

**PROCUREMENT
AND
EXPENDITURE/
DISBURSEMENT
DEFICIENCIES**

**MUNICIPALITY OF
VIDIN, BULGARIA**

Prepared for



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TABLE OF CONTENTS

ABSTRACT	iii
EXECUTIVE SUMMARY	v
BACKGROUND	1
Organizational Structure	1
Revenues and Expenditures	1
Municipal Staffing Levels	2
ANALYSIS OF PROCUREMENT PRACTICES/DEFICIENCIES	2
Description of the Public Procurement Act	2
Description of the Procurement Process and Deficiencies	3
Recommendations for Improving Procurement Practices	3
ANALYSIS OF EXPENDITURE/DISBURSEMENT PRACTICES AND DEFICIENCIES	5
Current Financial Situation	5
Expenditure/Disbursement Authority	5
Recommendations for Improving the Expenditure/Disbursement Function	6
APPENDIX A: MUNICIPAL OFFICIALS INTERVIEWED	9
APPENDIX B: EXHIBITS	11
Exhibit 1: Organizational Structure	
Exhibit 2: Revenues by Type (FY 1996)	
Exhibit 3: Expenditures by Functional Area (FY 1996)	
Exhibit 4: Staffing Levels by Functional Area (FY 1996)	
Exhibit 5: Liabilities as of January 31, 1997 by Functional Area	
Exhibit 6: Disbursement Authority	

ABSTRACT

Officials of the Municipality of Vidin have determined that the administration of the municipality does not receive adequate information about the expenditure of municipal budget funds and can not exercise appropriate control over the disbursement of municipal funds. This control is mandated by law and supported by the municipal officials' own view of sound financial management principles.

Municipal funds are currently disbursed through a system which does not provide adequate reporting to local government. There are 65 "units" where disbursement of funds takes place in the education arena alone. ICMA is assisting the municipality to improve the reporting of disbursement and expenditures of the funds by creating a pilot project which will link two cost-centers from the education department and one cost-center from the health care field to the budget and finance departments of Vidin.

The following report documents the examination of the present state of the financial management, budgeting, procurement and disbursement/expenditure of funds in the municipality, and describes their deficiencies. This report also outlines recommend changes in procurement and disbursement/expenditure practices of the municipality to improve upon current shortcomings identified during the examination.

EXECUTIVE SUMMARY

This report has been prepared for the United States Agency for International Development's Local Government Initiative program in Bulgaria (Contract No. EPE-C-00-95-001100-00, RFS No. 208). It summarizes the results of two visits to the Municipality of Vidin by ICMA consultant Ian Allan and MTK Konsult consultant Emil Savov on February 14-15 & 17-19, 1997.

The purpose of these visits was to determine what deficiencies exist in the municipal procurement and expenditure/disbursement functions in Vidin and provide recommendations for improving the conditions found.

The consultants met with Mayor Ivan Simeonov and key finance officials in order to make an assessment of the situation in Vidin (see Appendix A for a list of officials interviewed). The conversations with these officials were not limited to procurement and expenditure issues, touching on a broad range of subjects, including the current state of privatization efforts in the municipality.

This report contains the following:

- Background information on the Municipality of Vidin;
- A description of deficiencies in the procurement process in Vidin with recommendations; and
- A description of deficiencies in the expenditure/disbursement process in Vidin with recommendations.

PROCUREMENT AND EXPENDITURE/DISBURSEMENT DEFICIENCIES

MUNICIPALITY OF VIDIN, BULGARIA

BACKGROUND

Organizational Structure

Vidin is a municipality of approximately 100,000 people located in the northwestern region of Bulgaria. Its government is headed by a Mayor supported by two Deputy Mayors and the Secretary of the Municipality. In addition, the legal and security (mobilization and preparation) departments report directly to the Mayor. *Exhibit 1* depicts the current organizational structure in Vidin. (Not depicted in this chart are several subsidiaries of the municipality, including the education subsidiary and the regional hospital, which are shown in *Exhibit 5*—a depiction of disbursement authority within the municipality. Each of these subsidiaries reports to the Mayor or one of his deputies.)

From the viewpoint of financial management, the municipal administration covers 31 locations and 9 cost centers, divided on a functional basis. Within the municipal administration, the only persons authorized to manage budget funds are the Mayor, Deputy mayors, and the Head of the Department of Finance and Accounting.

The key finance official in Vidin is the Deputy Mayor for Economic Development and Agriculture, who is responsible for the municipality's Department of Finance. Although we were unable to meet with him during our time in Vidin, we were able to meet with the head of the finance department on two separate occasions for extended periods of time.

Revenues and Expenditures

Exhibits 2 and 3 depict budgeted and actual revenues and expenditures for the municipality for FY96.

After the State Budget Act for the respective fiscal year is adopted, which determine the budget transfers for the municipality, the municipality begins balancing its own budget and submits it for final approval by the Municipal Council.

Municipal revenues totaled 1,045,652,639 leva (BGL) in FY96. Tax revenues are the most important revenue source to the municipality accounting for 45.3 percent of the total. The second most important source of funds was the state subsidy, accounting for 36.9 percent of the total. Fees and other non-tax revenues accounted for slightly more than 17 percent of actual collections. It should be noted that very little of this revenue was collected by the municipality; most of the revenue was transferred from the regional collection agency known as Vidin Tax Administration and from the state Ministry of Finance.

The municipality is not allowed by law to influence the type and size of its tax revenues and the amount of central government transfers (i.e., 82.6 percent of its total revenues). Local fees are settled by the Local Taxes and Fees Act, where types and their minimum and maximum size is prescribed by the Tariff attached to the Act. The specific amount of fees is determined by the Municipal Council, but the municipality only has full authority to determine the waste disposal fees.

The municipality is given the authority to determine alone the level of revenues from rentals, interest, part of the fines and from sale of municipal property, i.e., revenues amounting to about BGL 24 million—2.3 percent of all budget revenues.

Municipal expenditures totaled 1,024,979,997 BGL in FY96 and are distributed on a functional basis as shown in *Exhibit 3*. Health care and education accounted for most of these expenditures with 39.8 and 30.9 percent of the total, respectively. Although not shown in the municipality organization structure (*Exhibit 1*), the health care (regional hospital system) and education subsidiaries are the most important to the municipality—they are shown in *Exhibit 6* which depicts disbursement authority within the municipality.

Municipal Staffing Levels

This concentration of expenditures is reflected in staffing levels for the municipality, which totaled 3,940.5 employees in FY96. *Exhibit 4* shows staffing levels by functional area. As should be expected, health care and education accounted for the largest shares of municipal staff with 46.7 and 39.1 percent of the total, respectively.

ANALYSIS OF PROCUREMENT PRACTICES/DEFICIENCIES

An important reason for examining the procurement process in Vidin is that the state government recently adopted a Public Procurement Act and it is unclear if local governments in Bulgaria are aware of the law or adhering to its requirements. This section includes a brief description of the new law, an evaluation of the current procurement process and deficiencies in Vidin, and recommendations for improving on it.

Description of the Public Procurement Act

The state's Public Procurement Act took effect on January 31, 1997. This act establishes the terms and procedures for the award of contracts by governmental entities in Bulgaria. In many respects, this law is similar to those adopted by state and local governments in the United States. The Act's clauses that address the award of contracts, the preparation for soliciting bids, the creation of a contract board or evaluation committee, and the establishment of a methodology for determining a successful bidder, etc., are virtually identical to those found in state and local statutes in the U.S.

Two exceptions to this similarity involve the inclusion of taxes due in the amount of the contract award, which is not done in the United States because governments are tax-exempt, and the requirement that commission (or “profit”) be included as a separate component of a bid, typically not done in the United States in order to prevent bidders from inflating costs to increase profits.

Description of the Procurement Process and Deficiencies

The head of the municipal finance department and several other key officials were asked about the procurement process in Vidin. They responded consistently that tenders (i.e., the competitive bidding process) are organized for almost all purchases of goods and services, with the exception of emergency situations. When asked if written procedures existed to guide their actions, municipal staff could not produce evidence that such guidance existed. This is a major deficiency—*written procedures should exist to guide municipal managers in the procurement process.*

In addition, municipal staff consistently indicated that they were unaware of the existence of the Public Procurement Act and its requirements. Since they are unaware of the law, it is unlikely that current procurement practices in Vidin are in conformity with it. Another major deficiency—*municipal staff involved in procurement must be aware of state laws that provide the framework for the procurement process.*

Finally, there is no evidence that bids are being awarded fairly in Vidin, even when tenders are organized. The consultants were provided with a memorandum that evaluated two bids—one from a state enterprise and one from a private firm. The state enterprise’s bid showed costs that were just a fraction below those of the private bidder, leading the consultants to speculate that collusion may have been involved in the award process. In addition, while this memorandum contained certain cost information relating to the bids, the estimated number of hours for completion of the project was missing for both bids. Without such an estimate, it is impossible to determine the total cost of each bid, yet the state enterprise was selected as the winning bidder. Another major deficiency—*criteria used to determine who will be awarded municipal contracts, who decides what criteria are to be used, and what rules are used to establish such criteria are unclear.*

Recommendations for Improving Procurement Practices

A set of model procurement procedures should be developed for use in Vidin and other Bulgarian municipalities. While the State’s Public Procurement Act provides the framework for governmental procurement in Bulgaria, written procedures developed and used by local governments will provide the structure necessary for the proper conduct of the procurement function.

These procedures could take the form of Local Administrative regulations that promote compliance with the requirements of the Public Procurement Act, Local Government and Local Administration Act, and Local Government Property Act. These procedures should clearly indicate the role that local officials, such as the Mayor and the Head of the Finance Department, are to play in the procurement process and lay out the procedures they are to follow when organizing tenders or soliciting bids from vendors for goods and services on an emergency basis.

A relatively independent unit should be set up within the municipality, whose function is to administer the procurement process. Similar units are to be established by the secondary managers of budget funds (cost centers), which operate under the methodological guidance of the respective department of the municipality. The job specifications of certain employees are to be modified in order to cover new or modified functions.

These procedures/regulations should be adopted by the local governing body (i.e., city council). The advantages of the city council adopting such regulations include eliminating the possibility that local officials will be able to plead ignorance of the State's Public Procurement Act, a more open procurement process that should encourage entrepreneurs interested in providing goods or service to the municipality, and a more enlightened citizenry.

Model procurement procedures could be developed by a team consisting of ICMA's resident advisor and consultants, staff at MTK Konsult, and selected Bulgarian municipal officials. In developing these procedures, a key consideration must be replicability in all Bulgarian municipalities.

The procurement process in Vidin could also be improved through educational assistance to key municipal officials. This training should focus on the following areas:

- The legal requirements of the Public Procurement Act;
- Procurement theory and practice, including sessions on the competitive bidding process, evaluating bids, ethics in contracting, fostering competition in the marketplace, and taking advantage of competition in the marketplace;
- Examples of different types of procurements (i.e., competitive bids, sole source bids, etc.) offered by the United States local governments; and
- model administrative procedures developed by the LGI in conjunction with local officials.

In addition, consideration should be given to include a discussion on microeconomic theory, particularly that which focuses on supply and demand in a free market economy.

Training materials for a procurement seminar need not be extensive. The most important considerations are teaching the basic concepts involved in an open procurement process and convincing local officials of the benefits of adopting Local Administrative Regulations regarding the procurement process. A brief training manual covering basic procurement concepts and other information would be useful. The training could be conducted by a team of ICMA, MTKK, and Chemonics consultants.

ANALYSIS OF EXPENDITURE/DISBURSEMENT PRACTICES AND DEFICIENCIES

The reason for evaluating expenditure/disbursement practices in Vidin is to determine if there is anything peculiar to these processes that is contributing to the poor financial condition of the municipality. In evaluating this subject, it is important to establish the context for budgetary practices in Vidin at this time. In this section, the current financial situation in Vidin will be described along with current expenditure/disbursement authority and practices, any deficiencies noted by the consultants in their review, and recommendations for improvements.

Current Financial Situation

The municipality is in the midst of a severe financial crisis due primarily to the poor state of the national and local economies. The municipal government operates with a continual deficit—bills remain unpaid for several months at a time and salaries for municipal employees are at least three months behind. In this environment, the municipal government pays bills when funds become available.

The severity of the financial crisis in Vidin is evidenced by a significant increase in current liabilities over the last two fiscal years. The ratio of current liabilities to annual expenditures for the municipality increased from 10 percent at the end of FY95 to almost 20 percent at the end of FY96. The reason for this is a combination of revenue insufficiency and increased expenditure demands due to the economic crisis. *Exhibit 5* shows current liabilities by functional area as of January 31, 1997.

Expenditure/Disbursement Authority

The municipal budget in Vidin is presented along functional lines, as shown in *Exhibit 3*. Disbursement authority, however, while also distributed along functional lines, is done so in a different manner, as *Exhibit 6* depicts.

Exhibit 6 shows that there are two levels of disbursement authority within the municipality: the principal disbursers (the Mayor and Deputy Mayors) and the ten secondary disbursers (the eight subsidiaries of the municipality, the Mayoralty of Dunavci, and the municipal administration). As explained by the head of the finance department,

while budgetary authority is extended to a number of the units of the municipality, the actual ability to disburse funds (i.e., distribute cash or write checks) is limited to a handful of individuals at the top of the organizational structure, including the Mayor and his deputies and the head of the finance department. Further, the only individuals who deal with the municipality's bank are the finance head and the Mayor. Based on this description of disbursement authority, it does not appear likely that it is contributing in any significant way to the municipality's financial problems. When problems occur in this area, it is usually due to too many individuals having the ability to disburse funds for which they do not have the authority. This does not appear to be the case in Vidin.

Recommendations for Improving the Expenditure/Disbursement Function

The particular method of disbursing funds in Vidin is known by the acronym FIFO, for "first in, first out". It is the standard method used by state and local governments in the United States for paying their bills. If a government consistently follows this method, ultimately all of its debtors will be paid. The problem in Vidin at present is that the length of time before payments are made is increasing.

When the municipality ceases to operate with a continual deficit, it would be a good idea to take another look at the disbursement process, but in the broader context of cash management. For example, the municipality should readily exchange information with the Regional Office of the Tax Authority (ROTA) concerning the major tax-payers, tax bases, taxable mass for different taxes, collection schedule, and revenue comparison with previous years. This will allow for a deeper understanding of revenue flows, which will in turn allow the municipality to predict, and thus schedule a more regular procedure for disbursements. To improve this process, specific forms for exchange of data between the municipality and ROTA should be developed, and the frequency of their submission determined. These actions will help to eliminate cross settlement and speed up the turnover of funds.

With regard to expenditures, the consultants discussed the issue of downsizing the municipal workforce and consolidating the size of the regional hospital with Mayor Simeonov. The Mayor indicated that he was considering a ten percent reduction in the size of the municipal workforce to reduce costs and that his staff had been looking at reducing the number of wards open to patients at the hospital. Additional assistance to Vidin in identifying areas where costs could be reduced would be helpful.

Of major importance to Vidin and other Bulgarian municipalities is identifying the types and levels of service that they wish to deliver provide their residents. Local officials need to be made aware of the possibility that their present service mix is not optimal. Once this had been accomplished, it may be easier for the municipality to shed those enterprises whose functions are not compatible with the mission of the restructured municipality.



With regard to the health care and education cost centers evaluated under this RFS, the municipality should strive to reduce the total maintenance costs to the level of actual delivered services and to identify additional revenue sources. Therefore the municipality optimize the premises used by the hospital with a view to its optimal capacity; collect fees due from external institutions like the Emergency Medical Care Unit; utilize the school facilities during the vacation periods in order to raise funds needed for the repair works and maintenance of the buildings; and make better use of unoccupied school-yard land.

Also, Vidin operates a number of extraneous enterprises—such as supermarkets and dry cleaners—that should be privatized. No one on the municipal staff could tell us if they were profitable, leading the consultants to conclude that they were at best poorly managed and very likely to be subsidized by the municipal government. The municipality also owns land and buildings that could be sold in the short-term to raise additional revenues to ease their current financial plight.

Upon the implementation of these recommendations, the final result of the project will be the elaboration and implementation of detailed manuals with procedures and actions, describing the way different problems are to be handled; the exact distinction of responsibilities of municipal employees; the series of decisions made by the Municipal Council in compliance with its authority; and a system of presentation of the financial results of the municipality to the community.

APPENDIX A

MUNICIPAL OFFICIALS INTERVIEWED

Mayor Ivan Simeonov

Council Chairman Shikalkov

Mrs. Balukchieva, Head of the Department of Finance

Mrs. Zlatanova, Chief Accountant of the Education Unit

Mr. Sasho Anguelov, Director of Health Care, Regional Hospital

Mrs. Plamena Petkova, Head of Planning Department

Mr. Kurtev, Head of Capital Improvements Program

Mr. Nikola Petkov, Head of Privatization Program

Mrs. Dimitrova, Privatization Program

APPENDIX B

EXHIBITS

Exhibit 1
Organizational Structure
Municipality of Vidin
February 1997

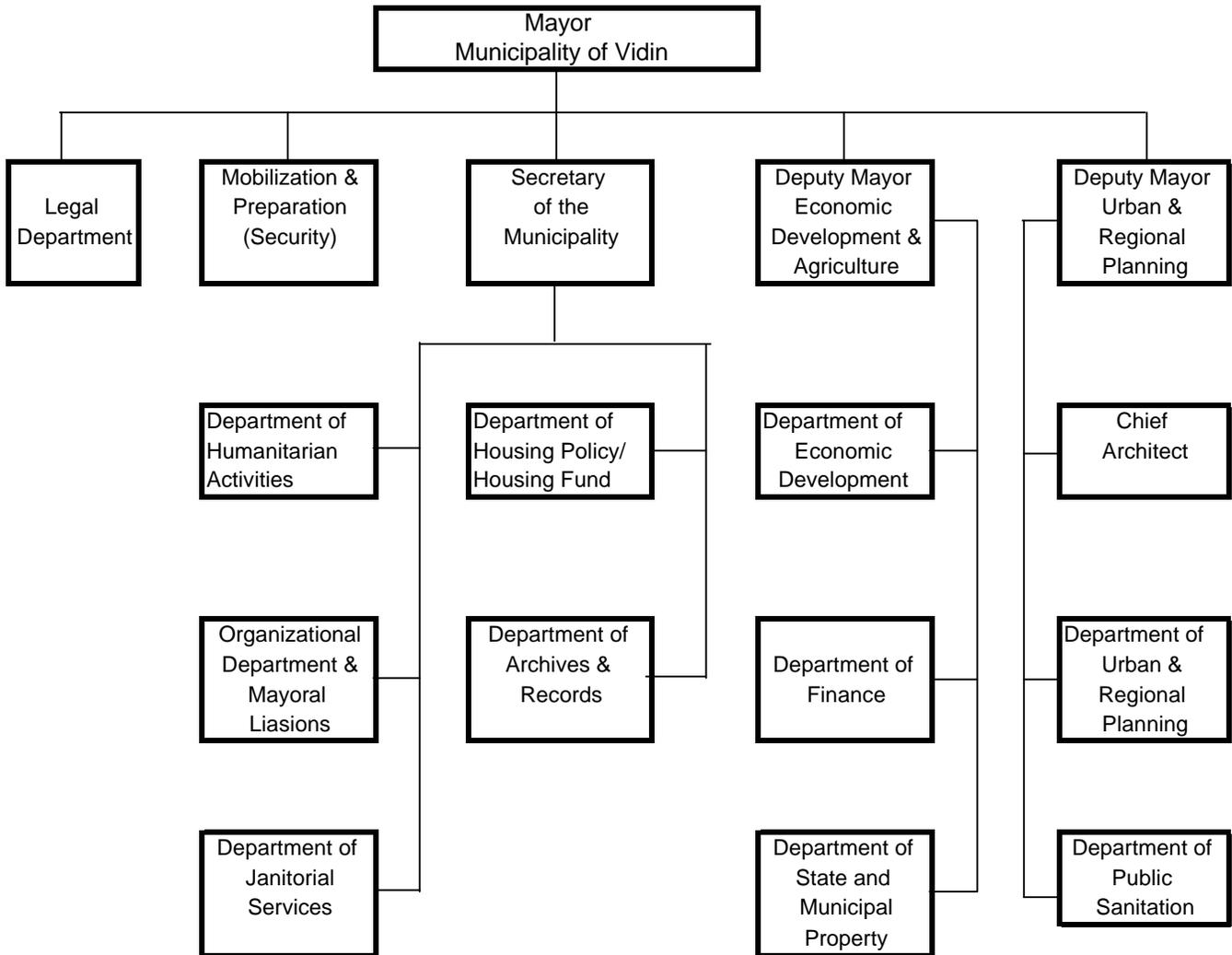


Exhibit 2
Municipality of Vidin
Revenues by Type
(FY 1996)

Type of Revenue	Budgeted	Actual	Actual as % of Total Revenue
Tax Revenues			
Excise Tax	682,272.00	682,272.00	0.1%
Profit Tax	12,573,651.00	12,573,651.00	1.2%
Tax on increased wages at state enterprises	37,108.00	37,108.00	0.0%
Tax payments from municipalities	95,423,912.00	95,423,912.00	9.1%
Income Tax	325,259,967.00	325,259,967.00	31.1%
Property Tax	24,578,652.00	24,578,652.00	2.4%
Inheritance Tax	1,274,276.00	1,274,276.00	0.1%
Payments due for prior years	13,868,710.00	13,868,710.00	1.3%
Total Tax Revenues	473,698,548.00	473,698,548.00	45.3%
Non-Tax Revenues			
Fees			
Fees on receipt of property, etc.	22,227,293.00	22,227,293.00	2.1%
Fees for use of vehicles	25,624,635.00	25,624,635.00	2.5%
Fees for use of kindergart education	5,565,884.00	5,565,884.00	0.5%
Fees for use of kindergart healthcare	546,262.00	546,262.00	0.1%
Fees for use of boy scout camps	395,500.00	395,500.00	0.0%
Fees for use of social facil	6,179,340.00	6,179,340.00	0.6%
Fees for use of markets	80,040.00	80,040.00	0.0%
Fees for technical service:	2,825,632.00	2,825,632.00	0.3%
Fees for use of markets	5,034,422.00	5,034,422.00	0.5%
Fees for sanitation	13,950,329.00	13,950,329.00	1.3%
Other			
Rents from municipal prop	11,650,931.00	11,650,931.00	1.1%
Interest	3,313,370.00	3,313,370.00	0.3%
Fines and penalties	74,114,384.00	74,114,384.00	7.1%
Other	6,996,057.00	6,996,057.00	0.7%
Municipal Property			
Revenues from sale of municipal real property	3,050,818.00	3,050,818.00	0.3%
Revenues from sale of other municipal property	209,974.00	209,974.00	0.0%

Total Non-tax Revenues	181,764,871.00	181,764,871.00	17.4%
Transfers			
Prior year balance	39,220.00	39,220.00	
State transfers	386,000,000.00	386,000,000.00	0.0%
Temporary government lo:	0.00	4,150,000.00	36.9%
			0.4%
Total Transfers	386,039,220.00	390,189,220.00	37.3%
Total Revenues	1,041,502,639.00	1,045,652,639.00	

Exhibit 3
Municipality of Vidin
Expenditures by Functional Area
(FY 1996)

Functional Area	Budgeted	Actual	Actual as % of Total Expenditures
Management	55,526,446.00	55,526,446.00	5.4%
Security (Mobilization & Preparation)	1,360,817.00	1,360,817.00	0.1%
Education	317,173,002.00	317,173,002.00	30.9%
Healthcare	407,575,623.00	407,575,623.00	39.8%
Social Services	100,106,004.00	100,106,004.00	9.8%
Housing & Road Repairs	100,761,734.00	100,761,734.00	9.8%
Recreation, Tourism & Culture	26,059,720.00	26,059,720.00	2.5%
Agriculture	2,969,438.00	2,969,438.00	0.3%
Accounting	8,086,213.00	12,236,213.00	1.2%
Loan Repayments	1,211,000.00	1,211,000.00	0.1%
Total	1,020,829,997.00	1,024,979,997.00	

Exhibit 4
Municipality of Vidin
Staffing Levels by Functional Area
(FY 1996)

Functional Area	Budgeted	Number of Staff Actual	% of Total Actual Staff
Management	134	126	3.2%
Security (Mobilization & Preparation) (included in Management)			
Education	1868.5	1542.5	39.1%
Healthcare	1841.5	1840	46.7%
Social Services	191	191	4.8%
Housing & Road Repairs	12	13	0.3%
Recreation, Tourism & Culture	184	179	4.5%
Agriculture	14	14	0.4%
Accounting	35	35	0.9%
Total	4280	3940.5	

Exhibit 5
Municipality of Vidin
Liabilities as of January 31, 1997
by Functional Area

Functional Area	Amount of Liability (000s lv)
Education	82,498.00
Healthcare	73,172.00
Social Services	5,510.00
Public assistance/benefits	14,000.00
Other	8,384.00
Total	183,564.00

Exhibit 6
Disbursement Authority
Municipality of Vidin

Principal Disbursers
of Funds



Mayor and
Deputy Mayors



Secondary Disbursers
of Funds

Education

Youth
Activities

Regional
Hospital

Culture

Dental
Polyclinic

Mayor of
Dunavci

Dental
Laboratory

Social
Care

Mother and
Child Home

Municipal
Administration