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AUDIT REPORT  
ON  
RESOURCES SUPPORT SERVICES AGREEMENTS  
BETWEEN THE USDA  
GRADUATE SCHOOL AND AID

Audit Report No. 85-20

September 27, 1985

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

September 27, 1985

MEMORANDUM FOR AA/M, R. T. Rollis, Jr.  
FROM: AIG/A, E. John Eckman, Acting   
SUBJECT: Audit Report No. 85-20 - Resources Support  
Services Agreements Between the USDA Graduate  
School and AID

This report represents the results of audit of Resources Support Services Agreements (RSSAs) between AID and the U.S. Department of Agriculture's Graduate School. The objective of the audit was to evaluate whether AID's use of RSSAs was in compliance with the Foreign Assistance Act, OMB Circular A-76 and implementing Agency Regulations (AID Handbook 12). During FY 1982 through 1984, AID disbursed about \$11 million to the Graduate School under RSSA arrangements.

AID officials clearly violated the technical service limitations imposed by the Foreign Assistance Act, OMB Circular A-76 and AID Handbook 12 in procuring services from the Graduate School. AID routinely procured clerical and general office administrative services, office equipment and even established a separate office within the AID organization through the use of RSSAs. Further, for those technical services purchased, AID frequently recruited and selected personnel for the Graduate School to hire or contract to perform the services requested. None of the work procured was excess capacity of a Federal Agency or particularly suited to the Graduate School mission; rather, personal services were specifically contracted from the private sector by the Graduate School to meet AID's needs. These procurement actions were contrary to the FAA, OMB Circular A-76 and AID Handbook 12. Numerous other financial management deficiencies or practices existed in the Graduate School RSSA arrangement, as detailed in the accompanying audit report.

The report contains three recommendations addressing conditions requiring corrective actions. Some parts of these recommendations will be considered closed on report issuance as indicated in the report.

Your written comments of September 6, 1985 addressing the draft audit report were considered in finalizing this audit report and are included as Appendix B to the report.

Please advise us within 30 days of the action taken or planned to close the report's remaining open recommendations. Thank you for the courtesies extended to my staff during the audit.

Attachment:  
RSEA Audit Report

## EXECUTIVE SUMMARY

The Office of Inspector General made an audit of AID's use of Resources Support Services Agreements (RSSAs). The objective of our review was to evaluate whether AID's use of RSSAs was in compliance with the Foreign Assistance Act, OMB Circular A-76 and implementing Agency regulations (AID Handbook 12). Particular emphasis was given to AID's RSSAs with the U. S. Department of Agriculture (USDA) Graduate School. During FY 1982 through 1984, AID disbursed about \$11 million to the Graduate School under RSSA arrangements. Our audit was conducted in Washington, D.C. and covered selected RSSAs in effect during the period August through November 1984. This audit effort was supplemented by both the use of non-Federal auditors under contract with the AID Office of Inspector General and an internal audit of the USDA Graduate School being made concurrently by the USDA Office of Inspector General.

RSSAs are authorized under the Foreign Assistance Act as a means to obtain technical services to supplement the Agency's personnel needs. These agreements are to be used to obtain the services of individuals employed by other Federal agencies who possess specialized technical skills available only from such Federal agencies. Both the Agency requesting technical services and the Agency providing the services must comply with authorizing legislation and OMB Circular A-76.

The Foreign Assistance Act requires AID to utilize, to the maximum extent possible, private enterprise in obtaining technical services from outside the Agency. Other Federal agencies may be used when such agencies are uniquely suitable for technical assistance and are not competitive with private enterprise. OMB Circular A-76 establishes a policy that the Federal government is to rely on commercial sources to supply needed services and is not to carry on activities to provide commercial services if it can be produced more economically from the private sector. Cost comparisons are required. AID Handbook 12 delineates these requirements in more detail.

The audit results showed that beginning in FY 81 and extending through FY 84 and into early FY 85 the Agency violated, on a continuing and massive scale, the provisions of Federal law, OMB Circular A-76 and Agency's own regulations. For reasons not yet known, none of the Agency's systems of internal control in the management offices responsible for the contract

administration and financial aspects of the Agency's procurement operations performed their intended functions of detecting and correcting the significant violations documented in this report. This report describes a total breakdown of some of the most basic management controls of this Agency and management's failure at several levels over a period of several years.

AID officials clearly violated the technical service limitations imposed by the FAA, OMB Circular A-76 and AID Handbook 12 in procuring services from the Graduate School. AID routinely procured clerical and general office administrative services, office equipment and even established a separate and distinct office within the AID organization through the use of RSSAs. Further, for those technical services purchased, AID frequently recruited and selected personnel for the Graduate School to hire or contract to perform the services requested. None of the work procured was excess capacity of a Federal agency or particularly suited to the Graduate School mission; rather, personal services were specifically contracted from the private sector by the Graduate School to meet AID's needs. These procurement actions were contrary to the FAA, OMB Circular A-76 and AID Handbook 12. Numerous other financial management deficiencies or practices existed in the Graduate School's RSSA arrangement. AID routinely approved excessive salaries, the purchasing of equipment, paying for entertainment expenses, and retroactive authorization of work.

The basic cause of the problems found in AID's administration of RSSA's with the Graduate School was the almost total loss of control by AID contract management staff over the subagreements executed between AID program officials and the Graduate School. The lack of oversight of these subagreements resulted in AID program officials obtaining almost blanket procurement authority with no assurances of compliance with governing directives by contract management staff. Based on the audit results, AID should no longer do business with the Graduate School under a RSSA arrangement. We are recommending that a formal plan be developed for an orderly and prompt termination of all RSSAs that do not fall within the definition of the education and training mission of the Graduate School. This formal plan should include as a minimum:

- A review of the goods and services being purchased under all existing subagreements and those subagreements, which do not represent technical services, be immediately terminated,

- For those subagreements which meet the definition of "technical services", a formal, orderly plan of transition from the Graduate School to competitive procurement including targeted completion dates, and
- A directive that all contacts with the Graduate School relating to procurement activities be strictly limited to the AID contract management staff. The Graduate School should be informed that only AID contracting officers can authorize procurements.

AA/M has taken sufficient corrective action to implement this recommendation.

We are also recommending that all RSSAs and subagreements to date be reviewed and that:

- All equipment purchased be inventoried, identified as AID property, and if not justified for use on current "technical services" subagreements, be returned to AID, and
- All unallowable costs such as entertainment be identified and refunds be obtained from the Graduate School for the cost.

In preparing this final report, we have carefully considered comments received from AA/M on September 6, 1985 in response to our draft. The full text of AA/M's comments are included in this report as Appendix B. The IG concluded that the statutory provision cited in the AA/M's memorandum as providing authority to enter into interagency agreements with the USDA Graduate School, while correct in the abstract, are not relevant to the issues identified in the audit. See Appendix C for additional comments.

*Office of the Inspector General*

RESOURCES SUPPORT SERVICES AGREEMENTS  
BETWEEN THE USDA  
GRADUATE SCHOOL AND AID

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RESOURCES SUPPORT SERVICES AGREEMENTS  
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GRADUATE SCHOOL AND AID

PART I - INTRODUCTION

A. Background

AID primarily relies on direct hire staff to administer the Foreign Assistance Programs. When direct hire staff are not available, AID can obtain staff support from sources outside the Agency. AID has heavily relied on outside resources through the use of Resources Support Services Agreements (RSSA) to supplement its direct hire staff and provide technical assistance to the Agency in accomplishing its foreign assistance mission.

Section 601(b)(7) of the Foreign Assistance Act (FAA) requires the agency to utilize wherever practicable the services of United States private enterprise. OMB Circular A-76 (Chapter 3, Part I) generally requires Government agencies in procuring commercial activities from another Government agency to do a cost comparison between the commercial price and the providing agency's price and to use the private sector if the commercial price is more economical.

Section 621(a) of the FAA authorizes an exception to the provisions of Section 601(b)(7) and OMB Circular A-76. Section 621(a) provides:

"In such fields as education, health, housing or agriculture the facilities and resources of other Federal agencies shall be utilized when such facilities are particularly or uniquely suitable for technical assistance, are not competitive with private enterprise, and can be made available without interfering unduly with domestic programs."

Section 621(a) is only available for technical assistance activities, i.e., the furnishing of goods or services to developing countries and other AID recipients. Services obtained pursuant to Section 621(a) are not available for A.I.D.'s management support costs or governmental functions (i.e., required to be performed by direct hire Government employees such as management of Government programs requiring value judgments). The requirement of Section 621(a) that the

facilities of the Federal agency not be competitive with private enterprise must be read in conjunction with the requirement that the facilities are particularly or uniquely suitable.

The Section 621(a) exception has at least three requirements:

- The services desired from the other Federal agency must meet the definition of "technical assistance".
- The other Federal agency should be unique or particularly suited to carry out the technical assistance activity (i.e., be in a better position than A.I.D., the private sector or another Government agency to fulfill the requirement).
- The furnishing of services or commodities to A.I.D. must not unduly interfere with the providing agency's domestic programs.

The requirements of Section 621(a) of the FAA were further defined by AID in Handbook 12. Handbook 12 provides definitions of technical services and describes the operating principles for administering RSSA's. AID forms to be used and specific responsibilities of individual AID offices are delineated. Also, the provisions of OMB Circular A-76 are discussed, as these provisions apply to RSSA procurement.

The total dollars obligated under RSSAs has grown considerably in recent years. Fiscal year 1984 funding of RSSAs totaled \$19.6 million, up from the \$12.1 million funding level of 5 years ago. During FY 1982 through 1984, AID RSSA arrangements with the U.S. Department of Agriculture Graduate School alone cost about \$11 million. As of June 30, 1984, AID's direct-hire strength in the United States totaled 1,968. On the same date, the full-time equivalent of employees hired under RSSAs for the year were reported to be 278, constituting almost 15 percent of AID's United States direct-hire strength.

While RSSA employees are scattered throughout eight AID bureaus, they are by far most heavily concentrated in the Bureau for Science and Technology (S&T). As of June 30, 1984, the S&T Bureau had a direct-hire ceiling of 245 and an on-board strength of 243, and the full-time equivalent of 212 employees under RSSAs. S&T Bureau policy guidance citation states that reduced direct-hire staffing levels in recent years has made it place increased reliance on participating agency assistance.

## B. Audit Objectives and Scope

The objective of this audit was to determine AID's compliance with the FAA, OMB Circular A-76, and AID Handbook 12 in establishing and administering the RSSA arrangements with the U.S. Department of Agriculture's Graduate School. This financial/compliance audit included reviews of eight RSSAs with the Graduate School to determine the types of services obtained and whether the requirements of the FAA and Handbook 12 were met. We also selected seven RSSAs with Federal agencies in addition to the eight with the Graduate School to evaluate, (1) the role of the Office of Contract Management (M/SER/CM) in negotiating and executing the RSSAs and (2) the payment process within the Office of Financial Management (M/FM) including the adequacy of underlying documentation and administrative verifications supporting the billings received.

The audit was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of records and internal controls as was considered necessary in the circumstances.

A separate audit of selected aspects of the Graduate School was made on behalf of the AID Assistant Inspector General by an independent public accountant. This non-Federal audit was to attest to the adequacy of the Graduate School accounting system and billing procedures as well as the underlying documentation supporting its disbursements made under AID RSSAs. The results of this audit are attached as Appendix A to this report.

AA/M did not respond directly to the recommendations contained in it pertaining to A.I.D., but stated: "Since we have already phased out or are terminating all RSSAs with the USDA Graduate School, we are not responding to the recommendations contained in the financial audit prepared by Benjamin Weinmann. Those recommendations are moot since there will be no further work under inter-agency agreements with the USDA Graduate School." Although this may be true of RSSAs, the IG believes the CPA's recommendations would still have applicability in any future A.I.D. competitive procurement with the Graduate School.

RESOURCES SUPPORT SERVICES AGREEMENTS  
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PART II - RESULTS OF AUDIT

A. Findings and Recommendations

1. Termination of RSSA Arrangements With the USDA Graduate School

The USDA Graduate School's (GS) legal status as an organizational entity is a nonappropriated fund activity. Federal agencies can only enter into interagency agreements with Federal Executive Branch agencies. The Comptroller General of the United States ruled on November 29, 1984 that the Graduate School is a non-appropriated fund activity and not a proper recipient of interagency agreements. Consequently, AID can not legally do business with the Graduate School through interagency agreements and must follow normal competitive procurement procedures.

Recommendation No. 1

We recommend that the AA/M:

- a. review all existing RSSA subagreements, identify those subagreements which are not for technical services, and immediately terminate non-technical service procurements; and
- b. prepare for those subagreements which fall within the parameters of "technical services", a formal, orderly plan of transition for the RSSAs with the Graduate School to competitive procurement, with a completion date of no later than September 30, 1985.

Discussion

The Graduate School was created as a nonappropriated fund activity within the U.S. Department of Agriculture to carry out a variety of education and training related activities. It is staffed with a small number of full-time employees who are not Federal employees for purposes of Federal employment laws and regulations. This staff is supplemented as necessary through temporary employment contracts with employees from private industry.

In August 1983, the Department of the Army, Judge Advocate General (JAG), issued an opinion related to the legal status of the Graduate School as a contracting entity. This opinion resulted from an Army Audit Agency audit of Army activities involving the Graduate School. JAG ruled that the Graduate School was not an agency from which goods or services could be ordered under the Economy Act; therefore, JAG ruled that it was inappropriate for the Army to obtain services from the Graduate School through an interagency agreement (IA). The Department of Agriculture subsequently requested that the Comptroller General rule on the Graduate School's authority to enter into IAs under authority of the Economy Act and the Government Employees Training Act for the provision of training services to Federal agencies. On November 29, 1984, the Comptroller General ruled that the Graduate School was not eligible for interagency agreements pursuant to the Economy Act or the Government Employees Training Act and that IAs were not proper vehicles for transactions between nonappropriated fund activities and Government agencies. The Comptroller General's opinion also stated that their decision was to be applied prospectively, thus permitting the orderly termination of agreements then in effect.

After bringing the Comptroller General's decision to the attention of Agency officials, we were advised in a February 13, 1985 memorandum from the AID Deputy Administrator for Management (DAA/M) that steps had been taken to terminate all RSSAs with the Graduate School by September 30, 1985. We do not believe these steps are sufficient. A formal plan should be developed, approved by senior agency officials, and provided to the Graduate School for the orderly transition of the Graduate School business to competitive procurement.

#### Management Comments

Management stated that since termination notices on all Graduate School RSSAs were issued in June, it did not believe Recommendation No. 1 remained relevant because any future relationship with the Graduate School will be by the contract mechanism subject to procurement regulations contained in the Federal and A.I.D. Acquisition Regulations.

#### IG Comments

Corrective actions reported to us by AA/M on September 6, 1985 are sufficiently advanced to assure implementation

of Recommendation No. 1 by the September 30, 1985 cancellation date for all RSSAs. Therefore, Recommendation No. 1 will be closed on the issue date of this report.

2. Goods and Services Procured From USDA Graduate School Clearly Violate the Provisions of the FAA and OMB Circular A-76

AID Bureaus circumvented the requirements of the Foreign Assistance Act (FAA) and OMB Circular A-76, and completely ignored implementing guidance contained in AID Handbook 12 when establishing and administering RSSA's with the USDA Graduate School. Our review showed that:

- Goods and services purchased far exceeded the "technical services" limitation set forth in the FAA.
- Most services purchased were not only competitive with private enterprise but purchased by the Graduate School from the private sector.
- AID directly selected personnel who were hired under RSSAs.

These abuses of the RSSA arrangement resulted from a total breakdown in internal controls between the two offices responsible for controlling the actions initiated by AID bureaus requesting services under these agreements and monitoring compliance with Federal laws and Agency regulations--the Office of Contract Management (M/SER/CM) and Office of Financial Management (M/FM). M/SER/CM by clear designation is responsible for the negotiation and execution of RSSA agreements as designated in Handbook 12, and M/FM is responsible for ensuring that the payments made pursuant to these agreements are valid and fully supported by required documentation.

The loss of control over RSSAs by the Office of Contract Management and Financial Management resulted in AID program officials having almost a blanket procurement authority with no real oversight. Accordingly, AID program officials authorized the purchase of thousands of dollars of goods and services which were contrary to the "technical services" limitation of the FAA and violated the procurement limitations set forth in OMB Circular A-76.

Recommendation No. 2

We recommend that the Assistant Administrator for Management:

- a. immediately assume control over RSSA procurement by informing the Graduate School and AID senior staff that all subagreements must be approved by AA/M and that all goods and services purchased must comply with agency regulations, and,
- b. instruct the AID contract management staff that any future AID procurement actions with the Graduate School shall be made only on a competitive basis in conformity with established federal procurement procedures and A.I.D. contracting policy.

### Discussion

Authority For Using RSSA Employees - OMB Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services," encourages the use of excess property and services available from other Federal agencies in preference to procurement by contract or creating a new in-house capability to meet the requirement if certain conditions are met. Normally, a cost comparison analysis is required to determine whether it is more economical to obtain such services from another agency than from a private source.

Section 621(a) of the Foreign Assistance Act (FAA) of 1961, as amended, is AID's general authority to enter into participating agency agreements including RSSAs.

"In such fields as education, health, housing or agriculture, the facilities and resources of other Federal agencies shall be utilized when such facilities are particularly or uniquely suitable for technical assistance, and not competitive with private enterprise..."

AID Handbook 12 states that when submitting a Project Implementation Order/Technical Services (PIO/T) for the initiation of a RSSA, the submitting Bureau is required to include with the submission a statement signed by the cognizant Assistant Administrator that the proposed agreement is exempt from the provisions of Circular A-76 because (1) it is for the provision of technical assistance and (2) the facilities and resources of the other Federal agency are particularly or uniquely suitable for the technical assistance being provided and are not competitive with private enterprise. In the absence of such a statement, Circular A-76 procedures will apply.

Therefore, the use of participating agency personnel by AID is governed by Circular A-76 except when the criteria set forth in the AID Handbook 12 are met, that is: (i) the desired services are available from a participating agency, (ii) the agency is particularly or uniquely suited to provide the technical assistance needed, and (iii) the services are not available from the private sector.

The provisions of Handbook 12 do not extend to the agency providing the services. Therefore, it may not be possible for the other agency to provide the service requested without violating its own internal procedures for implementing A-76 requirements. In this respect, any procurements by a participating agency related to an AID RSSA would have to conform to A-76 requirements, one being that agencies may not retain, create, or expand capacity for the purpose of providing available products or services to other agencies.

Agency Procedures and Requirements For the Execution of RSSAs - Procedures for obtaining services by means of a RSSA are contained in AID Handbook 12. Such services are requested by use of a Project Implementation Order/ Technical Services directed to the Participating Agency Staff. The main requirements for the PIO/T are a clear statement of the assistance to be made available and proper fiscal citations. The PIO/T should identify the technical service requirements and should contain adequate justification for use of a participating agency. In addition, it must set forth sufficient details for the participating agency to select appropriate qualified personnel.

The PIO/T submission package, after being reviewed within the AID bureau requesting technical services, is sent to the Participating Agency Staff in the Office of Contract Management (M/SER/CM/SO). This office reviews the package for completeness and then has responsibility for negotiation and execution of the RSSA, in accordance with the underlying agreement between AID and the participating agency.

In addition to delineating the procedural requirements for processing the PIO/T submission package, Handbook 12 specifies the key criteria and conditions that must be met in executing the RSSA which includes the following.

- AID looks to participating agencies in their field of competence only in cases where direct-hire staff or qualified private enterprise resources are not available.

- When submitting a PIO/T for the initiation of a RSSA, the submitting bureau or office is required to include with the submission a statement that the proposed agreement is exempt from the provisions of OMB Circular A-76 because (1) it is for the provision of technical assistance and (2) the facilities and resources of the other Federal agency are particularly or uniquely suitable for the technical assistance being provided and are not competitive with private enterprise. In the absence of such a statement, OMB Circular A-76 procedures will apply.
- Personal compensation (i.e., base salary plus overseas incentive, if any) charged directly to contracts may not exceed the maximum \$252 daily rate for Foreign Service Reserve Officer, Class 1 (FSR-1) without prior approval by the AID Contracting Officer. Therefore, participating agencies are also requested to obtain specific advance approval from the AID Contracting Officer to authorize personal compensation charged directly under AID-funded contracts at an annual rate in excess of the FSR-1 level. When procuring personal services and the applicant is not a Federal employee, AID's reimbursed salary should be based on the individual's highest annual rate of earnings over the preceding three years plus five percent.

When completed, the essential components of a RSSA are the Face Sheet, form AID 240-2, which should include a complete description of the services to be rendered, and a Budget Agreement, form AID 240-2A (see Attachments E and F to HB 12).

Goods and Services Purchased Under RSSAs Far Exceeded Technical Services Permitted by the FAA - All of the RSSAs we reviewed were justified and documented as having met FAA criteria. However, our review disclosed that the personnel services AID obtained through its RSSAs with the Graduate School did not meet FAA requirements in several material respects.

- The individuals furnished AID were not Federal employees as envisioned by the Act but were hired from the private sector to work specifically for AID. This being the case, AID should have contracted for these services directly.
- The work done was not of a unique technical nature envisioned by the Act but frequently involved secretarial and related headquarters support type activities.

In essence, AID used the Graduate School as a contract by-pass funding mechanism which circumvented the competitive contracting requirements for goods and services. This problem was exacerbated by the fact that the Graduate School, a nonappropriated fund activity, did not follow Federal procurement regulations designed to safeguard the use of appropriated funds. Had the Graduate School followed accepted procurement procedures, many of the abuses noted would have been prevented.

AID's administration of its RSSAs with the Graduate School, as discussed in this report, violated AID regulations relating to participating agency agreements. Several of the problems noted in this report would not have occurred had AID regulations both in Handbook 12 governing the competitive procurement of services and in Handbook 19 governing the payments for services from the private sector been followed. Most of the problems noted violated sound business practices intended to safeguard the expenditures of public monies.

Many Positions Filled Under RSSAs Do Not Meet Foreign Assistance Act Criteria - We examined the eight RSSAs in effect with the Graduate School at the time of our review to determine the types of positions being filled under them. These RSSAs covered numerous individuals (it was impossible to determine the total number of individuals) calling for work varying from a few days to several months. We selected 40 of these individuals, who were physically located in AID buildings, to determine the nature of their employment.

Of the 40 positions, 10 positions were not of a technical nature and were for skills readily available from the private sector. Of these ten, six of the positions were secretarial, and the other 4 were management-type positions such as Project Administrators and Administrative Assistants. The remaining 30 individuals performed duties such as Library Technicians, Training Specialists, Information Specialists, Social Scientist, Development Specialist, etc. All of whom were available from the private sector.

Examples of AID officials request for secretarial services from the Graduate School included:

<u>Date</u>	<u>Organi- zation</u>	<u>Subagreement Comment</u>	<u>Cost</u>	<u>Over- head</u>	<u>Total</u>
5/29/84	S&T/RD	Please provide secretary support in the absence of filling a permanent position	\$2,688	\$ 672	\$3,360
5/31/84	S&T/RD	Please provide secretary support to replace an individual who is attending a workshop and project planning retreat	\$ 768	\$ 192	\$ 960
1/19/84	S&T/RD	Secretarial and Administrative Support to Rural Institutions Project	\$6,636	\$1,659	\$8,295
2/17/84	S&T/RD	Please provide two additional temporary secretaries	\$4,224	\$1,056	\$5,280
10/18/83	S&T/RD	Secretarial support for routine typing, filing and organizing project papers	\$1,986	\$ 497	\$2,483

One of the RSSAs reviewed had far broader implications than the secretarial examples discussed above. This RSSA was used to contract out the functions of an entire AID office, in clear violation of the intent of the FAA. It was executed in June 1983 in the amount of \$730,700 to provide staff for the Development Information Center, a new office in the Bureau For Program and Policy Coordination responsible for computer operations/information research and analysis. Specifically, the Graduate School was to provide two social science analysts (referred by AID) with experience in research methodologies (both former AID consultants) and a support staff of about 12 people. AID provided

-- office space and furnishings,

-- computer terminals,

- copy equipment,
- training in the use of AID's development information system, and
- secretarial support.

In this case, the RSSA budget provided the Graduate School its standard 25 percent overhead rate (which totaled \$145,139) notwithstanding the fact that AID was providing virtually all of the administrative support. Also contained in this budget was \$17,680 for equipment that, according to the justification, was "not available through normal AID channels" such as file cabinets, typewriters, copying machines, word processing equipment, and related materials and supplies. These budgets or requests were either requested or approved by AID officials.

Paradoxically, notwithstanding the fact that the people provided by the Graduate School were by definition to have expertise in their areas of responsibility, this RSSA budget also contained \$9,725 for training including introductory and refresher courses. The clear intent of this RSSA was to use the Graduate School to obtain the equivalent of direct-hire staff to perform a discreet function inherently governmental in nature.

Except for a nominal amount of administrative support, all the goods and services purchased by AID from the Graduate School were not "excess capacity" or available within the Graduate School but were obtained by contract by the Graduate School from private sources.

AID Recruited or Selected Personnel to be Employed by GS  
AID Handbook 12 states that responsibility for selecting qualified personnel rests with the participating agency and "under no circumstances are AID personnel authorized to suggest the names of individuals, firms or institutions to employees of another agency for contracting under PASAs or RSSAs".

Through interviews with 33 RSSA employees conducted jointly by USDA/IG and AID/IG, we found that 27 had initial contact with or were referred by AID prior to being hired by the Graduate School. At least 12 of these individuals were either former AID employees or contractors.

Examples of AID recruitment for Graduate School include:

- On March 7, 1984 the Acting Director of S&T/RD sent a memorandum to the Graduate School requesting "This is to request the provision of the services of (name omitted) to provide expert advice to the Development Administration Division in its effort to plan an agency initiative in institutional development... This consultancy should be arranged as a product contract; the following budget to be disbursed upon certification by the division on receipt of the products...."
  
- On July 28, 1983 an employee of PRE/PPR requested from the Graduate School "We would appreciate your handling of the contractual arrangements of the subject activity for us under our RSSA with you... We have identified (name omitted) of the Equator Bank as an individual particularly well qualified to carry out the scope of work.... Please complete the necessary contracting and other arrangements...."
  
- On August 22, 1983 the S&T/MD requested from the Graduate School a developmental management specialist. S&T officials, by memorandum to Graduate School said "... Attached is a position description and scope of work for a one-year appointment (renewable) of a developmental management specialist to support S&T/MD as a replacement for (name omitted) who is leaving on October 1. We have developed the position description as a General Schedule-14, step 1 with an initial salary of \$41,277, subject to percentage increases corresponding to future increases in Federal Government salaries. The attached budget provides for salary, travel, moving costs and other direct costs of the appointment. Also attached is a Form 171 for (name omitted), the prime candidate for the position... We would like him to report for work on or about September 8, ...."

Loss of Controls Over the Authorization and Payment for RSSAs by AID - AID Handbook 12 states that the Participating Agency Staff in M/SER/CM is responsible for reviewing the submission package received from AID bureaus requesting RSSAs. This review is supposed to ensure, among other things, that this package is complete and that the means requested for obtaining the goods and services complies with governing laws and

regulations. The Participating Agency Staff is to then negotiate and execute the RSSAs in the same manner as it would other negotiated contracts. Also, the Participating Agency Staff is to negotiate any needed changes in the services provided.

Our review of 15 RSSAs--eight with the Graduate School and seven with Federal agencies--showed that the Participating Agency Staff executed RSSAs based on requests received from AID bureaus with little more than a perfunctory clerical review. The Participating Agency Staff should have required factual analyses from the bureaus to ensure that the requested goods and services were "technical" in nature and could not be satisfied through private sector sources as set forth in OMB Circular A-76.

Implementation subagreements were used to authorize discreet tasks performed under Graduate School RSSAs. The subagreements specified the work to be done, who was to do it, and the funding arrangements. These subagreements were critical in that the agreements actually determined what goods and services were procured. We found that these subagreements materially changed the terms and conditions of some underlying RSSAs. For example, we noted changes in the individuals designated in the RSSA and those actually assigned to specific projects through the subagreements. Also, salaries were sometimes substantially increased. Other material differences included line items in the subagreements which were not authorized in the RSSAs and restructuring of administrative fees.

The subagreements were executed directly between AID bureau officials and the Graduate School without the involvement of the M/SER/CM Participating Agency Staff. In order to adequately protect the financial interests of AID, these subagreements should have been reviewed and approved by M/SER/CM prior to execution.

Officials in M/SER/CM stated that they were not aware that AID bureaus were entering into subagreements with the Graduate School that served to modify the terms and conditions of the underlying RSSAs. It was their understanding that the program bureaus were only providing technical direction within the provisions of the RSSAs. They further stated that any proposed modifications to the underlying RSSAs required the review of the Office of Contract Management and would need to be negotiated and executed by the Participating Agency Staff.

Since the subagreements were the documents that directly initiated the expenditure of funds and the subagreements often modified the terms and conditions of the underlying RSSAs, M/FM should have reviewed them before making any payments. However, we found that M/FM did not even have copies of these subagreements and therefore was not in a position to exercise adequate judgment over the validity of payments made.

When making payments to the Graduate School, AID Financial Management staff made the payments with the understanding that the school was another Executive Branch agency and subject to Federal procurement regulations designed to safeguard the expenditure of public funds. The School, as a non-appropriated fund activity, was not subject to any Federal regulation and when billings were received from the Graduate School, none of the requirements of AID Handbook 19 or Federal procurement regulations were exercised by AID Financial Management staff. Consequently, the billings made by the School to AID were in fact requests for cash advances and not actual itemized expenditure reports. AID officials considered these billings to be actual expenditures made by the School under the proper controls and reviews required by Federal regulations. The result being the expenditure of public funds without any oversight required by Federal regulations.

Our review showed that of the \$9.5 million advanced to the Graduate School \$8.3 million was expended. Consequently, the Graduate School had a "float" of about \$1.2 million. Of the \$7.3 million in payments to the Graduate School that we reviewed, 79 percent or \$5.8 million were for cash advances. The 118 cash advances included in this group ranged from \$10,000 to \$300,000. Also, because overhead was recorded as an expenditure at the time the first advance was billed, actual Graduate School expenditures were overstated to the extent the overhead charged had not been earned.

At the time of our review, M/FM did not even know that it was making cash advances, but instead thought these amounts represented payments to reimburse the Graduate School for incurred expenses. The reason for this was that the Graduate School billings were submitted directly to M/FM and did not detail the expenses requested for reimbursement. M/FM did not request an explanation. The only control over disbursements we found was by total dollars obligated under the RSSA. Thus, as long as dollar value of the vouchers submitted did not exceed the collective total obligated under the basic RSSA and its amendments, M/FM approved them for payment.

### Management Comments

AA/M indicated that the action taken to terminate all agreements with the USDA Graduate School have more than accomplished the actions required by Recommendation No. 2, parts a. & b.

### IG Comments

We agree that the action called for by Recommendation No. 2a. is no longer required. Therefore this part of the recommendation will be closed on the issue date of the report. However, we have retained Recommendation No. 2b., in a slightly revised form, because we do not believe appropriate official instructions have been issued to the AID Contract Management Staff covering future A.I.D. procurements from the Graduate School.

### 3. Improper Financial Management Practices In RSSA Procurement

Numerous improper financial management practices were inherent in the RSSA relationship with the Graduate School. These resulted from the lack of effective control and oversight of subagreements by AID contract and financial management staff. Most problems were created by AID program officials authorizing the expenditure of public funds beyond their authority to do so and often outside of accepted procurement channels. Consequently, many goods and services procured from the Graduate School did not comply with the FAA and other applicable regulations.

#### Recommendation No. 3

We recommend that the AA/M:

- a. immediately require the Graduate School to provide detailed cost information with each request for reimbursement,
- b. review the documentation for allowability and reasonableness prior to payment,
- c. review all subagreement expenditures and identify all equipment purchases and unallowable entertainment expenses,
- d. inventory all equipment purchased as AID property and, for equipment not justified on existing "technical services" subagreements, require the equipment to be returned to AID, and
- e. require the Graduate School to refund to AID all entertainment and other unallowable costs.

#### Discussion

The Participating Agency Staff (PAS) in the Office of Contract Management Support Operations Division (M/SER/CM/SO) is responsible for reviewing the documentation received from AID bureaus requesting RSSAs. This review is supposed to ensure, among other things, that the package is complete and that the procurement of goods and services complies with agency regulations. The PAS is supposed to negotiate and execute the RSSAs in the same manner as any other negotiated contract or interagency agreement AID has established with participating agencies.

With respect to payments made to the Graduate School, M/FM is responsible for reviewing and making payments. The Office of Financial Management should ensure that payments are reasonable, allowable and goods and services purchased comply with applicable federal and agency regulations. For example,

- vouchers submitted for payment should have sufficient information to enable responsible officials to determine what is being billed in relation to what has been authorized and
- vouchers submitted for payment should be administratively reviewed and approved by project officers within the bureau requesting the services to ensure that the services were performed as stated. Also,
- expenditure summaries and related documentation should be received and reviewed by a voucher examiner in M/FM for completeness, accuracy, and allowability.

Our review showed that the controls exercised by AID's Office of Financial Management (M/FM) over disbursements made under participating agency agreements were virtually nonexistent. Among the tasks required of certifying officers to protect the Government against improper contract payments is a review of basic documentation to determine whether (1) the payment was authorized by Agency officials in a position to verify that goods and services were received, and (2) vouchers submitted for payment were prepared in accordance with underlying agreements. These controls either were not existent or not exercised. The only meaningful control we identified was that the billings received could not exceed the collective total obligated under the basic RSSA and its subsequent amendments. Consequently, numerous improper financial management practices resulted.

Examples of the procurement actions with the Graduate School which violated accepted procurement practices included:

- Substantial indirect salary costs were included in the RSSA budgets for services which were not defined. Thus, it was not evident as to what AID was to receive for the money being committed. These overhead charges were approved by program officials and the Participating Agency Staff never negotiated or challenged the basis for or legitimacy of these indirect charges.

- Several equipment items were included in some of the RSSA budgets ranging from filing cabinets and typewriters to personal computers. Again, no questions were raised as to why these purchases were being made through RSSAs rather than normal AID procurement channels. For example, \$8,446 was expended for office furniture purchased from a company in Landover, Maryland. The furniture was delivered to an AID office building in Rosslyn, Virginia. \$3,226 of video and audio equipment was purchased from a video company in Tysons Corner, Virginia. Also, \$2,760 or 1,725 pounds sterling were used to purchase typewriters in London, England. Payment was made to the National Westminster Bank Ltd., 25 Old Broad Street, London, England.
- One project we reviewed which was staffed under a Graduate School RSSA included \$17,680 in its budget for equipment that, according to the justification, was "not available through normal AID channels." This equipment included such easily procurable items as file cabinets, typewriters, copying machines, personal computers, and related materials and supplies.
- In our review of another project, we found that an AID employee asked a Graduate School official if it was authorized to buy personal computers under RSSAs. The affirmative response to this question served as the basis for including equipment items in the project budget. Appendix D to this report lists equipment and supplies found in our review.
- RSSAs with the Graduate School often included equipment items that should have been procured through normal AID procurement channels. This is because the Graduate School is not subject to Federal Acquisition Regulations and adequate internal controls over these purchases were therefore lacking. Purchasing these items through AID channels would have ensured that a reasonable price was paid and, as a minimum, would have saved AID the 25 percent fee charged by the Graduate School for all items purchased.
- Fringe benefits ranged from zero to 44 percent and likewise were not negotiated. Further, the Participating Agency Staff was unable to tell us how these rates were constructed or what was included in the rate calculation.

- Budgets containing salaries and daily rates in excess of the FSR-1 \$252 daily salary limitation were often approved without adequate support. Unauthorized salaries and daily rates in excess of these limitations were even more common in subagreements. These excessive salaries were as much as \$870 a day. Salaries in excess of this rate must be approved in writing by the Office of Contract Management (M/SER/CM). In turn, this approval is predicated on an action memorandum being prepared by the technical office and approved by the assistant administrator.
  
- Instances were found in which AID used the Graduate School to contract for services from private firms. For example, in September 1983 an individual in the Bureau for Private Enterprise asked the Graduate School to analyze a proposal received from a private sector firm and to contract with this firm to do the proposed work. Rather than contracting directly with this firm, however, the Graduate School issued a series of personnel services contracts to the contractor's employees. All of the work products and payment vouchers were submitted on the firm's stationary and rendered by an officer of the firm. Also, the checks sent to the contractor's employees were deposited into the firm's bank account. AID, in essence, used a non-appropriated fund instrumentality to contract for it.
  
- Several expenses incurred by the Graduate School and charged to AID projects were not allowable such as for dining, flowers, and other entertainment expenses.
  
- A management fee for administering the RSSAs was charged by the School. This fee was a straight 25 percent of all costs. In reality, this represents a cost plus a percentage of cost agreement an illegal method of procurement from the private sector. Add this fee to other overhead costs and indirect salaries--the cost of which were about evenly split--total indirect costs under the Graduate School RSSAs represented .47¢ for every \$1.00 of direct costs.
  
- On several occasions, a retired AID employee from the Africa Bureau has been paid for work performed before his services were formally requested. For example, he was paid for services performed from August 26, 1983 through September 30, 1983 even though AID did not officially request his services under a RSSA until September 21, 1983.

- A consultant from the Graduate School worked under a RSSA covering the period October 1983 to May 1984. Pursuant to the RSSA he held the position of a loan officer in the Private Enterprise Bureau, supervised two direct-hire AID employees, and was involved in establishing bureau policy. When a position was authorized for the job he was already filling, he was dropped from the RSSA to become a direct-hire AID employee effective April 30, 1984.
- Another individual was contacted by an AID employee in the Private Enterprise Bureau to work on a capital market study. This individual performed these services during the period May 1 through May 18, 1983, with all arrangements being made by AID personnel. However, AID did not ask the Graduate School to obtain the services of this individual under a RSSA until June 13, 1983, and he did not sign an agreement with the Graduate School to provide them until July 7, 1983, or 50 days after he had already returned from this assignment.
- The audit found that the Graduate School did not always require contractors to submit written progress reports and/or final products for review and approval prior to authorization of payment. Graduate School contract and program personnel said that, for the most part, products were submitted directly to AID by contractors. Graduate School program managers and coordinators relied on the client agencies to inform them that the services had been performed and were acceptable. The extent of the problem is documented in a July 24, 1984 letter to an AID contractor. The letter states in part:

"Please note that we have made an additional requirement of our consultants upon completion of their work. In an effort to become more actively involved in the projects, we are requiring that each consultant submit a short summary of effort upon completion of their work. Basically it can be just a brief explanation of what you have done or if you submitted a report to BPE, a copy of the report would probably do."
- As discussed previously, nearly the whole amount obligated under Graduate School RSSAs and their subsequent amendments were sometimes drawdown long before expenditures were made. Such advances were not authorized by the RSSA but rather were provided

for by payment schedules in the subagreements. These payment schedules did not adequately consider the amount of cash needed by the Graduate School under RSSAs. Examples of excessive advances include:

	<u>Period Covered</u>	<u>Date of Advance</u>	<u>Amount of Advance</u>	<u>Amount Authorized</u>
<u>Example A</u>				
Original RSSA	9/01/82- 11/30/83	11/30/82	\$ 113,000	\$ 113,000
Amendment No. 2	11/30/83- 10/15/84	1/13/84	44,823	44,823

Example B

Original RSSA	8/01/83- 9/30/84	9/01/83	197,800	197,800
Amendment No. 1	1/01/84- 12/31/84	2/08/84	300,000	532,900

As discussed earlier, the actual procurement of goods and services from the Graduate School was done through a series of implementation subagreements. These subagreements were negotiated and executed between the AID bureaus and the Graduate School. While the total amount obligated under the RSSAs remains the same, the subagreements modify and control how the work is to be done, who is to do it, and the funding arrangements. Our review showed that M/FM did not even have copies of these subagreements. Without knowledge and understanding of these subagreements, M/FM could not adhere to established and accepted internal controls. In summary, the lack of control by M/FM is illustrated as follows:

- Of the total number of Graduate School vouchers reviewed, 118 were for cash advances ranging from \$10,000 to \$300,000 and accounting for \$5.8 million or 79 percent of total disbursements. At the time of our review, M/FM did not know that it was making cash advances, but rather thought these amounts represented payments made pursuant to actual disbursements.

- The reason M/FM was not able to distinguish between cash advances and disbursements made pursuant to actual expenditures was that the vouchers submitted did not provide, and M/FM did not ask, for an explanation of what the amounts represented. Even in the few cases where vouchers were submitted pursuant to actual expenditures, they stated only the dollar amount requested along with the RSSA number and funding sources. Our first indication that these invoices largely represented cash advances was that the amounts were in even dollars whereas actual expenditures would tend to be in uneven amounts.
- Only 30 (12 percent) of the vouchers reviewed were administratively approved by a project officer from the bureau in which the work was being done. Since all of these vouchers were for advances rather than expenditures incurred pursuant to work actually performed, this process meant little since there was nothing on which to base these approvals.
- While all vouchers were approved by an examiner in M/FM, the lack of underlying documentation again provides no basis to support these approvals.

Similarly, all vouchers are approved by a Certifying Officer in M/FM. But without any underlying documentation on which to base this certification, it has no meaning from an internal control standpoint. However, this certification is critical for two reasons: (1) the Treasury will not schedule the vouchers for payment without it, and (2) it is the final checkpoint prior to the actual disbursements of funds and thus vital to protecting against improper payments.

We found that M/FM had no documented procedures outlining the steps to be taken by either the voucher examiner or Certifying Officer to ensure that the payments made under participating agency agreements were legal and properly supported within budget line-item limitations. Further, a voucher examiner in M/FM who actually approved some vouchers for payment was not able to detail review responsibilities or what the approval of the invoices signified.

The only control over disbursements we found was by total dollars obligated under the RSSA. That is, as long as the vouchers requesting funds did not cause the collective total obligated under the basic RSSA and its amendments to be exceeded, M/FM approved them for payment.

## B. Compliance and Internal Control

### 1. Compliance

Our audit identified numerous areas of significant noncompliance with Federal law, OMB Circular A-76 and Agency regulations as shown below:

#### Foreign Assistance Act (FAA)

- Most goods and services purchased were not "technical services" as required by the FAA;
- The Graduate School was not "particularly or uniquely suitable for technical assistance" as required by the FAA; and
- Most goods and services were competitive with private enterprise which was in direct conflict with the FAA.

#### OMB Circular A-76

- Cost comparisons were not made to determine if it was more economical to obtain services from another agency rather than private sources; and
- Goods and services were not "excess capacity" of another Federal agency as envisioned by OMB Circular A-76.

The Agency's almost total noncompliance with the FAA and OMB Circular A-76 resulted from both the almost total loss of control over procurement by AID Contract Management staff and the method in which goods and services were purchased from the Graduate School.

### 2. Internal Controls

The internal controls established through AID Handbook 12 and 19 were almost completely circumvented in both the initiation of procurements and the payments made for goods and services.

#### AID Handbook 12

The actual authorization for the expenditure of funds was made through informal subagreements rather than the formal RSSA agreements approved by AID Contract Management staff. AID program officials did not follow Handbook 12 requirements in authorizing procurement actions.

AID Handbook 19

AID Financial Management staff did not follow the controls set forth in Handbook 19 when making payments to the Graduate School. AID officials made the payments with the understanding that the Graduate School was another Executive Branch agency. Therefore, the School was subject to Federal laws and regulations governing expenditure of public funds and responsible for executing those controls.

FINAL REPORT

FINANCIAL AUDIT OF SELECTED  
AGENCY FOR INTERNATIONAL DEVELOPMENT/  
RESOURCE SUPPORT SERVICES AGREEMENT  
WITH THE U.S. DEPARTMENT OF AGRICULTURE GRADUATE SCHOOL  
PURCHASE ORDER NO. OTR-0000-0-00-5023-00

Prepared for:

Agency for International Development  
Regional Inspector General A/A

Prepared by:

Benjamin Weinmann, P.A., CPA  
702 Russell Avenue  
Gaithersburg, Maryland 20877

March 28, 1985

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TO: The Agency for International Development  
Office of the Inspector General  
Washington, D.C. 20523  
Attn: Mr. William Graham, Project Officer

### INTRODUCTION

Pursuant to Purchase Order No. OTR 5023-00, we have completed a financial audit of a selected Agency for International Development (AID) Resource Support Service Agreement ("RSSA") with the Graduate School ("School"), a non-appropriated fund activity located in the U.S. Department of Agriculture. After an appropriate survey, we selected RSSA BST 1096-R-4G105 for examination and for verification of documentation supporting Graduate School billings to AID. All completed projects under the RSSA, which were so identified to us by representatives of the School were examined.

To the extent appropriate for the limited audit required by the Purchase Order, our audit was performed in accordance with generally accepted auditing standards and the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, as published by the Comptroller General of the United States.

### OBJECTIVES

Our objective was to determine whether records maintained for the RSSA provided the necessary information to support charges to AID, including:

- o whether expenditures made by the School and charged to the RSSA were in conformance with the underlying agreement and implementing sub-agreements;

- o whether prices charged and overhead rates used under the RSSA were reasonable;
- o whether cash received by the School was in excess of its current disbursing need; and
- o whether indirect salary costs charged to the agreement were authorized and reasonable.

#### SCOPE

After surveying several RSSAs, RSSA BST 1096-R-AG-1095 was selected for a detailed audit. At the time of examination, 37 projects with budgets totalling \$4,323,140 had been approved by AID and started by the School on this RSSA. The School records indicated it had incurred \$2,891,000 and had billed AID \$3,217,000 on these projects. Our examination included a review of those 24 project agreements identified by the Graduate School representatives as having been completed. These 24 projects were budgeted for \$296,000; the School had incurred costs of \$302,000 and had billed AID \$282,000. Pursuant to agreement with your staff we limited our examination to the closed projects because the final amounts for costs and billings had been entered on the School's records and were presumably not subject to adjustment. For these projects, we systematically selected and examined every tenth charge shown on the International Program Reports. These reports associate the charges by the School to the individual projects. We also screened the other project charges and selected additional ones based on dollar value or unusual character. In addition, we verified the calculation of the overhead charged to each project examined. We did not extend the examination to projects which were still in process.

Purchase Order No. 5023 specified that certain audit steps were to be taken. During our examination, pursuant to agreement with the Project Officer, certain audit steps were modified as follows:

- 1) Determine the amounts the School has received pursuant to the agreement/sub-agreements and reconcile these amounts with those recorded as billed on the School records. (The original requirement was to determine the amounts AID had disbursed.)
- 2) Make appropriate tests to determine what services AID has received for the amounts expended. (This deleted the requirement to assess the reasonableness of the price paid for the work done, since price reasonableness was determined by negotiation between AID and the School.)
- 3) Compare School billing dates with the dates cash was received from AID; also compare the dates expenditures were made to determine whether the School was prebilling AID. (The original requirement was to determine the amount of cash which has been received by the School in excess of its current disbursing needs and identify where this money is held.)

Due to this audit's limited scope, it would not be appropriate to project any of its results. However, we believe it important to note that costs incurred on the closed projects were less than seven percent of the amounts authorized by the RSSA, which has been open-ended for several years. The RSSA,

originally dated September 17, 1981, has been amended 23 times and extended to September 30, 1985. Our audit results, therefore, reflect on the adequacy of surveillance over the Graduate School's accountability system and related internal controls.

Although we audited to verify charges to AID, we could not determine from School records whether the rates used for allocating overhead to projects were reasonable. We reviewed the nature of the charges included in each project, the documentation supporting the costs, and the validity of the costs and the billings. Our examination was conducted at the Headquarters of the School in Washington, D.C.

#### SUMMARY OF AUDIT RESULTS

The audit disclosed no transactional improprieties by the School in its performance of the work required to be done by the AID RSSA, however, internal control problems appeared evident.

The School's efforts at financial controls appear to be limited to assurances that its cumulative billings did not exceed the total amounts obligated under the RSSA as amended. However, we saw no evidence that efforts were made to relate and identify projects with RSSA amendments. For example:

- 1) Project No. 32 referred to BST 1096-R-AG-1095-8 and was dated July 26, 1983 for "Training and Technical Assistance" from July 12, 1983 to January 12, 1984. Yet RSSA Amendment No. 8 was dated September 29, 1982 for the 1982-83 fiscal year for a "Public Finance Economist and

a Rural Development Specialist"; the performance period was shown as September 30, 1982 to November 30, 1982. Moreover, the project's basis for indirect costs was different from that shown in the RSSA amendment.

- 2) Irregularities in project agreement signatures were noted. Four of the 24 project agreements reviewed (No. 1, 3, 5, 29) were not signed by any AID representative. We were informed that Project No. 1 was not signed because the signature on the basic RSSA was considered binding and applicable. All other project agreements were signed by Jerome P. French, Director of Office of Multisectoral Development of the Science and Technology Division, or one of his assistants at AID. None of them were signed by authorized AID Office of Contract Management representatives.
- 3) Project orders did not always conform to the RSSA. All project orders were priced at estimated cost plus a fixed rate for overhead, without regard whether projects were identified as fixed price or cost-plus-a-fixed fee. Estimated prices were usually billed in advance before all costs were incurred.

Changes were made in overhead rates; after project 6, 25% of costs applied. The first project showed (a) 15% of salaries, (b) plus 13% of (a) and (b), plus 22% of the cumulative amount ((a) and (b)) for general and administrative expense; this was in accordance with the original RSSA. Project Nos. 2 to 6 applied overhead of

24% of consultant fees, plus 11% of the cumulative amount for general purposes.

We also found certain practices which we feel should be revised for a more reasonable determination of the charges to AID for the services rendered.

#### DETAILED AUDIT RESULTS

In other respects, certain expenditures for support costs were questioned. We found that \$3,025 out of \$6,572 (46%) of support costs charged directly to the projects we audited were for salaries of personnel not named on the original or amended RSSA which funded the project. Details are shown on Attachment No. 1.

We found that some projects were billed in excess of total costs while others were billed for amounts less than total costs. Since the RSSA was the obligating document, there appeared to be no overbilling because the aggregate billings did not exceed the total cost. However, we saw no evidence that the School exercised oversight of projects to assure that there were no overruns of project costs or that such overruns were approved by AID. If the project orders were the obligating documents, billings at that level could have been more appropriately related to total costs expended.

The reasonableness of prices paid by AID could only be determined insofar as they were related to the costs incurred by the School. Except for the support cost component, direct charges were adequately documented. Although support costs were

incurred, it is questionable whether they should have been charged directly to the project, or should have been absorbed by the School as part of the overhead. For example, Project 34 contained charges for payment to a job agency for temporary clerical help and overhead.

It was not possible to evaluate the reasonableness of the overhead rates charged since adequate accounting support was not available. The absence of available information as to the basis for arriving at the overhead rates, prevented our verifying the rates. As indicated previously, the overhead rates used during the period under audit changed. Although there was no evidence of support for the overhead rates used, School representatives said the rates were consistent with the agreement with AID.

Our comparison of the dates billings were paid by AID with the dates expenditures were made by the School did not disclose any conclusive evidence of excessive prepayments. Although there were instances of payments some months before the School made the expenditures, there were also many payments made by AID several months after the School paid the cost for a project.

The indirect salary costs charged as support costs to the agreement were, generally, in accordance with time identified to the job on Time and Attendance sheets. To that extent, they were reasonable. However, as mentioned before, some of the indirect salary costs charged to the projects were not expressly authorized in the agreement. Furthermore, we believe that support costs, as represented by these indirect salaries, should not be direct charges to a project but should be considered part of the overhead, to be included in the overhead rate.

### OTHER COMMENTS

We saw no assurance that the School's records accurately reflected the charges to projects; accordingly, there is no assurance that billings to AID are proper. The School initially gave us copies of International Program Reports which were supposed to detail all charges and billings by project. These reports, prepared by the International Programs Office, had not been reconciled with the School's official financial records (maintained by the business office). At our insistence, the International Office later reconciled its closed project records with those of the business office and provided us with substantially revised reports. Based on our experience, we question whether the unaudited open projects are in condition for audit.

### RECOMMENDATIONS TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT

- A. Consideration should be given to strengthening contracting practices by requiring that the overhead rate to be used in costing projects be supported by a properly maintained overhead pool; and that the rate be appropriate for the proper distribution of the overhead to all jobs.
- B. Before fixed price agreements are signed, the price should be carefully evaluated to make certain that the cost data do not include, as direct charges, support costs which are also included in the overhead pool and then allocated to the projects through an overhead rate.

- C. To make certain that each project is not billed in excess of the costs for that project, the obligating documents should be at the project order level.
- D. Consideration should be given to the use of different rates based upon the location of work performance and the administrative support required to be provided by the School. For example, we question whether a project performed in another country or at another location in the United States should be charged overhead at the same rate as one which is to be performed at the School; many overhead costs attributable to School activities (e.g., rent, utilities, phone service, secretarial support) may not be applicable to such projects.
- E. AID should require the School to take whatever action is necessary to place the open project records in condition for audit.

#### AUDITEE'S COMMENTS

At an exit conference on March, 8, 1985 with the Director and other representatives of the International Programs of the School, we were informed that:

- 1) In their opinion, the RSSA's contained identified persons who could be charged directly as "support costs" to projects. However, as of January 1, 1985, all administrative and support costs of International

Programs non-contract employees will be charged to overhead. Support costs are no longer to be charged as direct charges to a project.

- 2) Project orders are now the basic documents for control of costs in order to avoid overruns. Billings will be based on cost expended rather than estimated, budgeted costs.
- 3) The accounting records will identify overhead costs to permit verification of the reasonableness of the overhead allocation rate and to permit verification of the nature of costs included in overhead.

DEPARTMENT OF AGRICULTURE GRADUATE SCHOOL  
AID RSSA # BST-1096-R-AG-1095  
ANALYSIS OF CLOSED PROJECTS

Project Number	Amount Billed	Amount Spent	Direct Charges	Support Charges	Overhead Charges
1	49,633.00	45,293.13	29,004.00		16,289.13
2	17,805.00	22,480.43	16,200.00	106.71	6,173.72
3	*	17,898.36	12,900.00	83.00	4,915.36
4	6,389.00	6,389.00	4,445.00		1,944.00
5	825.84	827.16	600.00		227.16
6	26,003.00	19,828.20	12,991.08	1,509.24	5,327.88
8	13,087.00	12,908.46	8,838.37	1,488.40	2,581.69
11	4,569.38	5,155.75	3,655.50	469.10	1,031.15
12	40,000.00	37,536.93	28,547.82	1,481.72	7,507.39
15	7,500.00	7,577.00	6,062.00		1,515.00
18	22,825.00	22,669.95	17,817.79	318.17	4,533.99
22	9,131.00	10,420.99	7,861.04	475.75	2,084.20
23	650.00	655.60	524.60		131.00
26	9,880.00	9,903.13	7,869.00	53.50	1,980.63
27	6,000.00	5,005.00	4,004.00		1,001.00
28	1,706.00	1,507.58	1,024.50	181.56	301.52
29	14,200.00	14,804.66	11,805.51	38.22	2,960.93
30	12,450.00	12,547.50	9,900.00	138.00	2,509.50
31	850.00	595.36	449.20	27.09	119.07
33	2,483.00	49,363.50	3,861.76	87.32	987.27
34	8,295.00	7,771.33	6,217.38		1,553.95
35	7,198.00	6,892.46	5,457.80	56.17	1,378.49
36	18,500.00	25,874.36	20,641.72	57.77	5,174.87
38	3,163.00	2,930.63	2,344.50		586.13
<b>TOTALS</b>	<b>282,543.22</b>	<b>302,409.32</b>	<b>223,022.57</b>	<b>6,571.73</b>	<b>22,815.03</b>

\* Invoice not paid by AID - thought it was duplicate of invoice for Project # 2.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

ASSISTANT TO THE ADMINISTRATOR  
FOR MANAGEMENT

6 SEP 1985

MEMORANDUM FOR AIG/A, James B. Durnil

FROM: AA/M, R. T. Rollis, Jr. *R. T. Rollis, Jr.*SUBJECT: Draft Audit Report "Resources Support Service  
Agreements Between the USDA Graduate School and  
A.I.D."

Although the draft report discusses several areas where improvements have been necessary, it is unfortunate that the report and especially the executive summary do not put the findings sufficiently in context.

The Graduate School was considered a Federal Agency until November 29, 1984

The report should mention that because the USDA Graduate School was considered a Federal Agency until late 1984, AID believed it was subject to the same level of oversight as is accorded other Federal agencies.

The report should convey the fact that the General Counsel's Office of the United States Department of Agriculture ruled in 1980 that the USDA Graduate School had the status of a Government Agency. Based on that ruling, which was verified by our own General Counsel, we treated the USDA Graduate School as a Government Agency and not as an independent contractor from 1981 through 1984. As such, we used our authorities under Sections 621(a) and 632(b) of the FAA and the Economy Act to enter into intergovernmental agreements in support of AID programs.

Corrective Actions Taken Prior to Audit

Extensive efforts have been made by many AID offices during the past year and a half in addressing various weaknesses in procedures as they related to the implementation of RSSA/PASAs. The focus of these efforts covered most of the

areas criticized in the report and ultimately resulted in a January 1985 issuance of a RSSA/PASA Guidance Manual.

For well over a year now the Agency has been reviewing policies, procedures and regulations governing Participating Agency Service Agreements (PASAs) and Resource Support Service Agreements (RSSAs) with other federal agencies to see if they could be improved. The Agency also began to review the ambiguous authorities permitting AID to enter into inter-agency agreements to ensure compliance with legislation and federal regulations. By August 1984, a task force consisting of representatives from AA/M, the Contract Office, Financial Management and General Counsel was convened to prepare the new RSSA/PASA manual providing criteria to procure services from another federal agency in lieu of the private sector and to clarify the standards and procedures for preparing and authorizing these agreements. This manual was designed for program officers, and is being incorporated into Handbook 12. In addition, the Management Bureau met last summer with the senior staff in all the bureaus that had RSSA and PASA agreements to explain how and when these arrangements were appropriate and what activities were not allowable under inter-agency agreements. Agency management was aware that some inter-agency agreements were not functioning properly and took action to provide new guidance and better oversight.

It is also unfortunate that the audit report does not emphasize that when AID learned in December 1984 that the Comptroller General issued a ruling changing the status of the USDA Graduate School, we immediately took steps to bring our agreements with the USDA Graduate School to an orderly close and informed the Graduate School that any future association would treat them the same as we would any independent contractor. That action makes most of your findings and recommendations moot. Federal agencies in general do not exercise the same oversight over other Government Agencies that we do in dealing with the private sector, yet your report does not explain this fact.

#### Oversight of Billings from Federal Agencies vs. Independent Contractors

The functions of a contract office and a finance office when dealing with billings from another Federal Agency should be described. Billings from other Federal Agencies are processed in accordance with the provisions of the Economy Act which provide that:

"Payment shall be made promptly by check on the written request of the agency or unit filling the order. Payment may be in advance or on providing the goods or services ordered and shall be for any part of

the estimated or actual cost as determined by the agency or unit filling the order. A bill submitted or a request for payment is not subject to audit or certification in advance of payment. Proper adjustment of amounts paid in advance shall be made as agreed to by the heads of the agencies or units on the basis of the actual cost of goods or services provided." (emphasis added)

An illustration of typical billings between Federal Agencies would be our billings from the Department of Labor for Bureau of Employment Compensation or from the Department of Health and Human Services for the health unit. Both provide minimal detail not unlike that provided by the USDA Graduate School.

In treating the USDA Graduate School as a Federal Agency we applied the billing procedures of the Economy Act. Given this, the draft audit report statement regarding "a total breakdown in internal controls" is not appropriate.

The role of the paying office is to ensure that claims for payment conform to the underlying agreement. Further, the review of detailed cost information is an audit function which is normally performed by an audit after performance. The determination of the allowability of individual costs is a combined function of the IG and the Contracting Officer. It is not the function of the paying office to pre-review detailed cost documents to determine the allowability of cost claims particularly when we are dealing with another Federal Agency. Nevertheless, since the USDA Graduate School is no longer considered a Federal Agency, we have taken actions to strengthen the billing requirements under the USDA Graduate School RSSAs and are also obtaining project officer administrative approval on all USDA Graduate School bills until the termination of these agreements on September 30, 1985.

#### Additional Peculiarities of Dealing with Other Federal Agencies

When dealing with Federal Agencies several additional conditions are normally in effect to which your report takes exception. When another Federal Agency bills us for their expenses, it is their responsibility to ensure the allowability of expenses and make sure that unallowed expenses such as entertainment are not included in the billings to AID. To expect AID to also spend time and energy checking for similar disallowances or to determine reasonableness is not necessary and in turn results in duplicate costs to the taxpayer.

Billings from other Agencies can also include charges for property purchased for the effort and/or charges for clerical support as either a direct charge, a part of overhead or as both. Such practice is not an unallowable cost as suggested in your draft report.

### FAA Authorities

The draft report recognizes that Section 621(a) of the FAA authorizes an exception to the provisions of Section 601(b)(7) and OMB Circular A-76, by stating:

"In such fields as education, health, housing or agriculture the facilities and resources of other Federal Agencies shall be utilized, when such facilities are particularly or uniquely suitable for technical assistance, are not competitive with private enterprise, and can be made available without interfering unduly with domestic programs".

However, you did not mention that Section 632(b) of the FAA gives the general authority to enter into RSSAs. It states:

"Any officer of the United States Government carrying out functions under this Act may utilize the services...and facilities of, or procure commodities...from, any agency of the United States Government as the President shall direct, or with the consent of the head of such agency..."

This is the authority to enter into General Agreements as well as those RSSAs which do not meet the criteria of Section 621(a). Under this authority AID may utilize the services of other Government agencies even if such services are not technical assistance to an LDC or AID recipient. In fact, the services may be for the direct support of AID.

### OMB Circular A-76

In comparing the efforts acquired from the USDA Graduate School to that discussed in A-76, the audit report goes much further than can be justified. For example, A-76 deals with commercial activities which are significantly different than the types of services procured from the Graduate School. The circular lists areas such as Audiovisual, Data Processing, Food Services, Industrial Shop and Services, Manufacturing, Maintenance of Vehicles, Printing and Reproduction. Few of AID's direct hire job categories are of this nature. In a recent OMB comparison with 16 other Federal Agencies, AID was at the bottom of the list with only 2.2 percent of our jobs subject to A-76 review. The government-wide average is 15 percent.

Examples of areas which have been agreed upon for A-76 review by AID and OMB include automated data processing, audiovisual, training, voucher examination and warehousing. It is possible that our RSSA with the USDA Graduate School to provide a

development information center is subject to A-76 requirements. Therefore we have initiated the competitive award process in the private sector.

#### Handbook 12 Provisions

The handbook reflects the ambiguity between the FAA and the Economy Act. The Economy Act criteria used are as follows:

- (1) amounts are available;
- (2) the head of the ordering agency or unit decides the order is in the best interest of the United States Government;
- (3) the agency or unit to fill the order is able to provide or obtain by contract the ordered goods or services; and
- (4) the head of the agency decides ordered goods or services cannot be provided as conveniently or cheaply by a commercial enterprise.

While AID's policy does favor the private sector, this is not absolute. In comparing the overhead rates charged by the USDA Graduate School with a sample of our commercial, nonprofit and university contractors, the rate charged by the USDA Graduate School was about half the average rate charged by those sample institutions.

#### Actions Taken to Reflect Revised AID/Graduate School Relationship

With the knowledge that the USDA Graduate School is no longer considered a Federal Agency, we have initiated several actions to change our prior relationship. For example, we began plans to phase out all inter-agency agreements with the Graduate School in February 1985. Notices of termination on all remaining agreements were mailed on June 13, and June 25, 1985, with an effective date of September 30, 1985 (which honors the 90 day advance notice requirements of the agreements).

While we have offered to entertain contract proposals from the Graduate School for future competitive selections, any awards would be subject to the acceptability of their accounting system.

If they are selected for future work through the competitive processes, they will be subject to the normal contract procedures which will include:

- pre-contract audit
- more stringent billing procedures
- tighter controls on the ability to obtain advance payments
- negotiated overhead rates in accordance with commercial contract practice
- greater accountability for inventorying and disposing of property
- the Federal Acquisition Regulation's contract cost principles on the allowability of costs
- project officer certification on all vouchers
- AID's administrative controls for monitoring contract activities

As stated previously payments were made to the Graduate School in accordance with the Economy Act. The Act provides for payment based upon billing "for any part of the estimated or actual cost as determined by the Agency or unit filling the order. For the most part, the Graduate School submitted bills based on estimated costs; therefore the possibility of excess advances existed.

However, based on findings as set forth in the CPA (Weinmann) and the USDA IG reports, it does not appear that the Graduate School, as an organization, was a recipient of excess advances from USG agencies. Notwithstanding this and in an effort to determine whether excess cash still exists in the hands of the Graduate School pertaining to the AID RSSAs, we have initiated several actions. These include requiring all billings to include status of the total costs incurred on each task order as well as the payments received from AID to date. The Office of Financial Management is also working with the program offices and the Graduate School to reconcile payments to individual task orders.

Although this effort will provide an answer as to whether the Graduate School has been advanced cash in excess of their actual expenditures, it will not answer the question of whether the billings include any disallowable costs. This must be done by an audit and I hereby request that you formally ask USDA's Inspector General to perform a close out audit of all RSSAs. The benefit of having USDA do the audit is that they can determine if inappropriate or duplicate charges have been billed to AID, Army, USDA, or any of the 41 Federal agencies which did business with the USDA Graduate School.

Lastly, we are providing the following comments on your specific recommendations.

You recommend on Page iv. of the Executive Summary that:

"...AID should no longer do business with the Graduate School under a RSSA arrangement. We are recommending that a formal plan be developed for an orderly and prompt termination of all RSSAs that do not fall within the definition of the education and training mission of the Graduate School."

Since termination notices on all Graduate School RSSAs were issued in June, we do not believe this recommendation and the three subsidiary recommendations on Pages iv. and v. are relevant, particularly since any future relationship with the USDA Graduate School will be by contract mechanisms subject to the procurement regulations contained in the Federal and AID Acquisition Regulations.

You also recommend at the bottom of Page v. that:

"All equipment purchased be inventoried, identified as AID property, and if not justified for use on current 'technical services' subagreements, be returned to AID, and all unallowable costs such as entertainment be identified and refunds be obtained from the Graduate School for the cost."

We agree that as part of a final close out of the Graduate School activities, all AID property should be identified and returned to AID's account and that all unallowable costs should be identified and refunded.

Recommendation No. 1 on Pages 9 and 10 of the draft audit report is a restatement of the recommendation in the executive summary which we have addressed in the above paragraphs.

Recommendation No. 2 on Page 16 of the draft audit report recommends that AA/M do the following:

- "(a) Immediately assume control over RSSA procurement by informing the Graduate School and AID senior staff that all subagreements must be approved by AA/M and that all goods and services purchased must comply with agency regulations, and,
- "(b) Direct that all procurement actions with the Graduate School be strictly limited to the AID Contract Management staff, and inform the Graduate School that only AID contracting officers can authorize procurement."

The actions we have already taken to terminate all agreements with the USDA Graduate School have more than accomplished the recommended actions. In all future actions the USDA Graduate School will be treated the same as any independent contractor.

Recommendation No. 3 on Pages 37 and 38 of the draft audit report recommends that AA/M:

- "(a) Immediately require the Graduate School to provide detailed cost information with each request for reimbursement,
- (b) Review the documentation for allowability and reasonableness prior to payment,
- (c) Review all subagreement expenditures and identify all equipment purchases and unallowable entertainment expenses,
- (d) Inventory all equipment purchased as AID property and, for equipment not justified on existing "technical services" subagreements, require the equipment to be returned to AID, and
- (e) Require the Graduate School to refund to AID all entertainment and other unallowable costs."

As stated previously, we have either phased out or issued termination notices on all agreements with the USDA Graduate School. However, we recognized that our administrative mechanisms needed to be tightened even when dealing with another Government Agency. As a result, we issued the new "RSSA/PASA Guidance Manual" in January 1985, which tightened our administrative procedures and required a project officer's administrative approval of all voucher submissions prior to payment by our Office of Financial Management. This additional voucher review should alleviate any payment problems we might encounter in dealing with Government Agencies in the future. With regard to problems you have identified in previous billings with the USDA Graduate School, as mentioned previously we are asking the Graduate School for details but would look for an audit assist specifically identifying items of equipment or unallowable costs to be remitted to AID.

Since we have already phased out or are terminating all RSSAs with the USDA Graduate School, we are not responding to the recommendations contained in the financial audit prepared by Benjamin Weinmann. Those recommendations are moot since there will be no further work under inter-agency agreements with the USDA Graduate School.

Inspector General's Response to Comments  
Received From AA/M on RSSA Draft Report  
on September 6, 1985

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The statutory authorities cited in AA/M's response (Report Appendix B), as providing authority to enter into inter-governmental agreements with the USDA Graduate School are not relevant to the issues identified in the audit report. Assuming that any or all of the statutory provisions are relied on to justify the use of Resources Support Services Agreements by A.I.D., the factual findings contained in the audit report establish that in actual practice, during the time period covered by the audit, abuses occurred that went well beyond the scope of these authorities.

AID officials clearly violated the technical service limitations imposed by the FAA, OMB Circular A-76 and AID Handbook 12 in procuring services from the Graduate School. AID routinely procured clerical and general office administrative services, office equipment and even established a separate and distinct office within the AID organization through the use of RSSAs. Further, for those technical services purchased, AID frequently recruited and selected personnel for the Graduate School to hire or contract to perform the services requested. None of the work procured was excess capacity of a Federal agency or particularly suited to the Graduate School mission; rather, personnel services were specifically contracted from the private sector by the Graduate School to meet AID's needs. These procurement actions were contrary to the FAA, OMB Circular A-76 and AID Handbook 12. Numerous other financial management deficiencies or practices existed in the Graduate School's RSSA arrangement. AID routinely approved excessive salaries, the purchasing of equipment, paying for entertainment expenses, and retroactive authorization of work.

It must be clearly noted that the November 29, 1984 Comptroller General decision which found the USDA GS not to be an eligible organization for the use of interagency agreements also has little or no bearing on the matters disclosed in this report. Even if that decision had been the opposite, that is, confirming the early opinions including one by the general counsel of this agency, that the Graduate School was an "eligible organization" the activities of AID as set forth in this report would remain abuses and maladministration of the statutes and controlling regulations.

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Therefore, in summary, although A.I.D. has the authority to use interagency agreements with appropriate U.S. Government agencies, the USDA Graduate School is not such an organization. Furthermore, the misuse of the USDA Graduate School RSSAs by agency personnel is not addressed in the Management Comments.

Finally, the request to the IG of AID to seek from the IG of USDA certain audit work in connection with the matters disclosed in this report should be more appropriately re-directed by AID management to the IG of USDA.

APPENDIX D

Equipment, Furniture and Supplies  
Purchased By GS For AID

<u>Item Description</u>	<u>Amount</u>
Apple micro computer system package	\$ 4,691
Software	1,135
3 IBM select typewriters	2,010
Wang work station, printer, and disk drive	10,956
Wang upgrade	4,986
Micro computer display and software	2,448
Printer, peripherals, software	3,489
Data terminal with maintenance	2,106
Video equipment	800
Printer hood, supplies	490
Printer cable	797
Wang system	2,729
Office furniture	8,446
	<u>\$ 45,083</u>

List of Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	4
We recommend that the AA/M:	
a. review all existing RSSA subagreements, identify those subagreements which are not for technical services, and immediately terminate non-technical service procurements; and	
b. prepare for those subagreements which fall within the parameters of "technical services", a formal, orderly plan of transition for the RSSAs with the Graduate School to competitive procurement, with a completion date of no later than September 30, 1985.	
 <u>Recommendation No. 2</u>	 7
We recommend that the Assistant Administrator for Management:	
a. immediately assume control over RSSA procurement by informing the Graduate School and AID senior staff that all subagreements must be approved by AA/M and that all goods and services purchased must comply with agency regulations, and,	
b. instruct the AID contract management staff that any future AID procurement actions with the Graduate School shall be made only on a competitive basis in conformity with established federal procurement procedures and A.I.D. contracting policy.	
 <u>Recommendation No. 3</u>	 18
We recommend that the AA/M:	
a. immediately require the Graduate School to provide detailed cost information with each request for reimbursement,	

List of Recommendations

Recommendation No. 3 (Cont)

- b. review the documentation for allowability and reasonableness prior to payment,
- c. review all subagreement expenditures and identify all equipment purchases and unallowable entertainment expenses,
- d. inventory all equipment purchased as AID property and, for equipment not justified on existing "technical services" subagreements, require the equipment to be returned to AID, and
- e. require the Graduate School to refund to AID all entertainment and other unallowable costs.

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