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USAID/BOTSWANA
CONTRACTOR SUPPORT OPERATION

AUDIT REPORT NO. 3-633-82-13
MAY 14, 1982

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Regional Inspector General for Audit
Nairobi, Kenya

May 14, 1982

TO : Mr. R.T. Rollis
Assistant to the Administrator for Management

FROM : Ray D. Cramer *[Signature]*
Regional Inspector General for Audit/Nairobi

SUBJECT: Memorandum Audit Report on the USAID/Botswana
Contractor Support Operation.
Audit Report No. 3-633-82-13.

INTRODUCTION

USAID/Botswana was one of the first USAID's to provide contractors with their personal support needs by utilizing project funds in a distinctly separate Field Support Operation (FSO). After three years of utilizing the FSO concept at USAID/Botswana it appeared timely for RIG/A/Nairobi to analyze the efficiency, economy and effectiveness of this concept compared to AID's conventional approach of providing minimal support to contractors.

On February 23, 1982, during the course of our review, the AID Administrator directed the Bureau for Management to issue worldwide guidance to USAID's to improve contractor support; and stress the importance of adequate contractor support to Mission Directors by reminding them of the possibility that a third party services contractor may be necessary in some instances to provide adequate logistical support.

Since AID had already decided to improve logistical support for contractors, we decided to direct our comments on the USAID/Botswana contractor FSO to the Bureau for Management for it's use in implementing the Administrator's decision.

Our review included interviews with USAID/Botswana and FSO personnel, and an analysis of services and costs provided by the FSO. Comparisons were made between costs of maintaining an FSO to those costs that would likely be incurred by each contractor to support its own activities.

Summary

Our work at USAID/Botswana was management audit oriented and relied heavily on inputs and cooperation from the USAID/Botswana Controller. We found the FSO operation in Botswana to be economical, efficient and effective. Therefore, this report provides backup for the AID Administrators' decision on February 22, 1982 to improve USAID contractor support, particularly if provided on a model similar to USAID/Botswana's FSO experience. We suggest a new accounting methodology may be necessary to more readily allocate cost to the various projects. Finally, we believe a different approach is necessary to provide source procurement waivers for USAID managed FSO's.

BACKGROUND

USAID/Botswana provides for contractors logistic needs through a centralized Field Support Operation (FSO). This FSO was originally established by a direct hire general services officer, but after two years it was determined that two in-country expatriate employees could manage the operation with limited oversight from USAID/Botswana's Management Officer. This FSO is funded with project funds and provides a number of services to contractors including housing, furniture, appliances, maintenance, and customs clearance, expediting and forwarding. Commodity ordering, customs clearance, expediting and forwarding is also provided for all project commodities.

The USAID/Botswana FSO was established in 1978 to support a number of PASA employees. Due to the efficiency of this operation, it was decided to also support contract employees through the FSO. In most USAID's all contract employees are expected to provide for both their own and their projects' logistics support. Normally each contract will allow for a certain amount of personnel time to provide logistics support. Such support costs are billed to AID by the contractor.

FINDINGS AND CONCLUSIONS

USAID/Botswana's Field Support Operation Was More Economical, More Efficient and More Effective Than Contractor Self-Support

Our cost comparison between logistical support provided through the USAID/Botswana FSO and contractor self support indicated that USAID/Botswana's FSO saved approximately \$295,000 per year. We used FY 1980 and FY 1981 costs for comparison.

Previously in Botswana, adequate logistical self-support required that each of the PASA and contractor groups provide their own administrative backup, local help and secretarial assistance. The direct costs of self support coupled with an overhead rate of 25% to 35%, result in total support costs of approximately \$340,000 per year. These are considered minimal costs for any USAID having separate contractor or PASA teams working on nine projects.

USAID/Botswana's estimated cost experience for its FSO totaled approximately \$45,000 per year. This \$45,000 provided similar services to PASA and contract employees that would have cost \$340,000 by the contractor self-support method. Therefore, cost savings at USAID/Botswana can be estimated at \$295,000 per year by utilizing an FSO instead of the conventional contractor self-support operation.

It is our opinion that USAID/Botswana's contractor support approach is a very economical solution to the Administrator's decision to improve logistic support for better contractor productivity. The USAID/Botswana approach to contractor logistics support is obviously a much less costly alternative than hiring a U.S. contractor to provide logistical services.

The estimated cost savings obtained by USAID/Botswana has not decreased efficiency or effectiveness of the contractors involved. In fact, it appeared that both efficiency and effectiveness of contractors had increased.

Efficiency resulted from the FSO being able to prepare in advance for the arrival of project personnel. Otherwise, after the contractor arrived in-country, several months were often required to perform basic logistics functions.

The effectiveness of contract personnel was also improved by diminishing on-going support problems. Instead of the contractor leaving his project assignment to locate proper logistics repair or support services, he could contact the FSO which already had established repair and maintenance contacts.

Changes Needed In Accounting For Contractor/PASA Support In USAID/Botswana

In accordance with AID accounting practices, the budgeting and accounting system at USAID/Botswana attempted to allocate FSO costs back to specific projects. For any project in which technicians were supported, a budget was prepared for the life of project which estimated total funding required for support. When annual incremental Project Agreements were signed, they contained a specific line item for support. Funds were earmarked through a Project Implementation Letter specifying that AID retained control of the funds for the support of contract technicians. Commitment

documents (mostly Purchase Orders) were generated by the FSO and sent to the Controller's Office for funding and eventual payment against the particular project under which the technician was funded. Records were kept for each fiscal year with support funding for each involved project. There were a total of 22 separate Fiscal Year/Project combinations to which a transaction could be charged.

The USAID/Botswana system was designed to provide accurate charges for support by project. However, handling the charges in this manner consumed an inordinate amount of time in the Controller's Office, the Management Office, and the FSO. The FSO handled a large number of individual transactions (approximately 800 to 1,000 in a fiscal year), and most of these transactions were for relatively small sums of money. Ensuring that each of these transactions was charged to the correct project consumed a considerable amount of time in handling transactions of small value.

A more efficient system would establish a "clearing account" to merge all support funds. This clearing account would retain integrity for each budget plan code. Items to be funded for support would be provided fund availability based upon fiscal year balances in the clearing account. Payments would be charged against commitments made in the clearing account. This would allow all personnel involved in the preparation of documentation for funding and payment for support to disregard individual project numbers during the handling of individual transactions.

Charges using the clearing account should be pro-rated back to each project quarterly so that all charges would appear against projects on quarterly reports. The formula for sub-dividing these charges should be based upon technician-months of service during the quarter.

In response to our draft report on the above comments, USAID/Botswana stated.

"FYI we have queried FM regarding change in accounting procedure and they have agreed to our suggested alternative. We will therefore begin implementation of the accounting procedure as described."

We feel FM's positive step in approving a simplified system of charging costs into a clearing account and then pro-rating these charges to projects on a quarterly basis for USAID/Botswana should be allowed wherever a similar type support operation is established.

Current System For Obtaining Waivers For Support Activities Unwieldy

USAID/Botswana's FSO procured in Botswana substantial amounts of support items (e.g., furniture, appliances and repair services) whose source was the Republic of South Africa. These local purchases of commodities were cost effective and minimized require-

ments for warehouse space. However, the local procurement of items with Republic of South Africa origin required detailed documentation for specific project waivers. Due to the number of small value transactions this type of waiver control was not practical.

AID Handbook 1 sets out waiver guidelines and states, "All commodities financed by AID must meet tests of 'source,' 'origin,' and 'componentry'".

USAID/Botswana attempted to get AID/Washington approval to provide a source, origin, componentry waiver for the entire support budget. This would eliminate the need to document each procurement under a specific waiver. AID/Washington had given waivers for only a portion of the support budget; therefore, AID/Washington had not provided relief to the process of documenting each separate FSO procurement transaction.

In response to our above comments on waivers, USAID/Botswana stated:

"One of the continuing problems has been that support includes both goods and services, so a useful waiver would have to include both and not require separate controls. We believe this should be highlighted in the report."

As more USAIDs begin to utilize contractor support operations, additional guidelines will be required from AID/Washington on when procurement from the U.S. is required and when procurement from free world sources will be permitted. At that time, it will probably be necessary for AID/Washington to streamline the current system for obtaining waivers.

cc: Deputy Administrator
AA/AFR (3)
AA/PPC
LEG
GC
IG
FM
SER/CM
FM/ASD (2)
AFR/SA (2)
PPC/E
ST/DIU (4)
USAID/Botswana (3)