

## Bureaucratic Behavior and Development : A Case Study of Supply Management in a Philippine Government Agency

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*A major portion of government expenditures go into the purchase of supplies and equipment. The cost is increased by the numerous cases of corruption committed in this area (e.g., overpricing, ghost deliveries, insufficient deliveries, purchase in excess of quantity required, etc.) Focusing on three factors to explain occurrence of corruption in government purchase, namely, leadership, management control processes, and systems and procedures for procurement, a Philippine government agency was selected as case study. Actual procurement procedures and deviations from them were examined. It was found out that leadership was the biggest single factor that influenced the behavior of bureaucrats in the agency. While it is therefore recognized that there is a need to improve systems, procedures and processes to control the opportunities for corruption, an honest and committed official who will set the standards of employe behavior must be at the helm to guide the reform.*

### Introduction

Supplies, materials, and equipment are of vital importance in government operations. They are major inputs in the discharge of basic governmental functions and services as well as in the conduct and management of development programs and projects. President Marcos himself underscored their worth when he urged that government property, supplies, and equipment should be properly managed if only

to avoid a drain on government resources and a disruption of vital operations.<sup>1</sup> He reported recently that the government expenditures for these items would constitute about one third of the national budget.

Indeed, an examination of the government's yearly expenditures reveal that there has been a tremendous increase in the amount spent for purchase of supplies. A 1969

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<sup>1</sup>Speech delivered by President Ferdinand E. Marcos before the Local Government Supply Management Association of the Philippines (LOGOSMAP) on May 8, 1974. See also LOGOSMAP Souvenir Number (December 1976), p. 3.

article estimated that some ₱100 million yearly was spent for this purpose.<sup>2</sup> By 1971, it was ₱311 million or 7.02 percent; in 1972, ₱405 million or 7.24 percent; in 1973, ₱622 million or 7.82 percent and in 1974, ₱1.2 billion or 9.2 percent. For 1975, government purchases amounted to ₱1.9 billion while the following year, it was ₱1.7 billion (7.38 percent).<sup>3</sup> In 1976, the amount has reached ₱8 billion or 30 percent of the ₱27 billion national budget.<sup>4</sup>

This increase in the amount spent for purchases has been attributed by some sectors not just to an increase in the need for the purchased items, but more because of the "most reckless" spending habit of the government. The government "engages in indiscriminate buying" because "government purchasing agents need the kickbacks, over-price and under-the-table doles."<sup>5</sup>

This particular study focuses on negative bureaucratic behavior in a Philippine government agency as revealed in its expenditure of public funds through the purchase of supplies, materials and equipment. Cases are presented to illustrate the additional costs, as compared to current market prices, that the Philippine government shoulders in

these purchases. The administrative culture and management processes are examined to determine the causes of corruption. There is also an attempt to assess the immediate consequences of negative bureaucratic behavior in terms of the damage inflicted on the attainment of the program's, the agency's and the country's development goals.

The study also looks into the management control system and the laws, administrative regulations and procedures governing the purchase of supplies and equipment in the Philippine government. Finally, the study tries to identify weaknesses in the organization and management of the procurement program of the government.

### The Concept of "Supplies"

The term "supplies" has been defined as "everything, except real estate, needed in the transaction of official business or for public use whether in the nature of a furniture, equipment, stationery, materials for construction, livestock, foodstuff, or personal property of any sort."<sup>6</sup> In the opinion of the Secretary of Justice, these are "the goods or merchandise needed by the government and its agencies and instrumentalities for their own ultimate use or consumption or to supply their own necessities as distinguished from goods or merchandise intended for resale by the price stabilization

<sup>2</sup>Napoleon G. Rama, "Gigantic Supply Losses," *Philippines Free Press* (April 16, 1960), p. 40.

<sup>3</sup>These figures were taken from the National Budget of the Philippines for fiscal years 1970 to 1976.

<sup>4</sup>"Call for Reforms in Supply Systems," *Bulletin Today* (December 10, 1976), p. 1.

<sup>5</sup>Rama, *op. cit.*

<sup>6</sup>*Revised Administrative Code*, Section 2042.

agency of the government and materials needed for commercial manufacture of merchandise or by an industrial enterprise owned by the government."<sup>7</sup> Supplies which are normally consumable within one year are classified, for accounting purposes, as inventories while those having a use life of more than one year, including land, structures, and fixed facilities, are classified as equipment.<sup>8</sup>

The government acquires supplies by means of purchase, construction, production, manufacture, confiscation, attachment or seizure, transfer and contribution or donation. However, since the bulk of government acquisitions is in the form of purchases, this paper will focus on this particular method of acquiring supplies.

Funds for the purchase of supplies are appropriated by law specifically for that purpose. Hence, expenditure of funds other than that which the law provides is considered illegal. For instance, if the law appropriated the sum of P5,000 for the construction of a basketball court and purchase of equipment, said amount cannot be applied to construct and improve a barrio school.<sup>9</sup> Likewise, purchase of auto-

mobiles when the amount to be applied was appropriated by law for minor and major repairs of equipment are not allowed.<sup>10</sup> The law also prohibits transferring to the general fund money that was appropriated for other purposes, e.g., to buy new automobiles.<sup>11</sup>

#### How Government Purchases Are Made

As a general rule, all purchases made by the government are done through public bidding. There are, however, instances when negotiated purchases, or purchases done without public bidding, may be resorted to. These are:

a. Whenever the supplies are urgently needed to meet an emergency which may involve the loss of, or danger to, life and/or property;

b. Whenever the supplies are to be used in connection with a project or activity which cannot be delayed without causing detriment to the public service;

c. Whenever the materials are sold by an exclusive distributor or manufacturer who does not have subsidiaries selling at lower prices and for which no suitable substitute can be obtained;

d. Whenever the supplies under procurement have been unsuccessfully placed on bid for at least two consecutive times, either due to lack of bidders, or the offers received in each instance were exorbitant or nonconforming to specifications;

<sup>7</sup>Opinion No. 7, Secretary of Justice, Series of 1955.

<sup>8</sup>General Auditing Office, *National Accounting and Auditing Manual*, Section 470.

<sup>9</sup>GAO File No. 4.1000, Decision of the Auditor General dated July 15, 1959, in *The GAO Journal*, vol. 7, no. 3 (December, 1959), pp. 17-18.

<sup>10</sup>GAO File No. 7.013, Decision of the Auditor General dated September 30, 1960, in *The GAO Journal*, vol. 8, no. 6 (March 1961), pp. 16-17.

<sup>11</sup>*Revised Manual of Instructions to Treasurers*, section 142.

e. In cases where it is apparent that the requisition of the needed supplies through negotiated purchases is most advantageous to the government to be determined by the department head concerned;

f. Whenever the purchase is made from an agency of government;

g. Whenever the purchase is made from the U.S. government or other foreign governments.<sup>12</sup>

Nevertheless, it is required that a thorough canvass of licensed responsible suppliers be done before negotiated purchases are made, except if a) the supplier is an exclusive distributor b) there is no suitable substitute in the market at more advantageous terms to the government and c) no sub-dealers are offering lower prices.<sup>13</sup>

Negotiated purchases amounting to more than ₱50,000 for national government agencies and ₱100,000 for government-owned and controlled corporations should be approved by a committee composed of the Secretary of General Services as chairman and the Undersecretary of Justice and the Deputy Auditor-General as members.<sup>14</sup>

<sup>12</sup>Department of General Services, Department Order No. 13 dated September 6, 1971, Article IV, rule 16.

<sup>13</sup>*Ibid.*, rule 17.

<sup>14</sup>Executive Order No. 323 dated June 18, 1971. The 1973 Constitution provided for the change of the General Auditing Office into a Commission on Audit. Hence there are now two Commissioners in lieu of one Deputy Auditor-General.

### *Procedure of Bidding*

Public bidding is resorted to in the purchase of supplies by the government to ensure that the most advantageous terms will be obtained by the government.<sup>15</sup> There are several types of bids:

(1) Direct Order and Payment System (DOPS) Bid. This type of bid covers purchases where the price of supplies is fixed as to units, the quantity to be supplied depending upon the actual requirements of the government for a period not exceeding one year;

(2) Specific Quantity Bid. As opposed to the DOPS bid, this type of bid covers a specific quantity of supplies. This is resorted to if an agency requisitions from the government's procurement agency, the Supply Coordination Office, additional supplies not covered by previous DOPS contracts;

(3) Special Bid. Other supplies not covered by DOPS bids are included in special three-month, four-month, five-month or six-month bids conducted by the Supply Coordination Office.

All bonafide suppliers, manufacturers, producers, regular dealers or service establishments with valid supplier's identification certificates (SIC) are eligible to participate in

<sup>15</sup>Department of General Services, *op. cit.*, rule 6.

a public bidding. Prospective bidders may, however, be debarred from bidding for reasons like conviction of offenses incident to obtaining a contract with the government and of laws related to business, commerce, and trade, and debarment of other governmental procuring agencies.

In addition, other causes for suspension and/or debarment are refusal to respond to five consecutive invitations to bid, tampering with bids after submission or opening, refusal to accept an order without valid justification, deliberate error in the bid tenders, etc.<sup>10</sup>

Contracts are expected to be awarded to the most advantageous offer.

#### Government Entities Authorized To Make Purchases

Purchases may be done by: (1) the Supply Coordination Office; (2) departments, agencies, bureaus, regional offices and government instrumentalities; (3) government-owned and controlled corporations; (4) the judicial and legislative branches of government and (5) local governments.

All purchases of the national government are coursed through the Supply Coordination Office under the Department of General Services. This is the government's national procurement office. This office has gone through several changes in

<sup>10</sup>*Ibid.*, rule 8.

names, administrations and agency attachments. From the Bureau of Supply created in 1905 by Act No. 4007, it became the Division of Purchase and Supply under the Department of Finance. In 1947, Executive Order No. 94 changed its designation to the Procurement Office. Subsequently, then President Carlos P. Garcia issued Executive Order No. 290, implementing Reorganization Plans Nos. 4-A, 5-A, 7-A and 9-A, all series of 1956, which created the Department of General Services.<sup>17</sup> Under this Executive Order, the Bureau of Supply was reorganized into the Bureau of Supply Coordination and transferred to the Department of General Services. The Integrated Reorganization Plan of 1972 renamed this office into the Supply Coordination Office.<sup>18</sup>

The Supply Coordination Office assigns to departments, agencies, bureaus, regional offices and government instrumentalities purchasing functions relative to supplies and equipment (1) which are not available in its stock or not covered by DOPS contracts; (2) which are peculiar to the needs of user agencies, except those where the assist-

<sup>17</sup>Ruperto G. Martin, *Revised Administrative Code With Annotations* (Manila: PGA Publications, 1961), p. 113. See also Roman Amor, "Procurement of Equipment and Supplies," n.d., p. 8 (mimeographed).

<sup>18</sup>Philippines (Republic), Presidential Commission on Reorganization, *Integrated Reorganization Plan*, Vol. I, Part I, Chapter 2, Article 2 (Manila: Commission on Reorganization, March 1972), p. 14.

ance of the office is solicited; (3) where the agencies so assigned are the biggest users of such items; and (4) where by the nature of their functions these agencies would be more competent to make the purchase.<sup>19</sup>

Purchases for supplies made by government-owned and controlled corporations are governed by their respective charters. However, if there are no specific provisions regarding procurement procedures contained in their charters, the rules and regulations governing purchases made by agencies of the national government will apply.

Purchases may also be made by the judicial branch of government as represented by the Supreme Court and lower courts. Such purchases are governed by their own rules on procurement.

The legislative branch, as represented formerly by the Congress, and now by the Interim National Assembly, may also purchase supplies subject to their own rules and regulations regarding procurement. The rationale behind this is the principle of separation of powers of government, where each branch of government is presumed to be equal to each other. Therefore, no mechanism or procedure should exist which would allow one branch to be controlled by the other.

Purchases for supplies made by local governments are governed by

<sup>19</sup>*Ibid.*, pp. 14-15.

Presidential Decree No. 526 issued on August 1974. As in the case of purchases made by the SCO, supplies procurement must be made through public bidding. Exception to this rule is allowed in cases of:

(1) personal canvass of responsible merchants, purchases here limited according to the class of the province, city or municipality, ranging from ₱5,000 to ₱30,000;

(2) emergency purchases;

(3) direct purchases from manufacturers or exclusive distributors;

(4) purchases made through the Supply Coordination Office;

(5) purchases made from other government entities or foreign governments.<sup>20</sup>

#### Graft And Corruption In The Procurement Of Supplies

When President Ferdinand Marcos launched the national cost reduction program in the mid-seventies, one area that was identified as needing improvement was the government's system of procuring supplies and equipment. Although the Supply Coordination Office was supposed to administer and coordinate the supply system of the executive branch of the government, each "government office had its

<sup>20</sup>Presidential Decree No. 546, section 12.

own system of supplying its division with needed tools and equipment.<sup>21</sup> Allowing each office its own procurement procedures has led to "wastage, irrational buying and controlled distribution."<sup>22</sup> This has also made it easier for corruption to take place, and may have even exacerbated its practice.

Among the anomalies unearthed in the procurement of government supplies were overpricing, ghost deliveries, insufficient deliveries, purchases made in excess of quantity required, reselling of government supplies to dealers and buying these same supplies again, etc.

An example of an anomalous transaction was a documented case of exorbitant overpricing that happened in the District Engineer's Office of the province of Cebu.

In 1967, the office of the District Engineer of Cebu requisitioned several spare parts for repair of D-8 bulldozer.<sup>23</sup> A canvass and a public bidding were conducted after which the Award Committee accepted the bid of Singkier Motor Service in the amount of P43,580. The Secretary of Public Works and Communications approved the transaction. However, upon pre-audit, the Highway Auditor, and the representative of the Bureau of Supply Coordination (BSC) approved

for payment only P34,824. This meant that there was a 20 percent retention equivalent to P8,756. This amount was paid on June 9, 1967. Meanwhile, the General Auditing Office (GAO) in Manila conducted its own canvass among the suppliers in Manila. USK Philippines, the exclusive distributor of Caterpillar products in the Philippines, gave a price quotation of P2,820.34 for the same items, which was P40,000 lower than the price as quoted by Singkier Motor Service. In view of the exorbitant overpricing, the GAO took up the matter with the Secretary of Public Works and Communications. Charges of malversation were filed against the district engineer and the city engineer.

Another example of an irregular dealing was the case of purchase of fire extinguishers from a company called Carabao, Incorporated.

The Agricultural Productivity Commission (APC) ordered from Carabao, Incorporated 300 fire extinguishers at P795 each for a total cost of P238,500.<sup>24</sup> On October 6, 1967, the Auditor General denied Carabao, Inc.'s claim for payment alleging that the purchase order was null and void for two reasons: (1) there was no obligating instrument as required by law and (2) the price charged by the claimant corporation was patently high. The price per unit of fire extinguishers

<sup>21</sup>"Procurement Procedures Project," *Philippine Budget Management* (March 1971), p. 8.

<sup>22</sup>*Ibid.*

<sup>23</sup>Seyson v. Singson, 54 SCRA 282 (1973).

<sup>24</sup>Carabao, Inc. v. Agricultural Productivity Commission, 35 SCRA 226 (1970).

as approved by the BSC was only P199. The court ordered the claimant corporation to remove the objects of sale from the Commission because it did not agree with the price of the item as set by the BSC.

Another case also involved overpricing. An audit of accounts of an educational institution operated and owned by the government was made by a team of auditors from the Program Audit Department of the GAO.<sup>25</sup> One of the vouchers audited was for the payment of P55,000 to a sales company for purchase of highly technical equipment. The non-utilization of the equipment aroused the suspicion of the auditor. After an intensive inquiry, the auditor found out that the sales company was only a distributor of Company A, which sold the same equipment for only P20,000.

Still another example of an irregularity was the purchase of supplies in excess of quantity required by an agency.<sup>26</sup> In this case, the project was construction of one building. Construction materials (e.g., sand, cement, gravel) were purchased, but the quantity bought seemed to be more than that required by one building. The auditor commissioned a construction engineer to determine the quantity of construction materials that would

be required for a project of similar specifications. It was found out that the materials paid for were sufficient for two buildings of the same size and specifications as the project. The purpose here was obviously to sell the margin or use the excess for personal purposes.

The examples mentioned above illustrate clearly how corruption may take place in the purchase of supplies. Definitely, weaknesses in the supply system are a major factor that contribute to the commission of highly irregular practices in the purchase of supplies. As early as 1955, the Government Survey and Reorganization Commission (GSRC) had reported that poor planning of supply needs, unnecessary controls and procedures, improper scheduling of requisitions, lack of funds for bulk buying, etc. characterized the greater part of the government's supply system.<sup>27</sup> In fact, a 1964 probe team that examined 1,000 purchase records at random found out that 90 percent of all purchases were "either crooked or irregular."<sup>28</sup> Cases of insufficient

<sup>27</sup>Philippines (Republic), Government Survey and Reorganization Commission, *Reorganization Plans and Reports, Administrative Services, Executive Branch of Government* (Manila: Bureau of Printing, 1955), pp. 37-44.

<sup>28</sup>These were the findings of a probe team conducted by the Department of General Services under Acting Secretary Serafin Salvador. Atty. Pedro P. Suarez, a member of the probe team and the department's legal counsel, estimated overall losses of the BSC for the twelve-month buying period covered by the probe to amount to P40 million.

<sup>25</sup>Filoteo L. Luna; "Prevention and Detection of Fraud," *Philippine Commission on Audit Journal* (February 1976), p. 15.

<sup>26</sup>*Ibid.*, pp. 14-15.

deliveries, "ghost deliveries," overpricing, etc. still abound even after the declaration of martial law on September 1972.<sup>29</sup>

Cognizant of these state of affairs, the President urged those concerned with the procurement of supplies to promote greater technical and administrative competence in supply management.<sup>30</sup> The President also commissioned a study on government procurement in late 1975 to determine the weaknesses and defects in the supply system. The study found out that:

(1) The role and general objectives of the Office of Supply Coordination is vague, impractical and too out-dated to be of real value to the procurement needs of the various agencies;

(2) Present organization setups within the various agencies covered show the existence of overlaps, duplication and unnecessary modifications which contribute to a chaotic system of procurement and consequent delay in payment;

(3) Existing procurement systems and procedures lack the elements of standardization and rationality which are essential to efficient planning and control;

(4) Planning and control of funds which are important in systematized procurement could not be effected economically under the present setup; and

(5) A number of existing laws, rules and regulations concerning procurement contradict each other. Others are so outdated that continued enforce-

ment would hamper rather than facilitate the establishment of an efficient procurement and supply management.<sup>31</sup>

### The Case of Agency X

Given these weaknesses in the supply system, an agency of the government was selected for the purpose of examining its actual procurement operations, specifically in the area of purchase of supplies and equipment, including their personnel complement.

For the purposes of this study, explanatory factors internal to the agency were considered. These were: (1) leadership, (2) management control processes, and (3) systems and procedures for procurement. Interviews were conducted with selected clients and key officials of the agency during the period 1975-1976.

Agency X is one of the bureaus under the Department of Public Works and Communications. It is a service agency in the sense that its activities and services, available to clients at minimal cost, benefit private individuals and organizations, including other agencies of the government. Since it charges on the services it provides, it is to a certain extent an income-earning agency. For purposes of this study, however, it is categorized as a revenue-spending agency since the focus of the research is on the expenditure of public funds. The agency receives

<sup>29</sup>Luna, *op. cit.*, pp. 11-15.

<sup>30</sup>LOGOSMAP Souvenir Number, *op. cit.*, p. 3.

<sup>31</sup>"Procurement Procedures Project," *op. cit.*

a yearly appropriation from the government.

Agency X is organized along the lines drawn by the 1972 Reorganization Commission. At the helm is a director whose primary responsibility is to formulate policies, guidelines, and standards for the operation of the agency. An assistant director oversees the operations of the bureau and coordinates its programs and projects. Four major divisions make up the rest of the offices of the agency at the central office. The Planning Division is responsible for the planning and engineering of programs and projects at the national level in terms of facilities, equipment, and personnel. The responsibility for operations is lodged with the Operations Division. Administrative and financial services such as recruitment, promotion, accounting, budgeting, etc. are assumed by the Administrative Division and the Financial and Management Division. The agency maintains a number of regional offices and hundreds of district offices.

As of 1975, Agency X had a total personnel complement of 7,288. Of this number, 3,892 were regular employees while 3,396 were paid a daily basis. The employees of the agency may be classified into different functional groups such as engineering, administrative, accounting, general services, legal services, research and statistics, etc. Since the new director took over in September 1975, the number of temporary employees decreased as the new di-

rector decided to extend regular appointments whenever possible as an incentive deserving temporary employees.

In 1976, Agency X received a total appropriation of P62 million from the general fund of the national government. Of this amount P46 million went to operations and maintenance, P3 million to services, P4 million to planning and engineering, P8 million to general administration, and P1 million to capital outlay.<sup>32</sup>

During the years 1970-1974, the average expenditure of the agency for supplies amounted to P3 million per year, and about P600,000 for equipment, or about six percent of total appropriations.

#### *How Corruption Occurs in Agency X*

To determine how corruption occurred in the agency, purchases were examined, including some during the time of the old director, and some when the new director assumed his position. When the incumbent director took over, there were several pending requisitions for the agency's supplies which required the approval of the director. One of the first things the new director did was to conduct an inquiry on said requisitions before approval. He discovered that all of these requisitions had inflated price quotations. Random samples of these are presented below.

<sup>32</sup>Philippines (Republic), *Budget for the Fiscal Year 1976*.

*Example No. 1.* One of the regional offices requisitioned for items A, B, and C. A public bidding was conducted and the award of the bid to supplier X was approved by the award committee as favorably endorsed by the canvass committee. The director recommended payment of the items requisitioned. When the new director took over, an investigation and a re-canvass of prices were made. The effort yielded the following results:

The agency, upon the initiative of the new director, requested the supplier to reduce the total price to P7,151.00. The supplier was amenable to a reduction of the total price; the Bureau and the supplier finally agreed on P9,322.60, as the purchase price.

It is interesting to note that the supplier, in this case, remarked that "this transaction is only an accommodation from friends who want to

Item	Qty.	Original Canvass Price/Unit	Re-Canvass Price/Unit	Total Original	Total Re-Canvass
A	75 pcs.	P280.00	P 93.50	P21,000.00	P7,387.50
B	10 pcs.	P170.00	P100.00	P 1,700.00	P1,000.00
C	9 pcs.	P327.75	P 55.00	P 2,949.75	P 495.00
				<hr/> P25,649.75	<hr/> P8,882.50

The difference between the total original canvass price (already recommended for payment by the former director) and the total re-canvass price was P16,767.25.

*Example No. 2.* In this example, the Agency X canvassed items D, E, F. When the new director took over, a re-canvass was ordered and the following were the results:

transact with office (the agency) but are not qualified to for lack of (an existing and legal) business establishment and the unnecessary SIC (Supplier's Identification Cer-

Item	Qty.	Original Canvass Price/Unit	Re-Canvass Price/Unit	Total Original	Total Re-Canvass
D	50 pcs.	P 98.00	P 4.40	P 4,900.00	P 220.00
E	50 pcs.	P 35.00	P 18.00	P 1,750.00	P 900.00
F	30 pcs.	P1,198.00	P201.72	P35,954.00	P6,051.60
				<hr/> P42,604.00	<hr/> P7,171.60

In this case, the difference between the total original canvass price and the total re-canvass price was P35,432.40.

tificate) from the Bureau of Supply Coordination."<sup>33</sup> The agency came to know that it was dealing with suppliers which had no business personality, or ghost establishments. Of course, this deplorable arrangement could only have been possible because certain agency officials allowed it.

*Example No. 3.* The original canvass price for item G was ₱210.00 while for item H, it was ₱1,209.50. Both prices were quoted by Supplier X. When a re-canvass of the prices was made, the same supplier gave a price quotation of ₱33.30 for item G and ₱32.85 for item H. If a re-canvass was not made, the agency stood to lose a total of ₱182,935.60.

*Example No. 4.* In this transaction, the original canvass price per unit for item I was ₱14.90 while the re-canvass price was ₱2.70. For item J, it was ₱9.50 originally and ₱1.75 as re-canvassed. The original canvass yielded the following results:

Item	Price/Unit		
	Supplier L	Supplier M	Supplier N
I	₱14.50	₱18.10	₱23.50
J	₱ 9.50	₱21.05	₱29.45

During the re-canvass, officials of the agency requested supplier of items I and J, including Suppliers M and N, to give their respective price quotations. To their surprise, they discovered that supplier M and N were not selling such items. Apparently, the price quotations of the

two suppliers appearing in the original canvass were fabricated.

*Example No. 5.* This took place during the incumbency of the new director. In 1975, a decision was made to buy jeeps to service the regional offices. After the preparation and approval of the requisition papers, the agency was able to purchase two jeeps from an automobile dealer at a cost of ₱52,600 per unit, the current market price, or a sum total of ₱1,052,000. During the negotiation, agency officials requested the dealer to give them a discount on the price per unit since this was a bulk purchase. The dealer replied that the price of ₱52,000 could no longer be lowered since this was the price at which other government agencies were buying. However, the dealer said that he was willing to give a particular amount similar to a commission in this particular transaction. The amount which the dealer was willing to share with the agency was ₱40,000. At first, the officials of the agency, including the director, were unwilling to accept the offer of cold cash by the dealer for fear that it might be used as an issue against them. One of the officials suggested that the money be deposited in the bank to be withdrawn as the need arises. Another suggested that instead of cold cash, the dealer will be asked to donate supplies and equipment for the agency's official use worth the amount being offered, or ₱40,000. This suggestion was considered more sound. The agency then sub-

<sup>33</sup>Interview conducted with a client of Agency X.

mitted a list of "needed" supplies and equipment to the dealer. Said list included a colored television set, an executive refrigerator, office tables, typewriters, electric fans, and other minor items. These were received by the agency and were classified as donations in the stock/property file.

*Example No. 6.* The agency bought five table typewriters from a known distributor. The distributor, as a matter of business policy, donated one floor polisher costing P1,025 and ten staplers costing P58 each. The staplers were distributed for use in the various units of the central office. This took place during the incumbency of the new director.

*Example No. 7.* When the new director took over, a general facelift of the office was initiated. For this reason, new sets of office furnishings were required. The bid to install the curtains were awarded to company Z at P3,800. In return, company Z donated as "gifts" eight staplers worth P65 each. These were distributed to the regional offices.

#### *Factors Related to Occurrence of Graft and Corruption*

*Leadership.* The examples enumerated above appear to confirm the allegation that the biggest single factor in the occurrence or non-occurrence of corruption in the purchase of supplies in Agency X is the leadership.

It is no happenstance that rampant corruption in purchases of supplies as illustrated by examples nos. 1, 2, 3, and 4 above took place during the incumbency of a director who was one of those purged by the President in September 1975. The director was himself found to be heavily involved in these activities. A senior agency official even alleged that the former director received the biggest share in any transaction while the rest was divided among accomplices. A director, as a matter of administrative procedure and requirement, has the final authority to approve or disapprove all requisitions, purchase orders, and payments. Hence, he can opt to disapprove a requisition which, in his judgment, is extraordinarily or extravagantly unnecessary. If he approved the same, it could be that either he was ignorant of the circumstances surrounding the purchase, he was ill-advised or he deliberately did so knowing that he himself would benefit from it. In most cases, it is the latter that usually happens.

The effects of this kind of leadership can be easily imagined. The pervasive effects of a negative example from the director were demonstrated when everyone in the agency including the janitors started to indulge in similar malpractices. Overpricing, recycling of agency supplies (buying, then selling, then buying the same items), selling of consumerable items as "scraps" and all sorts of practices were everyday oc-

currences. Laws and administrative regulations governing purchases were circumvented, established procedures were set aside and control processes rendered inoperative.

In contrast, cases of similar activities were as of this writing, unheard of under the present director. Instead he instituted a process of accommodation whereby discounts customarily provided to government agencies are enjoyed by the whole agency rather than by individual personnel. Examples number 5, 6, and 7 above are interesting cases of this process. In these purchases, agency officials accepted various kinds of supplies and equipment from suppliers and dealers as gifts or donations. This act which can only be classified as "extra-legal," rather than "legal" or "illegal," was justified on the ground that acceptance of such goods redounded to the benefit of the agency. First, gifts and donations converted into cash were equivalent to a discount which the agency was able to bargain out of a purchase transaction. For example, in case No. 5, the agency was able to receive a discount of ₱40,000, the amount of supplies and equipment donated by the car dealer. Second, needed supplies and equipment were acquired without any cost on the part of the agency. Staplers, floor polishers, electric fans, office tables, typewriters, etc. are expensive items for which the agency had no available funds. Finally the agency was able to go about the presidential ban on the

acquisition of equipment because it was able to acquire them through donations. Hence, the benefits of "attractive offers" from suppliers accrued to everyone in the agency whereas before, anything which brought material benefit was a monopoly of a handful. This new practice, however, is not capable of complete legitimization, and requires a trusted and honest leader to make it work.

*Management Control Processes.* The weakness of the system of control relative to purchasing is reflected in the absence of a way by which collusion, on different levels and among different parties, can be forestalled.

Overpricing is most rampant in emergency purchases. Procedures for this mode of purchase require a canvass of prices of at least three suppliers with the supplier offering the lowest price getting the purchase order. The canvass is conducted by a Canvass Committee chaired by the Chief of the Supply Division. An Award Committee headed by the Chief of the Property Division checks on the reports of the Canvass Committee and if satisfied thereon, awards the transaction to the supplier with the lowest price quotation. It is also required that a representative of the General Auditing Office (now the Commission on Audit) be present during the opening of bids so as to prevent the manipulation of the canvass. Finally, there is the director who signs,

as a gesture of approval, all papers relative to the purchase vouchers. This procedure is supposed to ensure that a tightly knit division of responsibilities is established. In practice, however, this arrangement is rendered naught by collusion among the different responsible officials, on the one hand, and between officials and the suppliers on the other.

In the agency, the director and the other employes who were purged in September 1975 were all included (and convicted) in the long list of overpricing cases in the purchase of agency supplies. It was observed that these officials womanized, danced and wined together. They were also bound by informal ties being *magkababayan* (province-mates) *magkabarkada* (buddies), or *magkumpare*. This situation was conducive to the development of an informal grouping with the corresponding common group interest. Since most of the members were occupying positions of authority relative to purchase (e.g. Chief of the Supply Division, GAO (COA) Auditor, etc.), it was relatively easy for them to choose personal aggrandizement over agency objectives. Inevitably, the development of dexterity and the entrenchment of the *modus operandi* of the group renders inutile mechanisms aimed at controlling these malpractices.

*Systems and Procedures.* In the matter of procedure, the weakest link seems to lie at that stage where

the canvass is made. The price quotations submitted by the canvass committee as reflected in the purchase order is basis for payment unless corrected by the Award Committee. Overpricing occurs when the price quotations in the canvass already includes a margin -- that amount which the bureaucrats will divide among themselves. Other than the Award Committee's evaluation, there is no other way to ascertain whether an adequate and fair canvass was made, and whether the price quotation submitted by the Canvass Committee was the same as the one provided by the supplier. In Example No. 3, the same supplier submitted a lower price quotation for the same item during the re-canvass. In Example No. 4 the price quotations of other suppliers were found to be fabricated. The efficacy of the Award Committee to check on the report of the Canvass Committee is furthermore affected if collusion occurs. It appears that the procedure provided for emergency purchases does not include a method by which the above situations could be met.

Another practice resorted to by the agency employes is the method known as recycling of supplies. Supplies in stock are sold to suppliers. On the pretext that needed supplies are out of stock, an agency official requisitions for these items. After going through all the procedures and requirements, the agency ends up buying the very same items it has already bought earlier. Still

another practice is reporting certain items in stock as "used" or "in bad condition" even if they are still very much saleable or usable. Requisitions will be made for these items and the original items classified as used will then be resold to suppliers. The highly technical nature of many of the agency's supplies and equipment makes it difficult to subject them to regular inspection so as to determine their condition or status. For instance it is not wise to subject electric fuses to regular inspections since the agency uses hundreds of thousands of this item. Hence, it is relatively easy to declare them as "used" or in "bad condition" even if they are not. Obviously, the procedural requirement that the status of all supplies be recorded in the stock file is not sufficient.

#### Conclusions And Recommendations

The effects of malpractices and corruption on the government's developmental efforts and on the delivery of basic services of supplies in the purchases are manifold. One obvious and immediate effect is the diversion of scarce financial resources (paid out of the people's taxes and money borrowed from domestic and external sources) from the government's coffers into the pockets of a privileged handful. Thus, there are numerous cases where programs, projects, and activities of the government are not completely executed for want of sufficient funds to purchase sup-

plies, materials, and equipment. If ever services are rendered or projects completed, it is at a cost much higher than what was originally intended. When everyone else in the organization is preoccupied with how to part with the "loot," discharge of official duties and responsibilities will suffer. Consequently, services that should be delivered by the agency are affected. What happened in Agency X is a case in point. During the height of these malpractices, complaints from clients were endless because at that time even the lowliest of employees, the janitors, were busy with their own corrupt activities. This situation was furthermore aggravated by malpractices of the top and middle management officials. The non-delivery of basic services coupled with non-completion of development projects is one important reason why people are apathetic and indifferent to their government.

Procedures and systems of control should be implemented to minimize situations where graft and corruption could arise. In this respect, the government has implemented a pilot procurement project that would centralize procurement. It is envisioned that a centralized procurement system would make possible a "uniformity in buying price of suppliers, a carefully planned and selective buying, a control over the quantity and quality of supplies thereby limiting or minimizing the areas where corruption could occur (e.g., buying sup-

plies of lower quality, overpricing, etc.)”<sup>34</sup> The relative success of this project was the reason the President converted this into the Procurement Service in charge of implementing an integrated system of procuring supplies for the government. However, full implementation of this scheme has still not been effected as of this date. What is needed therefore is full implementation of this scheme.

Every agency should also take a stock of its needs and formulate a program for future purchases. Although there is a memorandum to the effect that each agency should establish a stock level for each commodity in stock, and that any requisition for a single item should be accompanied by a stock promotion sheet, there has been as of this writing no criteria which may be used to determine supply and equipment needs. In this connection, the practice of the University of the Philippines may well be adopted, in which supply and equipment needs are determined according a set of priorities such as institutional needs, program requirements, and physical inventory of equipment.<sup>35</sup>

<sup>34</sup>Letter of Instruction No. 755 dated October 18, 1978.

<sup>35</sup>Interview with Ramon Portugal, Vice-President for Administrative Services, University of the Philippines.

Finally, the head of any government bureaucracy should maintain his primary commitment to the public good in the face of the temptation engendered by a free enterprise economy. This may require some form of accommodation to private sector practices such as receipt of discounts for items purchased from private companies and agencies, a practice known to be a major source of corruption among government employes. Since it is virtually impossible and definitely impractical (for the private sector, that is) to eradicate this customary practice, what should be done then is to make sure that these discounts do not go into the pockets of individuals, but instead are converted into benefits for the good of the agency. This may take the form of lower prices for government purchases, or as in the case of Agency X, the purchase of equipment and materials needed by the agency. However, this kind of arrangement presupposes the existence of an honest leadership for it is relatively easy to rechannel these “benefits” to profit the individual rather than the public. In the end, therefore, we must move to reform systems and procedures, but more than that, we must develop leaders whose commitment to service is reinforced by honesty and integrity.