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**AUDIT OF
USAID/BOLIVIA'S
PROCUREMENT FUNCTION**

**Audit Report No. 1-511-88-01
October 30, 1987**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 30, 1987

MEMORANDUM

TO : USAID/Bolivia Director, Reginald G. Vanraalte
FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard, Jr.
SUBJECT: Audit Report on USAID/Bolivia's Procurement Function

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the USAID/Bolivia Procurement Function. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains one recommendation which is considered closed and requires no further action.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

USAID/Bolivia had responsibility for providing technical assistance for host country contracts and for implementing direct AID contracts for a program portfolio valued at \$157 million. Procurement of goods and services was an important part of this responsibility. Mission Order 11-1, dated January 15, 1982, divided USAID/Bolivia's procurement responsibility into two functions: (1) professional and technical services, and (2) commodities and construction services. The Mission Executive Officer had responsibility for professional and technical services procurement while the Project Development and Implementation Officer was responsible for commodity and construction services.

USAID/Bolivia had the authority to execute commodity and construction contracts under \$100,000 and technical service contracts under \$250,000. Contracts under \$25,000 could be procured on a non-competitive basis; prior to April 1, 1984, the limit was \$100,000.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a compliance audit of procurement functions at USAID/Bolivia, to determine whether procurements were made in accordance with AID regulations. The audit covered transactions valued at about \$600,000 for calendar year 1984 and through May 1985. Our review of this management function was an integral part of our audit of USAID/Bolivia's reactivated projects (see Audit Report No. 1-511-86-09, February 28, 1986). However, the procurement issue was excerpted from that report because of a concurrent Inspector General criminal investigation into USAID/Bolivia's procurement function. Since that investigation has been completed, our findings can now be presented in this report.

The review of USAID/Bolivia's procurement functions for the Rural Education II, Rural Sanitation Agricultural Sector II, and Disaster Recovery Projects disclosed that procurement actions were not always taken in accordance with AID regulations. The Mission has since taken a number of steps to improve procurement practices.

The audit showed that competition for contracts had occasionally been curtailed to the detriment of AID's best interests; unreasonably high prices were paid in certain cases, and economic purchasing practices were not always followed. The organization of the Mission's procurement function did not lend itself to a proper separation of duties between the identification of requirements and materials' ordering. Additionally, procurement personnel were not adequately trained to perform procurement functions.

AID contracting policy requires formally advertised procedures or competitive negotiation. However, these procedures were not always followed because the Mission's internal controls over its procurement function were seriously deficient. USAID/Bolivia had not made economic purchases because: requests for price quotations were not adequately disseminated; purchases were split in order to avoid the need to advertise for competitive offers; the reasonableness of vendor price quotations was not verified; procurement plans were not prepared;

procurement functions were not properly separated; and procurement personnel were inadequately trained. Consequently, about \$115,000 had been spent unnecessarily for commodities under the projects we reviewed. We recommended that maximum competition be obtained through adequate advertisement, verifications of price reasonableness, avoidance of order-splitting to avoid competition, and the timely formulation of procurement plans. We also recommended that the procurement function be made the responsibility of the Mission Executive Officer instead of the Project Development and Implementation Officer, and that training be provided to procurement personnel. The Mission has implemented the recommendation and it is closed upon issuance of this report.

Office of the Inspector General

AUDIT OF
USAID/BOLIVIA'S
PROCUREMENT FUNCTION

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AUDIT OF
USAID/BOLIVIA'S
PROCUREMENT FUNCTION

PART I - INTRODUCTION

A. Background

USAID/Bolivia had responsibility for providing technical assistance for host country contracts and for implementing direct AID contracts for a program portfolio valued at \$157 million. Procurement of goods and services was an important part of this responsibility. Mission Order 11-1, dated January 15, 1982, divided USAID/Bolivia's procurement responsibility into two functions: (1) professional and technical services, and (2) commodities and construction services. The Mission Executive Officer had responsibility for professional and technical services procurement while the Project Development and Implementation Officer was responsible for commodity and construction services.

USAID/Bolivia had the authority to execute commodity and construction contracts under \$100,000 and technical service contracts under \$250,000. Contracts under \$25,000 could be procured on a non-competitive basis; prior to April 1, 1984, the limit was \$100,000.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a compliance audit of procurement functions at USAID/Bolivia to determine whether procurements were made in accordance with AID regulations. The audit covered transactions valued at about \$600,000 for calendar year 1984 and through May 1985. Our review of this management function was an integral part of our audit of USAID/Bolivia's reactivated projects (see Audit Report No. 1-511-86-09, February 28, 1986). However, the procurement issue was excerpted from that report because of a concurrent Inspector General criminal investigation into USAID/Bolivia's procurement function. Since that investigation has been completed, our findings can now be presented in this report.

Procurement files at both the Mission and Government of Bolivia offices were examined, and interviews were held with USAID/Bolivia and host country personnel. Additionally, cost comparisons of several commodities were obtained from various vendors located in Miami, Florida. Internal controls were examined as they pertained to procurement. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF
USAID/BOLIVIA'S
PROCUREMENT FUNCTION

PART II - RESULTS OF AUDIT

The review of USAID/Bolivia's procurement functions for the Rural Education II, Rural Sanitation Agricultural Sector II, and Disaster Recovery Projects disclosed that procurement actions were not always taken in accordance with AID regulations. The Mission has since taken a number of steps to improve procurement practices.

The audit showed that competition for contracts had occasionally been curtailed to the detriment of AID's best interests; unreasonably high prices were paid in certain cases, and economic purchasing practices were not always followed. The organization of the Mission's procurement function did not lend itself to a proper separation of duties between the identification of requirements and materials' ordering. Additionally, procurement personnel were not adequately trained to perform procurement functions. We recommended that maximum competition be obtained through adequate advertisement, verifications of price reasonableness, avoidance of order-splitting to avoid competition, and the timely formulation of procurement plans. We also recommended that the procurement function be made the responsibility of the Mission Executive Officer instead of the Project Development and Implementation Officer, and that training be provided to procurement personnel.

A. Findings and Recommendations

1. Competition for Contracts Was Limited

AID contracting policy requires formally advertised procedures or competitive negotiation. However, these procedures were not always followed because the Mission's internal controls over its procurement function were seriously deficient. USAID/Bolivia had not made economic purchases because: requests for price quotations were not adequately disseminated; purchases were split in order to avoid the need to advertise for competitive offers; the reasonableness of vendor price quotations was not verified; procurement plans were not prepared; procurement functions were not properly separated; and procurement personnel were inadequately trained. Consequently, about \$115,000 had been spent unnecessarily for commodities under the projects we reviewed.

Recommendation No. 1

We recommend that USAID/Bolivia obtain maximum feasible competition under its procurement actions by issuing a Mission Order that will require:

- a) advertising requests for quotations in the Commerce Business Daily when practical or, when not practical, by employing alternative competitive procedures, such as referring to Federal Supply Schedules;
- b) combining procurement actions wherever feasible to obtain competitive bids and the best available commodities at the lowest available prices;
- c) verifying price reasonableness using such techniques as: comparing price quotations received with prices set forth in published price lists, preparing independent cost estimates, and identifying inconsistencies in costs-per-unit;
- d) refraining from the practice of splitting purchases;
- e) formulating and implementing procurement plans and using the plans to make volume purchases;
- f) placing responsibility for all procurement matters in an office not connected with project development or project implementation; and
- g) appropriate training for procurement personnel.

Discussion

It is AID policy to formally advertise contracting opportunities where practicable or, if not practicable, to use competitive negotiation. Formal advertising requires: (i) preparing invitations for bids, (ii)

advertising invitations for bids in the Commerce Business Daily, ^{1/} (iii) submission of properly completed bids by prospective contractors, and (iv) awarding the contract to the lowest responsive bidder. Competitive negotiation is a procurement action carried out without formal advertising. Under the latter format, requests for price quotations are used to communicate purchasing requirements and solicit bids from prospective or pre-qualified vendors or contractors. Prior to April 1, 1984, all requests for quotations were required to be advertised in the Commerce Business Daily. Current regulations require that AID direct contracts in excess of \$25,000 be advertised. In the case of host country contracts, (procurement actions ultimately funded by AID but carried out by non-AID personnel) advertising is required in the AID Export Opportunities Bulletin for purchases over \$25,000, and in the Commerce Business Daily for purchases over \$100,000.

USAID/Bolivia's procurement system did not adhere to prescribed procurement practices and lacked effective internal controls to ensure that prices were competitive. Examples of factors limiting competition and weak internal controls follow.

Price Quotations - Competition was often limited to pre-selected vendors. USAID/Bolivia solicited bids from only three vendors, whose selection was based on past experience. Federal Acquisition Regulation 13.106 states:

Contracting officers shall not limit solicitations to suppliers of well known and widely distributed makes or brands, nor shall quotations be solicited on a personal preference basis.

Price Reasonableness - USAID/Bolivia could better ensure reasonableness in commodity prices by making price analyses from independent sources. Mission procedures consisted of obtaining price quotations only from the pre-selected vendors. Soliciting price quotations is acceptable only when the requests for quotations are widely disseminated to ensure maximum competition (e.g. through the AID Export Opportunities Bulletin or Commerce Business Daily). By using preselected vendors' prices for comparison, there was no assurance that the prices (a) were representative of available market prices or (b) that there had not been collusion among the preselected vendors to "rig" price quotations. Other viable options, as recommended in Federal Acquisition Regulation 15.805-2 and Federal Procurement Regulation 1-3.807-2 include:

Comparing prices set forth in published lists of price quotations obtained on a competitive basis (Federal Supply Schedules) or published market prices of commodities (trade journals and newspapers);

^{1/} The Commerce Business Daily is a publication whose purpose is to identify federally funded contracting and subcontracting opportunities. Advertisements can be entered at any Department of Commerce office, and complimentary subscriptions are available at Government offices.

- Developing cost estimates independently for comparison with price quotations; and
- Applying cost-per-unit measures (such as dollars per pound, per horsepower, or other units) to identify apparent inconsistencies requiring further price analysis.

Split Purchases - Competition was also limited because purchases had been split in order to avoid mandated competitive procedures. According to pre-April 1984 regulations, AID Missions were authorized to negotiate contracts up to \$100,000 on a non-competitive basis. After April 1984, the threshold was lowered to \$25,000. The audit showed that USAID/Bolivia purchased numerous vehicles and other equipment on the same day or within a period of a few days under separate purchase orders. Each procurement action was for less than \$100,000, and was made on a non-competitive basis. Had these items been combined and procured through competitive price solicitations, substantial savings could have been realized. On the basis of the information we analyzed, such purchases had obviously been made separately in order to avoid competition. (A listing of individual purchases that could have been combined is shown in Exhibit 1.)

Procurement Planning - Procurement procedures at USAID/Bolivia were not based on adequate procurement plans to ensure volume purchasing. Effective planning would take advantage of grouping similar items to take advantage of economies of scale, volume discounts, etc. and obtain lower prices. However, USAID/Bolivia did not have a procurement plan to consolidate required items. Federal Acquisition Regulations (FAR 7.101) define acquisition planning as the:

...process by which the efforts of all personnel responsible for an acquisition are coordinated and integrated through a competitive plan for fulfilling needs in a timely manner and at a reasonable cost. It includes developing the overall strategy for managing the acquisition.

A list of needed supplies and anticipated costs should be prepared as the project is designed, but refinements are required as circumstances warrant. Once requirements have been defined, the Federal Supply Schedule can be used to obtain commonly used supplies and services at prices offered for volume buying. The General Services Administration Federal Supply Schedules contain the information necessary for placing orders.

Procurement Functions Were Not Properly Separated - The transfer of some procurement responsibilities from the Executive Office to the Project Development and Implementation Office weakened the Mission's internal controls over procurement procedures. Since the project Development and Implementation Officer was involved in the preparation of project requirements and also procurement functions, there was no separation of duties between identifying requirements and ordering materials. Under

such circumstances, the potential existed for individuals who helped identify project commodity needs to influence commodity selection in order to favor specific suppliers.

Training Was Inadequate - The chief foreign national procurement officer in the Office of Project Development and Implementation told us that procurement functions were learned on the job, and that procurement training had been non-existent. The Project Development and Implementation Officer and his deputy also stated they had limited procurement training; hence, their procurement skills were not well developed. We believe this lack of expertise was a contributing factor to the absence of competition in USAID/Bolivia procurement practices.

AID Handbook 19 Appendix ID, entitled "AID Internal Control Directives," requires the establishment and maintenance of adequate internal control systems to protect assets from waste, loss, unauthorized use and misappropriation. Since USAID/Bolivia was the U.S. Government's first line of management, the responsibility for internal control lay with the Mission.

As a result of these non-competitive practices about \$115,000 had been spent unnecessarily for commodities under the reviewed projects. This additional cost was estimated by soliciting FOB prices from Miami vendors and comparing those prices to actual invoice prices (FOB Miami). Exhibit 2 presents the price comparisons. For example, \$2,905 was spent on hypodermic needles which could have been purchased for \$58.

As our report and a subsequent Inspector General investigation which resulted in the arrest and conviction of a USAID/Bolivia FSN employee have demonstrated, the Mission's internal controls over its procurement function were seriously deficient. In statements made in a Federal court, the employee was accused of having received more than \$250,000 in "kickbacks" resulting from the award of over \$2 million in USAID/Bolivia procurement actions. The amount of these "kickbacks," combined with the degree of price inflation suggested by our price comparisons, indicate that Mission procurement inadequacies led to the unnecessary expenditures of many hundreds of thousands of dollars appropriated by the Congress for foreign assistance to Bolivia. The recommended Mission Order would help establish an appropriate system.

Management Comments

The former Mission Director responded to our preliminary findings by defending Mission practices and stating that RIG auditors had "less than adequate" understanding of AID procurement (see Appendix A). Nevertheless, following the indictments, USAID/Bolivia adhered to our recommendations. Local Order 11-1, revised on December 1, 1986, specifically addresses most of the recommendations in the following manner. Mission comments on the draft report are included as Appendix B.

Recommendation 1(a) - USAID/Bolivia agreed and took actions to obtain maximum competition. Revised Local Order 11-1 states that:

For amounts between US\$25,000 and US\$100,000. Procurements are advertised and a Request for Proposal or an Invitation for Bid is issued to the maximum practicable number of interested suppliers. The contract file must include a justification for using other than full and open competition.

For amounts over US\$100,000. Notice of availability of a Request for Proposal or an Invitation for Bid is published in the Commerce Business Daily (CBD) and in the appropriate AID bulletins. (Invitations for Bid are published in the AID-Financed Export Opportunity Bulletin and Requests for Proposal are published in the AID Procurement Information Bulletin).

For amounts up to US\$25,000. Purchase orders may be used. All commodity procurements, whether direct or Host Country, over US\$25,000 require advertising in AID Export Opportunity Bulletins.

Purchases not over US\$1,000. These purchases may be made without securing competitive quotations if the contracting officer considers the price to be reasonable.

Purchases over US\$1,000. Quotations are solicited from a reasonable number of sources. Quotations may be solicited orally or in writing.

Recommendation 1(b) - USAID/Bolivia agreed and stated that procurement actions would be combined whenever feasible to obtain the most economical price. USAID/Bolivia stated that this issue was not addressed in a local order but was incorporated in their internal division level operations.

Recommendation 1(c) - USAID/Bolivia agreed and took actions to verify price reasonableness. USAID/Bolivia stated that since October 1986, the Executive Office Procurement Division has:

1. Expanded its sourcing library thereby providing better ready access to current prices.
2. Extended requests for proposals to more vendors including a wider representation of geographical areas in the U.S. and in Bolivia.
3. Provided tougher and closer analyses of costs in the bids to get the lowest prices.
4. Made extensive use of a newly installed telex to get official quotes in print rather than by phone.

USAID/Bolivia did not address the issue in a Mission Order because it felt the mechanics of its internal procurement division operations should not be the subject of a Mission Order.

Recommendation 1(d) - USAID/Bolivia agreed and stated that since September 1986, the practice of splitting purchases of items has been eliminated. Furthermore, local order 11-1 states that "Contracting Officers and the Competition advocate (Deputy Mission Director) assure compliance with this rule (Competition in contracting) and guard against procurement patterns that waive or circumvent the intent of competition."

Recommendation 1(e) - USAID/Bolivia agreed and stated that procurement plans could be formulated and implemented. The Mission further stated that local order 11-1, page 8 states: "VI. Procurement of Commodities. When commodities, supplies or materials are key factors in the implementation of a project, a detailed procurement plan should be formulated as an Annex to the Project Paper. Project managers should share these plans with Executive Office/Procurement at the earliest possible stage of project development."

At the last two quarterly reviews, Executive Office/Procurement Division requested that all project managers submit commodity and service procurement plans in connection with implementation activities for major USAID-funded projects.

Recommendation 1(f) - USAID/Bolivia agreed to place procurement responsibilities in an office not connected with project development or implementation. The Mission's Local Notices 1472 and 1503 of September 8, 1986 and December 10, 1986 gave the Executive Officer full responsibility for all areas of procurement.

Recommendation 1(g) - USAID/Bolivia agreed to provide appropriate training for procurement personnel. The Mission provided examples of training as follows:

In March 1986, a Contracting Specialist attended the Federal Acquisition Regulation course in AID/W. In June of 1986, three procurement agents were given on-the-job training by Mr. Hans Bang, a procurement specialist from The American Manufacturers Export Group (AMEG). In July 1986, the Executive Officer attended the Federal Acquisition Regulation course. In September 1986, Mr. Robert Van Borne, the RCM/Guatemala provided training to the three procurement agents. In February 1987, the Chief of the Procurement Division, travelled to ROCAP and USAID/Guatemala for two weeks training. In September 1987, Mr. Patrick Keenan, Chief of the Procurement Division/IXO, will travel to AID/W for the Federal Acquisition Regulation course. (His deputy for commodity management will be nominated for this course in FY-88.) AMEG is being

contracted to provide two management audits of USAID/B's procurement operations. In November/December, the AMEG will also provide some on-the-job training.

Office of Inspector General Comments

The recommendation is closed based on the actions reported by new USAID/Bolivia management. However, RIG/A/T plans to follow up on the Mission's procurement practices to ensure they are being adhered to.

B. COMPLIANCE AND INTERNAL CONTROLS

1. Compliance

Prescribed procurement procedures intended to promote competitive acquisition were not adhered to because (i) requests for price quotations were not adequately disseminated; (ii) purchases were split to circumvent advertising requirements; (iii) reasonableness of vendor price quotations were not verified; (iv) procurement plans were not prepared and (v) procurement personnel were not properly trained. Our audit work was limited to the aforementioned issues of non-compliance.

2. Internal Controls

There was no separation of duties between the identification and acquisition of procurement requirements. The Project Development and Implementation officer was involved in both the preparation of project requirements and procurement.

AUDIT OF
USAID/BOLIVIA'S
PROCUREMENT FUNCTION

EXHIBITS AND APPENDICES

USAID/BOLIVIA
SPLIT PURCHASES

<u>Purchase Order Date</u>	<u>Date of PIO/C*</u>	<u>Purchase Order</u>	<u>PIO/C No.</u>		<u>Amount</u>	<u>Purchase</u>
03/26/84	03/13/84	055-1/84	40032	1/	\$ 15,829	Ford Bronco II
03/26/84	03/13/84	055-1/84	40032	1/	15,829	Ford Bronco II
03/26/84	03/13/84	055-1/84	40032	1/	15,242	Ford F-150
03/26/84	03/13/84	055-1/84	40004.03	2/	15,319	Ford Bronco II
03/26/84	03/19/84	SNC-2/84	40004.03	2/	15,319	Ford Bronco II
03/26/84	03/19/84	SNC-2/84	40004.03	2/	14,731	Ford F-150
03/26/84	03/19/84	SNC-2/84	40004.03	2/	14,731	Ford F-150
03/26/84	03/19/84	Codeor	40004.03	2/	14,775	Ford F-150 4x4
03/26/84	03/19/84	6/84	40004.03	2/	14,775	Ford F-150 4x4
03/26/84	03/19/84	Fenacre	40004.03	2/	15,313	Ford Bronco II
03/26/84	03/19/84	17/84	40004.03	2/	15,313	Ford Bronco II
					<u>\$167,176</u>	
					=====	
04/05/84	03/30/84	11/84	40004.34	2/	14,805	Ford Bronco II
04/05/84	03/30/84	11/84	40004.34	2/	14,805	Ford Bronco II
04/05/84	03/30/84	11/84	40004.34	2/	14,805	Ford Bronco II
04/05/84	03/30/84	11/84	40004.34	2/	14,805	Ford Bronco II
04/05/84	03/30/84	11/84	40004.34	2/	14,805	Ford Bronco II
04/03/84	04/03/84	581-MD	40004.35	2/	16,502	Ford F-150
04/03/84	04/03/84	17/84	40004.35	2/	15,431	Ford F-150
04/03/84	04/03/84	17/84	40004.35	2/	16,502	Ford F-150
04/03/84	04/03/84	17/84	40004.35	2/	16,502	Ford F-150
					<u>\$138,962</u>	
					=====	
06/22/84	06/06/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/22/84	06/05/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/22/84	06/06/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/22/84	06/06/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/22/84	06/06/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/22/84	06/06/84	057-4/84	40067	3/	14,847	Ford Pick-up F-150
06/11/84	06/11/84	059-1/84	40463	4/	17,474	Ford Pick-up F-250
06/11/84	06/11/84	059-1/84	40463	4/	19,544	Chevy Suburban
06/11/84	06/11/84	059-1/84	40463	4/	19,544	Chevy Suburban
					<u>\$145,644</u>	
					=====	
Total					<u>\$451,782</u>	
					=====	

- 1/ Small Farmer Organization
- 2/ Disaster Recovery Program
- 3/ Rural Education II
- 4/ Agriculture Sector II

* Project Implementation Order/Commodities

AUDIT OF PROCUREMENT FUNCTIONS
USAID/BOLIVIA

<u>VEHICLES</u>	<u>ITEM</u>	<u>FOB Miami Prices</u>		<u>Diseconomies</u>
		<u>Amounts Actually Paid by USAID/Bolivia</u>	<u>Prices Verified Through Audit</u>	
(1)	1985 Ford Ranger 4x4 Pick-up Truck 10 each at \$8,563 Invoice 0018	\$ 85,630	\$ 80,650	\$ 4,980
(2)	1984 Ford Bronco II 4x4 6 cylinder 4 each at \$13,063 Invoices 1027, 1059, 1060, and 1013	52,252	48,068	4,184
(3)	1984 Ford F-250 Truck 4x4 Heavy Duty Super Cab 1 each at \$15,790 Invoice 1034	15,790	13,322	2,468
(4)	1984 Chevy Suburban 4x4 8 cylinders 2 each at \$17,255 Invoice 1049, 1048	34,510	28,376	6,134
(5)	1984 Ford Bronco II 4x4 Air Cond with winch 3 each at \$14,880 Invoice 1057, 1058, and 1061	44,640	37,956	6,684
(6)	1985 Ford Bronco 4x4 1 each at \$12,366 Invoice 10969	12,366	12,017	349
(7)	1984 Ford F150 Truck 4x4 6 each at \$12,745 Invoice	76,470	65,108	11,362
(8)	1985 Ford Bronco 4x4 1 each at \$12,192 Invoice 7497	12,192	12,017	175

<u>ITEM</u>	<u>Amounts Actually Paid by USAID/Bolivia</u>	<u>Prices Verified Through Audit</u>	<u>Diseconomies</u>
(9) 1985 Ford F-250 4x4 8 cylinder 2 each at \$13,179 1 each at \$13,829 1 each at \$12,392 1 each at \$12,092 Invoice 7-5641	64,671	62,550	2,121
(10) 1985 Ford Bronco II 4x4 6 cylinder 2 each at \$12,900 Invoice 7-5641	25,800	24,034	1,766
(11) 1985 Ford F-150 Pick-up 4x2 6 cylinder 1 each at \$10,467	<u>10,467</u>	<u>8,967</u>	<u>1,500</u>
Sub-total	<u>\$ 434,788</u> *****	<u>\$ 393,065</u> *****	<u>\$ 41,723</u> *****
<u>MEDICAL SUPPLIES</u>			
(15) Oral Thermometer 144 each at \$4.18	\$ 602	\$ 144	\$ 458
(16) Hypodermic Syringe Set of 2cc. 5cc. 10cc. 20cc. 144 each at \$6.81	980	378	602
(17) Hypodermic Needles Stainless Steel 18-2" 20-1" 20-1/2" and 19-3/4" 7 Boxes of 36 units of each size at \$415/box	2,905	58	2,847
(18) Surgical Scissors 10 Scissors each set 7 sets at \$890	6,230	840	5,390
(19) Surgical Clips dented 7 sets at \$979	6,853	840	6,013
(20) Scale Physician's (lbs. & Kgs.) 7 each at \$1,649	11,543	1,365	10,178

<u>ITEM</u>	<u>Amounts Actually Paid by USAID/Bolivia</u>	<u>Prices Verified Through Audit</u>	<u>Discrepancies</u>
(21) Portable Sterilizer 7 each at \$1,488	10,416	1,750	8,666
Subtotal	\$ 39,529 *****	\$ 5,375 *****	\$ 34,154 *****
 <u>PVC PIPE</u>			
3/4"-11,480' at .148 per ft.	\$ 1,699	\$ 1,349	\$ 350
3/4"-39,360' at .177 per ft.	6,967	4,625	2,342
1"-41,000' at .191 per ft.	7,831	7,105	726
1"-39,360' at .284 per ft.	11,178	6,821	4,357
1 1/2"-37,700' at .299 per ft.	11,272	10,548	724
1 1/2"-39,360' at .627 per ft.	24,679	11,013	13,666
2"-16,400' at .448 per ft.	7,347	6,155	1,192
2"-4,920' at .908 per ft.	4,467	1,846	2,621
Sub-total	\$ 75,440 *****	\$ 49,462 *****	\$ 25,978 *****
 <u>MISCELLANEOUS</u>			
Singer Sewing Machine Manual W/pedal 28 each at \$295	8,260	4,313	3,947
Singer Sewing Machine Electric 220V 50H 14 each at \$770	10,780	1,520	9,260
Sub-total	\$ 19,040 *****	\$ 5,833 *****	\$ 13,201 *****
 TOTALS	 \$ 568,797 *****	 \$ 153,741 *****	 \$ 415,056 *****

October 2, 1995
POST-1-902/95

MEMORANDUM

TO : Richard Castro, W/Assistant in Charge
FROM : David A. Coner, Director
SUBJECT: Report of Audit Findings No. 11 Commodity Procurement

General Comments

The Assistant is not in agreement with the major negative findings in W/ do. I
concerning its project commodity/ procurement practices. While it is not in
agreement with continuing need for better training of commodity procurement
personnel and better procurement planning, the negative findings in W/ do. I
concerning its commodity procurement practices to date and the location of the
commodity procurement function within the Assistant are
being contested. The report contains errors and overly generalized statements
regarding certification and/or affidavits in order to convey an accurate
picture (See Annex 2). It reflects a bias that a) understatements of a) all
procurement rules and regulations and mission procedures (see Annex 3
and 4) of actual procurement practices and b) the operations of overseas
missions. In addition, the mission justification of using price comparisons for
commodities with different specifications, or including purchases in the
report which were not financed by AID, and c) using a subjective method
of purchases to draw general conclusions regarding the certification
of commodities is not in line with the commodity procurement of a 2000.

Background

The purpose of the commodity procurement practices in the report is
to provide a clear picture of the commodity procurement practices which commodity
procurement staff use for the past few years and to show
In addition, all field projects were suspended and all staff were
suspended following the 1994-1995 budget. By 1995, with the return to
development, the suspended projects were reactivated and several new
projects were initiated. The six suspended projects and reactivated about
simultaneously along with the initiation of several other new projects
initiated by the Assistant (Report, dated 1/19/95). The result
of these activities was that activities were reactivated and projects
initiated. The commodity procurement practices in the report are
not representative of the commodity procurement practices in the field. The commodity
procurement and practices in the field are not in line with the commodity

the Mission carried out as much procurement as possible under AID direct contracts rather than host country contracts in order to expedite project implementation. The decision to do so was made despite the inherent complications involved in procuring under USG direct contracting regulations. The backstopping available to the Mission from SER/COM was limited to infrequent telephone conversations. No AID commodity procurement specialist was assigned to the South America region. All of the above meant that the Mission's local procurement staff, which, following the retirement of a long-time Mission employee in 1983, consisted of only one individual, was over-burdened.

Given this situation, the Mission took several steps to expedite procurement actions; e.g. hiring an AID retiree as a PSC for three months to expedite Disaster Project procurements and help re-establish the commodity procurement unit within the Mission, obtaining the services of a TOY commodity procurement officer from Jamington to set up a CIP program, hiring and training (on the job) three new procurement specialists, engaging the services of the Area Contracts Officer in Lima for large procurements, and building up the capability of the procurement unit through obtaining new catalogues and establishing contacts with suppliers in Bolivia, other South American countries, and the United States.

Specific deficiencies in any Mission can always be improved, and, although the Mission has already improved its procurement capabilities significantly, this is the case with the commodity procurement function within UNAL/AL/AL/AL (for example in procurement planning). However, commodity procurement is already inherently a complexly regulated activity governed by AID regulations.

Findings on Planning and Documentation

1. Primary responsibility for all procurement matters is the Contracting Officer.

The report states that the Contracting Officer (ACO) should approve project commodity procurement contracts:

- a) to ensure that it is completed
- b) to ensure that responsibility is not vested in the most appropriate personnel;
- c) that it is adequate internal controls and
- d) technical procurement capability is required by risk of project authorization.

The Mission does not agree. To do so may limit project commodity procurements which are ultimately carried out under AID supervision, but it does not limit the location of the commodity procurement function within the Mission. Assignment of responsibility as well as internal control and adequate capability is essential, as is due to AID.

In addition to his/her knowledge of AID direct contracting rules, some Contracts Officers (COs) may be familiar with project commodity procurement practices (our current EXO is), but this is not necessarily always the case, nor does a Mission's Contracts Officer always have the time to devote to supervising project procurement in addition to his/her internal administrative duties.

Project development officers must be familiar with AID procurement regulations and commodity procurement practices to do their project design work well and to backstop project implementation. PDOs in any Mission are a source of expertise in this and other project implementation procedures, and are looked to by project manager for advice on AID rules and regulations.

Management's decision to place USAID/colivia's commodity procurement functions in PD&I was based on the desire to consolidate all but one project backstopping function (direct contracting for services) in one staff office, and to keep the backstopping for both host country and AID direct commodity procurement in one office. With the exception of direct contracting for services, the USAID Executive Office, as its primary function, backstops in-house Mission logistics.

With internal control and adequate supervision have been ensured by placing commodity procurement responsibilities in PD&I. Internal control is ensured because the PD&I office does not manage Mission projects. Final identification of commodity requirements and specifications is the responsibility of each project manager and his/her counterparts. Actual purchasing (under direct contracts) is the responsibility of PD&I which provides a service to the line offices in which project managers work.

The contention regarding potential conflicts of interest on the part of the PD&I (if this is what is meant by "Project Officer" in the NAF) at the project design stage is unfounded. It is the PD&I's job to ensure during the project design process that commodity specifications will not restrict competition of, when the need for brand-name commodities of limited competition is justifiable, that project waivers are prepared before the project is authorized.

For the above reasons the Mission intends to keep the commodity procurement function in PD&I.

In the case of host country procurement, PD&I's role is to ensure that project counterpart personnel follow AID regulations in carrying out procurements.

2) Provide Procurement Training for Procurement Personnel

The Mission agrees with this recommendation. That is why attempts have been made to provide as much training as possible to date; for example, through on-the-job training provided by the AID retiree and the SER/COM employee referred to above. The problems USAID/Bolivia and other Missions encounter in attempting to train their procurement personnel are the absence of AID courses in commodity procurement and contracting, and the extreme shortage of SER/COM commodity procurement personnel available for PDAs.

3) Require Mission Orders on:

a) Advertising Request for Quotations in the Commerce Business Daily.

Advertising RFPs in the Commerce Business Daily is not always required under AID rules (see Annex A), nor is it always desirable or necessary given the circumstances surrounding each procurement. Therefore, no Mission Order on this issue is necessary. Advertising will continue to be undertaken when it is warranted.

b) Obtaining from splitting procurements.

This is not done. Procurements are made by project. The prohibition against splitting procurements from one supplier for any said project is clear in AID regulations and is already reflected in a Mission Order. Therefore, a new local order is not required.

c) Verify contract price reasonableness.

Given the fact that it is impossible to verify that the Mission does not do so, the means for such verification will be made explicit in the Mission local order on procurement as necessary, although the consistent application of price control mechanisms is what is most important. The Mission will continue to improve its price checking practices by all training PDAs with cost estimates per line item, and by continually increasing its access to suppliers' catalogs and procurement sources.

4) Implement a Project Procurement Plan and Use the Plan to Make Regular Increases.

The Mission agrees there is a need for better procurement planning and lower frequency of increases. The Mission plans to discuss this topic in a Mission Order on procurement regulations to take effect in October, and issue a final order if necessary. Most probably, improved procurement planning that will result in lower increases will be obtained in some form with the new procurement program, for example, by requiring rolling quarterly procurement plans which will enable the local procurement staff to plan and organize its work more effectively.

Lastly, RAP No.1 mistakenly assumes that because procurements for several projects are undertaken directly by AID they can be grouped for a more "economic purchase." Procurements for different projects involving different Government and private sector counterpart agencies are almost always carried out separately. Occasionally, when requirements coincide, both in terms of specifications and delivery dates, it may be possible to combine purchases; however, this is not usually the case.

Annex A

AID Procurement Rules Regarding Competition and Advertising

RAF No.1 inadequately characterizes AID procurement regulations. To assist in preparing a revised draft audit report, the rules regarding competition and advertising are summarized below.

By means of a waiver authorized by the FAW, the President has specifically excepted AID from the formal advertising requirements of the Federal Property and Administrative Services Act in direct contracting. However, it is AID policy to use formally advertised contracting procedures where practicable, and where not practicable, to use competitive negotiation procedures to the maximum extent. With regard to most country contracts award is made on the basis of competitive procedures. The type of transaction involved determines the procedure to be used.

Most country contracting rules with regard to competition and advertising have not changed in recent years. Formal procedures are normally followed for procurements estimated to cost more than \$ 100,000. Small value procurements under \$ 100,000 are carried out under informally competitive procedures, involving the obtaining of a reasonable number of offers. Competitive negotiation can also be authorized by Mission Directors for transactions over \$ 100,000 (involving publication of RFQs). Advertising is required in the AID Report Opportunities Bulletin for purchases estimated to cost more than \$ 25,000 and in the Commerce Business Daily (CBD) for purchases over \$ 100,000.

The rules for direct contracts have changed over the last three years. Prior to April 1984, the AIDPRs were in effect. After April 1984, the Federal Acquisition Regulations (FAR) as modified by AIDPR Notice 84-1 and PR-7 were in effect. Since April 1985, the FARs have been in full effect.

Prior to April 1984 under the last edition of the AIDPRs, formal competition or competitive negotiation using an RFP (almost exclusively for services rather than commodities) was required unless a justification for non-competitive procurement had been approved. The justification for non-competitive procurement most relevant to commodity purchases was the exception for direct contracts below \$ 100,000. If a non-competitive justification was approved, no advertising was required, although as many offers as reasonably possible were to be considered (generally at least 3).

From April 1984 until April 1985, the provisions having to do with justifications for non-competitive procurement were not changed (see AITC 84100 dated February 16, 1984). The new advertising and advance notice requirements of the FAR were not mandatory for contracts made overseas. As a policy matter, Missions were directed to advertise whenever practical. If not practical, the decision not to advertise was to be supported by a memorandum to the file. These advertising rules applied to competitively negotiated contracts.

-2-

Since April 1985, the FARs require that all competition, except for small value (under \$ 25,000) procurements, be carried out under formal procedures. The FAR requirement that all procurements estimated to cost more than \$ 5,000 be advertised is not applicable to contracts (purchase orders) made overseas. Therefore, purchase orders, which are limited to \$25,000, do not require advertising.

ANNEX 4

Price Comparisons made in RAF No.1

1. General comments

Looking into the specific details of the transactions cited in Raf No.1 was a time-consuming process due to the fact that contract or project numbers were not always provided. The validity of the findings in Raf No.1 is questionable because use was made of a subjectively selected sample, that is only those transactions which were believed to involve problems regarding prices paid were included in the sample cited in the report. In addition, the price comparisons made are often also questionable because:

- a) specifications often differ among commodities purchased and commodities for which Miami prices were obtained;
- b) the invoices obtained in Miami do not indicate the suppliers' willingness to export nor estimated delivery dates; and
- c) comparing prices obtained months and years apart can be misleading.

In general, the Division concludes that it can improve procurement planning and carry out price checks more systematically.

2. Vehicles

All of the purchases cited in the audit report involved direct AID procurements.

Six of the vehicles cited were bought from dealers towards the end of the model year under emergency conditions.

Two of the vehicles cited were purchased with the assistance of the Miami Controller from among those available on the lots of several Miami dealers after a competitively awarded contract with the local division had expired, under which no action had been taken for two months, and to be cancelled. In March 1982, there was no formal competition and advertising for these purchases, and multiple quotations were obtained before each vehicle was purchased.

One purchase was made from AID under emergency conditions after reviewing six offers.

One purchase was made from a dealer following solicitation of three quotes and approval of a waiver of competition.

One purchase was made from a dealer under emergency procedures after obtaining four quotations.

-2-

All of the above purchases involved special circumstances under which either there was an emergency requirement (example Disaster Project) or an urgent need to purchase because of project requirements or non-performance by a contractor. All but one of the purchase were effected under 1984 FAR rules, which did not require advertising.

The specifications for the vehicles on which quotes were obtained in Miami differ significantly from those of the vehicles actually purchased by the Mission in 15 of the 19 cases cited in the report. None of the Miami invoices indicated a willingness to export or estimated delivery dates.*

The alleged splitting up of a procurement of vehicles referred to in the report involved purchases made from Knedena under separate purchase orders issued under separate projects. The purchase orders were issued over the course of several weeks and not on the same day (August 13) as indicated in the report. August 13 is the date of the invoices later sent to AID for the several purchases effected. The purchases were made for four projects, and they did not involve artificial separation of requirements in order to get around the \$ 100,000 contracting limit. All of the vehicles were needed urgently and procured from the only source located that was able to meet the Mission's delivery deadlines. Quotations from several sources were sought before contracts with Knedena were negotiated.

The Mission's conclusion from its re-examination of the vehicle purchases cited in RAR No.1 are as follows:

a) The allegation regarding artificially splitting a purchase over \$ 100,000 is invalid.

b) All purchases were made under documented special emergency circumstances. In some instances, the need for a better forward planning is, however, indicated.

c) Most of the price comparisons made in the audit are questionable, and, given the circumstances, the Mission does not believe it paid too much for the vehicles procured.

d) No AID procurement regulations were violated in any of these transactions.

* The price reported on the audit for item No.9 was US\$12,745 rather than US\$14,344 as shown in RAR No.1

3. Medical Supplies/Sewing Machines

The items cited in RAP No.1 were purchased by the GDB Ministry of Education under host country contracting procedures. A July 26, 1984 memorandum to AID/W forwarded an advertisement for the items to be purchased under informally competitive procedures. Three quotes were received for the medical supplies and three for the sewing machines. The bids were evaluated, and the lowest bids were accepted. If indeed the items for which quotations were obtained in Miami are the same as, or similar to, those purchased under the bidding procedure indicated above, the prices paid may have been too high. This would indicate that better attempts to compare prices for specialized equipment and supplies should be made even when acceptable competitive procedures are followed.

4. PVC Pipe

The audit report deals with purchases made under two contracts by the GDB Ministry of Health under host country contracting procedures. The first involves a 1982 IFB, and the second an informally competitive procurement undertaken in 1985. Eleven responses were received to the IFB under which a contract was awarded to Hall and Reis, and two responses were received to the smaller RFQ issued to several suppliers in 1985 which resulted in a contract with Atlantico Ltda.

The price comparisons made in the audit report are open to question because:

a) It is not certain that the specifications are the same (e.g. with regard to the chemical composition of the pipe for which invoices were received in Miami, or whether that pipe was threaded on both ends).

b) The quotations obtained in Miami were for the combined quantity of the two orders made by AID, and therefore a lower price was undoubtedly obtained. In addition, for two of the four types of pipe purchased, the quantities obtained under AID financing in 1982 and 1985 differed significantly, and it is not surprising that the prices paid also differed.

In general, the Mission concludes that the prices of the PVC pipe financed by AID on these two occasions were reasonable given the different sizes of the procurements, the different years involved, and the uncertainty of the price comparisons made in Miami.

5. Audiovisual Equipment and Seed Purchases

The transactions cited in RAP 1 involving these commodities were not financed by AID.

Annex C

Exaggerations, Errors and Edits

A) Exaggerations

Page 4 "USAID/Bolivia procurement procedures for commodity and construction contracts were inadequate".

The Mission disagrees. AID procurement rules and acceptable commodity procurement practices were followed, although it is agreed that procurement planning can be improved.

"Maximum competition was not always achieved"

AID procurement regulations do not always require "maximum" competition since informal competitive procedures are often adequate to the circumstances involved, and timing is often as important a consideration as price. If this were not so, all procurements would be carried out under formal procedures.

Page 5 "Competition was adversely reduced, unreasonably prices were paid and economic prices were not always made."

This is not true. See the specifics in Annex B.

Page 6 "These deficiencies would also appear to exist, to some degree, in other projects,"

The Mission disagrees that deficiencies did, in fact, exist to any significant degree. This sentence makes an unsubstantiated inference.

Page 7 "USAID/Bolivia could improve its procedures to assure reasonableness of contract prices by doing price analyses. Current procedures consisted of comparing price quotation to each other."

The procedures suggested on p. 8 are in fact already being applied. The Mission agrees that it can improve the process of making price comparisons, and it is continually doing so.

Page 8 "Current procurement procedures at USAID/Bolivia did not take advantage of volume purchases to obtain economic buys.....USAID/Bolivia did not have a procurement plan to consolidate requirements." (mentioned on page 9 also).

As explained in Annex B it is not standard operating procedure to combine purchases from different projects. Similarly, the suggestion made orally by the auditors to establish indefinite order contracts with suppliers of commodities is not feasible.

Page 9 "Absence of competition, failure to review for reasonable prices and inadequate volume buying resulted in...."

This is an obvious overstatement.

4. Errors

Page 1 Construction procurement responsibility was not shifted from EKO to PSDI. It has always been a host country responsibility to be monitored by PSDI. AID very rarely contracts directly for construction services. The shift referred to involved only responsibility for direct purchase of project commodities.

Page 3 and Page 6 Negotiated procurement does not always preclude advertising (see Annex A).

Page 3 According to current redelegations of responsibility within the Mission, the Chief of EKO is responsible for direct contracting of services and the Chief of PSDI is responsible for direct contracting of project commodities and monitoring host country contracting of services, commodities, and construction.

The Mission Director, not USAID, has been redelegated authority to sign direct contracts.

The \$ 250,000 limit was for PSCs, not all PA contracts.

Page 6 "RFQs were often selected on a subjective basis and, hence, were not given adequate dissemination for proper competition."

As noted in Annex A advertising of RFQs is not always required. This comes up again on pages 7 and 8.

Page 7 The \$ 100,000 threshold has not been circumvented by the Mission. See Annex 3.

C. Suggested edits

Page 2 Distinguish between direct and host country procurement regulations.

Page 3 Clarify the non-competitive procurement limits cited under part A.

Page 4 Change the word "is" to "may" in the last sentence of the first paragraph.

Page 6 "Contract officers shall not limit solicitations to suppliers of well known and widely distributed makes or brands, nor shall quotations be solicited on a personal preference basis."

The Mission did not do this, and inserting this partial quotation from the Fed, without the language which follows, is inappropriate in the context.

UNITED STATES GOVERNMENT

memorandum

EXO-M-080/87

DATE: September 9, 1987

REPLY TO

ATTN OF: Timothy L. Bertotti, EXO

Timothy L. Bertotti

SUBJECT: Draft Audit Report of USAID/Bolivia's Procurement Function (1-511-87- ___)

TO: Mr. John R. Davison, Controller

- 9 SEP 1987

A. PRELIMINARY REMARKS

1. This is my first view of this Audit as the Executive Office was not asked to comment on the first draft. Therefore, I would suggest we strike out the Management Comments, pages 10-12. They appear to be overly "defensive" and dated by events.
2. Based upon my current knowledge of commodity procurement operations in USAID/B and my limited knowledge prior to September 8, 1986, I conclude that the audit was shallow in that it identified symptoms and not root causes of problems. I think too much power was given to the chief FSN and too little focus was given to controls and rules. As I recall, the auditor was new to AID and was, therefore, not deeply versed with the AIDAR, the FAR, or with how AID purchases commodities.
3. I prefer to focus my comments on commodity management operations since September 8, 1986 when responsibility for the functions and staff were officially transferred from PD&I to the Executive Office (See attachments 1 and 2). These comments address shortcomings noted in Recommendation No. 1 of the Draft Audit.

B. GENERAL COMMENT

Without regard to the merits of the recommendation No. 1, I find the advice to use a local Order to implement some actions as restrictive. Rather, we prefer to close the recommendations in the most appropriate manner.

C. SPECIFIC COMMENTS

Recommendation 1

We recommend that USAID/Bolivia obtain maximum feasible competition under its procurement actions by issuing a Mission Order that will require seven underlined sub-parts of this recommendation (1.a - 1.g) are listed and followed by our comments.

Recommendation No. 1.a)

"a) Advertising requests for quotation in the Commerce Business Daily when practical or, when not practical, by employing alternative competitive procedures such as referring to Federal Supply Schedules".

COMMENT ON 1.a)

1.a) Local Order 11-1 was revised and reissued December 1, 1986 (Attachment 3). Page 9 of this issuance covering commodity procurement notes that:

** 2. The methods for procurements using AID Direct Contracts are as follows":

For amounts up to US\$ 25,000, purchase orders may be used. Two situations are within the Purchase Order Scope: (N.B. all commodity procurements, whether direct or HC, over US\$ 25,000 require advertizing in AID Export Opportunity Bulletins).

A. FAR 13.106 - Purchases not over US\$ 1,000 may be made without securing competitive quotations if the contracting officer considers the price to be reasonable.

B. FAR 13.106 - Purchases over US\$ 1,000 Quotations are solicited from a reasonable number of sources. Quotations may be solicited orally or in writing.

For amounts between US\$ 25,000 and US\$ 100,000. Procurements are advertised and an RFP or an IFB is issued to the maximum practicable number of interested suppliers. The contract file must include a justification for using other than full and open competition. AIDAR 706.3.

For amounts over US\$ 100,000. Notice of availability of an RFP or an IFB is published in the Commerce Business Daily (CBD) and in the appropriate AID bulletins. (IFBs are published in the AID-Financed Export Opportunity Bulletin and RFPs are published in the AID Procurement Information Bulletin)."

Recommendation No. 1.b)

"b) Combining procurement actions whenever feasible to obtain competitive bids and obtain the best available commodities at the lowest available prices."

*It should also be noted that these procedures have been superseded by the issuance of a Class Justification. The AID Procurement Executive's January 20, 1987 Class Justification appears to negate part of the requirements. (See Attachment 4).

*COMMENT ON 1.b)

We did not address this issue in a Local order but have incorporated it into our internal Division level operations. The Procurement Division strives to combine like commodity procurements whenever timely and practical, e.g. in the Spring of 1987, USAID/PH combined an 11 set furniture order under five different projects into an integrated order with one firm.

Recommendation No. 1.c)

"c) Verifying price reasonableness using such techniques as:

Comparing price quotations received with prices set forth in published price lists, preparing independent cost estimates and identifying inconsistencies in costs-per-unit."

COMMENT ON NO. 1.c)

Again, this addresses an area of how the procurement division should operate internally and, therefore, it was not the subject of a Mission Order. Since October 1987, the EXO Procurement Division has:

1. Expanded its sourcing library thereby providing better ready access to current prices.
2. Extended requests for proposals to more vendors including a wider representation of geographical areas in the U.S. and in Bolivia.
3. Provided tougher and closer analyses of costs in the bids to get the lowest prices.
4. Made extensive use of a newly installed telex to get official quotes in print rather than by phone.

Recommendation No. 1.d)

"d) Refraining from the practice of splitting purchases."

COMMENT ON 1.d)

This recommendation is already addressed in the Policy Section of Local Order 11-1. It states that:

"Contracting Officers and the Competition Advocate (Deputy Mission Director) assure compliance with this rule (Competition in Contracting) and guard against actions or patterns that waive or circumvent the intent of competition".

Moreover, since taking operational control in September 1987,* the practice of splitting purchases of items has been eliminated.

* Based on telephone conversation with the Mission on November 4, 1987, these dates should read "1986."

Recommendation No. 1.e)

"e) Formulating and implementation of procurement plans and using the plans to make volume purchases

COMMENT ON 1.e)

Local Order 11-1, page 8 states: "VI. Procurement of Commodities. When commodities supplies or materials are key factors in the implementation of a project, a detailed procurement plan should be formulated as an Annex to the Project Paper. Project managers should share these plans with EXO/P at the earliest possible stage of project development."

At the last two quarterly reviews, EXO/Procurement Division requested that all project managers submit commodity and service procurement plans in connection with implementation activities for major USAID funded projects.

Recommendation No. 1.f)

"f) Placing responsibility for all procurement matters, in an office not connected with project development or project implementation."

COMMENT ON 1.f)

Local Notices 1472 and 1501 of September 6, 1960 and December 10, 1960 gave the EXO full responsibility for all areas of procurement (See Attachments 1 and 2).

Recommendation No. 1.g)

"g) Appropriate Training for Procurement Personnel."

COMMENT ON 1.g)

1. In March 1960, a Contracting Specialist attended the FAK course in AID/W.
2. In June of 1960, three procurement agents were given ONI-USAJ (OTJ) training by Mr. Hans Hans, a procurement specialist from The American Manufacturers Export Group (AMEG).
3. In July 1960, the Contracting officer then attended the FAK course.
4. In September 1960, Mr. Robert van Horne, the ROM-Guatemala provided OJT training to the three procurement agents.

5. In February, 1987, the Chief of the Procurement Division, travelled to ROCAP and USAID/Guatemala for two weeks training.
6. Concurrently with item 5), Ms. Cecilia Yañez, spent two weeks TDY in USAID/Bolivia. During this time, she provided training on service contracting to some of our staff.
7. In September 1987, Mr. Patrick Keirnan, Chief of the Procurement Division/EXO, will travel to AID/W for the FAR course. (His deputy for commodity management will be nominated for this course in FY-88).
8. AMEG is being contracted to provide two management audits of USAID/B's procurement operations.
9. In November/December, the AMEG will also provide some on-the-job training.

CONCLUDING COMMENT

In the past 12 months, a number of organizational and systematic improvements have been made in the procurement processes in this Mission. They include:

- Better internal oversight by U.S. supervisors and by an FSN direct hire with depth in purchasing and customs clearances.
- Closer monitoring of procurements by using a highly detailed tracking system.
- More extensive use of Federal Supply Schedules for GSA purchases as well as used as a guide in determining costs and prices.
- Regularly scheduled reviews of pending procurements and priorities.
- Demands for improved specifications from ordering organizations.
- Improved relations with vendors and shipping agents, and
- Preliminary results indicate that:
 1. Irregularities have been prevented.
 2. Procurement cycles largely reduced.
 3. Complaints on delays and poor products eliminated.

*AMEG will evaluate and audit procurement operations twice in the next 12 months to corroborate or refute this interim assessment.

	ACTION	INFO
John H. Davison		
G. Pennington		
B. Smith		
F. H. ...		
ACCOUNTANTS		
VOUCHERS		
CASHIER		

APPENDIX C

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USAID/Bolivia	5
AA/LAC	2
LAC/SAM	1
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LAC/GC	1
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LAC/RIAs	1
AA/PPC	1
AA/XA	1
LEG	1
M/EM/ASD	3
XA/IR	1
PPC/CDIE	3
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S&T/AGR	1
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