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AUDIT OF  
MANAGEMENT SYSTEMS AND CONTRACTING  
PROCEDURES - USAID/SOMALIA

AUDIT REPORT NO. 3-649-87-16  
July 29, 1987

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**UNITED STATES OF AMERICA**  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
**REGIONAL INSPECTOR GENERAL/AUDIT**

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July 29, 1987

MEMORANDUM FOR DIRECTOR, USAID/Somalia, Lois Richards

FROM: Richard C. Thabet, RIG/A/Nairobi



SUBJECT: Audit of Management Systems and Contracting  
Procedures - USAID/Somalia

This report presents the results of audit of management systems and contracting procedures in USAID/Somalia. Please provide written notice within 30 days of any additional information related to actions planned or taken to implement the report recommendation. We appreciate the cooperation and courtesies extended our staff during the audit.

Background

The audit was conducted at the request of the Assistant Administrator Bureau for Africa (AA/AFR). The request was made as a result of concerns that there were possible violations of Federal Procurement Regulations.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi, (RIG/A/N) conducted a financial and compliance audit of USAID/Somalia's procurement procedures. The specific audit objectives were to determine if the mission was complying with: (1) Agency fund control procedures, (2) Federal Acquisition Regulations (FAR) in the award and administration of contracts, and (3) requirements concerning the award of contracts based on unsolicited proposals.

A sample of USAID/Somalia procurement actions covering fiscal years 1984-87 were reviewed. Some of the actions reviewed were specifically identified by the AA/AFR to be included in our review. Other actions were selected based on leads provided by mission personnel. In other cases, selections were made based on a biased purview of contract files. All records and files related to the transactions were examined. Responsible officials were interviewed. The review included 12 personal

service contracts (PSC's) totalling \$546,962, 10 leases totalling \$95,946, 4 unsolicited proposals totalling approximately \$530,000 and 2 contracts for provision of supplies, materials and maintenance personnel. One contract was for \$82,500. Figures were not readily available for the other contract. The review of internal controls and compliance was limited to the findings reported. The audit was conducted in Mogadishu, Somalia, during the period February to May 1987 and was made in accordance with generally accepted government auditing standards.

### Results of Audit

The audit disclosed administrative violations of fund control regulations and non-compliance with procurement regulations concerning award and administration of contracts. Also, the mission had not complied with Agency regulations concerning the award of contracts based on unsolicited proposals.

Contracts and lease agreements were signed or amended prior to certification of funds availability. Contracts were awarded without documentation as to the basis for award; justification for less than full and open competition; and salary histories being verified. In addition, unsolicited proposals were not processed in accordance with Agency procedures.

While Agency regulations as well as local implementing guidance with regard to these matters are quite clear, the problems have persisted for a number of years and still continue. Accordingly, we recommended that guidance and procedures be prepared for policing and ensuring that Agency regulations are adhered to with regard to procurement practices.

1. Contracts and Lease Agreements were Signed Prior to the Certification of Funds Availability - Prior to commitment of funds, it is required that all obligations be cleared for funds availability. Contracts and leases were signed or amended before funds had been certified as a result of involvement by unauthorized personnel and pressure from the former Mission Director. Creating liabilities before availability of funds is certified could result in obligations which the Mission may be unable to fulfill.

Discussion - Clearance for funds availability is the mechanism which administratively controls Mission funds in order to prevent a statutory violation of the Anti-deficiency Act. In accordance with AID Handbook 19, Appendix 1A, Section A5 (4), the controller is responsible for assuring that obligations are

prevalidated for fund availability and recorded before the applicable obligation documents are released. USAID/Somalia also issued a Mission Order that requires all commitment documents such as Project Agreements, Project Implementation Orders, Project Implementation Letters, Contracts/contract amendments, purchase orders and any cables committing funds to be cleared for funds availability. This procedure is also outlined in the Mission's Project Implementation Standard Technical Operating Notes (PISTON) manual.

At least 17 contracts, 10 leases and 6 purchase orders did not have funds certification prior to commitment. Commitments ranged from one day to six months prior to certification of availability of funds. For example, International Group for Finance and Consulting (IGFC) was authorized to proceed with a study of the Somali leather industry on August 18, 1986. The contract was later signed on October 28 1986. The Project Implementation Order/Technical Services (PIO/T) was not signed and funds availability certified until February 12, 1987. Another example was a personal service contractor who worked for six months without a renewed contract and certification of availability of funds.

The practice of awarding contracts or authorizing work to proceed without proper fund availability clearances has been going on since at least 1984. For example, USAID files indicated that as early as September 1984, the controller had brought to responsible officials attention the problems of signing contracts or other commitments without prevalidation of funds availability. His predecessor also reported the problems on numerous occasions to no avail. To some extent the problem was caused by the former Director's insistence that documents be signed and work initiated quickly. For example, the former Mission Director kept telling the contracting officer to authorize IGFC to commence the leather study because "the PIO/T was in the mail". The contracting officer "took this on faith" and sent "a letter of intent" authorizing IGFC to commence the study and signed the contract on October 28, 1986. As previously indicated, the PIO/T was not signed until February 12, 1987. There was also a problem of making informal commitments which were contractual obligations made apparently on behalf of the Government by persons who did not have the authority to make such commitments. For example, one PSC wrote letters inviting people to Somalia to work as PSC's when PSC's are not authorized by the regulations to hire other PSC's.

While no violations of the Anti-deficiency Act were noted, creating liabilities before certification of funds constitutes an administrative violation of USAID fund control procedures. This could lead to a more serious section 3679 (Anti-deficiency Act) statutory violation.

2. The Award and Administration of Contracts Was Not in Compliance With Regulations - Federal Procurement Regulations require that contract files contain various documentation relating to the award of any contract and the reasonableness of the contract price. Some contract files reviewed did not contain the required documentation. As a result, there was no evidence that contract prices were justified. This was caused by too much involvement in contracting by unauthorized personnel as well as undue influence by the former Mission Director. Without strict adherence to procurement regulations, contracts awarded could result in inefficient and uneconomical actions which could cost AID substantial sums of money.

Discussion - The FAR subpart 704.8 requires contract files to contain: (a) a list of sources solicited, (b) a copy of the solicitation, (c) source selection documentation, (d) a full record of negotiation indicating justification for the contract price, (e) any required approvals and clearances, and (f) a copy of the original contract and contract amendments. Where a contract is to be awarded under AID Acquisition Regulations (AIDAR) 706.302-70 - other than full and open competition for contracts of \$100,000 or less and PSC contracts - there must be evidence that offers were solicited from as many sources as was practicable and a justification for less than full and open competition was prepared. USAID/Somalia also has a Mission Order that requires salary histories for PSCs to be obtained and starting salaries not to exceed 10 percent over the current salary.

From a review of 12 PSC contracts, it was determined that: (a) no justification for less than full and open competition was given in 11 cases where positions were not announced and there was no evidence that other persons were considered; (b) there were no records of negotiations in 6 cases and in 3 other cases the records were vague and did not include justifications for final salary; (c) effective dates of 5 original contracts and amendments to 5 PSC contracts were prior to the dates of signing such contracts/amendments; (d) salary histories were not verified for 9 PSCs and the starting salaries were questionable; and (e) security clearances were not obtained in 6 cases. A review of two contracts for provision of materials, supplies and maintenance personnel for the USAID/Somalia Field Support Unit (FSU) showed that the original contract awarded to International Group for Finance and Consulting did not have evidence that competition was involved in contractor selection.

The contract file did not have evidence that: (a) other sources were solicited, (b) request for proposal was prepared, and (c) the contract was advertised. Also, there was no memorandum of negotiation in the file and the basis for the contract price was not given. Mission officials explained that some competition attempts were made but this contract occurred at a time when the Mission did not have previous experience in obtaining such services from the Somali business community. This contract was extended for periods of six months until February 1987 when the contract was awarded to another firm competitively. The second contract awarded to Oriental Agencies was in accordance with the FAR.

The above situations occurred to a large extent because there was a lot of involvement in the contracting process by unauthorized persons. In at least four cases, a Personal Service Contractor wrote letters inviting people to Somalia to work as PSC's on a project without the authority to do so. In two cases, the PSC even advised them on how to get higher salaries. One of them was advised to factor in outside consulting fees, if possible, to increase the overall figure because AID salaries are based on past salaries. Another PSC was advised to inflate his salary request by adding extra days. As a result of the PSC's involvement in the contract process, the contracting officer was placed in an embarrassing situation regarding the negotiations because the PSC's insisted on being given the salaries promised to them. There were other occasions when unauthorized direct hire personnel told consultants to come to Somalia and their contracts would be executed after arrival.

Allowing persons not authorized to make contractual commitments do so could result in inefficient and uneconomical actions which could cost AID substantial sums of money. Only a duly authorized contracting officer may make commitments on behalf of the U.S. Government in accordance with Federal and AID Acquisition Regulations. By continuing to condone this practice, the Mission is seriously violating basic contracting principles, and the individuals involved may be subject to disciplinary action.

3. Unsolicited Proposals were not Processed in Accordance With Agency Procedures - The FAR subpart 715.506 gives the conditions which must be satisfied before the award of a contract based on unsolicited proposals. USAID/Somalia funded four proposals which did not meet the conditions required by FAR. This was caused by (1) ignorance of some FAR requirements regarding unsolicited proposals and (2) excessive involvement by the former Mission Director in these proposals. If it is later found that these studies were of no value or limited value, approximately \$530,000 will have been wasted.

Discussion - Subpart 715.506 of the FAR requires unsolicited proposals to be submitted to AID/W for review and approval. To award a contract based on an unsolicited proposal, such a proposal must: (1) be innovative and unique; (2) be independently originated and developed; (3) be prepared without Government supervision; (4) include sufficient detail to permit a determination that Government support could be worthwhile and the proposed work could benefit the agency's research and development or other Mission responsibilities; and (5) not be an advance proposal for a known agency requirement that can be acquired by competitive methods. If a proposal meets these conditions, FAR subpart 6.302-1 (a) (2) (i) permits sole-source procurement without competition. A justification for sole-source procurement must be prepared and approved by the Assistant Administrator for the Bureau. In addition to the FAR 6.302-1 (a) (2) (i) exemption, overseas contracts of \$100,000 or less are exempted from full and open competition by AIDAR section 706.302-70 where such competition would have adverse effects on foreign aid programs. Offers must, however, be requested from as many potential offerors as possible and a justification for less than full and open competition must be prepared.

The Mission funded four unsolicited proposals between December 1985 and April 1987 at a total cost of about \$530,000 without following the agency procedures which call for AID/W review and approval. Further, contracts resulting from these proposals were not competed nor were justifications for other than full and open competition approved in accordance with the FAR. In one case, the unsolicited proposal did not even meet the definition of an unsolicited proposal in the FAR and a contract was awarded on that criteria even though it might have been justified on another basis. Details of these unsolicited proposals are contained in Exhibit 1.

The Mission was unaware of some of the FAR, and AIDAR requirements because they were not received in time. Also there was a lot of involvement by the former Mission Director in the processing of these contracts. For example, the Somalia Leather Study was signed by the contracting officer largely because of pressure from the former Director. Also the former Director knew that the first proposal from IGFC titled Business Regulations Study was not an original idea but he did not tell this fact to those who were evaluating the proposal. Furthermore the DOLCO Refugee Study came about as a result of a dinner party attended by the President of DOLCO and the former Mission Director as well as other high level officials.

None of the proposals for the above studies demonstrated how the efforts would benefit the Mission. In fact, one of the scopes of work asked that the text be kept simple so that it might be translated to the Somalia language if determined to be of any value. There also appeared to be some question as to whether the Somalia Leather Study would duplicate another study being done by World Bank. Accordingly if it is later found that these studies were of no or limited value, approximately \$530,000 will have been wasted.

In sum, while Agency regulations as well as local implementing guidance with regard to matters discussed in this report are quite clear, the problems have persisted for a number of years and still continue. Obviously, some mechanism is needed to ensure that the practices which have been allowed to happen cease. Accordingly, we believe that guidance and procedures be prepared for policing and ensuring that Federal and AID regulations are adhered to with regard to USAID/Somalia procurement practices.

#### Recommendation No. 1

We recommend that the new Director, USAID/Somalia develop guidance and procedures for policing and ensuring that Federal and AID Acquisition Regulations are adhered to with regard to procurement practices.

USAID/Somalia comments were very responsive to the draft report. Overall, they were in agreement with the findings and recommendation. Under the new Director, for the most part, actions have already been initiated to avoid similar occurrence in the future. We have incorporated all suggested changes (see Appendix 2) with the exception of those relating to salary verification and security clearances. While we agree that the mechanics of performing these functions is time consuming, it is still necessary that they be performed. To agree otherwise would be contrary to Federal procurement regulations.

AUDIT OF  
MANAGEMENT SYSTEMS AND CONTRACTING PROCEDURES  
USAID/SOMALIA

EXHIBIT AND APPENDICES

Discussion of Unsolicited Proposals

(a) Business Regulations Study - The proposal was submitted in March 1985 by IGFC. The objective was to study the laws and regulations governing the licensing and foundation of private businesses in Somalia. The Mission accepted this as a valid unsolicited proposal and awarded a contract of approximately \$119,509 on December 2, 1985 under FAR 15.5. The proposal was not sent to AID/W for review and approval as required by Agency procedures. A review of the contract files showed that a PIO/T had been signed in February 1984 for this same study which was to be done by a firm called Team limited at a cost of \$37,500. This firm had been selected from 14 firms which had responded to a USAID/Somalia advertisement but could not carry on the study because of manpower problems. The IGFC proposal was, therefore, not an original idea. It was a known agency requirement and did not qualify under FAR 15.5. The contract price also looks excessive compared to a similar proposal received two years previous but not awarded. Accordingly, it appears that if this contract had been competed there would have been savings to the US Government.

b) The Somalia Leather Study - After the award of the Business Regulations Study contract in December 1985, IGFC submitted another unsolicited proposal on January 5, 1986. This proposal was to conduct a study of the Somalia Leather Industry. A review of the contract files showed that there appeared to be some question as to whether the study would duplicate a similar study of Somalia Leather Industry being done by the World Bank. This was further supported by the fact that on October 8, 1986, the Somali Ministry of Industry and Commerce advised USAID/Somalia to await the results of the World Bank study to avoid duplication. On October 20, 1986, the Deputy Mission Director sent a memo to the project officer stating that there was no need for the two organizations to do the same study and requested that IGFC be advised to cease all efforts regarding the study.

In retrospect the contracting officer agreed that this proposal did not qualify as a valid unsolicited proposal. However, because of his unfamiliarity with the regulations at that time and pressure from the former Director he went along with it. He accordingly authorized the study to commence in August 1986 and signed the contract without a PIO/T and certification of funds availability on October 20, 1986. The Mission received an invoice for \$124,417 from IGFC on December 8, 1986 which was not paid by the controller's office because there was no PIO/T.

The PIO/T was finally prepared on December 17, 1986 but could not get the Somali Government approval. Another PIO/T using Program Development and Support funds was signed on February 12, 1987. A new Contract for \$107,778 (consisting of \$30,000 plus Sosh 7 million at the then official rate of exchange) was signed on February 23, 1987. The memorandum of negotiation stated that this contract was awarded under AIDAR 706.302-70 (the \$100,000 mission exception) which was wrong because the cost exceeded \$100,000. On February 25, 1987 an invoice for \$107,778 was received from IGFC. This invoice was approved by the former Mission Director but was never reviewed by the project manager.

(c) Ground Water Study - This proposal was also from IGFC and was received by USAID/Somalia in May 1986. Like the Leather Study the contracting officer felt that it did not meet the criteria for an unsolicited proposals. He therefore negotiated the contract under AIDAR 706.302-70 which exempts overseas contracts of \$100,000 or less from competition. However, no other firms were solicited to furnish proposals and no justification for less than full and open competition was prepared. Also, a team from the Office of Procurement, AID/W, who were in Somalia in March 1987, had advised the contracting officer to send the water study proposal to Washington before awarding the contract. However, the contracting officer went ahead and awarded the contract for \$82,667 (consisting of \$63,083 plus Soshs 2.49 million at the then official rate of exchange) on April 7, 1987 without submitting it to Washington.

(d) The DOLCO Refugee Study: - This was the only unsolicited proposal that was not from IGFC. It was submitted on July 16, 1985 by DOLCO Incorporation to conduct a study to assess the aptitudes and willingness of refugees to participate in settlement schemes. The proposal did not specify a unique problem nor unique research questions to be answered. Also, it did not demonstrate how the proposed work would benefit the mission. Phase one of the scope of work asked DOLCO to identify the problems, then in consultation with USAID/Somalia, specify the research questions to be answered. A sole source justification was prepared by the Mission and a contract for \$217,204 signed on August 13, 1986. This sole source justification was, however, not approved by the Assistant Administrator for Africa Bureau as required by AID Acquisition Regulations.

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AIDAC

NAIROBI FOR RIG/A; AID/W FOR SER/OP

E.O. 12356: N/A  
SUBJECT: DRAFT AUDIT OF MANAGEMENT SYSTEMS AND  
CONTRACTING PROCEDURES - USAID/SOMALIA

1. FOLLOWING PARAGRAPHS ARE TEXT OF LETTER BEING SENT TO MR. RICHARD C. THAPET, RIG/A NAIROBI, IN RESPONSE TO SUBJECT DRAFT AUDIT. LETTER ALSO CONTAINS ATTACHMENT WHICH OUTLINES SPECIFIC POINTS OF ERROR OR MISINTERPRETATION OF FACTS FROM MISSION STANDPOINT. ATTACHMENT IS NOT REPEATED HERE BUT BEING FORWARDED WITH LETTER WHICH HOPE TO HAVE HAND-CARRIED ON SUNDAY, JULY 19, 1987 TO NAIROBI. THESE ARE PROVIDED TO TRY TO ENSURE RECORD AS PRESENTED IN FINAL AUDIT IS CORRECT. MISSION OVERALL DOES NOT DISPUTE CONCLUSIONS OF AUDIT FINDINGS.

2. TEXT READS: DEAR MR. THAPET, THANK YOU FOR SHARING WITH ME THE DRAFT AUDIT OF "MANAGEMENT SYSTEMS AND CONTRACTING PROCEDURES - USAID/SOMALIA" WHICH REPRESENTS THE RESULTS OF RIG/A'S EXAMINATION OF THIS MISSION'S CONTRACTING AND PROCUREMENT PROCEDURES. THE FINDINGS OF THE AUDIT ARE REGRETTABLY FOUND TO BE GENERALLY ACCURATE AND HAVE POINTED OUT THE NEED FOR CORRECTIVE MEASURES TO ENSURE THAT SIMILAR SITUATIONS DO NOT OCCUR IN THE FUTURE. WHILE IT IS POSSIBLE IN SOME INSTANCES TO REPLY TO THE FINDINGS WITH THE MISSION'S OWN INTERPRETATION OF EVENTS OF REFERENCE TO EXTEMUATING CIRCUMSTANCES, IT IS NOT POSSIBLE TO REBUTE THAT THE SYSTEMS WHICH HAVE BEEN IN PLACE WERE NOT ALWAYS PROPERLY FOLLOWED. WE WOULD LIKE TO POINT OUT THAT, WHILE THERE HAVE BEEN UNFORTUNATELY A NUMBER OF INFRACTIONS OR MISAPPLICATIONS OF THE RULES AND REGULATIONS, THE INSTANCES CITED ARE BUT A SMALL FRACTION OF THE CONTRACT AND PROCUREMENT ACTIONS OVER THE TIME PERIOD EXAMINED. THEY DO NOT REPRESENT THE NORM, BUT THE EXCEPTIONS. HOWEVER, WE ARE AS CONCERNED AS THE AUDITORS THAT THE EXCEPTIONS NOT BE PERMITTED TO OCCUR.

3. THE MISSION'S CONTRACTING AND PROCUREMENT SYSTEMS ARE BEING EXAMINED TO SEE WHERE THEY CAN BE IMPROVED TO BETTER ENSURE CONFORMANCE WITH AGENCY AND U.S.

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GOVERNMENT RULES AND REGULATIONS ON CONTRACTING. ALSO, INSTRUCTIONS WERE GIVEN TO THE USDR STAFF BY THE NEW MISSION DIRECTOR ON JULY 6 TO THE EFFECT THAT (A) NO CONTRACTS ARE TO BE SIGNED OR UNSOLICITED PROPOSALS APPROVED WHICH DO NOT COMPLY WITH THE FAR AND AIDAR AND MISSION GUIDELINES; (B) NO CONTRACTS WILL BE AWARDED WITHOUT COMPETITION EXCEPT WHERE WAIVERS ARE ALLOWED BY REGULATIONS; (C) ALL CONTRACTING AND PROCUREMENT ACTIONS WILL BE FULLY DOCUMENTED IN THE FILES; (D) NO COMMITMENTS OF FUNDS WILL BE MADE WITHOUT PRIOR CERTIFICATION OF FUNDS AVAILABILITY BY THE MISSION CONTROLLER AND ON THE BASIS OF COMPLETE AND PROPER PROJECT DOCUMENTATION; (E) NO PERSONAL SERVICES CONTRACTORS WILL BE AUTHORIZED OR PERMITTED TO PARTICIPATE IN ANY ASPECT OF CONTRACTING ACTIONS; AND (F) NO COMMITMENT OF FUNDS IS TO BE GIVEN BY ANY UNAUTHORIZED PERSON. IN ADDITION, PROCEDURES ARE TO BE SET UP WHICH WILL BETTER ENSURE THAT CONTRACTS AND LEASES ARE AMENDED, AS DEEMED WARRANTED, IN A TIMELY FASHION AND WITHOUT PERIODS OF LAPSE.

4. FURTHER A MISSION TASK FORCE HAS BEEN ESTABLISHED UNDER THE CHAIRMANSHIP OF THE DEPUTY DIRECTOR TO REVIEW THE MISSION'S ORDERS ON CONTRACTING AND PROCUREMENT AND THE MISSION'S MANUAL WHICH COVERS THESE SUBJECT AREAS AND SERVES AS A GUIDE TO PROJECT MANAGERS AND OTHER MISSION STAFF ON PROJECT IMPLEMENTATION. ONCE COMPLETED, STAFF WILL BE BRIEFED ON THE RESULTS AND ADVISED THAT, HENCEFORTH, ADHERENCE TO THE PROCEDURES

UNDER THESE SYSTEMS WILL BE CONSIDERED AS A FACTOR IN PERFORMANCE RATINGS. CONSIDERATION IS ALSO BEING GIVEN AS PART OF THIS EFFORT TO SENSITIZE STAFF AND GIVE THEM THE AWARENESS NEEDED BY INCLUDING A CONTRACTING/-PROCUREMENT COURSE FOR APPROPRIATE STAFF AS PART OF THE MISSION'S ON-GOING MANAGEMENT SKILLS IMPROVEMENT TRAINING EFFORT.

5. AS MISSION DIRECTOR, I CONSIDER THE ESTABLISHMENT OF SOUND MANAGEMENT PRACTICES BY THE MISSION AND ITS INDIVIDUAL MEMBERS TO BE ONE OF MY KEY OBJECTIVES. THE ABOVE STEPS WITH REGARD TO CONTRACTING AND PROCUREMENT WILL RECEIVE MY PERSONAL ONGOING SCRUTINY AND I EXPECT

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TO BE HELD FULLY ACCOUNTABLE FOR ADHERENCE TO THE REQUIREMENTS FOR SOUND AND ETHICAL CONTRACTING AND PROCUREMENT BY THIS MISSION. SIGNED LOIS RICHARDS, DIRECTOR.

6. MISSION WOULD LIKE TO SUGGEST THAT RIG/A MAY WISH TO SCHEDULE VISIT IN A YEAR'S TIME TO ASSESS THE EFFECTIVENESS OF THE MISSION'S EFFORTS. WE WOULD ALSO LIKE TO INVITE THABET TO VISIT MOGADISHU SOMETIME IN NEXT MONTH TO REVIEW WITH NEW DIRECTOR AND STAFF AUDIT FINDINGS AND GET HIS VIEWS ON APPROPRIATENESS OF SUGGESTED ACTIONS TO ENSURE INFRACTIONS FOUND ARE NOT REPEATED.

7. FOR SER/OP, REQUEST ADVICE AS TO WHETHER USAID/-SOMALIA COULD CONTRACT WITH KNOWLEDGEABLE SOURCE FOR PROPOSED TRAINING EFFORT. DOES IQC MECHANISM EXIST WITH FIRM PROVIDING AGENCY'S PERIODIC THREE DAY CONTRACTING COURSE? IF NOT, WOULD WELCOME ADVICE AS TO BEST MEANS OF OBTAINING EXPERTISE NEEDED. CRIGLER

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MOGADISHU 007875/02

July 19, 1987

To: Richard Thabet, RIG/A

From: Lois Richards, Director, USAID/Somalia *LR*

Subject: Audit of Management Systems and Contracting Procedures -  
USAID/Somalia

Following are a number of points which we believe should be corrected in the subject audit prior to its finalization.

Salary verification - Usual procedure for salary verification involves requesting a contractor to complete a Standard Form 171 or AID 1420, indicating inter alia previous salary history over a sustained time (usually three years). The fact is that from Mogadishu it is virtually impossible to actually verify salaries within a reasonable timeframe. We believe, if the audit is to critique the Mission for this (page 8 (e)), a workable procedure should be identified which would have permitted compliance.

Pay raises - The Mission takes exception to the use of the percentages cited of 20 - 68 per cent (page 8 (f)). Specifically the worst case indicated of 68 per cent was discussed at length with the auditors and the file is thoroughly documented. We are not aware what the next most excessive per centage was but would appreciate the elimination of this even indirect reference to what we feel to be fully justified rate.

Security clearances - The audit notes that security clearances were not obtained in eleven instances (page 8 (g)). We are not aware what cases are referred to, but wish to clarify that the rules do not require security clearances for contractors hired for 90 days or less and that non-U.S. citizens are not generally given security clearances. Based on the list the Mission recalls seeing, it is our feeling that among the eleven instances only two did not fall under the criteria noted above.

PSU Contract - The description of the initial PSU contract does not put it into the context which we feel is important. First, the Mission personnel who were at post at the time contend that the contract was not given to IGFC without trying to identify the best qualified source among the few possible providers of these services. Thus IGFC was not given the contract without competition. Also, it should be appreciated that the award of this initial contract occurred when there was no previous experience in obtaining such services from the Somali business community. The contractor who was selected bore heavy up front costs and the provision of services involved an element of trial and error over an extended period of time.

-2-

Exhibit 1 - Please indicate on page 2 under section (b) that the amount of the new contract was "\$107,778 (consisting of \$30,000 plus SoShs 7 million at the then official rate of exchange)". Last sentence of this same section should read "This invoice was approved by the Mission Director and has never been reviewed by the project manager."

Exhibit 1 - Under section (c) in the last sentence, please indicate the amount of the contract as "\$82,667 (consisting of \$63,083 plus SoShs 2.49 million at the then official rate of exchange)".

There are other minor points which could be noted, but they do not substantively add or detract from the report.

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