursement policy as part of its vehicle management system. For example, reimbursement for pre-approved nonproject use of vehicles could become an equitable means to balance vehicle usage, an individual employee's personal needs, and project efficiency. Also, reimbursement in cases of misuse could serve as both a penalty and a deterrent to misuse.

None of the eight projects we reviewed had a written reimbursement policy, except for two projects that did make the driver responsible for vehicle damages due to the driver's fault. Mission officials stated that in past instances when vehicles were used for nonproject purposes the Mission demanded the return of the vehicles to project uses. In one of these instances on the Rural Primary Education Improvement Project, the Mission was in the process of issuing a bill for collection to the responsible host government ministry for the current market value of two vehicles which were badly damaged by nonproject personnel and were assigned these vehicles despite the Mission express disapproval. However, in other instances, reimbursement for nonproject use has not been pursued. Further, two Mission officials stated that some A.I.D.-funded vehicles are used for commuting between home and office by certain host government officials. We were told that this is an unwritten, long-standing practice of all the recipient host government agencies; however, this practice represents using vehicles for nonproject purposes.

Although the Mission has been aggressive in taking action against identified nonproject use of A.I.D.-funded vehicles, it could also establish a reimbursement policy as another method to correct instances of nonproject use of vehicles. Such a policy could be the initial step of a Mission effort to encourage each recipient to establish a policy against waste and other

misuses of project resources. Later, implementing procedures could be added, such as ethics training and communication hot lines.

Utilization Analysis Is Needed - Periodic utilization analysis on a monthly or quarterly basis should be performed in order to determine if vehicles were used effectively, efficiently, and economically. Such analysis can also function as a needs assessment to justify the purchase of additional vehicles.

Our review of eight projects showed that only two were attempting to analyze vehicle utilization. On one project, the natural resources component of the Highlands Agricultural Development Project, the Mission notified the host government in March 1992 that a reevaluation of vehicle utilization was needed. Second, the other project, the Farm-to-Market Access Roads Project, began to keep daily usage records in 1991 for A.I.D.-funded vehicles and heavy road construction equipment and has since issued two quarterly reports on their monthly utilization. We visited one of the implementing agency's regional construction offices and found that the utilization records could be improved in the following areas: (1) reported hours of operation were the hours the equipment or vehicle was physically located on the road during each day rather than the actual hours of operation as measured by the hour-meter, (2) reported kilometers of travel gave the distance traveled by vehicles and not the actual odometer readings (i.e., distance cannot be verified, while odometer reading can be verified), (3) four of 16 A.I.D.-funded vehicles and road equipment were not reported, and (4) neither the recipient nor the Mission had followed up on reported excessively high or low utilization rates.

In addition, the implementing agency has requested procurement of an additional \$3 million of vehicles and road equipment. However, we noted that (1) two A.I.D.-funded vehicles had been unused for over one and one-half years because of the lack of repair parts costing about \$12,500 and \$7,000 respectively and (2) several non-A.I.D. funded vehicles and equipment were idle due to inexpensive parts such as tires. In summary, although this implementing agency's regional office reported over 96 percent utilization for the month of December 1991, these statistics reflected the use of only 12 of 16 A.I.D.-funded vehicles and road equipment and one of the 11 non-A.I.D. funded items. Consequently, the actual utilization for all the equipment available to this regional office would be less than that reported.

As the preceding report sections explain, recipients should be required to improve their vehicle management. The Mission contracted with local CPA firms to devise procedures for vehicle management for the Rural Primary Education Improvement and Basic Education Strengthening projects but even these procedures do not include the use of maintenance schedules for

each vehicle, a daily trip logbook and utilization analysis in one project, and a reimbursement policy. We believe the Mission needs to provide standard guidance for each project as to how to monitor vehicles. Such guidance could establish the minimum requirements that each recipient's vehicle management should incorporate.

Better guidance is needed not only on vehicles but also on other commodities such as motorcycles and computers. Obviously, motorcycles are similar to vehicles and similar management requirements can be applied. For computer management, the Mission should devise suitable minimum requirements for recipients. One source for these requirements could be the actions already taken by the Mission on certain individual projects. For example, in early 1991 the Farm-to-Market Access Roads Project used a local firm to assess the purchase of over \$300,000 worth of computers and accessories. The assessment found, as one example, low utilization of 41 percent of the 75 purchased software programs and made recommendations on computer maintenance, inventory control, and staff training. Possibly, some of these recommendations would also apply to other projects that have purchased computer equipment and may avoid potential problems such as those previously discussed.

Management Comments and Our Evaluation

The Mission agreed with Recommendation No. 3 and plans to implement it by revising the procedures in Mission Order 14.7 applicable to projects with large (\$100,000 or more) commodity procurement. Recommendation No. 3 is resolved and can be closed when RIG/A/T receives and reviews a copy of the revised Mission Order.

The Mission Needs to Establish Guidance for an Overall Commodities Utilization Plan

A.I.D. Handbook 15 suggests that recipients use an overall commodity utilization plan with measurable, interim levels of achievement. None of the projects we reviewed had such a plan. Due to the lack of specific guidance each project officer determined the appropriate commodities controls necessary for each project recipient. However, such utilization plan would be useful to management, especially for monitoring the consumption of expendable commodities in projects with construction activities, for budgeting and monitoring procurement, and for monitoring project progress. For example, for the Rural Electrification III and the Highlands Water and Sanitation Projects such a plan would have identified over \$0.8 million in residual materials as of December 1991 from predecessor projects and could have identified a potential excess of \$2.9 million in planned commodities for the electrification project; \$1.5 million due to excess planning and \$1.4 million due to the possible non-completion of

current project targets. We believe the Mission should define the use of an overall commodity utilization plan by issuing guidance to recipients.

Recommendation No. 4: We recommend that USAID/Guatemala:

- 4.1 issue guidance to recipients on the establishment and implementation of an overall commodity utilization plan;**
- 4.2 transfer to the Rural Electrification III Project and the Highlands Water and Sanitation Project the residual materials from their predecessor projects estimated at \$500,000 and \$300,000 respectively; and**
- 4.3 schedule an evaluation of the Rural Electrification III Project's commodities planning and construction progress.**

Regarding end-use review procedures A.I.D. Handbook 15, Appendix A, Attachment B suggests that field work could consider if the project recipient has an overall commodity utilization plan (utilization plan) with measurable, interim levels of achievement. Similarly, Mission Order 14.7 of August 1991 suggests consideration of the same utilization plan; however, there was no description or explanation of such a plan in either the Handbook or the Mission Order.

Due to the lack of specific guidance, each project officer determined the appropriate commodities controls necessary for each project recipient.

Our review of ten projects showed that none of the recipients had established a utilization plan. Yet, each project includes in its project plan a budget line for the estimated cost of all commodities anticipated during the project's multi-year life. This estimate is based on the number of planned activities to be completed and the job (e.g., construction) standard or recent job experience for the activity. For example, in the Highlands Water and Sanitation Project two of its planned outputs are 200 water systems and 24,000 latrines. The project's commodities budget is based on the Mission's recent experience in constructing similar outputs and is calculated using a detailed list of specific items needed for one water system and one latrine, multiplied by 200 and 24,000, respectively.

After a project is approved and funded, the recipient submits an annual plan that includes commodities planning based on a number of factors including how many of the planned project activities will be started, the quantity of each item already in the recipient's warehouse, the time necessary to purchase and deliver the items, etc. Then, the Mission project officer reviews the annual plan, assesses the project progress, and, as part of the review, checks on the commodities. The review of commodities

includes a comparison of items to be purchased with the overall project plan, the recipient's inventory, vendors' shipping and billing documents, commodities consumed in completed activities, and construction standards. This commodity check involves not just the recipient's annual plan but also other documents such as the project paper, construction design, inventory records, vendors' catalogs, and industry standards. One way to simplify commodities monitoring is to employ a utilization plan.

A utilization plan could be organized by the different types of project activities, such as water systems. The first section could list all project outputs, such as 200 water systems, with a list of the specific items needed, the quantity, the price, and the total cost per item. Adding each of the specific item's total cost will give the commodity budget for a project activity over the project's life. Performing the same process for each project activity would yield the initial utilization plan. The Mission project officer for the Highlands Water and Sanitation Project stated that this methodology was, in fact, used to calculate the budget estimate for Project's commodities, but there was no one document that combined all these data.

Next, the utilization plan can be used to monitor project progress and make planning adjustments regarding commodities procurement, arrival, receipt, issuance, consumption, and inventory. For example, after developing the initial utilization plan, sections or columns representing the years of the project could be provided, subdivided into parts of the commodities process:

- initial stock or warehouse inventory,
- annual plan,
- procurement,
- arrival,
- receipt,
- issuance,
- consumption, and
- inventory list.

Then under each part of the process the quantity, price, and total cost could be recorded based on actual experience. The project officer for the Highlands Water and Sanitation Project stated that the Mission and the recipient have various documents that track each part of the commodities process but that a single schedule would organize and facilitate the monitoring of project commodities. Also, with existing computer software, a utilization plan could be automated for easier updating and monitoring.

The inclusion of a utilization plan in each project has other advantages. One advantage is tracking the availability of commodities needed to complete project activities. That is, the commodities procured may differ

from the commodities actually received, the commodities planned for a job may differ from the commodities actually consumed in construction, and the commodities on the inventory list may differ from the actual number of commodities on the warehouse shelves. For example, the project paper may target 40 completed water systems for one year, the annual plan may budget for 50 (based on 40 to be completed and 10 to be started), the procurement may be for 50, the delivery may be 48 due to vendor's undercount, the receipt of acceptable items may be 45 due to 3 not meeting contract specifications, the consumption may be 35 due to slow progress, the completion may be 37 due to excess materials in the design, and the warehouse stock may be 18 instead of 20 due to breakage. Following this process on a schedule that lists each specific item would help in monitoring the provision of commodities throughout the recipient's commodity arrival and disposition system and its input on project outputs.

Another advantage of a utilization plan is tracking the funds budgeted for commodities. That is, the estimated price may differ from the actual price paid due to a variety of factors such as inflation, exchange rate fluctuation, delivery costs, etc. Since the initial utilization plan can be used to calculate the initial budget estimate, it can also be revised later to reflect current prices and, consequently, used to provide revised budgets. Obviously, this can point out the likelihood of project fund excesses or deficits.

A third advantage of a utilization plan is its possible use as a tool for project commodities management by the recipient and the Mission. Besides determining the availability of commodities and funds, the Mission could determine more easily the pace of the project progress, with the possibility of excess commodities and/or the possibility of increasing project targets.

We believe that the inclusion of a utilization plan in projects, particularly those with construction activities would be useful, as indicated by our review of the following two projects.

The Rural Electrification III Project Can Save an Estimated \$3.4 Million - The implementing host government agency did not establish a utilization plan for the Rural Electrification III Project. Without one, commodities monitoring was more difficult and consequently overlooked the possibility that excess project commodities with an estimated value of \$3.4 million could accrue under this project in three ways.

First, the project did not include the commodities leftover from its predecessor Rural Electrification II Project, which consisted of expendable electrical materials valued at over \$1 million. This amount is based upon an inventory list as of December 31, 1991 which was provided by INDE in response to a request by RIG/A/T. USAID/Guatemala subsequently

informed us that this material had an estimated value of \$0.5 million. When the predecessor project ended in March 1989, it had completed 75,290 electrical connections, exceeding the planned project output of 70,000 connections. Also, as of March 1989, it had over \$2 million in leftover materials partly because the Mission had, at the host government's request, used funds budgeted originally for labor to purchase additional materials to complete about 24,000 additional electrical connections. By the end of 1991, the implementing GOG agency had completed over 96,000 connections, exceeding its revised target of 94,000 connections, and still had over \$1 million of electrical materials in its warehouses.

Second, the new project may have over-designed its construction (i.e., the construction design plan contained a significant amount of excess materials compared to the materials consumed in the completed construction) and, thus, over-estimated the commodities to be procured by about \$1.46 million.³ The project plan of July 1989 budgeted \$6.1 million for commodities to complete 65,000 electrical connections to 400 communities. As of February 1992, the implementing agency had completed 714 connections to six communities. Cost data for one community showed the planned commodities exceeded the actual commodities consumed by 24 percent. A supervisory engineer hired by the Mission explained that one reason for excess commodities in the six-community construction was because new construction standards, designed to use less materials, were used. We believe that another reason for the excess materials is that the project plan was based on the predecessor project--which, as described earlier, also had materials leftover.

Third, the implementing agency started construction under the new project in October 1991, about 15 months behind its 5-year construction schedule, to end in April 1995. The current construction schedule shows 49,700 connections by the project completion date of August 1995. Thus, we estimate the project will complete about 76 percent of its targeted 65,000 connections. This indicates a 24 percent excess in the \$6.1 million budgeted for commodities, which is about \$1.46 million.⁴

Mission officials stated that an evaluation of the project progress would be included in the mid-point evaluation scheduled for 1992 and the implementing agency could be asked to accelerate its construction schedule. They stated that since 1995 was still years away, other factors such as the addition of private construction firms to participate in this

³ \$6.1 million budgeted for commodities multiplied by the actual commodities consumed of 24 percent.

⁴ See footnote 3.

project may enable the project to meet its target. However, they did agree that a new budget estimate should be prepared to consider the materials leftover from the prior project and the new construction standards.

The Highlands Water And Sanitation Project Can Save \$300,000 - The Highlands Water and Sanitation Project also did not establish a utilization plan. Without a plan, commodities monitoring is more difficult which may have contributed to the project not including \$300,000 of materials leftover from its predecessor Community Based Integrated Health and Nutrition Systems Project. The May 1991 project paper assumed there would be about \$1.2 million in leftover materials, when the actual value was about \$1.5 million as of December 31, 1991 -- a difference of \$300,000. As a result the project design did not include \$300,000 of leftover materials. We believe the use of a utilization plan could have identified this difference.

The project may also save additional commodity funds or increase its construction outputs in another way--by monitoring the materials planned and consumed in each construction. That is, since the predecessor project had completed nearly all of its targets but still had about \$1.5 million in leftover materials of the original \$7 million, then there was an apparent materials over-design. However, the project officer stated that the implementing agency planned the materials for the new project based on the actual construction experience of the old project. But, we believe that using a utilization plan to monitor construction scheduled to start in 1992 may identify excess materials in the new project's design.

In summary, the Mission should have each project recipient employ an overall commodity utilization plan, where feasible, to track the commodities, their funds, and project progress. This measurement and reporting system should simplify the Mission's monitoring of the project.

For the Rural Electrification III and the Highlands Water and Sanitation Projects, the Mission needs to transfer materials from predecessor projects which can save on the materials budget or increase project outputs. Also, for the Rural Electrification III Project, the Mission needs to schedule a project evaluation to assess the commodities planned and budgeted and the construction progress to determine the amount of excess materials.

Management Comments and Our Evaluation

USAID/Guatemala basically agreed with Recommendation No. 4.1 and plans to implement it by issuing to implementing agencies with large commodity procurement a standard letter which specifies the commodity planning information needed in each annual workplan. RIG/A/T agrees with this approach and considers Recommendation No. 4.1 resolved. It can be closed upon our receipt and review of the standard letter.

With regard to Recommendation No. 4.2 the Mission transferred all material from the prior Highland Water and Sanitation Project to its successor project. The draft audit report mistakenly used \$5.9 million for all materials. The Mission noted that \$5.5 million is the applicable figure for all materials because it represents the materials budget for the infrastructure component of the project and the other \$0.4 million is the materials budget for another project component. Accordingly, we have revised the audit report. We believe that this is another example of how a utilization plan could have shown the direct relationship between separate item costs, project outputs, and the materials budget--that was not readily available from project planning documents.

For the Rural Electrification III Project, the Mission is negotiating with INDE to transfer less than \$0.5 million of materials remaining from the prior project, as of December 1992. Also, the Mission planned a project evaluation for March 1993, which will include the issues of commodity planning and construction progress--that we reported may contain excess materials due to the design and late construction schedule. The Mission indicated that any amount for materials is only an estimate of what can occur in the coming years, in terms of construction activity and price fluctuations. We agree that current indications of excess materials may be reduced by increased construction, increased prices, and/or other exogenous factor; however, our point is that the use of a utilization plan can facilitate Mission control over materials--such as a quantitative assessment of excess materials.

The transfer of material from the predecessor Highland Water and Sanitation Project satisfies the intent of the recommendation for this particular project. Recommendation No. 4.2 can be resolved in its entirety when a firm value for the materials to be transferred from the prior Rural Electrification Project is agreed upon. Recommendation No. 4.2 can be closed when the transfer of material is completed.

Management concurred with Recommendation No. 4.3 and scheduled an evaluation of the Rural Electrification III Project for March 1993. We concur that an evaluation is an appropriate method to review the commodities budget to determine whether any excess funds, estimated at \$2.9 million, exist. Recommendation No. 4.3 can be resolved when the evaluation is completed, the amount of any excess funds is identified, and agreement is reached for their disposition. The recommendation can be closed when the agreed disposition has been completed.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of USAID/Guatemala's internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives, and
- report on the significant controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit objectives and not to provide assurance on the auditee's overall internal control structure.

For the purposes of this report, we classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation--and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

The management of A.I.D. including USAID/Guatemala, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (FMFIA) in September 1982. The FMFIA amended the Accounting and Auditing Act of 1950, which made the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the U.S. General Accounting

Office has issued *"Standards for Internal Controls in the Federal Government"* to be used by agencies in establishing and maintaining such controls.

In response to the FMFIA, the Office of Management and Budget has issued guidelines for the *"Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government"*. According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because changes in conditions may require additional procedures or the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for the Audit Objectives

Audit Objective One

The first audit objective concerns the planning of commodity needs. In planning and performing this objective we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3. For purposes of this report, we classified the internal control policies and procedures into categories of pre-project planning and operational planning.

We reviewed the Mission's internal controls relating to this audit objective and our tests showed that they were logically and consistently applied. Therefore, we concluded that the internal controls for planning commodity needs were reliable.

However, considered significant in terms of answering the audit objective, our assessment showed that USAID/Guatemala could improve its controls by assigning oversight for this task to a member of management. This area and related recommendation is discussed on pages 6-13 of the report.

Audit Objective Two

The second audit objective concerns the procurement of commodities. In planning and performing this objective, we considered the Federal

Acquisition Regulation (FAR) and the A.I.D. Acquisition Regulation, adopted as A.I.D. policy according to A.I.D. Handbook 1, Supplement B, Section 12B.2.a. (2) and A.I.D. Handbook 14, Section 701.402. For purposes of this report, we classified the internal control policies and procedures contained in both sets of regulations into categories of price, time, and supplier.

We reviewed the Mission's internal controls relating to this audit objective. Our tests showed that they were logically and consistently applied except for the internal control procedure to document the price analysis for each contract. However, we conducted more extensive testing to achieve our objective of whether the Mission procured commodities at a fair price. Consequently, we noted the following significant internal control weakness:

- USAID/Guatemala Contracts Office files did not contain documentation on the price analysis for every contract.

The Mission had not reported this control weakness during its 1991 internal control evaluation since it was not listed on the A.I.D./LAC Bureau's evaluation form. We believe the USAID/Guatemala should report this area as a weakness in its next internal control assessment if it is not fully resolved. This area and related recommendation is discussed on pages 14-17.

Audit Objective Three

The third audit objective concerns the monitoring of commodities' receipt, storage, maintenance, and utilization. In planning and performing this objective, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 15 and local Mission Order No. 14.7. For purposes of this report, we classified the internal control policies and procedures into categories of receipt, storage, maintenance, and utilization.

We reviewed the Mission's internal controls relating to this audit objective and our tests showed that they were logically and consistently applied. Therefore we concluded that the internal controls for commodities' receipt, storage, maintenance, and utilization were reliable with exception to controls established to approve the commodity arrival and disposition system of each project recipient. We were unable to review this internal control as it relates to this audit objective because the Mission had not conducted any reviews of recipient commodity arrival and disposition systems as of our review. Except as noted above, our work was conducted in accordance with generally accepted government auditing standards.

However, considered significant in terms of answering the audit objective, our assessment showed that USAID/Guatemala could improve its controls in the following two areas:

- minimum controls over commodity monitoring should be established, and
- guidance concerning the overall commodities utilization plan should be established.

These areas and related recommendations are discussed on pages 19-30 of the report.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Guatemala's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objectives), and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Guatemala's compliance with certain provisions of the Federal Acquisition Regulation (FAR) as they could affect our audit objectives. However, our objective was not to provide an opinion on overall compliance with such FAR provisions. The specific FAR provisions we tested for compliance were:

- FAR 7.104 on acquisition planning, as follows: *"Acquisition planning should begin as soon as the agency need is identified, preferably well in advance of the fiscal year in which contract award is necessary. ...At key dates specified in the plan or whenever significant changes occur, and no less after than annually, the planner shall review the plan and, if appropriate, revise it."*
- FAR 15.805-1 (b) on the fair price of a negotiated contract, as follows: *"...the contracting officer shall make...a price analysis to ensure that the overall price offered is fair and reasonable."*

- FAR 15.1002 on the timely manner of a negotiated contract, as follows: *"The contracting officer shall award a contract with reasonable promptness to the successful offeror..."*
- FAR 9.103, 9.105-1(a), 9.105-2(a)(1), and 9.105-2(b) on qualified suppliers, as follows: *"Purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only." "Before making a determination of responsibility, the contracting officer shall possess or obtain information sufficient to be satisfied that a prospective contractor currently meets the applicable standards..." "The contracting officer's signing of a contract constitutes a determination that the prospective contractor is responsible with respect to that contract." "Documents and reports supporting a determination of responsibility or nonresponsibility...must be included in the contract file."*
- FAR 46.401 (a) and 46.6 on material inspection and acceptance, as follows: *"Government contract quality assurance shall be performed at such times...and places...as may be necessary to determine that the supplies or services conform to contract requirements." "Agencies shall prescribe procedures and instructions for the use, preparation, and distribution of material inspection and receiving reports and commercial shipping documents/packing lists to evidence Government inspection...and acceptance...."*

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants, and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws and implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls.

Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with FAR 7.104, 15.805-1(b), 15.1002, 9.103, 9.105-1(a), 9.105-2(a)(1), 9.105-2(b), 46.401, and 46.6 is the overall responsibility of USAID/Guatemala.

Conclusions on Compliance

The results of our tests of compliance indicate that, with respect to the items tested, USAID/Guatemala complied in all significant respects, with the applicable provisions of FAR 7.104, 15.805-1 (b), 15.1002, 9.103, 9.105-1 (a), 9.105-2 (a) (1), 9.105-2 (b), 46.401 (a), and 46.6.

**SCOPE AND
METHODOLOGY**

Scope

We audited the system for project commodities at USAID/Guatemala in accordance with generally accepted government auditing standards. As part of our annual plan, we conducted the audit from December 10, 1991, to April 3, 1992, and did our field work at the office of USAID/Guatemala in Guatemala City and at project locations in Guatemala. The audit entailed interviewing USAID/Guatemala officials, reviewing Mission files and records, and reviewing those policies and procedures necessary to determine how:

- commodity needs were planned,
- commodities were procured at a fair price, in a timely manner, and from qualified suppliers, and
- commodities were monitored for their receipt, storage, maintenance, and utilization.

As of March 1992, USAID/Guatemala had 29 active projects, plus 11 additional projects completed in the past two years, with \$387.3 million in life-of-project funds, of which \$65.0 million was obligated and \$38.7 million was expended for project commodities. We did not specifically audit these amounts; rather our audit focused on the system for planning, procuring, and monitoring project commodities. Nevertheless, our review involved 12 of the 40 projects which represented \$52 million (80 percent) and \$26 million (66 percent) respectively of the obligations and expenditures for project commodities.

The Projects, types of commodities, and site visits covered by our review of USAID/Guatemala project commodities is detailed in the table on page 40.

Project Title	Type of Commodities	Locations Visited in Guatemala
Highlands Agricultural Development (National Resources Component)	Vehicles	N/A
Farm-to-Market Access Roads	Vehicles and road equipment	San Cristobal
Small Farmer Coffee	Vehicles	N/A
Maya Biosphere	Vehicles	N/A
Expansion of Family Planning Services	Contraceptives	Guatemala City
Immunization and Oral Rehydration Therapy for Child Survival	Medical supplies and vehicles	N/A
Highlands Water and Sanitation	Water pipes/fittings	N/A
Rural Primary Education Improvement	School desks and vehicles	Guatemala City
Basic Education Strengthening	Motorcycles and vehicles	Guatemala City
Improved Administration of Justice	Computers	Guatemala City
Election System Support	Computers	Guatemala City
Rural Electrification	Electrical parts and vehicles	Quezaltenango

We did not review all aspects of each type of commodities nor did we review the entire quantity of a selected type of commodity procured for one project. For example, we reviewed the Small Farmer Coffee project vehicles only for the records required on each vehicle in use; while we reviewed about \$307,000 of about \$681,000 procured Improved Administration of Justice project computers and only for the Mission planning and procurement actions performed.

We did not consider the procurement process followed by technical assistance contractors and non-government organizations because our initial work indicated relatively lesser value purchases were involved. We did not consider the Government of Guatemala agencies' procurement process because Mission officials stated that such purchases were now

accomplished by the Mission. As a result, our review of procurement was limited to Mission direct purchases.

Our review of Mission monitoring assessed Mission reports and records for the monitoring technique employed and the monitoring aspect covered. But, we did not test the monitoring techniques in order to determine the reliability of the resultant report and/or record. For example, we did not examine the Mission's financial analyst's reviews of recipients' inventories nor did we examine the studies of Mission contractors. Instead, we relied on such reports and records, including computer-processed data, when statements on commodity problems indicated deficiencies. The computer process data we relied on were the amounts of residual materials from two projects (see pages 27 and 29) that were based on recipients' computer-processed inventory lists.

Our review examined the internal controls related to each of our objectives and where a deficient performance or problem occurred, our review determined if an internal control weakness was the cause. Also, our review considered those prior audit findings that related to our audit objectives.

After reviewing our draft report, the Mission director provided us with an acceptable representation letter.

Methodology

The audit was made in accordance with generally accepted government audit standards. The methodology for all audit objectives follows. We obtained and reviewed prior RIG/A/T audit reports on the Mission or its projects, the Mission's financial report MACS-PO6B *"Summary Project Financial Report by Project Element as of 12/09/91"*, the Mission's activity report submitted to A.I.D./LAC Bureau *"Project Semi-Annual Report, April 1 - September 30, 1991"*, the Mission's 1991 internal control evaluation report, and the Mission's manual of mission orders in order to determine the universe of project commodities and the Mission's policies and procedures on project commodities. We also held a series of discussions with each Mission technical office whose representatives were selected by our Mission liaison on the basis of availability in December 1991 and their personal knowledge of projects that had a high dollar value of commodities budgeted and/or procured. Based on these reports, discussions, and additional documents provided by Mission representatives on their respective project commodities, we listed all on-going projects and completed projects with project assistance completion dates of 1990 or later, the estimated dollar value of project commodities obligated and expended, the type and estimated quantity of each project commodities, and audits performed since 1990.

We then judgmentally selected a sample. This selection considered these factors: high dollar value, a variety of types of commodities, the inclusion of several Mission technical offices, the preliminary indications of possible commodity problems, and prior audit coverage. For example, two projects were selected for their major purchases of computers. As a result, we selected a total of 12 projects, which included all active projects with obligations of \$1 million or more for commodities.

In general, for each of the audit objectives we identified the key control and/or compliance requirements; tested a finite number of projects, types of commodities, and contracts for the procedures and controls used; and interviewed Mission management on the application of controls over project commodities.

Audit Objective One

To accomplish the first audit objective on planning project commodities, we identified the key control or compliance requirements, as follows:

- project paper containing a procurement list and schedule (i.e., procurement plan),
- project paper review by the Mission, and
- project implementation order/commodities as the authorized purchase request.

We tested five projects for these three requirements by a review of project files. Since this limited test showed no indication of a significant deficient performance or problem, we did not extend this test.

However, in our review of these five projects for this audit objective and seven other projects for the other two audit objectives, we noted problems that arose and hindered the project or the use of project commodities. When we found such problems, we assessed their relationship to commodities planning through discussions with the project officers, review of the project papers and related project files, review of the office of Project Development and Support files on project paper reviews, site visits to locations of project commodities, and discussions with recipient officials. Then we held talks with Mission management on what planning control might help to avoid such conditions.

Audit Objective Two

To accomplish the second audit objective on procuring project commodities, we identified the key control or compliance requirements, as follows:

- documentation on the price analysis (Federal Acquisition Regulation 15.608(a)(1), 14.407-7, and 13.106(c)(1)).
- average of 90 to 150 days for the contracting process from receipt of the project implementation order to the award of the contract (A.I.D. Handbook 3, Section 8C3c(5)(c)), and
- documentation on an assessment of each offeror's ability to accomplish the technical requirements of the prospective contract (Federal Acquisition Regulation 15.608(a)(2)(ii)).

We tested seven contracts for the procedures and requirements followed in the procurement process for syringes, electrical parts, vehicles, computers, motorcycles and school desks. Our test involved discussions with the Contracts Office staff and the project officers, review of contract files, a site visit to a contractor's manufacturing and assembly shop, and telephone discussions with local vendors on the current market prices of vehicles, motorcycles, and school desks.

Audit Objective Three

To accomplish the third audit objective on monitoring project commodities for receipt, storage, maintenance, and utilization, we identified the key control or compliance requirements as the monitoring methods from A.I.D. Handbook 3, Section 11E.2., as follows:

- review of recipient's project reports, such as progress reports, shipping reports, and annual financial reports, for such purpose as verifying compliance with requirements,
- physical inspection such as a site visit, for such purpose as appraising performance,
- consultation with project participants for such purposes as exchanging information and confirming the findings from other monitoring methods, and
- review of project documents such as contracts, payment documents, and work plans for such purposes as appraising project actions and confirming information from other reporting sources.

Accordingly, the Mission established two monitoring techniques regarding the recipients' commodity arrival and disposition system and project officers' end-use verifications, which would employ all four monitoring methods on all aspects of monitoring project commodities. However, since the Mission was in the process of initiating these two monitoring

techniques, we considered (1) whether the other Mission monitoring techniques employed the four monitoring methods on the four aspects of project commodities monitoring and (2) whether a recipient's management system provided the records necessary for Mission monitoring. To make these determinations, we tested up to ten projects for selected types of commodities monitored in selected aspects, as follows.

Type of Commodity	Monitoring Aspect Tested by Type of Commodity			
	Arrival	Storage	Maintenance	Utilization
Vehicles	X		X	X
Road equipment	X		X	X
Electrical parts	X	X		X
Water pipes/fittings				X
Medical supplies				X
Contraceptives	X	X		X
Motorcycles	X	X		X

Our test involved discussions with the project officers and Mission management; review of project office files and Mission management files on project activities; review of project office files and Controller's files on commodities arrival and receipt; site visits to locations of project commodities--vehicles, road construction equipment, motorcycles, and contraceptives--in use or in warehouses; discussions with recipient officials; and review of recipient's project documents.

MANAGEMENT COMMENTS

memorandum

DATE: December 2, 1992

REPLY TO
ATTN OF: USAID/Guatemala Acting Director, Stephen Wingert

SUBJECT: Comments on the draft report of the Audit of USAID/Guatemala's
Commodities System.

TO: RIG/A/T, Lou Mundy

USAID/Guatemala, in general, concurs with the report findings and recommendations taking into consideration that there are always areas of opportunity for improvement. We are pleased to see that the audit did not find any major problem in a Mission that manages such a large portfolio. As stated in the Summary of Audit, the audit found that, for the items tested, USAID/Guatemala:

-- planned commodity needs in accordance with A.I.D. policies and procedures,

-- procured commodities at a fair price, in a timely manner, and from qualified suppliers in accordance with A.I.D. policies and procedures, and

-- monitored that commodities were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures.

We would appreciate that the following comments from the project managers of the Primary Education Improvement, Administration of Justice, Rural Electrification III, and Highlands Water and Sanitation Projects, be taken into consideration before issuing the final report:

-- page 11 states that the Primary Education Improvement Project funded about 34,000 more school desks than the original amount planned. The justification for these additional desks was based on a 1989 Government of Guatemala survey of furniture at 972 schools, more schools than the 800 planned for the project.

The Mission agreed in the procurement of more desks for the additional schools, since those schools were also bilingual schools in other linguistic areas. The reprogramming plan for 1989, approved by the Mission, recognized the creation of more schools and the provision of teachers by the Ministry of Education. Therefore, the Mission approved the procurement and ensured that these commodities were needed by the schools.

-- page 14, last paragraph, says that "about one-half of the computer equipment was delivered in November-December 1991". Only one-third was delivered.

monitoring, the Mission has formed Sectoral Implementation Committees. The purpose of these committees is to provide on-going, consistent project-level oversight by highlighting implementation problems in a monthly report to the Director. The memorandum establishing the Sectoral Implementation Committees is attached for your information (attachment 1).

The implementation of Recommendation No. 1.1 as stated in the draft audit report would be duplicative and, given the current staff levels, impractical. Since as reported by the RIG/A/T, current Mission procedures in this area are in accordance with A.I.D. Handbooks, it is our opinion that the only required action is the strict application of Mission Order 14.7: Monitoring of Receipt and End-use of Program and Project Commodities, in effect since August 8, 1991.

Recommendation 1.2, we hereby request that this recommendation be considered closed at the time the audit report is issued in final, based on the following actions taken:

-- the Mission in conjunction with the implementing institution developed a procedure to ensure that the inspection of electrical materials includes a determination that the commodities comply with contract requirements (see attachment 2).

-- the project did train a person for hardware inspections; however the trained person had resigned at the time of the audit. A new person has been trained.

-- A.I.D. staff continue verifying the commodities through regular site visits.

Recommendations No. 2.1 and 2.2: We request these recommendations be considered closed at the time the final report is issued. On November 23, 1992, the Contracting Officer issued a memorandum to his staff instructing them to use a form developed to document the file that the prices of contracts are considered fair and reasonable. The new form is included as attachment 3.

Recommendation No. 3: We request that this recommendation be considered resolved at the time the final report is issued. We plan to implement this recommendation by incorporating into a revision of Mission Order 14.7 procedures applicable to projects with large (\$100,000 or more) commodity procurement. Some guidance for vehicle use has been established through the issuance of a project implementation letter to implementing agencies (see as example attachment 4). Closure of the recommendation will be requested when the revised Mission Order is issued.

Recommendation No. 4.1: We request that this recommendation be considered resolved at the time the final report is issued.

-- page 15, fourth paragraph, states that "ten months were expended between the Mission's approval of the procurement and the contract award". It should be clarified in the report that there were three different contract awards: the direct award to GSA, the direct purchase to IBM/Guatemala, and the third contract with Horizons Trading Co., a U.S. firm, that took the longest due to the multiple requirements. This third contract was an open competition award in the U.S. and advertised in the CBD

-- page 38, a statement is included indicating that "The Rural Electrification III Project Can Save \$3.9 Million". This statement is based on several assumptions that may or may not prove true. The materials from the previous project were financed under a loan. INDE and the Mission are still negotiating whether these remaining materials will be transferred to the new project. The total of the materials that can be transferred is less than \$0.5 million as determined by the recently completed review by the Mission Financial Analysis Section, not over \$1 million as stated in the report. The RIG report assumes that only 76% of the targeted connections will be completed by the project. The apparent purpose of this exposition is to sustain the recommendation of establishing an overall commodity utilization plan, and it can be considered only illustrative. The report should say that it is only an estimate of the amounts of materials and an estimate of what can occur in the coming years, in terms of construction activity and price fluctuations.

-- page 40, states that "The Highlands Water And Sanitation Project Can Save \$700,000". The RIG report supposedly bases this statement in part on the Project Paper. However, our review of the PP, page 8, indicates that materials valued at \$1,190,000 were considered in the new design. Apparently, the RIG report mistakenly uses a figure of \$5.9 million for the estimate of all materials, when the PP consistently uses a figure of \$5.5 million. We would be more comfortable if the final report says the Project could save \$300,000 based on the December 1991 inventory.

Recommendation No. 1.1: It is our opinion that the recommendation should be considered closed, or should not be included in the final report, based on the following actions taken:

-- project managers are currently responsible for monitoring the appropriate use of commodities. This is accomplished through frequent site visits (the Mission has a quarterly plan of site visits) and semi-annual end-use reports.

-- oversight is provided through semi-annual reviews (SAR), the annual Mission's Internal Control Assessment, and periodic implementation meetings. To strengthen implementation

To implement this recommendation, the Mission will issue a standard letter to implementing agencies, with large commodity procurement, specifying the commodity planning information that we want in each annual workplan. Once the standard letter is sent to implementing agencies, the Mission will request closure of the recommendation.

Recommendation No. 4.2: We request that the action pertaining to the Highlands Water and Sanitation Project be considered closed at the time the audit report is issued in final since by PIL No. 7, dated May 21, 1992, the materials, equipment, and vehicles remaining from project 520-0251 were transferred to project 520-0399 (see attachment 5).

Recommendation 4.3: We request that this recommendation be considered resolved. An evaluation of the Rural Electrification III Project is scheduled for March 1993. We can ensure that the scope of work will include the issues of commodity planning and construction progress. Closure of the recommendation will be requested when the Mission accepts the evaluation report.

In summary, we are requesting that, at the time the audit report is issue in final the recommendations show the following status:

-- Closed: 1.1, 1.2, 2.1, 2.2, and 4.2 (part related to the Highlands Water and Sanitation Project)

-- Resolved: 3, 4.1, 4.2 (part related to the Rural Electrification III Project), and 4.3.

Finally, the Representation Letter is provided as attachment 6.

Enclosures: a/s

REPORT DISTRIBUTION

U.S. Ambassador to Guatemala	1
Administrator	2
USAID/Guatemala	5
AA/LAC	1
LAC/CEN	1
LAC/DPP/CONT	1
XA/PR	1
LEG	1
GC	1
AA/OPS	1
AA/FA	1
FA/FM	1
AA/R&D	1
POL/CDIE/DI	1
FA/MC	2
FA/FM/FPS	2
IG	1
AIG/A	1
AIG/I&S	1
D/AIG/A	1
IG/A/PPO	3
IG/LC	1
IG/RM	12
IG/A/PSA	1
IG/A/FA	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Eur/W	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Vienna	1
IG/I/TFO	1