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**AUDIT OF
CLOSEOUT OF EXPIRED CONTRACTS**

AUDIT REPORT NO. 85-14

March 29, 1985

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

March 29, 1985

**Office of the
Assistant Inspector General
for Audit**

Mr. R. T. Rollis, Jr.
**Assistant to the Administrator
for Management**
Agency for International Development
Washington, D.C. 20523

Dear Mr. Rollis:

This audit report discusses the results of our review of the Agency's policies and procedures with regard to contract closeout. The closeout of a contract is the last step of the procurement process and is required by both Federal and AID regulations. Our review showed that contracts are not being closed out in accordance with existing rules and regulations.

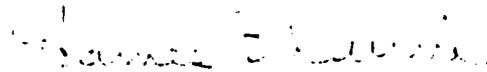
Lack of proper closeout procedures has created certain adverse conditions which might have been prevented or corrected more quickly, had the required closeout process been adhered to. We found cases where property consigned to contractors was unaccounted for, receipt of goods and services was difficult to ascertain, final audits of contract funds were not performed and timely deobligation of unneeded funds was not made. We also encountered cases of missing records or records retired prior to closeout, causing the completion of the closeout process to be impossible or unlikely.

We are recommending that the Agency establish improved internal controls and procedures to improve the closeout process and reduce the present backlog of expired contracts. We are also recommending improvements in the automated inventories of AID-direct and host country contracts. These steps will help ensure that proper closeout procedures are regularly and systematically applied and project and financial management officers become more involved in the closeout process.

Written comments were received from the Office of Management and carefully considered in preparing the final report. Management comments are presented in the body of the report and included in their entirety as Appendix 4.

Please advise us within 30 days of the action taken or planned to clear the recommendations. Thank you for the courtesies extended my staff during the audit.

Sincerely,



James B. Durnil
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

The Office of Inspector General reviewed closeout practices for contracts and grants awarded directly by AID Headquarters and Missions. We also reviewed the agency's responsibilities concerning the closeout of host country contracts. Closeout is the last stage of the procurement process and is required by Federal and AID regulations. Basically, it involves actions such as ensuring that goods and services were received, inspected, and accepted. These actions must be completed before files are officially retired.

Prior to the start of our audit we were aware contracts and grants were not being closed out and that the AID Office of Contract Management was trying to develop an approach to deal with the problem as it applies to direct contracts awarded by AID Headquarters. The objectives of our review were then to identify why contracts were not being closed out and to determine whether adverse effects were occurring. The review involved 122 high value (over \$100,000) contracts and grants (58 AID-direct and 64 host country) totalling \$319 million awarded by AID Headquarters, AID Missions, and host governments.

We found that contracts and grants were not closed essentially because AID management placed little importance on this function. As a result, AID was increasingly vulnerable to financial abuses in several significant areas.

We concluded, among other things, that AID lacked an adequate degree of control over the receipt and acceptance of goods and services, payments to contractors, and Government property. These general conclusions applied to the growing backlog of expired AID direct contracts and grants valued at about \$3.8 billion as well as to several billion dollars of expired host country contracts. While certain contract administration procedures provide some protection against financial abuses when used, additional steps must be taken to strengthen controls. Our recommendations are directed towards improved contract administration and better implementation of prescribed closeout procedures.

The specific conditions noted that formed the basis of our findings and recommendations are summarized below

and discussed in greater detail in the body of the report.

CONTRACTS WERE NOT CLOSED

AID-Direct Contracts

When we began our review in August 1984 little effort was being directed to actually closing contracts and grants awarded by Headquarters or Missions (AID-direct contracts). As a result this backlog had grown to about \$3.8 billion.

In January 1985, the AID Office of Contract Management issued new instructions for closing out headquarters contracts completed after September 30, 1983. Extending these instructions to cover Mission-awarded contracts was under consideration at the time we completed our review.

Host Country Contracts

AID Project Officers are required to ensure host country contracts are closed by the host governments and to maintain contract monitoring files. Most Project Officers said they did not know whether these contracts were being closed or whether host governments had acceptable procedures. Contract monitoring files (to monitor this process) generally were not maintained.

AREAS OF INCREASED VULNERABILITY

Receipt and Acceptance of Goods and Services

The receipt and acceptance of goods and services for nearly all 58 of the expired AID-direct contracts valued at \$141 million that we examined could not be verified. In some cases, there was evidence that significant contract terms and conditions had not been met. This occurred, in part, because Certifying Officers did not follow prescribed closeout procedures and request Project Officers to attest that all contract requirements were met.

There was also a general lack of documentation that Project Officers had ensured that all of AID's rights and obligations had been properly satisfied under the 64 host country contracts valued at \$178 million included in our sample.

Liquidated Damages

Contract provisions that allowed contractors to be penalized for failing to meet scheduled completion dates were not always carried out. We identified over \$2 million in penalties that probably should have been assessed for late delivery and construction. The reasons, or justifications, for the lack of enforcement were not documented.

Government Property

At least 24 of the 122 contracts examined included property that had not been adequately accounted for and disposed of at the time of our review. The property in question had cost an estimated \$4 million. In several cases, it appeared AID should have been reimbursed for lost, damaged, or misused property.

Deobligations of Funds

Decisions to deobligate excess funds were unnecessarily delayed in at least 24 of the 122 contracts and grants examined. One reason was because AID Controllers did not coordinate with project officials at expiration of the contracts and grants to determine whether obligated funds would be expended. The deobligation potential in these 24 contracts and grants amounted to about \$3.6 million.

Final Audits

Most of the 122 contracts and grants included in our review with obligations of about \$319 million had not been final audited as required by Federal procurement or AID regulations. This occurred, in part, because audits were not routinely requested as part of the closeout process. Thus, AID was vulnerable to payments for ineligible costs and unfulfilled contractual commitments.

PREMATURELY STORED AND LOST FILES

AID sent official contract files to storage before all closeout actions were completed because the files became too voluminous. Contract files for other expired contracts awaiting closeout by Missions were lost. AID must retrieve thousands of files from storage to properly close out the contracts and closeouts may be precluded where the files have been lost.

INVENTORIES OF EXPIRED CONTRACTS

AID maintains a computer base from which it generates inventories of AID-direct contracts. The inventory at August 1984 indicated there were several thousand expired contracts and grants and other procurement instruments valued at \$3.8 billion. However, the inventory was incomplete and inaccurate, although there were ongoing efforts to improve the system.

We reported in 1984 that AID was not maintaining an inventory of active and expired host country contracts. At the time of this review, AID still had not developed such an inventory. Accurate inventories of expired and expiring contracts are essential to ensure orderly closeouts.

Agency management agreed with our findings and recommendations and stated they would initiate corrective action. We have summarized their comments on pages 18, 19 and 23 of this report, and also included them in their entirety as Appendix 4.

Office of the Inspector General
Office of the Inspector General

**AUDIT OF CLOSEOUT
OF EXPIRED CONTRACTS**

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AUDIT OF
CLOSEOUT OF EXPIRED CONTRACTS

PART I -INTRODUCTION

A. Background

Federal procurement and Agency for International Development (AID) regulations require that expired contracts be closed out. Part 4 of the Federal Acquisition Regulations (FAR 4.8004-1 to 5) contains the requirements for closeout of Government contract files. It details procedures and time frames, including the need for evidence of (1) supply and property receipt, (2) final voucher payment, (3) services performed, and (4) audits completed. AID Handbooks 13 and 14 contain specific procedures for closing out AID-direct grants and contracts.^{1/} Similar procedures are not prescribed for host country contracts or interagency agreements.

Closing out an expired contract is the last phase of the contracting process. Depending on the particular type of contract involved, AID procedures require administering offices to ensure, among other things, that

- property clearances are received;
- required goods and services are received, inspected and accepted;
- deobligations of excess funds are recommended; and
- contract audits are completed.

The specific closeout procedures are covered under AID Handbook 14 for AID-direct contracts while Handbook 13 covers grants. No procedures are provided for interagency agreements.

AID Handbook 14 requires Contracting Officers to review the contract records not more than 90 days after completion of the contract and to identify the

^{1/} In this report we use "contract" to include contracts, grants, interagency agreements and other procurement instruments except purchase orders.

outstanding actions that must be accomplished prior to retiring the records. Contracting Officers are required to request other action offices to certify closeout actions have been completed. Contracting Officers are responsible for maintaining a "Contracting Officer Checklist" on completed actions. Missions are responsible for closing out contracts and grants awarded by them. For Washington awarded AID-direct contracts and grants, the Support Division under the Office of Contract Management is responsible for closeout.

Closeout actions on AID-direct fixed price contracts should be completed no later than four months after expiration. Cost reimbursable type contracts should be closed within 21 months after expiration although the receipt of final overhead audits frequently causes delays. Contract records should not be retired until the closeout phase is completed.

AID Handbook 3, Supplement B, requires Project Officers to ensure that host country contracts are closed out. However, with the exception of audit requirements, there are no specifically defined AID procedures or time limits for closing out expired host country contracts.

As of August 20, 1984, AID's centralized inventory of AID-direct contracts and other procurement instruments showed a backlog valued at about \$3.8 billion. No centralized inventory of expired host country contracts was kept, but the estimated total value of these contracts was well over a billion dollars.

The backlog of expired contracts has been increasing since 1974, when administrative responsibility for closeouts was transferred from individual Contracting Officers to the Support Division. The Support Division, at that time, had four persons working full time on closeouts. That effort was steadily eroded until May 1981 when the function was discontinued.

A contractor was hired in September 1982 to help close out contracts, but because of numerous operating problems few contracts were closed and the effort was halted. A consultant was hired later to develop an approach to reducing the backlog and to closing out contracts on a current basis. This effort culminated in the Director, Office of Contract Management issuing new instructions in January 1985 for closing out Headquarters fixed price and cost reimbursable contracts completed after September 30, 1983. These instructions were to be tried at the Headquarters' offices and, if successful, extended to the Missions, and to the older contracts requiring closeout.

B. Audit Objectives and Scope

The objectives of this review were to (1) identify why contracts were not being closed out, and (2) ascertain the effects of not properly closing out contracts.

Our review covered 122 high value contracts (over \$100,000) totaling about \$319 million, expired as of August 1984. (See Exhibit 1 for Expired Contracts Included In The Review.) These contracts were awarded by the Office of Contract Management, and Missions and host governments in ten countries, Egypt, India, Bangladesh, Guatemala, Peru, Philippines, Indonesia, Thailand, Kenya, and Senegal.

The data relating to expired contracts was not complete nor accurate. One printout obtained early in our review showed there were about 8,000 expired AID-direct contracts, grants and other procurement instruments valued at over \$3.4 billion. This total was believed by agency officials to include contract and grant amendments, and work orders. A subsequent printout of only AID-direct contracts indicated 1,631 contracts at a value exceeding \$500 million had expired from 1980 to present. However, even this figure was uncertain, and Contract Management was continuing efforts to refine the data.

AID did not maintain a centralized inventory of expired host country contracts. However, we determined the ten countries visited had over 760 expired contracts valued at around a billion dollars. (See Exhibit 2 for Expired Contracts by Activity.)

Our audit sample included 58 AID-direct and 64 host country contracts. Contract values were \$141 million and \$178 million, respectively. These contracts were for technical and consulting services, commodities, construction, or a combination of goods and services.

Our review concentrated on four major control elements in AID's closeout procedures. We sought to determine whether (1) contractors completed the requirements under the contracts and AID accepted the goods and services, (2) property clearances were received, (3) excess funds were identified and deobligated, and (4) final audits were requested and completed. We evaluated whether the internal controls over these areas were in place and working. This is the first audit made by our office of compliance with closeout regulations.

Our review was hampered because records on certain of the contracts selected for review were either sent to storage or lost. Also, some Project Officers who were responsible for the contracts examined were no longer at post and available for discussion purposes. These conditions while bothersome did not preclude achieving our overall objectives.

In Washington, we reviewed contracting activities and offices under the Bureau for Management, and six other AID bureaus (Program and Policy Coordination, Science and Technology, and the four regional bureaus). We also met with Department of Energy officials and with two AID contractors. In the ten countries visited, we met with officials and reviewed documents at each of the Missions and at four host governments.

We compared the centralized inventory data of expired AID-direct contracts with actual data for the contracts selected for review to determine the accuracy and completeness of the inventory. We reviewed available documents to identify expired host country contracts. We did not attempt to quantify or develop the full extent of problems with the centralized inventory or to identify the total number of expired host country contracts.

Our work was done in accordance with the Comptroller General's Standards for Audit of Government Organizations, Programs, Activities and Functions. The work was done between August and December 1984.

AUDIT OF
CLOSEOUT OF EXPIRED CONTRACTS

PART II - RESULTS OF AUDIT

A. Findings and Recommendations

1. Contracts Were Not Closed

At the time we started our review in August 1984, AID's centralized inventory identified several thousand expired AID-direct contracts and other procurement instruments ^{1/} with obligations totaling about \$3.8 billion. Since a low priority was assigned this function, few, if any, contracts had been closed. There also was an unknown number of host country contracts with a significant cost that needed to be closed by the host governments.

Federal regulations require that contracts be closed, and to comply with these provisions AID established procedures for accomplishing this function. It may be impossible now to properly close out many of these contracts because records were prematurely retired or lost, and responsible officials are no longer available to assist in this process. As a result, a major control weakness has increased AID's vulnerability in a variety of areas.

There was a significant lack of assurance for example, that (i) goods and services were received and accepted, (ii) Government funded property was accounted for, (iii) funds were deobligated timely, and (iv) final audits, where required, were made. These conditions would be significantly reduced or precluded by implementing the following recommendations and by more effective administration of ongoing contracts.

^{1/} In this report we use "contract" to include contracts, grants, interagency agreements and other procurement instruments except purchase orders.

Recommendation No. 1

We recommend that the Deputy Administrator ensure expired AID-direct contracts at the Headquarters and Mission levels are properly closed out. Emphasis should be on (a) establishing internal controls to ensure that closeout actions are timely, and (b) establishing goals for reducing the backlog.

Recommendation No. 2

We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, and the Office of General Counsel prepare and implement a plan for the proper disposal of expired AID-direct and host country contracts.

Recommendation No. 3

We recommend that the Deputy Administrator require that Project Officers prepare and sign a "Contractor Performance Evaluation Report" or similarly designed form to document that required goods and services were actually provided by the contractor and were acceptable to AID. A copy of this document should be kept in the AID-direct contract file or host country contract monitoring file. The completed form should accompany Project Officer certifications of requests for final payments under the contracts.

Recommendation No. 4

We recommend that the Deputy Administrator expedite establishing a system of accounting control over AID-funded or furnished property held by contractors.

Discussion

As of August 1984 AID's centralized inventory of expired AID contracts and other procurement instruments that needed to be closed had obligations totaling about \$3.8 billion and the backlog was growing. In addition, AID Project Officers were not ensuring, as they were required to do, that host countries were properly and promptly closing host country contracts.

AID-Direct Contracts

Federal procurement regulations and AID Handbooks 13 and 14 require AID-direct contracts and grants be closed out according to prescribed procedures. Contracting Officers are responsible for initiating the process by requesting that other action officers certify all required actions have been completed. AID, however, has not closed out contracts for the last several years.

At the time we started our review there was little Headquarters or Mission effort directed to closing out AID-direct contracts. The lack of activity was generally attributed to the priority and staff resource levels assigned this function. Also, some personnel at Missions were unaware of closeout requirements or of specific procedures.

Data was unavailable concerning the rate of the backlog increase; but for the ten-months ended August 1984, the inventory of expired AID-direct contracts increased substantially. In fact, obligations for these expired contracts increased from \$2.8 billion to \$3.8 billion -- an increase of \$1.0 billion.

Like AID, the Department of Energy had problems with a large backlog of expired contracts awaiting closeout. Energy's management in 1982 made a concentrated effort, which included using an outside contractor, to significantly reduce the backlog. The Headquarters Procurement Office personnel, in conjunction with the contractor, closed out 3,205 contracts in Fiscal Years 1983 and 1984, reducing the backlog of expired contracts from about 4,000 to 2,800. There was no data to indicate if this activity was cost beneficial. Nonetheless, actions taken by Energy to resolve problems similar to those at AID included:

- assigning more staff and hiring a contractor to close out contracts that had expired before October 1982. (We were informed that this contractor provided 18 people at an annual cost of almost \$400,000 for this purpose).
- transferring the closeout responsibility for contracts active at that time from a central office (similar to the Support Division at AID) to the individual Contracting Officers.
- developing improved procedures and practices for closing out contracts and monitoring accomplishments.

-- developing general guidelines for closing out contracts without final field audits including waiving the requirement for audits below an established dollar threshold and relying upon desk audits by Contracting Officers.

Similar actions by AID, including some actions already initiated, could facilitate closing out currently expiring contracts in addition to reducing the backlog. Consideration should also be given to administratively closing the oldest expired contracts where the probability of cost recovery is remote.

Host Country Contracts

AID Handbook 3, Supplement B, requires Project Officers to (1) assure that host country contracts are properly and promptly closed out by the host government and (2) maintain a contract monitoring file which includes all relevant host country and contractor certifications. With the exception of stating that the host country is responsible for audits, no guidance is provided on the specific procedures that are to be followed by AID or by the host country.

AID Regional Bureau and Mission officials generally were not concerned about the closeout of host country contracts. Most Project Officers and other Mission officials said they did not know whether expired host country contracts had been properly closed or whether host governments had acceptable procedures. Project Officers we spoke with either did not know they had a responsibility in this area, or did not know what was required. Most Project Officers were not maintaining an adequate contract monitoring file.

The number of host country contracts not subject to acceptable closeout procedures was unknown because such data is not kept. However, the dollar value is probably over a billion dollars.

Areas of Increased Vulnerability

By not implementing an effective closeout system, AID increased its vulnerability to financial abuses in each of the four areas reviewed: (1) receipt and acceptance of goods and services, (2) government funded property, (3) deobligation of funds, and (4) final audits.

Receipt and Acceptance of Goods and Services

Closeout certification that all contract work and services had been accomplished and accepted by the Government was not provided for any of the 58 AID-direct contracts valued at \$141 million. Similar certifications were not specifically required for host country contracts and in many cases host governments indicated that all required work was completed. However, Project Officers generally did not document that all AID's rights and obligations had, in fact, been properly satisfied under the 64 host country contracts valued at \$178 million. Notwithstanding the task of documentation, in many cases, final payment was made to the contractors, some funds deobligated, and the contracts were for all intents and purposes considered closed.

AID direct contract closeout procedures require the Contracting Officer to request Project Officers to certify that contract requirements have been met. No certifications were requested and prepared for the contracts we examined.

Regarding host country contracts, AID Handbook 3, Supplement B, provides that Project Officers assure AID rights and obligations have been properly satisfied. Although host governments usually provided some certification that the work had been performed, Project Officers generally did not have adequate evidence that contract requirements were met. Documentation is a fundamental requirement of administrative control systems. There should be signed documents that acknowledge performance, delivery, and acceptance.

In the past, AID Handbook 14, applicable to AID direct contracts, required Project Officers to prepare a "Contractor Performance Evaluation Report." The report provided a means for the Project Officer to advise the Contracting Officer whether or not contract terms and conditions were met. The Administrator rescinded the Handbook 14 requirement in September 1981, against the advice of the Office of Inspector General. Contract management officials stated this was rescinded primarily because of the potential legal liability that might be brought against the Project Officer. AID Handbook 14, however, still includes the evaluation reports as part of the closeout checklists. Evaluations of contractors' performances are also still required under Handbook 3, Supplements A and B, concerning AID-direct contracts and grants and host country contracts.

One of the ten Missions reviewed had internal orders requiring evaluations for both AID-direct and host country contracts. However, even at this Mission evaluations were made for only 3 of the 16 expired contracts reviewed.

Although not the norm, there were some cases where Missions did adjust the contract price because of identified problems. For example, one contractor was assessed a penalty of \$24,128 for not delivering and installing the required equipment on time. In another case, payments were reduced \$5,500 because the goods and services did not satisfy the contract requirements. These cases illustrate the value of comparing what was actually received and accepted with contract terms and conditions.

We believe these evaluations are essential and should be required and implemented Agency wide.

Goods and Services May Not Have
Been Received or Accepted

In the examples below, there was little evidence that goods and services were received and accepted by AID or the host government and that all contract terms were satisfied. Available documentation, and discussions with Project Officers in fact, indicated the contrary. In most cases, payments were made based on the Project Officer's certification that there was no reason to believe the contractor should not be paid. If appropriate procedures had been followed, appropriate cost or price adjustments could have been made when warranted.

Examples where contracted goods and services were paid for but may not have been received are discussed below.

- Two years after a host country contract expired, a contractor had not submitted a required technical report covering seven years of effort under a development project. Nevertheless, AID paid the contractor in full, \$6.3 million, and a follow-on host country contract was awarded for \$579,000. This second contract required a final report by September 30, 1983. In March 1984 the contractor submitted a final report; but it was of little use because it did not address most of the important issues covered by the contract. The contractor was paid for the total costs claimed, \$6.9 million.

- A host country contract for \$33.4 million provided that \$3.0 million in AID funds would be retained until certain equipment was in operation. AID released the retention monies in June 1983 so that the work could continue and the funds could be spent before the project completion date. In return the contractor provided a letter of commitment to the host government for \$3.0 million. Eighteen months later the equipment was only operating at 59 percent of the guaranteed output.
- AID, a voluntary organization, and a host government were to jointly fund an AID-direct contract for \$1.3 million. The voluntary agency was required to provide financial reports showing that each party contributed its share. No such reports were provided and Mission officials did not know if the other parties had made their contributions. Nevertheless, AID paid its share, \$464,000. Under a "cost sharing" arrangement, AID's contribution should have been reduced if the other parties did not provide their share of the funding.
- One host country contract provided for 1,010 person-months of technical assistance. Vouchers submitted by the contractor contained only a dollar figure line item for salaries. The Project Officer was not aware of how many person-months were reflected on each voucher, and did not keep a cumulative total of person-months provided. The Project Officer stated that approval of vouchers was based on the overall accomplishments, not on determining the exact amount of time served by the contractor as required by the contract. Regardless of not knowing how many person-months of technical assistance was provided, the Project Officer approved and AID paid the full billed price.

The above examples are just a few cases where contractors were paid when there was insufficient written evidence in the files that goods and services were actually received and accepted and that all contract requirements were met. There was also no written evidence in these cases that objective decisions were made on whether cost or price adjustments were warranted.

We interviewed more than 25 Project Officers to determine whether they had specific knowledge of the contracts that would have enabled them to ensure that the goods and services were received. We generally

found that their knowledge of the manner in which the contractors performed specific contract terms and conditions was not adequate. In some cases, the Project Officer lacked this knowledge, because he was new in his job and supporting documentation was not available. In these cases he was simply processing the contractors' invoices for payment.

The problems of insufficient evidence or lack of objective determinations for final acceptance of goods and services was applicable for many of the contracts reviewed. We believe these problems probably apply to most of the expired AID-direct and host country contracts awaiting closeout.

It should not be construed, that documentation was totally lacking in all transactions. The observations in this section relate to the certification requirement by the technical office that all contract work and services, including reports, had been accomplished and accepted by the Government.

Liquidated Damages

Liquidated damages (penalties) were not always assessed and retention monies not always withheld, when contractors did not complete work according to schedules. AID, therefore, probably has lost an unknown amount of money that could be significant. From our limited sample we identified at least \$2 million in possible penalties that we believe should have been pursued because of late delivery and construction on the part of the contractor. Contractors were paid the full contract price and justifications for not enforcing contract terms were not documented. In at least one case, release from claims was made even though full compliance with original contract terms was not made.

One project at a mission involved 57 contracts totalling \$93 million. We examined two of these contracts. For one of the two contracts valued at \$33.4 million, an estimated \$1.7 million in penalties had not been assessed for failure to deliver equipment within the appropriate time frames. Also, a 10 percent retention payment was released despite the fact that original contract terms were not fulfilled.

The contract had called for delivery of an electric power plant within an agreed upon time frame. More than 18 months had passed since the established delivery date and the plant was operating at only 59 percent of the

guaranteed output because the contractor had not supplied the necessary parts. In this case, the host government planned to make an assessment of liquidated damages after the plant had been fully completed and accepted. This action, however, would be after the retention monies were released and the contractor was paid in full.

About \$33,000 in liquidated damages for late delivery was not assessed for the second contract because the host government overlooked this potential. Host government officials told us that if the Mission requested they would review the \$93 million in contracts to determine the extent penalties should be assessed.

Based on our review of two of the 57 contracts involved, we estimate that unassessed penalties on this one project could involve several million dollars.

We tested two additional contracts issued under another project at the same Mission and a similar situation was disclosed. About \$268,000 in possible penalties were not assessed in accordance with contract provisions. In both contracts there was a significant delay in delivery of equipment or construction of facilities.

Appropriate AID officials should determine whether AID, the host government, or the contractor was responsible for the delays. If the contractor was at fault, it should be assessed the penalty. The reasons for not assessing penalties when contract completion dates are not met should be documented.

Government Funded Property

The lack of records precluded a complete accounting of AID-financed equipment provided under the expired contracts. Available documentation, although very limited, did indicate at least 24 of the contracts examined included U.S. Government funded property that had not been adequately accounted for and disposed of or for which records could not be found. The property in question originally cost about \$4 million.

AID's closeout regulations for direct contracts require the technical office to certify that the contractor has accounted for all Government property and that proper disposition has been made. Project Officers are responsible for proper accountability and disposition of property provided under host country contracts. Disposition could involve (1) having the property

returned to the host government or to the U. S. Government, (2) allowing contractors to keep the property for use under other U.S. Government funded contracts, or (3) having the contractors pay AID or the host country for lost and damaged property, or for the fair value of property retained by them.

In some cases, it appeared AID should have been reimbursed for lost, damaged, or misused property. For example:

- One AID-direct contractor purchased about \$124,000 of equipment. In October 1984, seven months after the contract expired, the Project Officer had no evidence that the contractor turned the equipment over to the host government as required. The Project Officer said he "assumed" the contractor or host government would have accounted for the property.
- At one Mission about \$97,000 of U.S. Government funded equipment was not accounted for at the expiration of two host country contracts. Another \$150,000 in equipment could not be identified because it was commingled with other equipment purchased by the contractor.
- Two Mission contractors were provided about \$60,000 in Government funded property (vehicles, office equipment, etc.). Both contracts expired, but there was no accounting for the property.
- A Project Officer for one host country contract, at our request, contacted the host government and the contractor to obtain an inventory of an estimated \$106,000 in equipment funded under the contract which expired a year earlier. The Project Officer had not obtained the inventory at the close of our fieldwork.

The number of expired contracts where property was provided and the value of property could not be determined because neither AID Headquarters nor the Missions maintained adequate records. This information is needed to ensure that property is accounted for and disposed of at the completion of the contracts.

Part of the problem in developing the required information is that Project Officers and other AID officials did not ensure that contractors provided the required reports on AID-financed equipment held by them.

The Office of Inspector General previously reported (IG Report Number 80-110, dated September 30, 1980) that AID did not have a centralized listing of U. S. Government financed and furnished property held by contractors. In response to that report, the Office of Financial Management in June 1984, began an effort to develop a property listing for active contracts awarded by the Office of Contract Management but progress has been slow. For example, as of December 1984, no listing was available and neither a program or procedure had been developed to ensure adequate internal controls over property held by contractors. Furthermore, no attempt has been made to develop a property listing for contracts that expired before June 1984.

We believe that completion of a property listing should be expedited and prompt actions taken to obtain control over Government property held by contractors.

Deobligations Of Funds

Proper closeout of contracts included in our audit sample could have resulted in the deobligation of, or the more timely deobligation of at least \$3.6 million.

As part of the closeout process contracting officers are to assure action had been taken to deobligate excess funds. Timely deobligation allows more effective use of funds.

Unnecessary delays in deobligation may have occurred for at least 24 of the 122 contracts reviewed. Delays of over one year existed for contracts paid by the Office of Financial Management and each of the Missions reviewed. We assumed there were unnecessary delays when appropriate action was not taken to identify whether the funds were needed (an essential prelude to actual deobligation) within 90 days after the contract expired.

There were several reasons for the delays in identifying funds that could be deobligated. One of the basic problems was inadequate coordination between Project Officers and Controllers in validating unliquidated obligations.

A second problem was that contractors often were allowed and took more than a year to submit final invoices. For example, grantees submitted claims to AID, Washington up to 15 months after the grants expired. Six months additional processing time caused the decision to deobligate \$14,509 and \$20,693 on two grants to be delayed about 21 months.

The judicious use of Federal funds requires that when contracts expire immediate attention should be focused on their financial status. Project Officers should be contacted and a decision made on future funding needs. Excess funds should be deobligated and reprogrammed to other areas or used to reduce overall U.S. Government obligation requirements.

Final Audits

Final audits, when required, were not always requested by Contracting Officers for AID-direct contracts. Also, Mission officials generally did not ensure audits were made for the host country contracts. As a result, some of the contracts in our review were not subjected to final audits as required by AID regulations. We believe these conditions apply to much of the \$5 billion in expired AID-direct and host country contracts.

Federal regulations, General Accounting Office decisions, and AID administrative regulations require that cost reimbursable contracts be audited prior to closeout for compliance with all contract provisions, including the allowability, allocability, and reasonableness of the costs claimed. Fixed price contracts should be audited for non-financial matters such as source and origin requirements, and use of foreign flag carriers.

Part 4.8005(a)-12 of the Federal Acquisition Regulations states that "the office administering the contract is responsible for initiating closeout procedures to ensure that . . . [a] contract audit is completed." Under AID Handbook 14, Contracting Officers are responsible for initiating requests for final audit on AID-direct contracts to the Office of Inspector General. The Office of Inspector General either does the audit or arranges for the audit to be done by another government audit agency or a public accounting firm, although staffing and operating expense budget reductions have severely limited this capability. AID Handbook 13 requires certain grantees to have independent financial and compliance audits performed at least every two years to assure the allowability of costs claimed.

AID Handbooks 3, Supplement B, states that audits of host country contracts are the responsibility of the host governments as required under the standard provisions of each project agreement. AID's Project Officers or Mission Controllers are to ensure the required audits of host country contracts are made.

Final audits, however, were not always requested on the contracts included in our review. The extent to which final audits were made could not be accurately determined because of incomplete records of the audits performed and the contracts covered by audits. AID has initiated some action to improve this process.

Contracting Officers did not request audits on AID-direct contracts due to the low priority assigned closeouts. Project Officers and Controllers also attributed the lack of oversight on host country contracts to the same reason and to uncertainties as to specific responsibilities.

The Office of Inspector General and other cognizant Government audit agencies make interim cost and management audits as well as audits to establish overhead rates for billing purposes. These audits are not acceptable substitutes for required final audits. Besides meeting the regulatory requirements, the need for final audits prior to completing closeout action on expired contracts is important because of several reasons. There are acknowledged weaknesses in AID's payment process. This situation was reported by the Administrator to the President in his report on 1983 compliance with the Federal Manager's Financial Integrity Act. Also, cost audits, when performed, have shown contractors frequently claim Federal funds for costs that later prove to be ineligible. The Semiannual Reports of the Inspector General for Fiscal Year 1984, for example, showed actual collections of \$14 million previously paid for ineligible costs.

Internal control systems at Missions provide further cause for concern. An international accounting firm concluded, in April 1984, that one Mission's system of control over the host country contract payment process did not provide reasonable assurance that (1) payments were made in compliance with applicable law, (2) funds were adequately safeguarded against waste, unauthorized use or misappropriation, and (3) transactions were executed in accordance with AID regulations. Late in 1984 this Mission launched an aggressive program with a public accounting firm to audit major cost reimbursable contracts. As of August 20, 1984, this Mission had 200 expired host country contracts valued at \$600 million.

In certain situations final field audits may not be warranted or cost beneficial due to various circumstances such as the dollar value of the contracts involved. The Office of Contract Management, however,

has not established procedures for handling such situations and needs to do so. More importantly, the nearly complete absence of final audits on AID-direct and host country contracts has not provided assurance that only eligible costs have been paid and other major requirements have been met.

Management Comments

Agency Management agreed with our findings and fully supported our position that expired contracts must be formally closed out in a more timely manner. Management also concurred with our six recommendations and agreed to initiate corrective action. They did point out a few areas where they believe a clearer distinction between types of agreements (direct and host country contracts, grants, interagency agreements; fixed price and cost reimbursable contracts, e.g.) could have been made in the report. They have also noted that many of the problems we noted involve the implementation phase of a project, and would be more susceptible to correction at a time earlier than contract closeout. We have included the Agency comments in their entirety (See Appendix 4).

Inspector General Comments:

We acknowledge the Agency position on both points. There is a large variety of closeout requirements for the many different types of procurement instruments the Agency utilizes. However, our major point is that no closeout procedure is being followed in any of the cases. Our concern is that existing regulations have been totally ignored, regardless of type of procurement.

We also recognize that some of the problems we discussed concerned Agency controls which should operate during project implementation and contract administration. We are aware of this, and have in fact documented in prior audits the responsibilities of project officers in, for example, the area of administrative approval of goods and services and of controllers offices in the area of deobligations. We fully agree that the initial, most direct, and foremost responsibility for monitoring compliance with contract terms is with Agency officials at the time of implementation. However, the awareness that there will be a subsequent check on the thoroughness of these procedures will be both added assurance they are accomplished, and act as an incentive

for project officers, contract officers, controllers and personnel responsible for requesting audits, to more thoroughly and diligently carry out their responsibilities.

Management Comments

Management also pointed out that some recent or ongoing developments in three areas related to close out were not mentioned or adequately highlighted in the report. These were the attempts of the Office of Contract Management to increase final audit coverage, improvements made in the Project Officers administrative statement to provide the basis for approval, and periodic reviews of unliquidated obligations made by the Agency controllers.

Inspector General Comments

We acknowledge that these controls do exist. Yet we also maintain that the record shows that an inadequate percentage of final audits are still being requested and obtained, administrative approvals of individual vouchers, even if quite thorough, should still be supplemented by a final formal certification that all goods and services have been received, and that even the present office or mission-wide periodic reviews of unliquidated deobligations did not identify all possible deobligations connected with a particular contract. We regard the closeout process as a valuable back-up system to assure the Agency that the earlier controls are in place and have been working well.

2. Prematurely Stored and Lost Files

AID Headquarters sent contract files to storage before all closeout actions were completed because the files became too voluminous. To properly closeout these contracts thousands of contract files will have to be retrieved from storage. The cost to retrieve and then retire these files would be significant. At two Missions, the contract files for many other expired contracts awaiting closeout were lost. Where the files have been lost, proper closeout will be difficult or impossible.

Recommendation No. 5

We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, establish control procedures that will ensure contract files are not retired by Headquarters and Mission activities until closeout actions are completed.

Discussion

The Federal Acquisition Regulations and AID Handbook 14 provide for Contracting Officers to prepare a statement that all contractual actions have been completed and the required certifications are in the contract file before the files are retired.

We could not readily identify the number of files sent to storage or lost for contracts not closed. The number, however, is significant according to estimates of AID. Costs to retrieve and return the files to storage could have been avoided had the contracts been properly closed out.

There is also the problem of lost contract files. Two Missions lost or destroyed official contract files for contracts that were not closed out. At one Mission, boxes containing files for more than 100 contracts with completion dates between 1980 and 1982 were destroyed. The number of contracts affected by the lost files at the second Mission could not be determined. Responsible officials said that without the files it will be difficult if not impossible to reconstruct the documents needed for proper closeout. This problem would have been avoided if the contracts had been promptly closed out.

Procedures must be established at Headquarters and Missions to preclude the premature retirement and loss of files. AID management also must address the issue of what to do about contracts where the files have been lost or destroyed.

3. Inventories of Expired Contracts

An inventory of expired host country contracts has not been developed and the inventory of expired AID-direct contracts is substantially inaccurate. Inventories are needed by AID offices to ensure the orderly closeout of expired contracts.

Recommendation No. 6

We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, develop internal controls to ensure the accuracy of centralized inventories of expired AID-direct and host country contracts. The inventories should be reconciled periodically with Missions.

Discussion

The Support Division, Office of Contract Management maintains a computer data base from which it generates inventories of AID-direct contracts. This inventory indicated there were several thousand contracts and other procurement instruments with total obligations of about \$3.8 billion as of August 20, 1984 that had already expired. However, the inventory was inaccurate and incomplete. For example, the inventory did not include contracts that expired before 1980 that had not been properly closed out. Also, many contracts that expired after that time were not included in the inventory. To illustrate the potential magnitude of the problem, the inventory identified 39 expired contracts valued at \$3.9 million for one Mission. The Mission's records showed it had 55 expired contracts valued at \$11.9 million.

The inventory was also replete with wrong expiration dates and obligation amounts for contracts awarded by the Office of Contract Management and the ten Missions reviewed. For example, this data was wrong for

- at least 14 of the 23 contracts awarded by the Office of Contract Management that we originally selected for review,
- 11 of the 12 contracts awarded by one Mission that the inventory identified as having expired between October 1, 1983 and August 20, 1984, and

-- 7 of the 10 expired contracts we reviewed that were awarded by another Mission.

The basic problem was that the Office of Contract Management had not developed internal controls to assure the completeness and accuracy of data. For example, the inventory was not routinely reconciled with Missions' records.

We previously reported (Audit Report No. 84-38, dated September 28, 1984) that AID had not maintained an inventory of active and expired host country contracts and recommended that AID develop procedures to resolve this problem. As of November 1984, AID still had not developed a centralized inventory and the recommendation remained open. We, therefore, did not repeat the recommendation in this report.

In our opinion, AID offices need an accurate inventory of expiring and expired AID-direct and host country contracts to initiate and ensure the orderly closeout of contracts.

Management Comments:

The Assistant to the Administrator for Management has reported substantial progress in completing its inventory of active and expired host country contracts, and expects it to be completed prior to June 1985. The inventory is being reconciled semiannually with the Missions. The Bureau also reported that the inventory for direct AID procurement instruments was being progressively improved.

Inspector General Comments:

We were aware of the ongoing effort to improve the inventories, and noted a marked improvement in the data received later in our review over that supplied us in the beginning. We do feel further internal controls are still warranted.

B. Compliance and Internal Controls
Compliance

The review showed a lack of compliance by Headquarters and Mission officials with Federal and AID closeout regulations. The listing of compliance and internal control exceptions (Appendix 1) identifies the requirements not effectively implemented, specifically those governing closeout of AID-direct contracts and Project Officer responsibilities for ensuring host country contracts were promptly and properly closed. On the basis of our tests, we believe it is reasonable to assume that the compliance and internal exceptions apply to most, if not all, of the contracts, and Missions, not examined.

Internal Controls

Overall, internal controls were not operating satisfactorily. The major checkpoints on contract activity intended to ensure through the closeout process that all contract actions were satisfactorily completed were generally not carried out. To the extent required actions were taken, the efforts were fragmented and unsatisfactory as a process. The most prominent underlying reason offered for this condition was the low priority accorded closeouts in deference to other responsibilities and inadequate staffing resources.

**AUDIT OF
CLOSEOUT OF EXPIRED CONTRACTS**

PART III - EXHIBITS AND APPENDICES

95

EXPIRED CONTRACTS INCLUDED IN THE REVIEW

Office/ Country	AID Direct		Host Country		Total	
	Number	Obligations (\$000)	Number	Obligations (\$000)	Number	Obligations (\$000)
Office of Contract Management	17	\$107,370 ^{1/}	-	-	17	\$107,370
Egypt	2	717	14	\$86,541	16	87,258
Philippines	1	1,225	7	7,639	8	8,864
Indonesia	4	16,486	2	1,467	6	17,953
Thailand	4	6,234	4	1,033	8	7,267
Bangladesh	1	500	7	14,770	8	15,270
India	7	1,367	0	0	7	1,367
Guatemala	10	5,319	11	5,129	21	10,448
Peru	5	671	5	25,173	10	25,844
Kenya	4	730	10	21,720	14	22,450
Senegal	3	764	4	14,477	7	15,241
	<u>58</u>	<u>\$141,383</u>	<u>64</u>	<u>\$177,949</u>	<u>122</u>	<u>\$319,332</u>

Legend:

^{1/} We originally selected 24 contracts awarded by the Office of Contract Management identified as expired on the centralized inventory. These 24 contracts had total reported obligations of about \$250 million. However 7 of these contracts with reported obligations of \$140.4 million had actually not expired at the time of our review.

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EXPIRED CONTRACTS BY ACTIVITYAS OF AUGUST 20, 1984

<u>Contracting Activity/Country</u>	<u>AID Direct ^{1/}</u>		<u>Host Country ^{2/}</u>	
	<u>Number</u>	<u>Obligations (\$000)</u>	<u>Number</u>	<u>Obligations (\$000)</u>
Office of Contracts Management	7,000	\$3,272,600	0	\$ 0
Egypt	207	46,375	200	600,000
Philippines	293	19,300	107	43,667
Indonesia	180	56,405	44	19,612
Thailand	64	10,260	23	10,233
Bangladesh	52	7,519	301	291,225
India	50	1,280	58	28,815
Guatemala	123	6,056	11	5,129
Peru	159	4,797	5	25,173
Kenya	27	1,231	10	21,720
Senegal	<u>35</u>	<u>1,278</u>	<u>4</u>	<u>14,477</u>
	<u>8,190</u>	<u>\$3,427,101</u>	<u>763</u>	<u>\$1,060,051</u>

Legend:

1/ Based on AID's centralized inventory. The number for Office of Contract Management is an approximate figure.

2/ Based on readily available documentation at Missions.
The actual numbers and values were probably significantly higher.

Listing of Compliance and Internal Control Exceptions

<u>Description of Law, Regulation or Control</u>	<u>Size of Test</u>		<u>Exceptions</u>		<u>I.C. Issue?</u>	<u>Impact</u>	<u>Management Action</u>
	<u>No. of contracts</u>	<u>Value (millions)</u>	<u>No.</u>	<u>\$</u>			
1. Closeout of AID- Direct Contracts, (AID Handbook 13, Sec. 1Q; AID Handbook 14, Appendix G; Federal Acquisition Regula- tions, Sec. 4.80.4; and OMB Circular A-110, Attachment K)	58	\$141	58	100	Yes	Major	
2. Assure closeout of Host Country Contracts (AID Handbook 3, Supplement B, Section X)	64	\$178	64	100	Yes	Major	
3. Maintaining Accurate Inventory of AID- Direct and Host Country Contracts, Management Directives	N/A	N/A	N/A	N/A	Yes	Significant	

NOTE:

The Office of Controller and the Office of Contract Management are responsible for maintaining inventories of host country and AID-direct contracts, respectively. There is no specific assignment of responsibility to maintain accurate inventories of expired contracts that have not been closed out.

List Of Report Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	6
<p>We recommend that the Deputy Administrator ensure expired AID-direct contracts at the Headquarters and Mission levels are properly closed out. Emphasis should be on (a) establishing internal controls to ensure that closeout actions are timely, and (b) establishing goals for reducing the backlog.</p>	
<u>Recommendation No. 2</u>	6
<p>We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, and the Office of General Counsel prepare and implement a plan for the proper disposal of expired AID-direct and host country contracts.</p>	
<u>Recommendation No. 3</u>	6
<p>We recommend that the Deputy Administrator require that Project Officers prepare and sign a "Contractor Performance Evaluation Report" or similarly designed form to document that required goods and services were actually provided by the contractor and were acceptable to AID. A copy of this document should be kept in the AID direct contract file or host country contract monitoring file. The completed form should accompany Project Officer certifications of requests for final payments under the contracts.</p>	
<u>Recommendation No. 4</u>	6
<p>We recommend that the Deputy Administrator expedite establishing a system of accounting control over AID-funded or furnished property held by contractors.</p>	

List of Report Recommendations (Cont)

Page

Recommendation No. 5

20

We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, establish control procedures that will ensure contract files are not retired by Headquarters and Mission activities until closeout actions are completed.

Recommendation No. 6

22

We recommend that the Assistant to the Administrator for Management, in coordination with the Regional Bureaus, develop internal controls to ensure the accuracy of centralized inventories of expired AID-direct and host country contracts. The inventories should be reconciled periodically with Missions.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

ASSISTANT TO THE ADMINISTRATOR
FOR MANAGEMENT

29 MAR 1985

MEMORANDUM FOR RIG/A/W, Mr. B. Reginald Howard, Acting

FROM: AA/M, R. T. Rollis, Jr. SUBJECT: Draft Inspector General Report "Audit of Closeout
of Expired Contracts"

Thank you for the opportunity to comment on your draft report, "Audit of Closeout of Expired Contracts," transmitted by your memorandum of March 4, 1985. We agree with the findings and fully support the need to formally closeout expired contracts in a more timely manner. We are in general agreement with the six specific recommendations included in the report and will initiate action to implement them. As your draft report notes, the Office of Contract Management has already set in motion a series of steps which are expected to substantially improve the closeout situation. The same is true of the areas under the purview of the Office of Financial Management. In these two areas, as well as many others, the difficulties engendered by limitations on available resources are a problem which must be overcome.

Notwithstanding our agreement with the basic thrust of the report and its recommendations, and the many changes and/or clarifications which have already been made in the draft by you and your office, we continue to believe that most readers will be misled by the report. The report's failure to clearly distinguish between the different types of agreements (direct and host country contracts, grants, etc.) involved, and the widely varying procedures and requirements which apply to each of them is a major factor in this belief. We also continue to believe the report overstates the importance and likely accomplishments of the closeout procedures when they are implemented. Many of the problems cited in the report fall more in the realm of project implementation and contractor administration rather than problems which can be solved after the fact when closing a contract. The attached comments have been prepared to clarify a number of the areas included in the report.

We have recently received a copy of Audit Report No. 3-615-85-9 on this same subject which was published by your regional office in Nairobi, Kenya. We are particularly concerned that it is a final report which has been fully distributed and yet has not benefitted from the many changes already made in this draft and as such contains many inaccuracies which will serve to further confuse and mislead readers of AID audits.

We much appreciate the time and attention you and your staff have given to our earlier comments. However, in view of our remaining concerns cited above, we would appreciate you incorporating this memo and its attachment in the issuance of the final report.

Attachment

cc: M/AAA/SER, J. Owens
M/FM, C. Christensen
M/SER/CM, H. Dwelley

IG Draft Audit Report on Contract Closeouts
Clarifying Comments

AID Contract Closeout Procedures:

As noted in the report, AID's previous contract closeout procedure proved to be cumbersome and unworkable. Also as noted, AID/W published a new contract closeout procedure in January 1985 which we believe will considerably ease the previous processing problems. With regard to the course of action adopted by the Department of Energy, AID has already implemented the first three items. We intend to propose that final audits be waived on all applicable contracts whose value is less than \$500,000. This is a higher threshold than that used by Energy but it has been used by the Environmental Protection Agency in similar circumstances. We also propose to adopt the suggestion to closeout the oldest of the backlogged contracts by means of an administrative determination.

Grants and Cooperative Agreements:

Grants and cooperative agreements (which account for about 58% of the funds committed by AID/W) are very different from contracts in that they are used to fund the recipient's program rather than acquire goods and services. Handbook 13, Paragraph 1Q, which implements almost verbatim OMB Circular A-110, Attachment K, specifies the closeout procedures for grants and cooperative agreements. Changes to the requirements of this OMB circular are permitted only in unusual cases and each exception requires OMB approval. These closeout procedures do not include:

- Any requirement that goods and services be received, inspected, and accepted. If AID funds a grant and finds out that the program is not progressing as originally planned, our only alternative is to terminate. We are not required to inspect and accept the progress. We cannot refuse to pay for the period funded to date.
- Time limits for completion of closeout.
- Contractor Performance Evaluations.
- Final audit before closeout. The independent audit required by Handbook 13 is not required of each and every grant as they are done on a sampling basis. Final audits are not required for grants and cooperative agreements.

Host Country Contracts:

The draft report fails to make the distinction between the differing relationships and responsibilities of AID-direct and host country contracts. Under the host country contracting

arrangement, AID does not accept goods and services -- the host country's contracting agency does. AID has general oversight responsibility under this arrangement -- not day to day managerial responsibility. The host country certifies, with each request for payment, that goods have been delivered and services performed, as called for in the contract. The AID Project Officer also certifies, with each request for payment, that to the best of his knowledge, the services/goods have been delivered. He is not expected to count the number of work-months performed, or widgets delivered. With regard to property clearances the host country has primary responsibility for accepting property provided by contractors. There should not be any property titled in the United States Government furnished to, or provided by, the contractor under a host country contract. Excess funds are identified and deobligated by AID as part of the overall project, under either the loan or grant.

Final Audits of Contracts and Grants:

As noted in the individual comments on grants, cooperative agreements and host country contracts above, and as recognized in the draft report regarding fixed price contracts and interagency agreements, cost oriented final audits are not required as part of the closeout process for any of these types of agreements. Thus, final cost audits are only required for cost reimbursement contracts. In the case of AID Washington, this type of contract amounts to about 8% of the total number of actions (FY 79-84) and to about 28% of the total funds committed. We, therefore, believe that the report is grossly misleading as to the number of audits required. It is also misleading in that it incorrectly infers that if the audits were performed as part of the closeout process that many of the "horror case" examples used in the report would be rectified. Finally, the report would cause the reader to believe that the Office of Contract Management has not initiated any closeouts during the period reviewed whereas the facts are, for example, that of the roughly 465 cost reimbursement contracts expiring between FY 79 and 84 more than 160 requests for final audit were transmitted and 51 audit reports have been received.

Voucher Certification:

The draft report does not give the Agency's payment procedures the recognition they merit in assuring that goods and services were received. One of the major elements of these procedures is the Project Officer's administrative approval of each voucher as a condition of payment. The report dismisses this certification as insignificant. In addition, the report fails to recognize the improvements made in the Project Officer's administrative approval statement through the issuance of the

"Payment Verification Policy Implementation Guidance" by the AA/M on December 30, 1983. Specifically, Policy Statement No. 7 of the guidelines replaced the Project Officer negative assurance statement with a new requirement to provide the Controller a statement advising the basis upon which the administrative approval is given. We believe that this new administrative approval certification reduces significantly the risk of improper payment of goods and services.

Deobligation of Funds:

The report states that proper closeout of the contracts would result in a more timely deobligation of excess funds. While this conclusion might be true in some cases, we do not believe that the failure to follow formal contract closeout procedures overall causes unnecessary delays in deobligation. Each controller organization in the Agency conducts periodic reviews of unliquidated obligations to determine if there are any excess funds which should be deobligated. These "Section 1311 reviews" performed in consultation with both project and contracting officers provide the basis of the Agency Controller's annual certification to the Treasury Department of the validity of unexpended appropriations. Excess funds identified through this process are deobligated. In addition, M/FM or the relevant overseas controller office initiates deobligation action when final vouchers and contractor release forms are received from the contractor. We do not wait for formal contract closeout before initiating and/or taking deobligation action.

Inventories of Active and Expired Contracts:

The report should state that AID has made substantial progress in completing its inventory of active and expired host country contracts. We expect the inventory to be completed within 60 days. Further, the inventory is being reconciled semi-annually with AID missions.

Regarding the existing inventory of AID direct contracts and grants, the report recognizes that periodic updates/refinements to the system have been made. It does not recognize the fact that such changes to the data input into the system apply only prospectively, it would be impossible for the new information to be collected for all previous contracts and grants and put into the system. As a result the overall data base in the system is being progressively improved. We have also been emphasizing the need to insure that the data put into the system be accurate and in a recent memorandum from the AID Inspector General to the Congress we were complimented on substantially reducing our error rate during FY 1984.