

**FCA's Supply and  
Procurement Functions**

**A00-01**

**Farm Credit Administration**

Office of Inspector General  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090  
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March 29, 2000

Michael M. Reyna, Chairman and  
Chief Executive Officer  
Farm Credit Administration  
McLean, Virginia

Dear Mr. Reyna:

The Office of Inspector General has completed an audit of the Procurement and Supply Activities at the Farm Credit Administration (FCA or Agency). The objectives of this audit were to evaluate the efficiency of FCA's procurement and supply activities and users' satisfaction with these services.

Our review found that staff are generally satisfied with the services provided; however costs to the Agency could be reduced without diminishing the service. OIG and management came to agreement on 12 actions that would improve the efficiency of both functions. Two proposals by OIG are stated as recommendations.

We conducted the review in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, programs, activities, and functions. Fieldwork was conducted from November 18, 1999 through December 23, 1999. An entrance conference was held on November 17. We provided an initial draft report to program officials on February 4, 2000. An exit conference was held with program officials on February 28, 2000 and a final draft report was provided to management for comment on March 1, 2000.

We thank the Director of the Human and Administrative Resources and his staff, as well as the participants in the credit card program and contracting process whom we surveyed, for their input. If you or your staff have any questions about this audit, we would be pleased to meet with you at your convenience.

Respectfully,

A handwritten signature in black ink, appearing to read 'Eldon W. Stoehr', is written over the word 'Respectfully,'.

Eldon W. Stoehr  
Inspector General

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## **BACKGROUND**

The Farm Credit Administration (FCA or Agency) is an independent Federal financial regulatory agency of the United States government with regulatory, examination and supervisory responsibilities over the Farm Credit System (FCS) banks, associations, and related institutions chartered under the Farm Credit Act of 1971, as amended.

The Administrative Services Branch (ASB) performs contracting and procurement services for the Agency. The Support Services Section of ASB is responsible for supply and mail distribution and administration as well as the Agency's supply room and receiving function, among other things. ASB is organized within the Human and Administrative Resources Division (HARD), Office of Resources Management (ORM). ASB staff consists of the branch chief, one contract specialist, one purchasing specialist, one support services supervisor, one supply technician, two mail clerks and one support services assistant (new position-unfilled). The supply technician is under the direct supervision of the support services supervisor and has primary control and responsibility over the supply room and receiving functions.

The FCA makes purchases under the guidelines set forth in the Federal Acquisition Regulations (FAR), Title 48, Code of Federal Regulations. The FAR contain uniform policies and procedures applicable to Federal agencies in buying personal property and nonpersonal services.

In 1989, the General Services Administration (GSA) contracted for the use of a commercial credit card service for government agencies to use for micropurchases (under \$2,500). In February of 1998, the FCA decentralized the authority to make micropurchases by issuing government credit cards and checks to staff throughout the Agency. As of November 1999, 36 employees take part in this buying program. These employees have delegated procurement authority for their respective offices up to \$2,500 per purchase. Payment for training, which previously needed the issuance of purchase orders by ASB, has also been decentralized to credit cardholders.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

The objectives of this audit were to evaluate FCA's procurement practices by performing an analysis of the number and size of contracting, small purchase, and supply room transactions and to measure operational effectiveness, efficiency and customer satisfaction with how these services are carried out. To perform the analysis of the procurement and supply transactions, we interviewed ORM staff and reviewed database records and procurement files. We also analyzed the cost-benefit relationships of the charges for salaries, benefits and space to the transactions performed by procurement personnel. We measured customer satisfaction through a standardized questionnaire sent to FCA and Farm Credit System Insurance Corporation employees having primary

responsibility for ordering supplies, services and equipment for their offices. We also reviewed ASB's customer survey results received from users of their services.

## **OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS**

### **Staff are generally satisfied with the services provided by both the supply room and procurement personnel.**

We sent thirty-two questionnaires to the most frequent users of these services. Twenty-nine responses were received. Results confirm general satisfaction with the accuracy, clarity, courtesy, timeliness, and responsiveness of individuals providing these services. Fourteen questionnaires were sent to staff involved in the formal contract process over the past three years. Respondents (six) ranked the procurement staff's performance as either generally or very good. Some respondents on small purchases noted the need for procurement staff to be more proactive by providing status and clarifying information on purchases without the requesting office having to initiate it. Staff also expressed the need for the supply room to either be open longer or ensure the supply technician is available during hours advertised as open for services. In addition, it was also noted that it would be more customer-friendly if the supply technician were physically located where he could see customers when they come to get supplies.

#### *Agreed Upon Action*

- 1. ASB will make changes to the procurement and supply functions to make them more user-friendly and service oriented.*

### **Costs can be reduced in the Agency's supply and procurement functions without diminishing services.**

The number of centralized purchases processed by ASB has decreased significantly over the past three years—from around 714 in fiscal year (FY) 1997 to approximately 429 in FY 99. Sixty-four percent of the purchases in FY 99 were made with a credit card. This total includes both small purchases (up to \$25,000) and those requiring more formal contracting methods (over \$25,000). ASB states that they have processed 513 transactions in FY 99; however, based on reports provided to us by ASB, we cannot confirm that number. Even though this volume averages around two transactions per working day, two full-time staff members and three others on a part-time basis are involved in this process. The total cost for salaries, benefits and office space for these individuals is roughly \$202,850, for FY 99 purchases.

Using the ASB's higher transaction number (513 versus 429), the cost per transaction for processing small purchases is approximately \$198. The cost to process formal contracts and interagency agreements is approximately \$2,149 per transaction.



We do not think purchasing should be contracted out because the Agency would still need a liaison with the contractor as well as someone to process credit card purchases over the micropurchase limit. However, we think that one employee could perform all the current centralized procurement workload. This would save \$110,437 annually, assuming continuation of the median salary of existing staff, related benefits and the cost of office space.

Four employees currently work in FCA's supply function on a part-time basis. The annual cost of applicable salaries and benefits for these four employees and the cost of space to house the stockroom total \$87,948. Abolishing the supply room and setting up blanket purchase orders with commercial office supply firms could eliminate these costs. There are many office supply companies that will accept orders by telephone or Internet and guarantee next-day delivery. Each FCA office has authorized credit cardholders who already make most of the micropurchases for their office. Forty-seven percent of the credit cardholders we surveyed said they would prefer to buy their supplies direct and not go through the supply room. Any purchases over \$2,500 would continue to be made through central purchasing. Such an arrangement would not only eliminate significant costs without loss of service but would also provide direct access to a much wider selection of supplies than is available in the supply room. Decentralization of supply purchasing would also cut out the cost and delay associated with the current practice of mailing supplies to field offices.

### *Recommendations*

- 1. The central purchasing function should be streamlined.*
- 2. The supply room should be eliminated.*

If either of these two functions is retained in-house, the following 11 agreed upon actions will improve the current process.

### **Information in procurement databases is incomplete and unreliable.**

Information Resources Division developed two databases for ASB in 1997. The first was initially intended to track requisitions from receipt through to payment. The second, a vendor file, is intended to list all companies the Agency does business with as well as those seeking placement of their company on the file.

### Requisition Tracking System

The requisition tracking system is not used consistently by ASB employees. Procurement actions are not always entered and data that is entered is not done so in a timely manner. Also, a single database listing all procurement transactions in ASB does not exist. Therefore, we were unable to obtain an accurate count of the number of the total orders processed by ASB. We reviewed a random sample of twenty purchase orders

and their corresponding requisitions. Of those, eleven orders (55%) referenced either an incorrect requisition number or contained no requisition number at all. We also reviewed a separate random sample of twenty requisitions and each corresponding purchase order and found that ten of those requisitions (50%) referenced an incorrect purchase order or no number at all. This sampling was a little over two percent of the total orders processed during the reporting period.

The receiving function also uses the requisition tracking system to retrieve paperwork when deliveries are received. However, because purchase orders are not always entered accurately or timely, this system is not a useful tool, resulting in delays in retrieval of paperwork and the eventual delivery of orders. Corresponding supplies and equipment may sit undelivered in the supply room for extended periods of time. This problem was also mentioned on questionnaire responses received during this audit from frequent users as well as in an OIG management letter dated March 31, 1999 entitled Security of Supply Area.

The entry of data from requisition to payment has never been fully developed and utilized; therefore, the full benefit of this system has never been realized. It was intended that requesting offices would be able to have "read only" access to get the current status of any requisition through to payment, rather than having to call Fiscal Resources Division (FRD) or ASB to obtain this information. With the steady decrease in centralized purchase orders, a conscious decision should be made by ORM management about the value of using this system to its full capabilities versus the time expended entering data and manually researching inquiries from end-users by staff.

#### *Agreed Upon Action*

- 2. The automated acquisition requisition tracking system will contain accurate, timely data and provide reliable information to management and end-users or will be replaced with another automated system compatible with the financial management system.*

#### Vendor File Database

The vendor file database contains general information on vendors that have asked to be placed on the database, some of those who have done business previously with FCA, or those sending brochures to the ASB for goods or services that may be needed by the Agency in the future. The ASB chief (or support staff from the mailroom) enters vendors into this database as time permits. Some of the information contained in this database (i.e. phone and fax numbers, addresses, and tax identification numbers needed for payment) would be very useful for not only ASB staff but FRD as well. If this database were kept current, staff would be able to process orders more expeditiously. Due to the lack of administrative support for data entry, as well as the fact that most ASB staff generally do not refer to the database when working on requisitions, this database is not effectively utilized and consequently not kept current.



*Agreed Upon Action*

- 3. The vendor file database will be kept current and all those processing requisitions use it as a reference tool.*

**There needs to be a separation of incompatible duties in ordering, receiving and disbursing supplies ordered from GSA.**

The supply technician is responsible for ordering, receiving, stocking and disbursing supplies. Items for the supply room are ordered by both the supply technician and the support services supervisor. The support services supervisor places orders for supplies not stocked by GSA by using his Agency purchase card. The supply technician orders supplies from GSA by completing an order form and presenting it to the support services supervisor for review and approval. However the form is usually not signed off on by the supervisor. The supply technician then places orders for supplies from GSA over the phone. The supply technician is also responsible for receiving, stocking and disbursing all supplies.

The procedures in place for preventing the concentration of all parts of this operation from being performed by the same person are adequate. However, they are not always being followed.

*Agreed Upon Action*

- 4. The support services supervisor will ensure that all orders for supplies placed by the supply technician are reviewed and signed off on prior to placing the order with GSA.*

**Administrative help is needed in ASB.**

For several years ASB has not had an administrative person to handle mail receipt and distribution, filing, typing, answering phones, and other administrative tasks. Staff members have each been responsible for handling their own administrative workload. The purchasing specialist receives some backup from support services staff in processing small purchases, performing data entry and filing. Support services staff also provide limited data entry support to the Chief of ASB.

Currently, one mail clerk provides administrative support to both ASB and the supply clerk. She also provides support to others in HARD as well as performs her own duties in the mailroom. It is sometimes difficult for her to separate her mail clerk duties and responsibilities from those support services she provides to others and to accomplish all of them in an efficient manner.



*Agreed Upon Action*

5. *More resources will be devoted to administrative functions in ASB.*

**Delivery dates should be noted on all orders.**

When requisitions are processed in ASB and result in a purchase order, memorandum of call, Standard Form 1 (Government Printing Office request), or other official procurement document [collectively, hereafter, referred to as orders], two copies of each order are sent to the supply technician. Upon receipt they are filed by the mail clerk in one of two binders, based on the delivery date noted on the order. When the items are delivered, one copy of the order is pulled and the supply technician or the mail clerk obtains signatures noting receipt. The paperwork noting the original signature is then sent to FRD with a copy going back to ASB.

Many of the ordering documents do not contain a delivery date. Therefore, staff performing the receiving function have no idea when to expect deliveries. Maintaining two copies of each order appears to be time-consuming with no real value added.

*Agreed Upon Actions*

6. *All orders will state a delivery date.*
7. *One copy of each order will be maintained in the supply room.*

**Better records are needed for tracking supplies.**

When supplies are needed from GSA, the supply technician writes up an order and presents it to the mail clerk for data entry into an automated system. When the items ordered are received from GSA, the order is then filed in the sequence in which it is filled. If someone needs to research a specific delivery order, unless they know the exact date the entire order was completed, they have to look at every order to find the correct one. Since the order is already in a database, the delivery information could be added to this, thereby making retrieval of delivered orders much more streamlined. Also, the way the files are organized now, we were unable to get an exact count on the number of supply requests filled. The best "guestimate" was 15 per day but there was no systematic basis for this number.

ASB has purchased a software package that will provide a user friendly, windows-based format for recording and tracking supply information about orders, shipping receipts, and current levels on hand. It has the ability to value supply stocks and determine reorder points for standard items, and can also be used as an inventory and internal control tool. When implemented, this should meet the requirements of Agreed Upon Action #8.

*Agreed Upon Action*

- 8. The filing system for supply orders placed by the supply technician will be reorganized or further automated.*

**Procurement forms should be consolidated.**

Currently ASB staff must complete two separate forms; one entitled "Abstract of Proposals/Quotations" and the other "Small Purchase Pricing Memorandum." Current procedures require procurement staff to complete both forms for every negotiated order over \$2,500. It would be more efficient to combine the information contained on these forms into one.

*Agreed Upon Action*

- 9. One form will be developed for use on orders over \$2,500.*

**Contract and interagency files are incomplete.**

A review of the formal contract and interagency agreement files found that the Agency has issued five formal contracts and 46 interagency agreements in FY 97, 98 and 99. The formal contract files were not complete in that none contained copies of invoices. One had no reference to the use of a panel in making the selection, a requirement in the FAR.

Interagency agreement files were also incomplete. FCA entered into 46 interagency agreements in FY 97, 98, and 99. According to ORM Division/Region Directive #1, a requisition, Office of General Counsel (OGC) review and clearance, and transmittal memo are required for each agreement. Only seven of the 46 agreements (15%) we reviewed contained a requisition. One contained certification of OGC review and clearance (.02%), and one contained a transmittal memo (.02%). ASB did provide copies evidencing the existence of these documents for some agreements; however, they should be retained in one central place as the official Agency contract file.

*Agreed Upon Actions*

- 10. FRD will send copies of invoices on contracts to ASB after payment is made.*
- 11. A selection panel will be used on all formal contracts issued, when required by the FAR. This process will be noted in the contract files.*
- 12. Official interagency agreement files will include the approved requisition, a transmittal memo and certification of OGC review and clearance or the office directive will be revised to reflect the new requirements.*