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SURVEY OF MANAGEMENT CONTROL COVERING  
YEAR-END BUYING  
AUDIT REPORT NO. 0-000-81-81  
MAY 26, 1981

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Purpose and Scope of Review

The Office of the Regional Inspector General for Audit/Washington has conducted an audit survey of Management Controls Covering Year-End Buying. The survey was undertaken to determine whether a complete review of year-end procurement activities is justified.

We reviewed financial and statistical data prepared by the Offices of Financial Management (FM), Contract Management (SER/CM), and Commodity Management (SER/COM), relating to fiscal years 1979 and 1980. We examined contract files of 20 grants and contracts totaling approximately \$11,000,000 processed by SER/CM during the last quarter of fiscal year 1980. In addition, we interviewed officials in FM, SER/CM, and SER/COM to inquire into existing procedures relating to management controls to regulate unnecessary year-end buying. Also, AID Handbook and Code of Regulations covering contracts, grants and procurement activities were reviewed to ascertain whether any guidelines or procedures have been written.

The objective of this survey was to evaluate the efficiency and effectiveness with which the various contract and program officers have complied with the OMB memo dated June 25, 1980 and the AID General Notice of August 7, 1980 concerning the controlling of year-end buying.

Background

The Office of Management and Budget (OMB) issued a memorandum on June 25, 1980 directing federal government departments and agencies to exercise proper control over use of public funds by avoiding unnecessary year-end buying. The memo stated that public funds were to be used only for necessary program purposes, and year-end purchases were not to be made merely to obligate funds before they lapse. Each agency was directed to issue instructions and guidelines to ensure that year-end purchases are necessary, in accordance with good procurement practices, and that contract prices are reasonable.

In response to this memo, the Office of Contract Management (SER/CM) prepared draft instructions on August 1, 1980, which was intended to establish procedures for review of year-end procurement of goods and services. The procedures included the following specific requirements.

- Each official responsible for initiating a request for obligation of funds should certify on the Project Implementation Order (PIO) that the expenditure is in compliance with the OMB memorandum of June 25, 1980 on year-end buying.
- The Office of Contract Management (SER/CM) will maintain data on fourth quarter contract and grant obligations and investigate significant increases over the preceding quarters.

However, SER/CM's memorandum was not approved for circulation by the Deputy Administrator because, in the opinion of the General Counsel, it was considered too stringent for AID's requirements. Consequently, the Deputy Administrator issued a revised memorandum on August 7, 1980 to AID management containing instructions to control unnecessary year-end buying. It did not lay down specific guidelines or recommendations other than stating "...we must be careful that end-of-year operating expense purchases are not made merely to obligate funds before they lapse. I expect each of you to be vigilant in assuring that AID procurements...are consistent with the criteria established in the OMB memorandum." It exempted all bilateral project loan and grant agreements as well as host country contracts from compliance with the OMB memorandum. It did not recommend any specific monitoring steps other than stating, "SER/CM will maintain data on fourth quarter contract and grant obligations for the purpose of monitoring compliance with the OMB memorandum."

The Office of Contract Management (SER/CM), Office of Management Operations (SER/MO) and mission offices are the principal contracting authorities in AID. Of these, SER/MO accounts for the smallest part of AID's procurement activities - approximately \$12 million in fiscal 1980. Its procurement primarily includes office furniture and equipment, printing, reproduction, graphic arts, visual aids, etc. The Office of Commodity Management (SER/COM) has no contracting authority. It coordinates with SER/CM, missions and AID bureaus and provides assistance in developing commodity procurement plans, including commodity eligibility, suitability and price.

SER/CM has primarily four contracting divisions - Service Operations, Regional Operations, Central Operations and Support Operations. These divisions account for a large part of AID's contracting. Our survey was principally focused on contract and grant activities initiated by SER/CM because the AID General Notice of August 7, 1980 specifically excluded bilateral project loan or grant agreements and host country contracts from compliance with the OMB memorandum on year-end buying. This memorandum also stated that consistent with good procurement practices, contracts awarded to small business, minority or women businesses, shall not be affected by the OMB guidelines.

### Findings and Recommendations

A review of spending patterns in AID revealed a significant upsurge in year-end activity. As shown in Exhibit I, fourth quarter AID obligations in fiscal 1979 and 1980 totalled 45% and 39% respectively of the total yearly obligations. Also, an analysis of SER/CM performance reports of contractual actions processed during fiscal years 1979 and 1980 indicated the highest activity during the fourth quarter - 38% of the yearly contractual actions (See Exhibit II).

We reviewed 20 grants and contracts totaling approximately \$11,000,000 processed by SER/CM during the fourth quarter of fiscal 1980. In all cases we found that PIO/T's were approved in the last six weeks of the fiscal year although the contractual negotiations were initiated several months before the PIO/Ts were approved.

AID's present procurement system lacks adequate planning and coordination between all personnel responsible for procurement of goods and services at the regional bureaus, AID missions, FM and SER/CM. Such a system should normally include the following features:

- Scheduling the initiation of procurement actions to meet program needs ;
- Planning uniform distribution of workload throughout the fiscal year; and
- Determining the adequacy of current program and procurement manpower resources to meet anticipated requirements.

The lack of procurement coordination has resulted in programs being delayed while procurement actions are initiated and, is contributing to excessive year-end contracting.

Neither SER/CM nor any other office in AID has established a system for monitoring procurement activities and updating plans as changes occur in requirements, so as to comply with OMB guidelines on year-end buying. Although SER/CM maintains statistical data on contractual actions processed in each quarter, no action is taken to investigate and report on significant increases in contractual activity during the fourth quarter.

These findings were discussed with various AID officials who indicated the excessive year-end spending is caused by:

- The philosophy that all available funds must be spent before the end of the fiscal year.
- The appropriation and budget processing delays arising out of operating under the continuing resolution;
- Lack of a coordinated procurement planning system.

Based on the results of our survey, we conclude that because of a lack of well defined procedures an audit of management controls on year-end procurement is not necessary at this time. AID management should, however, implement procedures requiring the coordination of the budgeting, programming and procurement efforts in order to avoid excessive year-end buying in compliance with the June 23, 1980 OMB directive.

#### Recommendation No. 1

The Assistant Administrator, Program and Management Services (AA/SER) direct that appropriate procedures be developed and implemented that will reasonably assure the avoidance of unnecessary year-end buying by the Agency in accordance with the June 23, 1980 OMB memorandum.

WORLDWIDE SUMMARY OF AID OBLIGATIONS  
Fiscal Years 1979 and 1980

	<u>FY 1979</u>		<u>FY 1980</u>	
	<u>Obligations</u>	<u>Per-</u> <u>cent</u>	<u>Obligations</u>	<u>Per-</u> <u>cent</u>
1st Quarter	\$1,079,244,328	31	\$1,175,403,435	32
2nd Quarter	371,512,730	11	585,570,495	16
3rd Quarter	468,817,719	13	494,221,355	13
4th Quarter	<u>1,564,638,002</u>	<u>45</u>	<u>1,471,284,273</u>	<u>39</u>
Total	<u>\$3,484,212,779</u>	<u>100</u>	<u>\$3,726,479,558</u>	<u>100</u>

EXHIBIT II

OFFICE OF CONTRACT MANAGEMENT  
Summary of Contracts, Grants, Amendments, P.O.'s, etc.  
Processed During Fiscal Years 1979 and 1980

<u>FY 1980</u>	<u>Central Operations Div.</u>	<u>Services Operations Div.</u>	<u>Regional Operations Div.</u>	<u>Total</u>	<u>Percent</u>
1st Quarter	174	339	119	632	16.5
2nd Quarter	337	345	190	872	22.8
3rd Quarter	288	522	192	1,002	26.1
4th Quarter	<u>521</u>	<u>538</u>	<u>267</u>	<u>1,326</u>	<u>34.6</u>
TOTAL	<u>1,320</u>	<u>1,744</u>	<u>768</u>	<u>3,832</u>	<u>100.0</u>
<u>FY 1979</u>					
1st Quarter	134	377	149	660	17.8
2nd Quarter	268	258	203	729	19.7
3rd Quarter	290	392	225	907	24.4
4th Quarter	<u>547</u>	<u>573</u>	<u>293</u>	<u>1,413</u>	<u>38.1</u>
TOTAL	<u>1,239</u>	<u>1,600</u>	<u>870</u>	<u>3,709</u>	<u>100.0</u>

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List of Report Recipients

Deputy Administrator	1
Assistant Administrator, Bureau for Program and Management Services AA/SER	5
Director, Office of Contract Management SER/CM	5
Office of Legislative Affairs	1
Audit Liaison Office AA/SER	1
Office of General Counsel	1
Office of Financial Management	3
AA/DS	1
DS/DIU	4
IG	1
IG/PPP	1
IG/II	1
IG/EMS/C&R	16
PPC/E	1