



June 29, 2000

MEMORANDUM FOR MS. ALEXIS STOWE, PARTNER
LEON SNEAD AND COMPANY, P.C.

SUBJECT: Status of ARC Reviews

1. *Report 00-7(H), Audit of Purchasing of Goods and Services.*

Suggested revised language with respect to tonal quality is noted on pages 12 and 14 of the final draft report. The report should be issued when the noted comments are addressed.

It appears the ARC comment that is noted as not being understood on page 14 refers to the sentence on page 13 dealing with procurement personnel, not the customer, contracting vendors. While this is a good overall practice, there could be times when the customer, especially in a small agency, has more expertise about a particular need or product; and occasional direct contact may be useful.

2. *Draft Report on Grant WV-12696-97, Randolph County Development Authority.*

The Report No. is 00-40(H). The draft report can be issued for comment.

3. *Draft Report on Grant WV-11311, Region VII, Planning and Development Commission, (Mountaineer Food Bank).*

The Report No. is 00-41(H). The draft report can be issued for comment.

4. *Report 00-9(H), Export Initiative, Tri-County Council for Greater Maryland.*

Prepare the report for issuance in final based on the information available. For information, the Executive Director of the Tri-County Council resigned recently.


5. *Reports 00-6(H) and 00-25(H), North Carolina Department of Administration and Virginia Department of Housing and Community Development.*

Since the auditees' comments to the draft reports have been received, I would like these reports to be finalized as soon as possible rather than wait until August.

6. *Grant WV-12301, International Development Unit, West Virginia Development Office.*

The Report No. is 00-45(H). The initial draft report should be completed and forwarded to the grantee, if necessary.

7. Work on the remaining grants can be scheduled in August and September based on available funding. We will prioritize the work based on funds available at that time.


Hubert N. Sparks
Inspector General

Enclosure



April 11, 2000

FACSIMILE FOR MS. ALEXIS STOWE, VICE PRESIDENT
LEON SNEAD AND COMPANY, P.C.

SUBJECT: OIG Report 00-7(H), Purchasing of Goods and Services

One point I am not sure I previously mentioned to Ed pertains to the section dealing with the General Counsel on top of page 10 of the draft. There was some sensitivity noted by management because this issue had not been discussed with the General Counsel.

The General Counsel believed his review concluded that the procurement method was acceptable. Rather than get into a post-debate, I would eliminate reference to the General Counsel by noting the condition—e.g., “We noted several instances where sole source awards were made to existing vendors by either broadening the contract scope or lengthening the contractual period, including instances where sole source justifications stated that ARC could have solicited requests for proposals from several firms. We discussed our findings in this area with the ARC Director of Finance and Administration who provided plausible reasons for making the awards to the selected vendors.”

On the recommendations for sole source purchases, I would eliminate the section dealing with the General Counsel; and, if appropriate in view of the nonspecific response, add that improved documentation justifying sole source procurements also appeared necessary.

Although the review and approval process is a legitimate issue and we will further discuss this with the General Counsel, I would rather finalize the report without revisiting this particular issue.

I did not have a chance, as yet, to compare the other findings with the response, so I would appreciate a copy of the final draft before issuance.


Hubert N. Sparks
Inspector General

Final Independent Accountant's Report
on
Applying Agreed Upon Procedures on Purchasing
of Goods and Services by the
Appalachian Regional Commission

Submitted to the
OFFICE OF INSPECTOR GENERAL
OF THE
APPALACHIAN REGIONAL COMMISSION

Report No. 00-7 (H)

October 28, 1999

TABLE OF CONTENTS

Objective	1
Background	1
Scope and Methodology	2
Results.....	5
1. Documentation.....	6
a) Documentation of Purchase Transactions.....	6
b) Documentation of Receiving Goods.....	7
c) Documentation of Competition	8
2. Utilization of Small and Minority-Owned Business Source.....	9
3. Sole Source Purchases	10
4. Purchase Approval Authority	12
5. Procurement of Best Value Goods.....	13
6. Written procedures for purchasing of goods and services	15
Conclusion	16
Distribution	16
Management's Comments	17

**FINAL INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES ON PURCHASING OF
GOODS AND SERVICES BY THE
APPALACHIAN REGIONAL COMMISSION**

To the Inspector General of the Appalachian Regional Commission:

OBJECTIVES

The objectives of the agreed –upon procedures were to evaluate whether the purchasing of goods and services were (1) in accordance with guidelines and applicable procedures, (2) solicited and processed in a manner advantageous to Appalachian Regional Commission (ARC), and (3) subject to sufficient controls.

BACKGROUND

The *ARC Financial Management Guidelines*, dated September 1997, identify the applicable policies and procedures to be used for the purchasing or leasing of goods and services to satisfy ARC requirements. Previously, specific procedures for the use of Government credit cards were contained in a memorandum entitled *Revised Procedures for the IMPAC Visa Card*, dated October 16, 1995.

Although ARC is technically not subject to the Federal Acquisition Regulations (FAR), the ARC considers the prescriptions of the FAR in adopting, reviewing, and interpreting its procurement policy.

Within ARC, approval authorities rest with the:

- Executive Director or designee -- over \$25,000
- Director of Finance and Administration or his alternate -- single acquisitions of \$25,000 or less
- Division Directors -- \$250 or less, except for furniture and equipment

Contracting Officers (Director of Finance and Administration, Financial Manager, and Program Budget Analyst) have primary responsibilities to execute purchase orders or other agreements in accordance with the ARC guidelines. In addition, designated Government credit card holders are appointed as Contracting Officers for credit card purchases.

Most ARC procurements are for under \$100,000. Such procurements fall within the GSA range for simplified acquisition procedures. Purchase requests must be presented in writing and approved by the appropriate Approving Official. The Contracting Officer then selects the most efficient and economical small acquisition procedure.

Large purchases (those over \$100,000) normally require a written contract prepared by the Office of the General Counsel and signed by the Executive Director or his designee (General Counsel).

A primary responsibility of Contracting Officers is to ensure that purchases are reasonably competitive and advantageous to ARC. The solicitation methodologies are noted in the *ARC Financial Management Guidelines*.

SCOPE AND METHODOLOGY

We have performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating purchasing of goods and services by the ARC. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of our agreed-upon procedures was limited to the procedures enumerated in the following paragraphs. We conducted our fieldwork at ARC Headquarters in Washington, D.C. from August 5 through October 28, 1999. The audit was performed in accordance with *Government Auditing Standards*, 1994 Revision, as amended; the *ARC Code*, Revised October 1996; and the *ARC Financial Management Guidelines*, dated September 1997. We considered the memorandum entitled *Revised Procedures for the IMPAC Visa Card* when performing our audit.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the ARC. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The survey was limited to sampling ten of the largest (between \$8,076 and \$70,000) purchases the ARC made using purchase orders or purchase agreements; reviewing 21 credit card purchase transactions; discussing the process and internal controls with respect to purchases with applicable ARC staff (Director of Finance and Administration, Financial Manager, Program Budget Analyst, etc.) as appropriate; verifying the physical existence and location of purchased equipment; reviewing established procedures for disposing of excess or surplus property; and reviewing ARC efforts to utilize small and minority-owned business sources of supplies and services. The samples were selected to include purchases made by each ARC credit card holder and as many different Contracting Officers as possible.

Specifically, we performed the following procedures:

- We discussed the purchasing process and internal controls with ARC officials.
- We selected ten of the largest purchases made by ARC between July 1, 1998 and June 30, 1999 and performed the procedures necessary to determine that:
 1. Procurement was made in accordance with awardee's normal procedures, and appropriate supporting documentation was maintained.
 2. Items charged to the program were utilized under the program.
 3. Items were acquired through appropriate use of competitive purchasing techniques, and the costs reflect actual price after cash discounts or other credits.
 4. Purchases adhered to procurement regulations and contract limitations.
 5. Appropriate approvals under the terms and conditions of the award were obtained for the purchase of capital equipment.
 6. Verification of physical existence and location of equipment items purchased under the award can be made of those items selectively sampled from property records.
 7. ARC has established procedures for disposing of excess property and has provided for the proper credit when property is traded or sold.
 8. Invoices for goods were supported by receiving reports, which were signed and dated by the person receiving the goods or approved by a responsible official.
- We reviewed the documentary support for 3 credit card purchases made by each of the 7 ARC employees who made purchases using Government credit cards during the period January through June, 1999. The largest credit card purchase made each month by each of these 3 employees for 3 different and generally nonconsecutive months, or a total of 21 credit card purchases, were reviewed. We reviewed these credit card purchases for compliance with ARC procedures related to:
 1. Eligibility of purchases.
 2. Compliance with ARC purchase procedures, e.g., soliciting.
 3. Conformance with spending limits.
 4. Security of cards.

4. Security of cards.
 5. Purchase from small business (FAR 13.105).
 6. Cardholder purchase logs.
 7. Approved requisition form.
 8. Verification of bank statements.
 9. Timeliness of approval and forwarding for payment.
 10. Telephone ordering.
 11. Receipt and control of purchase.
 12. Follow-up on returns or disputes.
 13. Avoidance of sales tax.
- We determined and evaluated the adequacy of the efforts made by ARC Contracting Officers and users of Government credit cards to utilize small business and minority-owned business sources of supplies and services.
 - We determined if property records were being maintained on capitalized items and examined several items of recently purchased computer equipment to determine if the items were tagged with ARC property tags and were listed in ARC property records.
 - We performed additional reviews and evaluations, as necessary, of the sampled items to test controls in the following areas:
 1. Documentation of each purchase transaction was sufficiently complete to ensure that goods and services received correspond with orders placed and expenditures made.
 2. Procurement actions followed a procedure to ensure the avoidance of purchasing unnecessary or duplicative items.
 3. Solicitation for goods and services were based upon a clear and accurate description of the technical requirements for the material, product, or service to be procured.
 4. Positive efforts were made by the recipients to utilize small business and minority-owned business sources of supplies and services.

5. The type of procurement instrument was appropriate for the particular procurement and for promoting the best interest of the program involved.
6. A system for contract administration was maintained to ensure contractor conformance with terms, conditions, and a specifications of the contract and to ensure adequate and timely followup of all purchases.
7. Solicitation guidelines were followed on purchases of \$2,500 to \$25,000 (three oral or electronic bids) and over \$25,000 (three written bids).
8. Sole-source purchases were adequately justified.
9. Purchases over \$100,000 were supported by necessary written contracts and approvals.
10. Property records were maintained, as required, with respect to equipment costing in excess of \$10,000.
11. Documentation of purchase transactions was sufficiently complete to ensure that goods or services received corresponded with orders placed and expenditures made.

RESULTS

Our agreed-upon procedures did not disclose any exceptions in the following areas:

- Procedures used to prevent purchasing unnecessary or duplicative items.
- The type of procuring instruments used.
- The system used to ensure contractor performance and to ensure follow-up of all purchases, although not documented in writing.
- Property records maintained for fixed assets.
- Larger dollar value purchase transaction documentation.
- The procurements tested in accordance with the awardees normal procedures.
- Items properly charged to their respective programs.
- Prices net of any discounts or credits.
- Procurement regulations and contract limitations.
- Approvals.
- Purchased capitalized assets able to be located.
- Excess property disposed of using the GSA property disposal system.
- Eligibility of purchases and conformance with spending limits.
- Security of Government credit cards.
- Use of requisition forms or requisition letters.
- Verification of bank statements.
- Timeliness of approvals and forwarding vendor invoices for payment.
- Telephone ordering

- Receipt and control of purchases.
- Follow-up on returns and disputes.
- Avoidance of sales tax.

We noted the following exceptions:

1) *Documentation*

a) *Documentation of Purchase Transactions*

Conditions

Documentation supporting each purchase or credit card payment transaction reviewed was generally diffused throughout ARC rather than being kept in one centralized file. For example, credit card statement payment packages often did not contain copies of "Request For Equipment And Supplies" forms or other requisition letters, copies of supporting vendor invoices, or receiving report information. This documentation was generally filed separately, but was retrievable.

Criteria

The aim of ARC financial management is to maintain systems of control and accounting that will provide: (1) effective control over funds and assets, with reasonable safeguards against waste, fraud, and abuse; (2) full disclosure of the financial results of the agency; and (3) adequate financial information for agency management purposes.

Discussion

All records or receipts of each completed purchase transaction must be forwarded to the appropriate ARC Approving Official for review and approval. The aims of ARC financial management can best be achieved by filing the records of each purchase transaction together after the transaction has been approved.

Recommendation

ARC Management should assure that all records or receipts supporting each purchase transaction are filed together to facilitate review, approval, and retrieval of these documents from ARC files.

Management's Comments

The auditor notes that backup documentation for credit card transactions should be kept in one place. Staff agrees there is room for improvement, particularly with accounts of the Federal and States' Offices that are not under the control of the Executive Director. The situation has been reviewed with them and we have seen improvement. However, since those units are autonomous, payments are made based primarily on the basis of certifications of those respective Approving Offices. They have responsibility for maintaining appropriate backup. For general commission operations, steps have been taken to tighten record keeping requirements, including reviews of cardholder responsibilities for documentation and need for confirmations of telephone orders.

Accountant's Response

Noted.

b) Documentation of Receiving Goods

Condition

Documentation of receipt of goods needs improvement.

Criteria

Neither the *ARC Revised Procedures for the IMPAC Visa Card* nor the *ARC Financial Management Guidelines* contain specific procedures that persons receiving goods or services must follow. However, the "Purchase Card Ordering Log" form in the *Revised Procedures* contains columns entitled "Date Recd" and "Serial Number". Essentially, sound management practice dictates that invoices for goods or services should be supported by receiving reports, which were signed and dated by the person receiving the goods or services or approved in writing by a responsible official.

Discussion

The "Purchase Card Ordering log" form is not used. Per our discussion with the ARC Director of Finance and Administration, ARC does not use receiving reports. Goods are delivered to the ARC addressee shown on the supporting Purchase Order. ARC leaves it up to the addressee to inventory the items received, inspect them for possible damage, and notify the appropriate official of any exceptions noted with the received items. Per the Director, the receivers of goods generally acknowledge receipt by signing or initialing the vendor invoice.

Recommendations

ARC should require that all invoices for goods and services be supported by a document which is signed and dated by the person receiving the goods or approved by a responsible official. This document should contain a description of the item received, show the quantity received and the date received, and be signed by the person who accepted delivery of the goods or services.

Management's Comments

The auditor recommends use of a receiving report accompanying all invoices. Management is aware that federal agencies typically use receiving forms. However, ARC is a tiny flat organization with a high degree of communication among staff and a relatively high level of visibility within the procurement process. We do not believe that use of additional forms is warranted on the basis of cost and labor required. In general we continue to find that the need for certification of inspection and receipt by a purchaser or end user, as appropriate, is adequately met by an initialed certification on the shipping label or invoice. This procedure will be further clarified in future policy to assure this happens with all goods centrally received and with less frequent purchases of goods and services that are not centrally received.

Accountant's Response

Noted.

c) Documentation of Competition

Condition

The larger item purchases and credit card payment packages which supported the purchase of goods or services did not contain documentation showing that written, oral, or competitive bids were obtained for the items purchased or the services contracted for. Operating personnel told us that competitive bids or price quotes were being obtained. However, documentary evidence showing that these competitive bids or price quotes were actually obtained was not included in the purchasing documentation we were given to review. Overall, compliance with ARC purchase solicitation procedures should be adequately documented.

Criteria

Contracting Officers are responsible for determining that purchases are reasonably competitive and advantageous to the ARC. Oral or electronic solicitations of 3 or more potential vendors should be made in the case of acquisitions between \$2,500 and \$25,000. Price quotations may be taken from standing price lists, catalogs, or sale ads if they are current. Written bids from 3 or more potential vendors, based

upon written solicitations incorporating ARC specifications, must be obtained for purchases over \$25,000. Informal records should be kept of oral bids, and documentation of any written solicitations should be retained.

Recommendations

Contracting Officers and users of Government credit cards should document all oral, electronic, or written solicitations of actual or potential vendors and incorporate a copy of this documentation into the procurement history file.

Management's Comments

The auditor found documentation of competition inadequate. Management has a high degree of confidence that the ARC obtains good value in its purchases because of the experience and technical knowledge of staff involved in larger procurements as well as the newer technologies permitting competitive price comparisons. However, management also appreciates the suggestion for better documentation of the process. The Financial Management Guidelines will be modified to clarify documentation requirements for acquisitions over \$2,500.

Accountant's Response

Noted.

2) Utilization of Small and Minority-Owned Business Sources

Condition

We found that ARC does not have a listing of small business and minority-owned businesses sources of supplies and services. ARC also does not require a certain dollar amount, or percentage, of its procurements to be made from small or minority-owned business sources.

Criteria

Mandatory set-asides are not required due to the nature and relatively small scope of ARC purchasing. However, ARC intends to provide maximum practical opportunity for small, women and minority-owned businesses to compete for ARC purchases. Contracting Officers are encouraged to include such businesses equitably in solicitations whenever possible, especially for purchases over \$2,500.

Discussion

Operating personnel stated they try to make awards to small and minority-owned businesses to the maximum extent practical. However, their ability to make

awards to such businesses is limited because they do not have a resource listing of Small Business or Minority-Owned Businesses which can provide the types of goods or services ARC requires. Listings of small business and minority-owned business sources of supplies and services are available from Federal, State, or local entities which administer programs aimed to benefit small business or minority-owned business entities.

Recommendation

We suggest ARC procurement personnel contact Federal, State, or local entities that administer programs aimed to benefit small business or minority-owned business entities and obtain listings of small and minority-owned business sources of materials, supplies or services.

Management's Comments

As noted in Commissions Guidelines, virtually all ARC procurement is small and budgets do not provide latitude for set-asides. In addition, small businesses are increasingly non-competitive on price and service in areas where ARC has a relatively high volume of procurements, such as office and ADP supplies. Many other purchases are not discretionary, as in telephone service and service contracts with factory authorized representatives. In the few areas of ARC procurement where small businesses successfully compete, such as publication-related services, ARC does use small firms when possible. The auditor recommended that ARC obtain lists of small and minority-owned businesses from other government entities, and we will do so.

Accountant's Response

Noted.

3) *Sole Source Purchases*

Condition

We noted sole source awards made for types of services such as printing services, photography work, etc., which would generally be available from a number of different vendors. Additionally, some "sole source" awards were made to existing vendors by either expanding the scope of the current procurement or by lengthening the procurement period. Such purchases should have been treated as new procurements.

Criteria

ARC should procure goods and services through a competitive selection process among qualified offerors. Urgency or other unusual circumstances may warrant

sole source acquisitions on rare occasions where solicitation would otherwise be necessary.

Discussion

Materials, supplies, or services should only be solicited from a single source in cases of urgency or unusual circumstances or where only one vendor can supply the required goods or services. An example of this would be replacement parts for equipment where there are no after market vendors of parts, supplies, or services for the equipment other than the original equipment manufacturer. Sole source awards should not be made for services such as printing services, photography work, etc., which would generally be available from a number of different vendors. Purchases of these types of items should be treated as competitive procurements.

Additionally, "sole source" awards should not be made to existing vendors by either expanding the scope of the current procurement or by lengthening the procurement period. Expanding the scope of the current procurement or lengthening the period of performance should be treated as a new procurement action. This should not be construed as meaning that follow-on procurements should not be made from current vendors, only that proposals should be solicited from several (generally, from at least three) vendors if other vendors are available.

We noted several instances where "sole source" awards were made to existing vendors by either broadening the contract scope or lengthening the contractual period, including instances where sole source justifications stated that ARC could have solicited requests for proposals from several firms. We discussed our findings in this area with the ARC Director of Finance and Administration. He provided plausible reasons for making the awards to the vendors selected.

We do not question the awards made, but would like to point out that it is sound business practice to solicit bids from multiple sources, where multiple sources are available. Doing so provides assurance to ARC that conditions have not changed since the initial procurement and that the current vendor's prices are still competitively reasonable. It also helps protect ARC from complaints that ARC is showing favoritism towards certain vendors. We also noted that improved documentation justifying sole source procurements also appeared necessary.

Recommendations

Sole source procurements should only be used in cases of urgency or where other unusual circumstances may warrant sole source acquisitions. Procurements should not be treated as being sole source where ARC could have solicited requests for proposals from several firms, or where the award extended either the scope of work or the period of performance on an existing ARC contract.

Management's Comments

As the auditor noted, ARC has plausible reasons for its rare sole source acquisitions. We will continue to act with due consideration when a sole source acquisition is warranted.

Accountant's Response

Per our review, the use of sole source acquisitions was not a rare occurrence.

4) *Purchase Approval Authority*

Condition

We noted one instance during our review of 10 larger dollar purchases where the dollar amount of funds expended (\$8,076) exceeded the authorized expenditure amount (\$7,183). There was no documentary evidence that the buyer obtained appropriate approval for this \$893 in additional costs.

Criteria

The Director of Finance and Administration or his designated alternate is authorized to approve single acquisitions of \$25,000 or less. The buyer must obtain additional advance approval from the Director or his alternate before purchasing items which exceed previously authorized expenditure amounts.

Discussion

ARC allows the Director of Finance and Administration or his designated alternate to approve single acquisitions of \$25,000 or less. The Director's approval range is generally used for items costing over \$250 but not more than \$25,000. We reviewed 6 single acquisitions ranging from \$8076 to \$17,100 which received Director approval. Approvals for five of these acquisitions were proper. The Director approved the sixth acquisition for \$7,183. The final cost of the acquired item was \$8,076. The Administrative Service Officer approved this \$893 price increase for payment. We were told that Contracting Officers have been given the latitude to exceed the approved acquisition amount by up to 10%. In this instance the approved amount was exceeded by about 12.4%. The Administrative Service Officer should have gotten the Director's approval for the increased dollar amount.

Recommendation

ARC procurement personnel should be reminded that they must obtain additional advance approval from the Director or his alternate before purchasing items which exceed previously authorized expenditure amounts.

Management's Comments

The auditor identified an isolated exception where an officer made a purchase \$85 in excess of her discretionary authority on a purchase of \$8,076. While this was a technical violation of the Guidelines, management commends the employee for her initiative under the circumstances. She was directed to undertake a critical Y2K conversion project on the Commission PBX system. The Director certified the expenditure after the fact. In the course of the project, the Officer in question saved the Commission a substantial amount off the original acquisition price on this purchase.

Accountant's Response

We recognize the circumstances noted but also believe technical violations of the ARC Guidelines should be avoided. Also as stated in the discussion paragraph above, the purchase questioned (\$8,076) exceeded the officer's discretionary authority by \$175 ($7183 + 10\% = 7901$ from 8076), not by \$85 as stated in the Management's Comments above.

5) *Procurement of best value goods*

Condition

The "Request For Equipment And Supplies" forms, or requisition request letters, generally contained the name of the preferred vendor and the specific brand or model of item wanted. Items were being requested by brand name or model rather than by a clear and accurate description of the technical requirements for the material, product, or service needed. Requisitioning items based upon the technical requirements for the material, product, or service rather than by brand name often results in lower costs.

Criteria

Although ARC is technically not subject to the Federal Acquisition Regulations (FAR), the ARC considers the prescriptions of the FAR in adopting, reviewing, and interpreting its procurement policy. The FAR requires that all solicitations for goods and services be based upon a clear and accurate description of the technical requirements for the material, product, or service to be procured. The FAR prohibits ordering goods or services by brand name and preferred vendor. Solicitations specifying items by brand name must also contain the words "or equivalent." Oral, electronic, or written bids must also be solicited from an appropriate number of (generally at least three) qualified vendors unless the procurement qualifies as a sole source procurement.

Discussion

We found the ARC "Request for Equipment and Supplies" forms, or requisition letters, generally contained the name of the preferred vendor and the brand name, model, and price of the item or service wanted. It appeared that ARC's customers, not ARC procurement personnel, were deciding what to buy and from whom. Customers do not have the legal authority to contract on ARC's behalf. The ARC customer should provide ARC procurement personnel with a clear and accurate description of the material, product, or service needed. Procurement personnel should then contact an appropriate number of vendors who can provide the goods or services which meet the customer's technical specifications or requirements. Procurement personnel may also be able to obtain better prices, terms, or quality products or services from vendors by combining customer orders for similar items into one solicitation to take advantage of price breaks based on either quantity purchases or on higher dollar volume purchases.

Recommendations

Purchases of goods or services should be made only by authorized purchasing activity personnel who should order goods and services based upon clear and accurate descriptions of the technical requirements for the material, product or service rather than solely by brand name, model number, or vendor stock number.

Management's Comments

The auditor concludes that because requisitions often include the name of a vendor that competition is precluded. Purchasing agents are aware that they are responsible for determining that purchase is reasonable, regardless of the vendor a requisitioner may have checked. In addition, in ARC's setting, a requisition form is often downstream from competitive pricing. For example, the LAN manager typically works with program staff to identify specifications for a needed printer; he may follow up with identifying several brands and prices with recommendations. The requisition results from this process. ARC is aware that in much larger government organizations there is only a thin paper link (the specification statement) between program and purchasing staff. That process is notoriously expensive, inefficient, and unresponsive. In the ARC environment, program and purchasing people have to be partners. Management further disagrees that purchasing agents' responsibility to make well-founded decisions precludes any discussions between potential vendors and end users, who often may be the most qualified persons to assess the agency's technical requirements.

Accountant's Response

There may be times when the customer has more expertise about a particular need or product, and occasional direct contact of vendors by customers may be useful. However, we continue to believe that our recommendation is appropriate.

6) *Written procedures for purchasing of goods and services.*

Condition

ARC's written procedures for purchasing of goods and services are not adequate.

Criteria

Written procedures must be adequate to ensure that practices designed to achieve control objectives are clearly communicated.

Discussion

Per our discussions with the ARC Director of Finance and Administration, users of Government credit cards had been instructed to comply with the *Financial Management Guidelines*, rather than with the *Revised Procedures*. The *Financial Management Guidelines*, dated September 1997, were interpreted as being meant to replace and supersede the *Revised Procedures* requirements for the use of Government credit cards. Most of the exceptions described previously could have been prevented had Government credit card holders and Contracting Officers complied with the documentation requirements and procedures contained in the *Revised Procedures*. However, because the *Revised Procedures* are now over four years old they may require revision or updating.

Recommendations

The ARC should consider either updating the *Revised Procedures for the IMPAC Visa Card*, dated October 16, 1995 and making compliance with these procedures mandatory or else updating the *ARC Financial Management Guidelines* and incorporating the relevant internal controls and documentation procedures contained in the *Revised Procedures* into the updated *Financial Management Guidelines*.

Management's Comments

The purchasing card procedures have been simplified and redrafted. They will be incorporated in the next reissuance of the *Financial Management Guidelines*. It was appropriate not to overhaul the old policy until we had experience with the bank vendor and could determine whether the bank and Commerce Bankcard Center procedures would be significantly different than before. In some ways they are. For example, the current bank provides on-line real-time access to purchase card account detail.

Accountant's Response

Noted.

CONCLUSION

Based upon the agreed-upon procedures performed, except for our findings noted above in the areas of: (1) documentation; (2) utilization of small and minority-owned business sources; (3) sole source purchases; (4) purchase approval authority; (5) procurements of best value goods, and (6) written procedures for purchasing of goods and services, we found that ARC purchasing of goods and services were (1) in accordance with guidelines and applicable procedures, (2) solicited and processed in a manner advantageous to ARC, and (3) subject to sufficient controls.

DISTRIBUTION

This report is intended for the information and use of the Office of Inspector General and management of the Appalachian Regional Commission and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Snead & Company, P.C.
LEON SNEAD AND COMPANY, P.C.
October 28, 1999

MANAGEMENT'S COMMENTS