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General Accounting Office

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Inadequate Management Of Procurement Activities At Five Federal Prisons

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GGD-79-93
AUGUST 24, 1979



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-133223

Mr. Norman A. Carlson, Director
Federal Prison System
Washington, D.C. 20534

Dear Mr. Carlson:

This report details the problems we found during our examination of the management of procurement activities at five institutions in the Bureau of Prisons--Atlanta and McNeil ⁷⁵⁻⁰⁰⁰⁰¹⁵⁻ Island Penitentiaries, Ashland and Englewood Federal Correctional Institutions, and the New York Metropolitan Correctional Center. It is the first in a series of reports on management practices at Bureau institutions requested by the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs.

We prepared this report to give the Bureau an opportunity to take corrective action before issuing our final report to the Chairman. The final report will present our overall observations concerning the management of the activities we have examined. Since you will be given an opportunity to formally comment on a draft of that final report, it is not necessary for you to formally respond to this interim report on procurement management. We would, however, appreciate being kept informed of any changes made by the Bureau so they will be recognized in our final report.

There is no assurance that the five institutions procured only those goods and services necessary and adequate to operate during fiscal year 1978. Managers purchased what they wanted without documenting and justifying their needs and, as a result, they spent large sums of money for questionable procurements, particularly near the end of the fiscal year. Purchasing agents did not always use proper procurement methods and procedures to assure sufficient competition. Some simply allowed the cost center managers to select their own suppliers which was a major breakdown in internal controls. Finally, the institutions' managers had not fully implemented the Bureau's internal management

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control system of (1) properly planning, supervising and reviewing procurement activities, (2) maintaining segregation of duties and functions, and (3) holding staff members fully accountable for their actions.

Copies of this report are being provided to the Chairman, at his request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "AR Voss".

Allen R. Voss
Director

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ABBREVIATIONS

BF	Budget Form
B&F	Building and Facilities
FPMR	Federal Property Management Regulations
FPR	Federal Procurement Regulations
M&O	Maintenance and Operation
S&E	Salaries and Expenses
USC	United States Code

CHAPTER 1

INTRODUCTION

In fiscal year 1978, the Bureau of Prisons obligated approximately \$290 million to operate the Federal prison system. About \$271 million was obligated from the Salaries and Expense (S&E) appropriation 1/ and about \$19 million was obligated from the Building and Facilities (B&F) appropriation 2/. Of the total obligations, about \$111 million, or 38 percent, was obligated for procuring goods and services.

PROCUREMENT MANAGEMENT

Procurement activities are managed at the headquarters, regional and institutional levels of the Bureau. The Chief of the headquarters Procurement Branch in the Planning and Development Division develops policy and provides technical assistance to his counterparts in the regional offices. The regional procurement chiefs provide technical assistance to the institutions and monitor their procurement activities by reviewing all purchase orders and approving all contract awards over \$10,000 not needing headquarters approval.

The wardens are ultimately responsible for how funds are spent by their institutions. Each warden is aided by a business manager, who ensures that funds are available; a purchasing agent, who selects the best procurement method; and cost center managers, who decide what needs to be procured.

Each cost center manager selects the goods and services needed to conduct the activities of his unit (e.g., education, food service). He is responsible for determining the proper nature, quality, and quantity of needed materials, equipment, and services.

1/ This is a single year appropriation for operating the Bureau.

2/ This is a no-year appropriation for construction of new institutions and major renovation projects at existing institutions.

Procurement activities are to begin when the cost center manager prepares a Budget Form (BF) 1 for quarterly requirements of supplies or a BF 10 for quarterly requirements for food. These two forms are designed to provide management control over the procurement of supplies and food by providing detailed computations of needs on the basis of estimated consumption for the period less the quantity on hand and on order. Procurements should be based on valid consumption data and property records should be used to determine available stocks. In addition, a Request for Purchase can be initiated for additional items not included on the BF 1 or BF 10.

The BF 1s, BF 10s, and any purchase requests are sent to the institution's purchasing agent, who is required to

- make sure the goods or services are adequately described,
- consolidate requests for similar items,
- determine the proper supply source,
- determine the correct procurement method,
- obtain price and terms quotations or bids,
- select the suppliers, and
- prepare a Purchase Order and assign it a number.

Among other things, these procedures are designed to provide internal control so that the individual who wants the item is not the one who selects the supplier.

All purchase orders are sent to the institution's business manager, who approves them if funds are available. The approved purchase orders are returned to the purchasing agent, who signs them and mails the original copy to the supplier. He retains some copies for reference and control purposes and distributes others within the institution and to his counterpart in the regional office. The accounting supervisor uses the obligation copy as the source document for entering the obligation transaction into the Bureau's computerized financial management system.

The only exception to the procedures described above is that purchase orders are not prepared for cash and charge account purchases. A purchase request, however, must be approved by the purchasing agent before cash and charge account purchases are made, except in emergencies when a purchase request is prepared after the purchase.

VOLUME AND TYPES
OF PROCUREMENT

During fiscal year 1978, the five Bureau institutions we reviewed obligated about \$11.6 million for procuring goods and services needed to care for an average daily population of 5,198 Federal inmates. Each institution made the following types of procurements for maintaining the population shown.

	<u>Atlanta</u>	<u>McNeil</u>	<u>Ashland</u>	<u>Englewood</u>	<u>New York</u>	<u>Institution total (note 'a)</u>	<u>Bureau total</u>
Average daily population	2,143	1,341	700	495	519	5,198	29,347
Per capita procurement	\$1,741	\$2,008	\$2,469	\$2,788	\$3,986	\$2,232	\$3,843
Procurement volume and types:	----- (thousands) -----						
Travel, transportation of persons	\$ 56	\$ 113	\$ 56	\$ 66	\$ 71	\$ 361	\$ 4,798
Transportation of things	30	50	36	52	29	197	1,449
Communications, rent, utilities	834	80	244	192	797	2,147	17,492
Printing, reproduction	2	-	-	3	-	5	328
Other services	231	268	97	162	239	997	40,037
Supplies, materials	2,474	2,111	1,153	850	889	7,477	43,225
Equipment	106	71	191	55	43	416	4,209
Total volume (note a)	\$3,731	\$2,693	\$1,728	\$1,380	\$2,069	\$11,601	\$111,443

a/ Totals do not add due to rounding.

PROCUREMENT METHODS

Most procurements at the five institutions were made through negotiations with open market suppliers as shown below.

<u>Method</u>	<u>Volume</u>
Formally advertised	\$ 1,551,997
Negotiated	6,143,635
Federal Supply Schedule	972,185
Other agencies	1,029,579
Unreported	<u>1,903,820</u>
Total	<u>\$11,601,216</u>

CHAPTER 2

INSTITUTIONS PURCHASED ITEMS NOT

NEEDED AT THE TIME OBTAINED

The five institutions did not follow Bureau procedures during fiscal year 1978 for planning their procurements and, as a result, spent large sums of money for questionable procurements, particularly near the end of the fiscal year. Although the Bureau requires institutions to make continuous reviews, reports, and adjustments to insure sufficient but not excess supplies for each quarter, we found little evidence that this was being done.

INSTITUTIONS DID NOT PROPERLY PLAN THEIR PROCUREMENTS FOR GOODS AND SERVICES

The institutions generally did not follow Bureau policies for planning and controlling the procurement of goods and services. These policies require that cost center managers prepare a list of the purchases they plan to make each quarter on the basis of documented needs. Instead, the cost center managers usually listed only the total amounts they planned to spend.

The Bureau requires cost center managers to base their quarterly budgets on actual requirements by preparing a BF 1, or similar document, for supplies and services 2 months before the start of the quarter. Items the cost center manager intends to actually be purchased by the purchasing agent should be listed on the document. Contingencies for miscellaneous and emergency purchases may be consolidated on the basis of past experience and ordered using a request for purchase.

Maintenance and repair projects of less than \$2,000 are to be listed in lump sum amounts if material will actually be purchased for them during the quarter. Each project is supposed to be supported by a material and price list.

The BF 1 provides space for the following information.

--Description of the supply or service to be purchased.

--Standards of issue for items which have standard usage quantities.

- Requirements for items without standards of issue. Requirements equal the quantities needed based on past records and experience.
- The expected use of an item in the 2 months before the start of the quarter.
- Normal stock requirements that should be carried in the storehouse for various reasons, such as delays in deliveries and size ranges. The Bureau requires that each institution exercise care not to stock items beyond its quarterly needs.
- Quantities of each item actually on hand at the time the BF 1 is prepared.
- Quantities of each item actually on order or to be ordered within the next 2 months.
- Quantities to be purchased during the quarter which equal the sum of the requirements for the quarter, the 2 months before the quarter, and normal stock minus the sum of the quantities on hand, on order, and to be ordered during the next 2 months plus or minus any necessary adjustments.
- The estimated unit cost based on current prices, recent purchases, and market reports.
- The estimated total cost which equals the quantities to be purchased multiplied by the estimated unit cost.

Our examination of 142 BF 1s at the 5 institutions revealed that only 16, or 11 percent, contained the prescribed information. Most of the remaining BF 1s contained only total dollar amounts for a cost center or activities within a cost center. Some cost center managers said the amounts were based on experience.

For example, cost center managers at McNeil Island said that the total dollar estimates on their BF 1s were based on past experience, but we found that the budgeted amounts were much higher than actual needs.

- The Construction and Mechanical Services cost center manager projected a \$3,000 need for roads maintenance in fiscal year 1978 on the basis of actual

fiscal year 1977 spending of only \$431. For fiscal year 1979, \$5,000 was projected, although only \$50 was spent during fiscal year 1978.

--During fiscal year 1978, the Construction and Mechanical Services cost center manager budgeted \$18,000 for the Major Work Orders activity, but no money was charged to this activity during the year. The cost center manager said he uses this money as a contingency fund.

--The Financial Management cost center budgets for stationery supplies for both fiscal years 1978 and 1979 exceeded each prior year's actual expenditure by more than \$10,000.

Furthermore, the Construction and Mechanical Services cost center managers at the five institutions did not list any maintenance and repair projects of less than \$2,000. Only 14 of the 205 major work order projects estimated to cost between \$200 and \$2,000 had material and price lists to show planned procurements and their estimated cost. At Ashland, there was no documentation of any kind for projects in fiscal year 1978. At McNeil Island, the cost center manager said he prepared material lists but threw them away after making purchases.

Procurements for projects funded by the B&F appropriation are not planned on a quarterly basis. However, each project is supposed to be supported by information including material lists, cost estimates, and drawings. Only 40 of the 102 projects we examined contained material and price lists.

INSTITUTIONS MADE QUESTIONABLE PROCUREMENTS

The lack of information on what goods and services the institutions actually needed allowed them to purchase unneeded items with S&E funds, particularly near the end of the fiscal year, and to use B&F funds to purchase items not needed for the funded projects.

S&E funds used to purchase unneeded items

The general rule for lawfully obligating a fiscal year (i.e., S&E) appropriation is that the supplies or services are intended either to serve a bona fide need of that fiscal year or to replace stock in such fiscal year. The Bureau's policy for non-food items is that each institution's requirements should be only the amount needed during a quarter of

the fiscal year and that items should not be stocked beyond the institution's quarterly needs. The BF 1, as discussed earlier in this chapter, takes this policy into account in determining the quantity of an item to be purchased each quarter. The Bureau's policy for food is that the institutions purchase sufficient nonperishable food during a quarter to meet the needs of that quarter and to maintain a 30-day carryover.

At the five institutions, we identified \$216,828 worth of procurements which did not appear to meet the above criteria for satisfying the valid needs of the institutions at the time purchased. Examples of these procurements are shown in the following table.

<u>Institution</u>	<u>Purchase order date</u>	<u>Item</u>	<u>Quarterly requirement</u>	<u>On hand/ on order</u>	<u>Quantity purchased</u>	<u>Amount of purchase</u>
Ashland:						
	9/28/78	Basketballs	18	Unknown	48	\$ 950.00
	5/78	Work pants	144 pr.	307 pr.	70 pr.	504.00
	9/28/78	Tennis balls	12 doz.		27 doz.	713.00
		Tennis racquets	24		36	
	6/78	Roofing materials	a/0	Unknown	Various	5,300.00
Atlanta:						
	8-9/78	Bed sheets	b/116 doz.	704 doz.	500 doz.	16,000.00
	9/78	Inmate socks	b/13,217 pr.	33,759 pr.	44,000 pr.	14,580.00
	9/18/78	Coffee	b/5,394 lbs.	9,200 lbs.	9,000 lbs.	17,640.00
	8/14/78	Pillowcases	b/160 doz.	250 doz.	350 doz.	3,500.00
	9/28/78	Copy paper:				
		8"x 10-1/2"	b/300 rms.	2,000 rms.	2,310 rms.	3,214.00
		8-1/2" x 14"	b/59 rms.	639 rms.	500 rms.	1,218.00

<u>Institution</u>	<u>Purchase order date</u>	<u>Item</u>	<u>Quarterly requirement</u>	<u>On hand/ on order</u>	<u>Quantity purchased</u>	<u>Amount of purchase</u>
McNeil Island:						
	9/22/78	Khaki trousers	b/270 pr.	1,454 pr.	400 pr.	2,480.00
	9/18/78	Undershirts	b/193 doz.	534 doz.	400 doz.	3,064.00
	9/20/78	Shoes	b/289 pr.	632 pr.	400 pr.	5,780.00
	1/13/78	Lube oil	b/28.2 gals.	c/85 gals.	100 gals.	254.00
	11/1/78	Antifreeze	b/182.6 gals.	d/249 gals.	220 gals.	536.00
Englewood:						
	7/17/78	Soap bars	e/1 case	18 cases	40 cases	1,366.00
	Various, FY 78	Towels	e/2,208	Unknown	3,504	3,013.44
	Various, FY 78	Hi-top shoes	e/160 pr.	Unknown	420 pr.	7,119.00
	Various, FY 78	Sugar	e/31,000 lbs.	Unknown	34,800 lbs.	6,696.80
	Various, FY 78	Tennis shoes	e/551 pr.	Unknown	1,186 pr.	6,819.50

a/ Roofing project was not approved until November 1978 (fiscal year 1979) and was scheduled to begin in spring 1979.

b/ Quarterly requirement either not available or not accurate; this is quarterly usage.

c/ This antifreeze, in 1-gallon containers, was purchased in 1972 and has remained unused even as additional supplies have been procured.

d/ As a direct issue item, the amount of lube oil on hand in the warehouse was listed as 0, even though at least 85 gallons were available throughout the institution.

e/ Quarterly requirement not available; this is yearly usage taken from stock issue cards.

In addition to the above examples, at the end of fiscal year 1978, New York Metropolitan Correctional Center obligated \$19,000 for questionable purchases, some of which were made in such haste that they were orally approved in September but not typed until October. Of this total, \$7,600 were obligated for food and food service supplies. Other purchases included two icemaking machines (\$2,355), four calculators (\$700), and a van (\$7,000).

At Atlanta we identified items which we and the Bureau's regional director agreed were extravagant in that less expensive purchases would have met the minimum needs of the institution. Examples of the questionable purchases included:

- \$260 for the application of glitter to the ceiling in the associate warden's residence,
- \$653 for cedar paneling and strips, among the most expensive available, for the inmate dining room,
- \$337 for first grade walnut lumber for the warden's office, and
- \$1,792 for high grade (\$16 per square yard) carpet for the warden's office.

The regional director had taken corrective action in a memorandum, dated July 6, 1978, to all wardens and superintendents in the Southeast Region, which stated:

"In the future, all projects involving the remodel of staff offices and conference space in administration buildings will require the approval of the Executive Staff. This requirement includes the use of funds from M&O, or B&F Line Items. The remodel of space for control rooms, telephone equipment and sallyports are exempt from this requirement.

"All proposed modifications of this nature will be submitted with appropriate descriptions, estimates, and drawings to the Regional Office for Submittal to the Executive Staff."

B&F funds spent on items not used
on projects

The Bureau's policies require that B&F funds be used for the purposes intended and that materials be used only on the projects for which they were purchased. Ashland and Atlanta did not always follow this policy.

At Ashland, we reviewed 23 B&F funded projects and identified \$19,697 in purchases for 7 projects which the Construction and Mechanical Services cost center manager agreed were not used for the projects.

Two examples are projects J47 and J43.

Project J47 was allotted \$27,000 for rehabilitation of domestic water supply lines. Among the items purchased with project funds but not needed for it were

- a backhoe at a net cost of \$10,000, which was approved by the regional office;
- a \$625 tractor blade disc;
- a \$199 chain saw;
- a \$215 calculator; and
- a \$910 handball court.

Project J43 was allotted \$7,500 for safety measures in the powerhouse and tunnel. Among the items bought with project funds but not used for it were

- a \$1,030 Hi-jacker work platform,
- \$445 in paint, and
- \$173 in steel grating not used on the project.

Atlanta used B&F funds to purchase about \$42,000 in material and equipment not used on the four projects that were charged for the items. Institution officials contend that some of the \$42,000 in materials and equipment we questioned were used on the projects. However, we were not able to resolve this matter because

- construction employees responsible for the projects continued to state that the materials we questioned were diverted to other uses and
- each project's material lists, drawings, and cost estimates were inadequate, precluding verification of material usage.

For over 7 years, Atlanta has been in the process of renovating the cells in two cellhouses. Projects K22, for

\$13,000, and K46, for \$18,000, were the most recent phases of the renovation.

The construction progress report for project K22 showed that an estimated \$750 would be required for painting and glazing the cells authorized, or about \$37.50 per cell. A knowledgeable member of the mechanical services staff said that only about 7 gallons of paint were needed for each cell. On September 2 and 7, 1977, Atlanta charged this project for purchases of 450 gallons of paint, 6 pounds of silver glitter, an air driven glitter gun, 40 pounds of texture, and an air compressor, at a total cost of about \$3,200. The 450 gallons of paint, costing \$2,891, averages out to over 22.5 gallons per cell. The approved budget justification did not specify a need for silver glitter and related materials.

Procurement records show that Atlanta purchased over \$14,000 in materials with K46 funds that were not on the approved materials list submitted in the budget justification to the regional office. In addition, some of the material purchased did not appear necessary for the remodeling work described in the approved budget justification. For example, the January 1978 construction progress report submitted to the regional office for K46 contained an estimate of \$1,000 for painting and glazing 26 cells. However, between November 1977 and May 1978, Atlanta purchased \$10,287 worth of paint and paint-related materials with K46 funds. This included 1,104 gallons of various kinds of paint--about six times the amount that was required. In addition, five pounds of silver glitter were purchased that did not appear on the requirements list.

Since June 1972, the Bureau has allotted over \$1.1 million to Atlanta to renovate the food services area. One phase of this renovation was project Q67, which authorized \$292,800 to construct two wings at the rear of the kitchen.

We and the project foreman identified \$21,817 in materials and equipment which were purchased using Q67 funds that appeared questionable in terms of their use in completing the construction and renovation work described in approved budget justification documents, specifications, and cost estimates. The questionable items are listed on the next page.

<u>Item</u>	<u>Costs</u>
SuperBee electric airless paint spray gun and parts	\$1,088.97
80 bryant lampholders, 5 lbs. duct seal, and 20 potting filling compound	173.87
4 sizes and quantities of nails, fasteners, and 50 feet of steel tape	226.50
Ice builder	4,801.02
12 gal. of clear wood sealer and 8 gal. of spackling paste	130.80
8.5 gallons of various colors of paint	234.54
100 paint roller covers	45.00
5 kits of pastel latex base paint	145.00
42 pieces of rough cedar lumber (different sizes)	252.70
8" speaker with 500 ft. of wire	264.42
Rubber doors with vision panel 11-1/2" x 15-1/2"	1,740.42
4 kits of vani-sol disinfectant	115.20
5 boxes of glass sheets, 2 boxes of razor blades, 48 2-inch paint brushes, and 12 lbs. of petrolatum	233.64
Red floor tile and 12 gal. of deck enamel, one gal. of paint remover, 5 gal. of white latex paint, 2 gal. of wood sealer, 2 gal. of satin hyde enamel, 5 kits of pastel latex, 5 gal. of white acrylic latex, 12 kits of epoxy pitt glaze, 10 each of acrylic latex, 10 each white semigloss latex	1,713.53
Garbage pulverizer	<u>10,651.80</u>
Total	<u>\$21,817.41</u>

According to the foreman, the items listed above were not used in approved kitchen renovation work but were used on other projects or shops within the institution. In addition, the budget justifications, drawings, specifications, materials list, and cost estimates did not show any requirements for replacement or purchase of major equipment, such as the garbage pulverizer, ice builder, and spray gun.

Also, Atlanta submitted a December 1977 construction progress report to the Regional Facilities Administrator which showed that 90 percent of the painting and glazing work had been completed and that only about \$500 of painting work remained to be done. Nevertheless, Atlanta purchased over \$2,000 in paint and paint-related materials between January and July 1978 with Q67 funds.

Atlanta officials said that 9 of the 14 items we questioned, valued at \$9,089, were used in the kitchen renovation work, but they agreed to reimburse the Q67 project for the \$12,453 spent on the other 5 items. However, Atlanta construction staff responsible for the work continued to state that many of the items were not used. We could not resolve the question of material usage because the Q67 drawings, material list, and cost estimates had not been updated in several years and were incomplete in many areas.

CHAPTER 3

INADEQUATE COMPETITION FOR

OPEN MARKET PURCHASES

Our examination of fiscal year 1978 procurement transactions revealed few problems with using Government supply sources but significant problems in assuring adequate competition for open market purchases.

--The institutions generally gave sufficient consideration to filling their needs from Government sources before procuring goods on the open market. We did, however, find a few open market purchases of items available from the Government.

--McNeil Island, New York, and Atlanta had significant deviations from the Federal Procurement Regulations (FPR) in making procurements in excess of \$10,000 each.

--Some institutions did not adequately control small purchases of less than \$10,000 each to assure compliance with the FPR.

ADEQUATE USE OF GOVERNMENT SUPPLY SOURCES

The institutions generally followed the Federal Property Management Regulations' (FPMR) requirement that, before procuring directly from commercial sources, they determine whether the required or similar goods and services are available from Government sources. Our examination of procurements made during the last 2 months of fiscal year 1978 showed that between 38 and 52 percent were made from Government sources. The institutions also seemed to be making adequate use of Government excess property.

Some open market procurements, however, could have been made from Government supply sources. The institutions did not obtain waivers for these purchases from General Services Administration as required by the FPMR. Examples of procurements costing over \$1,000 each follow.

--Atlanta made an open market purchase of \$2,265 worth of office furniture, although suitable and

less expensive furniture was available through the Federal Supply Schedule, because the Government source did not have the preferred color combinations. The FPR precludes color preference as a justification for an open market purchase.

--McNeil Island made open market purchases of 300 gallons of paint costing \$2,490 with the justification that it was the only paint which would hold up.

--Englewood used one of its charge accounts to purchase \$4,677 worth of paint and painting supplies available in the General Services Administration Industrial Products Catalogue.

--New York purchased food service supplies such as plates and plastic tableware on the open market when they were available in the General Services Administration catalogues.

Some of the other reasons given to us for not using Government supply sources were that the institutions preferred to use local vendors, did not have catalogues or indexes to catalogues of Government sources, or had to make "emergency" procurements because of poor planning.

PROCUREMENTS IN EXCESS OF \$10,000
EACH WERE IMPROPERLY HANDLED

The methods and procedures used by three institutions to make procurements over \$10,000 each did not always assure full and adequate competition. McNeil Island, New York, and Atlanta made 10 negotiated procurements costing nearly \$143,000 which should have been formally advertised. In addition, McNeil Island and New York did not solicit enough capable suppliers to ensure full and free competition.

Proper procurement method not used

Although FPR 1-3.101(6) requires institutions, when feasible, to formally advertise all procurements estimated at over \$10,000, three institutions made negotiated procurements which should have been advertised.

--McNeil Island made five negotiated procurements, each costing over \$10,000, for a total of \$61,355.

--New York made one negotiated procurement over \$10,000 and another with an estimate over \$10,000.

--Atlanta negotiated four procurements of less than \$10,000, each which should have been combined into two separate procurements and advertised.

McNeil Island procurements

At McNeil Island we reviewed all 32 purchases of over \$10,000 each made during fiscal year 1978 that totaled over \$1 million. We questioned five procurements valued at \$61,355 which were not formally advertised but instead were made using small purchase or sole source negotiated procurement methods.

In April 1978, two purchases of building steel totaling \$10,400 were made under the same blanket purchase arrangement without soliciting bids from other suppliers. In two other cases, two meat procurements costing over \$10,000 each were split among three firms with purchase orders of less than \$10,000 each, using a request for price quotations instead of advertised bids.

The fifth procurement involved a \$16,500 negotiated contract for emergency repairs and replacement of the port dolphin at the McNeil Island ferry slip. A statement of findings and determinations was prepared on June 27, 1978, under section 302 (c) (10) of the Federal Property and Administrative Services Act of 1949, 41 U.S.C. 252 (c) (10), and signed by the Director, Western Region. It stated that the dolphin was not usable because it had been damaged in such a way that it could damage supply barges. In view of what he characterized as "the emergency nature of the repairs," the Director stated that the institution needed to negotiate a sole source contract with the firm which had built the dolphin and was familiar with its construction. A price quotation was received from the contractor by letter dated June 29, 1978, and a contract was executed on July 8, 1978. The contracting officer did not approve the purchase order for the repair until August 4, 1978. The order specified that the work could be accomplished within 3 weeks after the order was received by the contractor.

New York procurements

Two negotiated procurements at New York's MCC should have been advertised: one totaling just over \$10,000 for partitions related to a B&F project for restructuring the Receiving and Discharging area; the other, for duct work for the same project, was awarded at \$9,600--however, the projected cost estimate before the procurement was initiated was

\$15,000. Institution officials justified negotiating the latter procurement as a small purchase on the basis that the contract was awarded for less than \$10,000.

However, FPR 1-3.600 states that the policies and procedures regarding small purchases are not applicable to procurements initially estimated to exceed \$10,000, even though the awards do not exceed \$10,000.

Atlanta procurements

At Atlanta, four negotiated procurements costing \$28,580, although meeting the necessary conditions, were not formally advertised. The institution purchased 20,000 pairs of socks for \$6,540 on September 15, 1978, and 13 days later purchased another 24,000 pairs for \$8,040. Had the two procurements been combined, they would have qualified for formal advertisement. On August 14, 1978, the institution purchased 2,400 sheets for \$6,400 and 6 weeks later purchased another 3,600 for \$9,600. The two procurements also could have been combined and advertised.

Procedures used to solicit offers did not always ensure full competition

The procedures used by McNeil Island and New York to solicit competitive proposals were not always adequate to ensure full and free competition.

The FPR requires maximum practicable competition for all procurements. Bids and proposals should be solicited from as many qualified sources as the contracting officer deems necessary to insure as much competition as is consistent with the types of items being procured. Bidders' mailing lists should be used in soliciting bids for procurement by formal advertising and should be used where appropriate for soliciting proposals for negotiated procurements. If a list is excessively long, less than the entire list may be used for a particular procurement consistent with securing adequate competition. In addition, a synopsis of all proposed purchases over \$5,000 and the award of contracts over \$25,000 are to be publicized in the Commerce Business Daily.

Institutions are required to establish bidders mailing lists that assure access to adequate sources of suppliers and services and provide meaningful competition. All eligible and qualified concerns which have submitted bidders mailing applications or which are considered capable by the institution are

to be placed on the appropriate list. The name of each firm which fails to respond to an invitation is to be removed from the list for the items in the invitation. If this procedure results in a very limited list, the contracting officer should obtain explanations from firms which did not respond before removing their names.

McNeil Island bidders lists
did not promote competition

The bidders lists used by McNeil Island did not assure that the institution would obtain meaningful competition. Since about two-thirds of the firms on the bidders lists used in fiscal year 1978 did not respond to invitations, we selected five invitations and contacted the firms which had not responded. Some firms were not qualified or interested and some said they did not receive the invitations.

On four consecutive invitations for food, the same nine firms were on the bidders lists. The same four companies always responded and shared the contracts. We attempted to contact the five nonrespondents with the following results:

--One firm could not be located.

--Three firms had received eight invitations over a 19-month period without responding because they had not asked to be put on the list and were not interested in bidding.

--One firm did not want to bid at the time but wanted to remain on the list.

On September 29, 1978, McNeil Island awarded a \$43,344.67 negotiated contract for chemically treated decking, planks, and timbers for its main dock. An undated statement of findings and determinations signed by the Director, Western Region, authorized negotiating a contract for the lumber and supplies pursuant to section 302 (c) (10) of the Federal Property and Administrative Services Act of 1949, 41 U.S.C. 252 (c) (10). The statement found that (1) the dock was seriously deteriorated, (2) formal bids were solicited from seven prospective bidders without responses, and (3) the dock required immediate attention. Actually, eight prospective bidders were sent solicitations on May 30, 1978, and the solicitation was publicized, according to the bidders list. When we contacted the firms on the list, however, representatives of seven firms claimed they had never received an invitation and a representative of the

eighth firm said it had notified the prison of its inability to bid prior to receiving the invitation. Even if the seven firms had received invitations, many probably would not have responded because

- one firm did not deal in such small quantities,
- one preferred not to deal with the Federal Government,
- one was a small firm doing business with homeowners rather than Government and commercial businesses,
- one was a shake mill and did not deal in the requested product, and
- one was a supplier of oil and gas, not lumber.

As it turned out, the institution purchased the lumber from a firm that was not on the bidders list.

McNeil Island did not competitively negotiate large purchases

Little or no competition existed for five of the seven negotiated purchases over \$10,000 each executed during fiscal year 1978. One \$10,400 purchase of building steel was made through a blanket purchase arrangement without evidence that proposals were solicited from other firms. On two procurements totaling \$24,200 for installing pilings, only one firm was contacted because, according to a prison official, the institution was familiar with its work. In another case, there was some evidence that more than one firm was contacted, but a firm which had requested placement on the bidders list before negotiations started was not sent an invitation.

Little competition on large purchases at New York

At the New York institution, little or no competition existed for three procurements exceeding \$10,000 each. Only three of a possible 60 firms were contacted for one procurement involving partitions and another for duct work. There was only one responsive bid for each procurement. The third procurement for about \$20,000 in canned and dry food had no bidders list in the file although there were four responses. This seems like a small response since there are 89 wholesale grocers listed in the Manhattan telephone directory alone.

McNeil Island did not fully
publicize procurements

McNeil Island did not publicize a synopsis of all proposed purchases exceeding \$5,000 each or of all awards of over \$25,000 in the Commerce Business Daily. Only one proposed purchase exceeding \$5,000 was publicized, and even then the notice appeared 2 weeks later than required. We could not find notices for three contract awards exceeding \$25,000 each. The procurement officer said he was not aware of the requirement to publicize contract awards.

SMALL PURCHASES NOT ADEQUATELY
CONTROLLED BY SOME INSTITUTIONS

The institutions' procedures for making open market purchases of less than \$10,000 each did not always assure adequate competition or follow Federal regulations on small purchases. Specifically, some institutions were not maintaining sufficient management control to assure that

- the proper procurement method was used,
- all qualified suppliers, particularly minority firms, were given an opportunity to compete;
- purchase orders were not split to avoid the regulations for transactions costing over \$10,000;
- adequate documentation of the vendors contacted was maintained; and
- favoritism did not occur.

We also reviewed the amount of procurements from small businesses and the use of imprest funds and generally found no problems.

Institutions' efforts to solicit
suppliers were inadequate

Some institutions were not obtaining enough price quotations to assure adequate competition, and none of the institutions were attempting to do business with minority firms. Only Atlanta had made any efforts to publicize proposed small purchases.

Institutions did not always obtain
enough price quotations

The institutions did not always obtain adequate competition and price quotations for procurements costing between \$501 and \$5,000 each. Depending on the institution, anywhere from just a few to as much as 48 percent of these purchases were made without obtaining another price quotation.

At Englewood, 48 percent of the purchase documents we examined indicated that only one supplier had been contacted even though additional suppliers were available in most cases. In a few cases, we were told that more than one quotation may have been obtained, the supplier may have been a sole source, or the institution may have gotten a special close-out price. However, none of these reasons were documented.

At New York, many of the procurements between \$501 and \$5,000 were for produce. From July 3 through August 24, 1978, the institution made seven produce purchases in excess of \$500 from the same vendor--all without obtaining competitive quotations.

Based on available records, Atlanta obtained reasonable competition in only 43 percent of its procurements in this category. The purchasing agent said, however, that he almost always obtained more than one quote but inmate clerks sometimes neglected to file them.

Ashland had only a few cases of inadequate competition. The purchasing agent explained that these few cases were undoubtedly due to the press of business at the end of September, when funds were being obligated before the end of the fiscal year.

At McNeil Island, only one legitimate quotation was obtained for each of 51 purchases, although other suppliers were available. The purchasing agent told us that he often relied on the cost center managers to provide the name of the supplier and the price quotation on the purchase request. Some of the purchase requests which indicated that more than one supplier had been contacted gave a false impression of competition.

--Only one of three companies contacted for the purchase of power poles provided a quotation. The other two firms were pole-line contractors, not pole suppliers.

--Only three firms were contacted for price quotations on eight purchases of cement. One firm never responded, and the second always bid 30 percent higher than the third.

--In purchasing sand and gravel, two of the three firms contacted always bid at least twice as high as the lowest bidder.

The institutions were, however, generally obtaining enough price quotations for purchases costing \$500 or less and those exceeding \$5,000. There were two significant exceptions at McNeil Island. One involved an \$8,750 procurement of hay based on oral quotations obtained by the farm manager instead of written quotations obtained by the purchasing agent. The other involved two procurements of meat, each totaling over \$10,000, which should have been formally advertised.

The FPR requires written quotations for specified types of purchases under \$5,000, such as when the suppliers are outside the vicinity or when the procurement involves specialized specifications. At McNeil Island, oral price quotations were obtained for 16 purchases instead of the written quotations required by the FPR.

Few purchases were made from minority firms

Most of the institutions' small purchases were obtained locally from small businesses, but few were made from minority firms. The purchasing agents in most of the institutions did not have a list of small and minority firms in their trade areas.

Institutions did not publicize proposed small purchases

Generally, the institutions publicized proposed small purchases by calling one or two vendors when they wanted to make a purchase. The only exception occurred in January 1978 when the Atlanta purchasing agent submitted a form to the Small Business Administration describing the types of goods and services needed by the institution. However, the FPR requires procuring activities to ensure that proposed small purchases are publicized as much as possible. Such publicity includes (1) posting proposed procurements in public places, (2) listing them in the local mass media, (3) assisting local trade associations to inform their members, and (4) publishing

a synopsis of all proposed procurements of over \$5,000 in the Commerce Business Daily.

Imprest funds were generally used properly

Imprest funds were generally used for proper transactions and within established dollar limitations. The few exceptions included payments for inmate furloughs and shopping trips and purchase of produce. On March 28, 1979, however, Bureau cashiers were granted an exception by Treasury for inmate emergency furloughs. At Englewood, a purchase request for a camera and lens costing over \$150 was improperly split into two cash purchases to avoid the \$150 limitation on imprest fund transactions.

A surprise cash count of the imprest funds at all five institutions was conducted on November 6, 1978. Except for a small shortage at Ashland, they were all in order.

Blanket purchase arrangements inadequately controlled at two institutions

Blanket purchase arrangements at McNeil Island and Englewood were used inappropriately. At Englewood, the monthly purchase limitations for five of the arrangements were exceeded 14 times in amounts ranging from \$47 to \$2,829.

The FPR provides that individual purchases under a blanket purchase arrangement must not exceed \$5,000 and that the arrangements should not be used to avoid the \$10,000 small purchase limitation. In April 1978, two orders for building steel were made under the same blanket purchase arrangement at McNeil Island--one for \$5,700 and another for \$4,700, for a total of \$10,400. McNeil Island also purchased nearly \$24,000 worth of paint under a blanket purchase arrangement. Many of the purchases were for large orders of a few items. In 1 month, for example, \$4,141 worth of white latex semigloss paint was ordered. The paint should have been purchased from Government supply sources.

The FPR also provides that blanket purchase arrangements be established with local firms from whom numerous individual purchases will likely be made in a given period. McNeil Island had one arrangement involving total purchases during fiscal year 1978 of \$27 and another with a total of \$250 for the year.

CHAPTER 4

INADEQUATE INTERNAL CONTROLS

The institutions reviewed did not maintain adequate internal controls over procurement. Thus, employees were able to procure unneeded items and to use improper procurement methods. The Bureau had little assurance that it was obtaining goods and services which were the most advantageous in terms of price, quantity, quality, and other pertinent factors.

The Bureau has an internal management control system for procurement which is composed of an organization, policies, and procedures designed to promote efficient and economical operation of institutions. The system is meant to restrict the costs of goods and services to only those which are necessary and adequate for the institutions and to safeguard assets against waste, loss, and improper or unwarranted use.

The institutions, however, had not fully implemented the Bureau's control system because they were not properly

- planning, supervising, and reviewing procurement activities to ensure adequate staff performance;
- maintaining segregation of duties and functions to minimize unauthorized acts; and
- holding officials and employees fully accountable for their actions.

In addition, the Bureau's control system contained some inadequate procedures.

INADEQUATE PROCUREMENT PLANNING, SUPERVISION, AND REVIEW

Institution managers were not adequately planning, supervising, and reviewing procurements to ensure proper performance by the staff. Examples follow.

- Inadequate planning allowed managers to avoid listing the items they wanted to purchase and hampered the Bureau's ability to adequately review the procurement actions taken.

--Inadequate supervision allowed cost center managers to purchase unneeded items.

--Inadequate review allowed the problems we identified to go unnoticed by the Bureau.

Inadequate planning

None of the institutions had implemented the Bureau's system of forward planning well enough for it to be used as an internal control mechanism. Procurement planning can provide internal control by forcing managers to justify their needs before procurements are made. It also allows adequate review of the procurement actions to determine if they were in the Government's best interest.

The lack of documentation allowed cost center managers to procure items the institutions did not need at the time procured and to charge specific projects for material used elsewhere. The Bureau worsened the situation by providing large sums of S&E funds to its institutions during the last 2 weeks of the fiscal year. On May 15, 1979, however, the Bureau revised its policies to establish criteria for year-end procurements. The revision states that it is the Bureau's policy to adhere to the following guidelines:

"--Obligations for the fourth quarter of the fiscal year will not exceed obligations for the third quarter, except where a higher level is fully justified to carry out a seasonal requirement or an essential program.

--Procurement actions will not be taken on purchase requests between September 15 and the end of the fiscal year unless it meets one of the following criteria:

.the request covers materials, supplies, equipment or service for which there is an immediate need;

.the request covers item/s that can be ordered, received and placed in use prior to the end of the fiscal year.

--Purchases for inventory will be managed so that active inventories are maintained at no higher than normal levels.

--Additional purchase orders and contracts for goods or services for delivery extending into the next fiscal year may be entered into in cases that provide a comparative cost advantage to the Government."

Management should be in a position to easily compare actual procurements with planned procurements. The lack of documented needs makes it difficult for management to review procurement actions and determine compliance with laws, regulations, and Bureau policies and identify illegal or unauthorized transactions.

Inadequate supervision and review

The performance of all procurement duties and functions were not properly supervised and reviewed in accordance with Bureau policies and the FPR. The institutions did not subject the procurement function to adequate review under an effective internal audit program to determine whether

- performance was effective, efficient, and economical;
- compliance with applicable laws and prescribed regulations was assured; and
- unauthorized, fraudulent, or otherwise irregular transactions or activities were prevented or discovered.

The FPR requires that each agency maintain a procurement management review program for continually examining the effectiveness and efficiency of its formal advertising procurement operations. Specific attention is to be given the

- content and form of solicitations,
- distribution of solicitations,
- mailing lists of bidders,
- review and evaluation of bids received,
- response rates,

--personnel training, and

--any other items which affect meaningful competition and the overall efficiency and economy of formal advertising.

The Bureau has promulgated a program of internal audits at its institutions to insure day-to-day supervision over performance and provide a means for institutions to correct their errors. The Bureau does not require that every area of institutional operation be audited each year, only those selected by the Regional Comptroller and the institution business manager. These audits must be conducted with the same intensity as those of external auditors, according to Bureau policies. Guidelines exist for examining procurement planning and execution, as discussed in this report.

McNeil Island conducted a 3-day internal audit in June 1978 which did not identify most of the procurement problems we found at the institution. One reason was that the audit did not go beyond determining if documents were properly completed and signed. It did not reveal the fact that (1) procurement and receiving documents were often completed and signed after purchases had been made, (2) unneeded items were purchased, and (3) incorrect procurement methods were used. Our examination of reports at the other four institutions indicated the same kind of problem.

INADEQUATE SEGREGATION OF DUTIES

The institutions did not assure complete segregation of responsibility for requesting, procuring, and receiving goods and services to

--provide proper internal checks on performance and

--minimize opportunities for unauthorized, fraudulent, or otherwise irregular transactions.

At McNeil Island and New York, the purchasing agents merely handled the paperwork, sometimes before the procurements and sometimes afterwards. Cost center managers at McNeil Island indicated the suppliers they wanted on their purchase requests, and the purchasing agents ordered the goods from those suppliers. In New York, employees simply called suppliers on the phone and ordered and received what they wanted. The business office learned about these purchases when they received invoices from the suppliers.

All of the institutions allowed their hospital administrators to prepare their own purchase orders, which were then "authorized" by the purchasing agents. We were told that this was due to the technical nature of the items being purchased. However, the items should have been listed on purchase requests and the purchasing agents should have selected the suppliers.

Bureau policy is that receiving clerks receive all goods obtained by an institution. All five institutions allowed employees to directly obtain goods picked up in town or received in the mail and did not normally have the clerk present when medical supplies were received at the hospital. McNeil Island and New York had significant problems with goods being received by employees other than the clerks.

For example:

--Feed grains ordered by the farm manager from a supplier he selected were delivered to McNeil Island on November 15, 1978, and received by the farm manager. When the invoice was received in December, the farm manager prepared a memorandum of receipt at the cashier's request. The receiving clerk then prepared an official report dated December 28, 1978.

--A Bureau audit at New York in April 1978 had found that unauthorized procurements resulted from preparing purchase requests after items had been purchased.

LACK OF ACCOUNTABILITY

One of the most important standards for internal management control is that each official and employee must be held fully accountable for the faithful, honest, and efficient discharge of duties, including compliance with requirements of law, regulations, and Bureau policies applicable to his or her conduct and performance. The results of this review indicate that officials and employees are not fully aware of their assigned responsibilities and do not understand the nature and consequences of their performance.

INADEQUATE PROCEDURES

The Bureau's purchasing and receiving procedures do not assure adequate internal control. The Bureau also does not require that all bids be dated and stamped to assure that they were received before the bid submission deadline.

Purchase requests, purchase orders, and receiving reports are not prenumbered, and safeguarded and voided documents are not retained. At Ashland, we found three purchase order numbers used twice each for totally separate procurements. At New York, we could not examine voided purchase orders to confirm that the items had not been procured. In June 1976, over \$26,000 was paid for goods not received at McNeil Island because an inmate was able to obtain a receiving report, fill it in, and get the receiving clerk to sign it.

CHAPTER 5

SCOPE OF AUDIT

We conducted an audit of procurement activities at five Bureau institutions to evaluate how well they planned and conducted the procurement of goods and services and maintained internal control over the procurement function. Our audit was primarily concerned with activities during fiscal year 1978. We examined each institution's procurement activities in terms of the reasonableness and appropriateness of its actions and its compliance with Bureau policies, Federal Procurement Regulations, and Federal Property Management Regulations.

The five institutions selected for the audit were

- Federal Correctional Institution, Ashland, Ky.; *DLG 02624*
- ✓ --U.S. Penitentiary, Atlanta, Ga.; *AGC 00015*
- Federal Correctional Institution, Englewood, Co.; *DLG 02625*
- U.S. Penitentiary, McNeil Island, Wa.; and *DLB 02626*
- Metropolitan Correctional Center, New York, N.Y. *DLG 02627*

These five institutions accounted for 18 percent of the Bureau's average daily population and 10 percent of its procurement of goods and services in fiscal year 1978.

We reviewed (1) control documents for certain maintenance and repair projects, (2) purchase requests, purchase orders, receiving reports, and vouchers for purchases made during the last 2 months of fiscal year 1978, (3) the latest inventory reports, (4) all blanket purchase agreements for fiscal year 1978, and (5) certain contract files. We also conducted unannounced on-hand inventories of warehoused food and materials and the tool rooms.

We examined (1) financial reports, (2) budget requirement forms, (3) inventory records, (4) Bureau and institution policy statements, (5) material lists, (6) drawings, (7) major work orders and estimates, (8) construction progress reports, (9) Work Programming Subcommittee minutes, and (10) allotment advices. In certain cases we reviewed the records of procurements made in fiscal year 1977. We also held discussions with the appropriate institution staff members.

The wardens were provided with statements of findings for their respective institutions. Their comments were considered in preparing this interim report.

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