

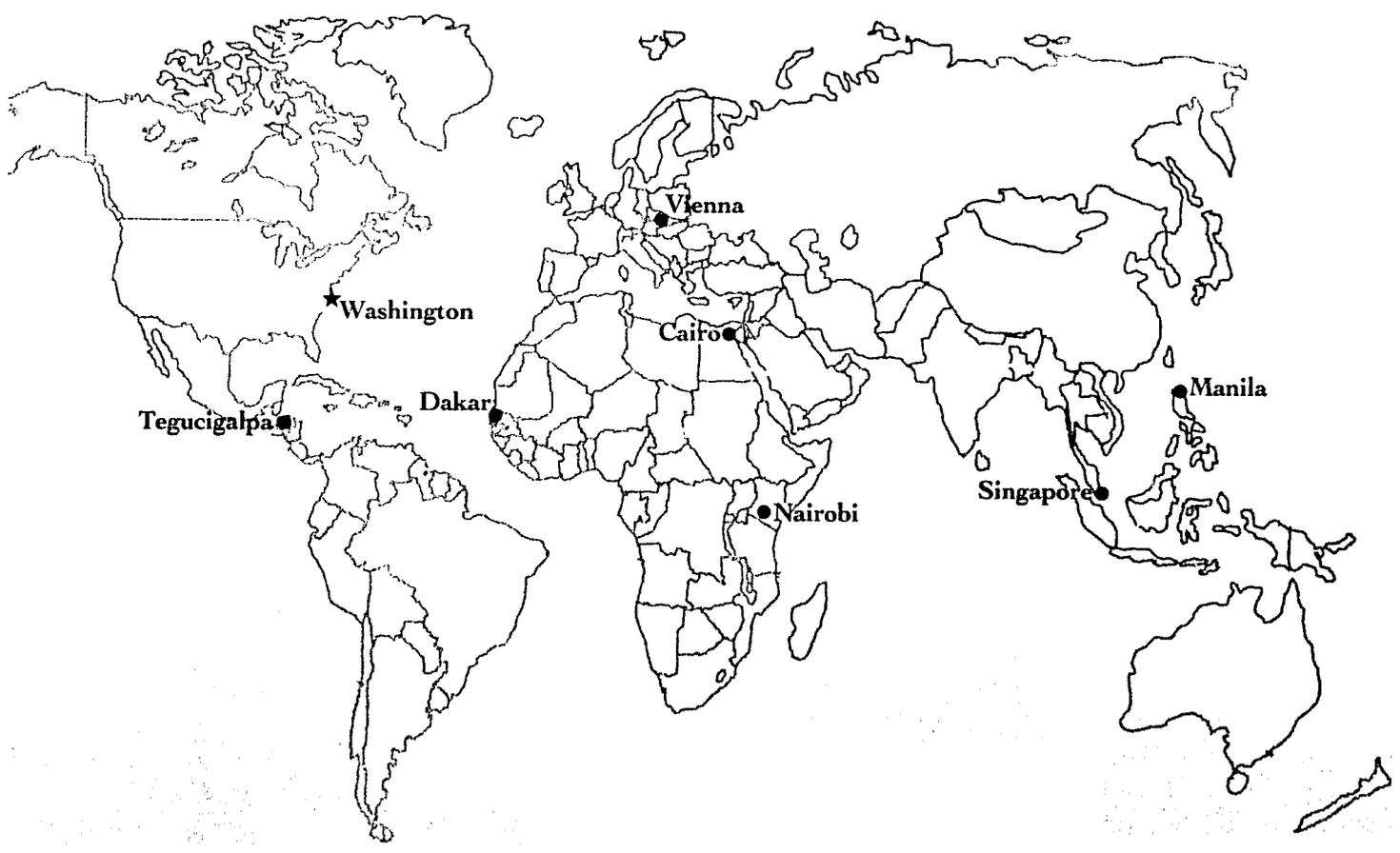
**Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of  
Technical Services Activities at the  
Regional Development Office/Caribbean**

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**Audit Report No. 1-538-92-003  
November 25, 1991**



**Inspector General for Audit  
Tegucigalpa, Honduras**

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***RDO/C planned, procured, accounted for and monitored technical services as prescribed in A.I.D. policies and procedures. However, improvements are needed in documenting project modifications and closing out contracts.***

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November 25, 1991

**MEMORANDUM**

TO: RDO/C Director, Mosina H. Jordan

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of Technical Services Activities at the Regional Development Office/Caribbean.

The Office of the Regional Inspector General/Tegucigalpa has completed its audit of the subject activities at the Regional Development Office/Caribbean. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report. A summation of your comments has been included after each appropriate finding. The Mission's comments are presented in their entirety in Appendix II.

The report contains two recommendations; both recommendations are resolved and can be closed after you have provided evidence that implementing actions have been satisfactorily completed. Please respond to this report within 30 days, indicating any actions taken to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

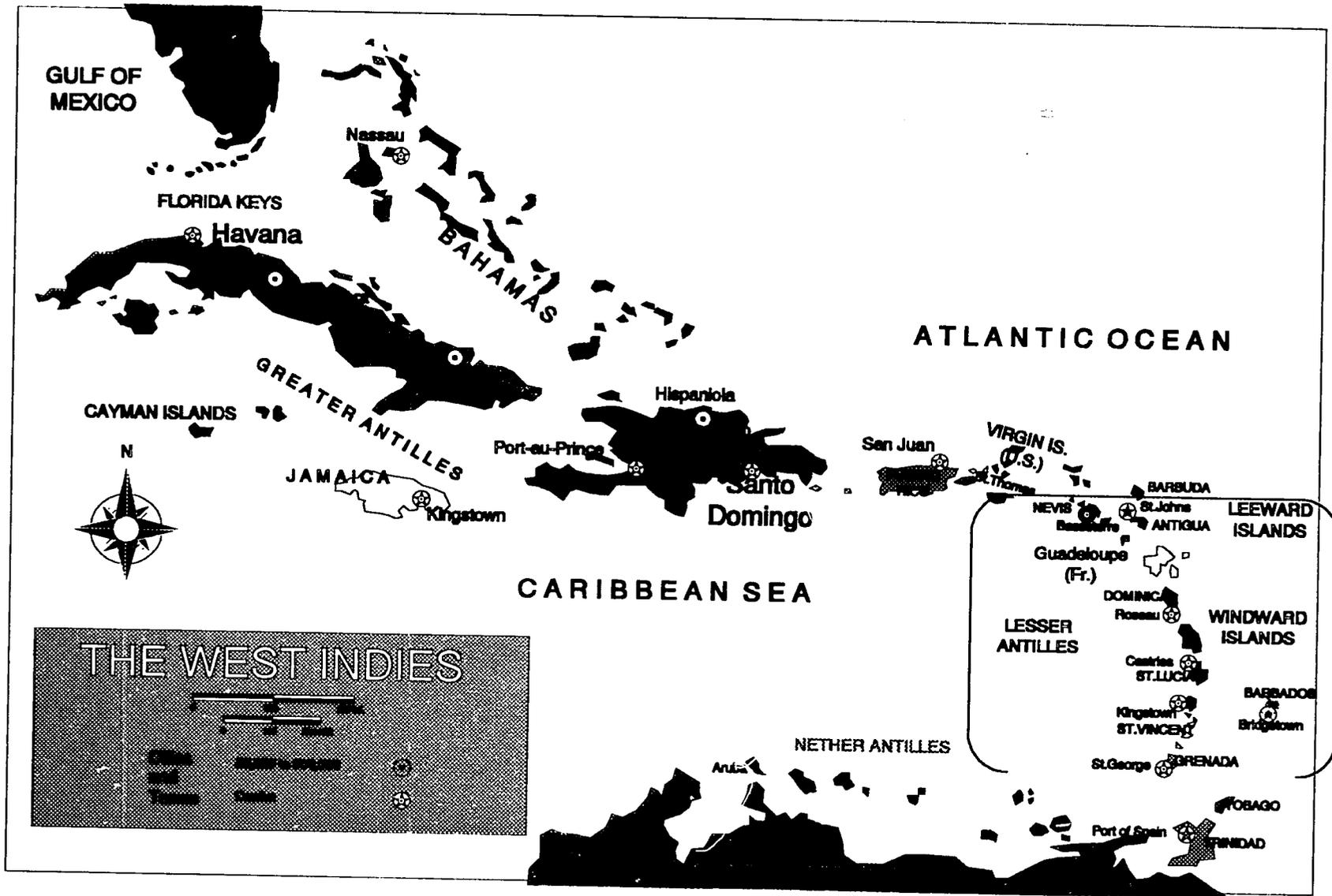
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## **EXECUTIVE SUMMARY**

Technical services is one of the project inputs usually provided to help produce planned project outputs. A.I.D. uses a variety of procurement mechanisms and delivery modes to obtain technical services. For example, technical services can be procured from a professional firm or an individual and the services can be provided over a period of a few days or for several years. As of April 1991, RDO/C had obligated about \$31 million for technical services to assist project implementation.

Between May 21 and July 15, 1991, we audited RDO/C's technical services activities in accordance with generally accepted government auditing standards and found that RDO/C:

- planned technical services in accordance with A.I.D. requirements but needs to improve the documentation of its analysis of project modifications (see page 3).
- procured technical services in accordance with federal and A.I.D. requirements, except in one instance there was no documentary evidence that it had done so (see page 6).
- expended and accounted for technical services funds according to A.I.D. policies and procedures (see page 9).
- monitored contractor performance as required by A.I.D. but did not closeout contracts in a timely manner (see page 10).

The report contains two recommendations to correct problem areas. It also presents our assessment of internal controls (see page 13) and reports on RDO/C's compliance with applicable laws and regulations (see page 17).

RDO/C officials reviewed the draft report and agreed with the findings and conclusions. RDO/C has initiated actions to implement the report recommendations. Management comments on the draft report, included as Appendix II, were considered in preparing the final report.

*Office of the Inspector General*

Office of the Inspector General  
November 25, 1991

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# INTRODUCTION

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## **Background**

Technical services is one of several project inputs usually provided as resources needed to produce the desired project outputs. Technical services costs are normally categorized as technical assistance.

A variety of procurement mechanisms and delivery modes can be used to obtain technical services depending on such factors as type of contractor, nature of services, and length of services. To illustrate, different types of contractors at A.I.D. missions include professional firms, personal service contractors, participating agency service agreement contractors, U.S. educational institutions, small and/or disadvantaged businesses and A.I.D./Washington contractors via buy-ins. The range of services moves from narrow to broad in scope and from a few days to several years.

As of April 30, 1991, the Regional Development Office/Caribbean (RDO/C) had 23 active projects totaling about \$176 million in obligations, of which about \$116 million had been expended. Fifteen of the 23 projects had obligated about \$31 million for technical services to assist project implementation. The type of contractors used to provide these services included five professional firms, seven personal service contractors, one A.I.D./Washington buy-in and two delivery orders under Indefinite Quantity Contracts. The cost of these contracts ranged from \$24,500 to \$11.4 million; the length of the contracts ranged from one to almost seven years; and the type of services included architectural and engineering services, management assistance, agricultural specialist services, participant training assistance, population advice, and project management and advice.

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## **Audit Objectives**

The Office of the Regional Inspector General for Audit/Tegucigalpa audited RDO/C systems to control and manage technical services to answer the following objectives:

1. Did RDO/C plan technical services in accordance with A.I.D. policies and procedures?

2. Did RDO/C procure technical services at a fair price, in a timely manner, and from qualified contractors in accordance with A.I.D. policies and procedures?
3. Did RDO/C expend and account for technical services funds in compliance with Agency policies and procedures?
4. Did RDO/C monitor contractor performance to ensure the technical services were provided and used as prescribed in A.I.D. policies and procedures?

In answering these audit objectives, we tested whether RDO/C (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and agreements. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could affect the audit objectives. Because of limited resources, we did not continue testing when we found that, for the items tested, RDO/C followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning positive findings to the items actually tested. But when we found problem areas, we performed additional work:

- to determine that RDO/C was not following a procedure or not complying with a legal requirement,
- to identify the cause and effect of the problem, and
- to make recommendations to correct the condition and cause of the problem.

Appendix I contains a complete discussion of the scope and methodology for this audit.

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# **REPORT OF AUDIT FINDINGS**

## **Did RDO/C plan technical services in accordance with A.I.D. policies and procedures?**

For the items tested, RDO/C planned technical services in accordance with A.I.D. policies and procedures except for adequately documenting its analysis of project--and resultant contract--modifications.

RDO/C had five active technical services contracts with professional firms with total obligations of \$26.8 million. We tested two of those contracts to determine if they were planned in accordance with A.I.D. policies and procedures. The first was a \$702,000 contract with a U.S. commercial firm. Under this contract, the contractor was responsible for providing management assistance to a regional non-governmental organization in four discrete areas: (1) improved program management, (2) development and implementation of a management information system, (3) expansion of revenue generation activities, and (4) improvement of the commodity supply logistics system. The second was a \$4 million contract also between RDO/C and a U.S. commercial firm. This contractor was to provide architectural and engineering, and technical services for a RDO/C project to: (1) develop subprojects, (2) design and supervise construction of certain activities, and (3) manage and oversee implementation of subprojects and other contract components. The RDO/C's planning for both of these technical services contracts conformed with A.I.D. requirements. The RDO/C: (1) prepared the new project descriptions, (2) prepared Project Identification Documents, and (3) developed Project Papers which analyzed technical services requirements and funding.

However, both projects and one technical services contract underwent substantial modifications during project implementation. But documentation was lacking to ensure that the modifications were analyzed, alternatives were explored, and the impact on project outputs were assessed, reported, and approved.

### **RDO/C's Documentation Of Project Modification Actions Can Be Improved**

A.I.D. requires that conditions causing substantive project modifications be evaluated, options be considered and changes be justified, reported and

approved. However, both projects--and a supporting technical services contract--were substantially changed without documented evidence that RDO/C evaluated the conditions causing the change, considered alternative approaches or justified and reported the change. This occurred primarily because RDO/C management has not instructed its staff as to what specific action to take when faced with a project modification. As a result, projects are being implemented without documenting that the changed project activity will reach the desired objectives.

**Recommendation No. 1: We recommend that the Regional Development Office/Caribbean issue a Mission Order that defines the mechanism or procedure to be used--possibly an Action Memorandum--to document the evaluation, options considered, justifications and recommended actions for making substantive project [or contract] modifications.**

The Project Officer's Guidebook (A.I.D. Handbook 3, Supplement A, Chapter II, Part A) provides a summary of the Project Officer's role in the area of contract implementation. Section 13 A.3 of A.I.D. Handbook 3, Chapter 13 on Project Modification states: "When problems are suspected or confirmed, B/G and/or A.I.D. Project Committee members should evaluate the condition and, as appropriate, recommend alternative approaches and mechanisms, prepare justifications for the changes and obtain prompt Approval to incorporate such change into the project."

The Cooperative Agreement which granted \$600,000 to Caribbean Family Planning Affiliation, Ltd. to provide support for a program in family planning in the Eastern Caribbean included the following two purposes:

- Expansion of revenue generation activities by Caribbean Family Planning and its affiliates.
- Development of family planning clinics in five industrial settings.

Caribbean Family Planning was assisted in its work by a technical assistance team whose services were procured from John Snow, Inc. under a RDO/C direct contract. That contract's scope of work made the contractor responsible for providing management assistance in four discrete areas which included assistance that supported the accomplishment of the purposes stated above.

We reviewed two major activities included in the John Snow contract, namely revenue generation and the private sector family planning clinics. The contract specified two tasks on revenue generation, (1) to develop a strategy for enhancing financial self-sustainability for the Caribbean Family Planning Association and participating family planning associations and (2)

to conduct training for 20 staff in revenue generating methods and activities. Similarly, the contract specified four tasks in establishing a minimum of five private sector family planning clinics.

As of July 1991, according to a RDO/C official, revenue generation efforts were suspended in the Fall of 1989 except for one workshop on the subject held in the Spring of 1990 because the efforts were not cost-effective. Also, RDO/C reported only one private sector family planning service delivery clinic would be completed in this RDO/C project. Reasons cited for not continuing these two major activities were attributed to host country economic and social factors; whereas, responsible RDO/C officials said that John Snow had satisfactorily completed all of its required tasks for these two major activities.

We are not questioning whether or not these modifications should have been made. However, we believe that the project and resultant contract modifications could be considered substantive. As such, the need for the changes should have been analyzed, an assessment of alternatives should have been made and these actions should have been documented. But in fact, the Project Officer told us that a decision to stop the revenue generation activities was not actually made--activities just stopped.

Also, we consider that these modifications were significant enough to have been reported in project progress reports. This was not done. The last three portfolio reviews did not mention these modifications and although a semiannual report mentioned the change in the number of clinics to be developed, it did not indicate how this change impacted the project.

A similar situation concerning substantive subproject modifications being made without required analyses or approvals in connection with RDO/C project number 538-0138 was recently reported in our July 1991 Audit Report No. 1-538-91-011.

The project paper for a \$5 million utilities subproject in Project No. 538-0138 envisioned establishing a regional non-profit corporation (Corporation) to assist member utilities to: (1) conduct critical training, (2) perform engineering and management analysis, and (3) provide joint procurement services. The successful implementation of these three components would lead to meeting the project purpose of developing a corporation capable of meeting training and other common service needs of the targeted electric utilities.

The planned-for Corporation was established. However, the Corporation Board, in July 1989, altered or postponed the above three components--actions which could substantially affect reaching the project purpose. These changes were made without an analysis of the need for changes,

without assessments of alternatives, and without amending the project paper or authorization or obtaining any approvals from RDO/C. And as similarly reported in our Audit Report Number 539-01-011, we believe that as a result of project modifications the John Snow contract--and perhaps the Population and Development project--may also be implemented without knowing whether the level of project activity will reach the desired objectives.

We could not conclusively determine why the analyses of significant project changes were not always documented and reported. However, discussions with RDO/C officials indicate that a contributing factor may be that there is no clear-cut management guidance or procedure as to how to present project changes for review to determine if they are substantive--instead the decision is considered to be a judgment call by technical offices. And one RDO/C official stated that he only considers changes that add to project activities as substantive; and conversely, a reduction of project activities would not be considered significant.

Certain RDO/C Technical Office officials told us that they extensively use Action Memoranda to document project issues. They suggested that these Memoranda might be a good method of documenting, reporting, and obtaining approval for project modifications. We agree that an Action Memorandum would be a good method of documenting project modifications and have incorporated that in Recommendation No. 1.

### **Management Comments and Our Evaluation**

Management agreed with Recommendation No. 1. They informed us they have drafted a Mission Order that defines the mechanism or procedure to be used to document the evaluation, options considered, justifications, and recommended actions for making substantive project modifications.

We agree with the reported action to prepare a Mission Order on substantive project modifications. Recommendation No. 1 is resolved.

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### **Did RDO/C procure technical services at a fair price, in a timely manner, and from qualified contractors in accordance with A.I.D. policies and procedures?**

For the items tested, RDO/C procured technical services at a fair price, in a timely manner, and from qualified contractors in accordance with A.I.D. policies and procedures, except for one instance where there was no documentary evidence that a significant project modification was procured at a fair price.

The technical services contract award process begins with contractor selection procedures and ends with A.I.D. signing a technical services contract or otherwise entering into a legally binding purchasing arrangement. The A.I.D. Contract Officer, either at the mission or in A.I.D./Washington will manage the award process and sign the resulting contract as A.I.D.'s agent.

A primary control document when contracting for technical services is the Project Implementation Order/Technical Services (PIO/T). This document is to explain the project's technical services requirements to the Contract Officer, and the Contract Officer uses it when formalizing the contract specifications. For both contracts the PIO/Ts described the desired services in its statement of work section, stated the estimated cost and duration of the desired services, and described arrangements for contractor logistical support as required. See page 3 for a detailed description of those contracts.

A.I.D. policy is to obtain full and open competition in the bidding or competitive negotiation procedures. In practice, most direct A.I.D. procurements are negotiated. However, contracts can be awarded or procured by (1) sealed bidding, (2) negotiation, (3) non-competition for small purchases, or (4) other than full and open competition. Both contracts were procured through negotiations based on competitive proposals. However, RDO/C procured additional services valued at \$98,950 from John Snow through a contract modification. The Mission could not provide documentary evidence that the price of this procurement was fairly established.

### **A Contract Modification Was Not Properly Documented**

Federal Acquisition Regulation 15.610 (c) states that the Contract Officer shall... control all discussions [with offerors]. A.I.D. Acquisition Regulation 715.608 (b) (2) (iii) states that "No member of the A.I.D. evaluation committee shall hold discussions with any offeror before or during the A.I.D. evaluation committee's proceedings" [on proposals]. Also, Federal Acquisition Regulation 15.102 states that negotiation is a procedure that includes the receipt of proposals from offerors. Finally, Federal Acquisition Regulation 6.303-2 (a) (7) states that the justification for a sole-source contract shall include a "determination by the Contract Officer that the anticipated costs to the Government will be fair and reasonable."

RDO/C project and contract files give the appearance that the Project Advisor, not the Contract Officer, negotiated a contract for a new project activity, which was awarded sole-source to the offeror as a modification to an existing contract. Specifically, the John Snow contract was modified on

June 30, 1989, to add \$98,950 for a new activity to establish a child care center in Grenada. The cost of the contract modification is identical to the cost in the estimate of June 7, 1989, addressed to the Project Advisor. In addition, there were two other estimates for child care centers addressed to the Project Advisor dated October 27, 1988, and December 20, 1988.

The justification for the June 30, 1989, contract modification of \$98,950 without full and open competition lacked a contract officer's determination that the cost will be fair and reasonable. Such a determination should be based on an analysis by a contract officer, such as a verification of the cost data, a comparison of costs with previous actual costs or cost estimate, or a review of the cost data for omissions.

Under the original contract of April 11, 1988, John Snow was attempting to establish private sector family planning clinics, when private companies and governments indicated strong interest in a clinic with a co-located child care center. Naturally, the Project Advisor and John Snow communicated on the technical assistance efforts and would have discussed whether or not adding a day care center was feasible; although such discussions should not cover costs. According to the project official the communication on costs between himself and the offeror centered on clarification of costs and he considered that this in no way should be considered bargaining or negotiating.

Project officials stated that the letters from John Snow to the Project Advisor regarding the contract modification and resultant costs were forwarded to the Contract Officer for action. But they could provide no evidence from either the project files or the contract files that the letters were sent to the Contract Officer as so stated. Additionally, project officials pointed out that the costs presented in the John Snow estimate were prepared by a U.S.-based procurement services agent which would indicate that the costs were fair and reasonable.

We have concluded that this situation represents a documentation problem rather than a serious impropriety. Nevertheless, the John Snow cost estimates on child care centers addressed to the Project Advisor give the appearance of cost discussions and negotiations. Such appearance also brings forth a question of a possible conflict of interest situation, which the procurement regulations try to restrict by having the Contract Officer be responsible for all discussions with the offeror. But, there is no evidence that the Contract Officer was involved in this transaction except for his signature on the contract modification document.

Without a prior determination on anticipated costs the U.S. Government lacks a contract officer's assurance that the cost will be fair and reasonable and may pay more than what should be fair and reasonable. The lack of

cost determination in the justification may be due to an oversight compounded by an insufficient number of staff to handle the Contract Officer's workload.

We are not making a recommendation because RDO/C has Mission Orders in effect which establish the role of the Contract Officer and has taken action to reduce the Contract Officer's workload by transferring the administration of Foreign Service National personal services contracts to the Executive Office.

### **Did RDO/C expend and account for technical services funds in compliance with Agency policies and procedures?**

For the items tested, RDO/C expended and accounted for technical services funds in compliance with Agency policies and procedures.

RDO/C had five active technical services contracts with professional firms totalling \$22.9 million and seven active technical services contracts with personal services contractors totalling \$1.5 million. These contracts were funded under bilateral assistance projects.

Under bilateral assistance projects, A.I.D. funding is obligated when the Project Agreement is signed. The budget annex to the Agreement should contain a line item budget indicating the general purposes for which the funds are to be used such as technical services, commodities and training. In accounting for the obligation, the mission accounting office should establish a project ledger in which the obligation will be recorded. For each budget line in the Agreement, the accounting office should also establish a subsidiary element funds control ledger for recording the amount shown for each budget line item. For each of these funds control ledgers, earmark and commitment records should be established.

Payment for each of the contracts was under the direct payment method. With this method of payment all contractor billings are to be sent to the mission accounting office for payment processing and the accounting office should pay the contractor for all costs incurred pursuant to the provisions of the contract.

RDO/C complied with the system requirements described above in expending and accounting for technical services funds. RDO/C also is developing system improvements--separate from MACS--to better control project budgets, including technical services, and to provide an inventory of all recipients of A.I.D. funds. One improvement is a project spread sheet which accounts for project obligations and expenditures by budget line

item. A second improvement provides the following information for each A.I.D. recipient:

- Type of project - Loan, grant, part loan/part grant, contract, limited scope grant, or purchase order.
- Technical Office - Infrastructure, Population, Education, Health, Agriculture, Natural Resources, Program, Project Development and Support, or Private Sector.
- Type of Contractor - U.S. non-profit, U.S. based, Host Country based, Host Country Government, regional organization, international organization, U.S. Government agency, Host Country non-profit, or Host Country para-statal.
- Project Location - Antigua, Grenada, Barbados, St. Kitts, St. Vincent, Dominica, Trinidad and Tobago, Guyana, St. Lucia, or East Caribbean area.
- Type of Payment - Letter of commitment, letter of credit, or direct payment/reimbursement.
- Type of Audit or Review - Non-federal, certified public accounting firm, or RDO/C financial analyst.

We believe these improvements are innovative as far as A.I.D. is concerned and, although not yet fully developed, should be very useful in assisting project officers in monitoring their project budgets, and assisting in the establishment and maintenance of an inventory of all A.I.D. recipients of federal funds.

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### **Did RDO/C monitor contractor performance to ensure the technical services were provided and used as prescribed in A.I.D. policies and procedures?**

For the items tested, RDO/C monitored contractor performance to ensure the technical services were provided and used as prescribed in A.I.D. policies and procedures, but it did not closeout contracts in accordance with A.I.D. requirements.

Technical services are provided generally to assist a host country entity develop certain skills. In providing the technical services, the Project Officer's Guidebook requires the Project Officer to ensure the contractor knows precisely the services to be performed. The basis for this is the

statement of work in the contract which establishes what the contractor is required to do during the period of the contract. The Project Officer's primary monitoring tools are contractor reports, site visits, the review of payment vouchers, project implementation reports, and evaluations.

Most A.I.D. technical services contracts end at the termination date set in the contract. The Contract Officer confirms that all substantive and administrative actions required by either A.I.D. or the contractor have been taken, that the contractor has been fully paid under the contract's terms, and that the contract files have been retained or "retired" as required. The precise closeout procedures will vary with the type of contract, i.e., fixed price or cost reimbursement. They may also vary with the system established by a particular mission.

RDO/C's direct technical services and personal service contracts we reviewed included clear statements of work. RDO/C project officers made and documented site visits, obtained and used contractor plans and progress reports (except in one instance which we concluded was not a systemic weakness), and reviewed payment vouchers. However, RDO/C did not close out contracts in a timely manner.

#### **Contract Closeouts Are Not Timely**

RDO/C is not complying with Contract Information Bulletin 90-12 or its own system requirements for the orderly closeout of direct contracts. The RDO/C Contract Officer estimated that the Mission has a backlog which has been accumulating for two years of 250 contracts awaiting closeout action. Apparently this backlog exists because the Contract Office has not placed sufficient emphasis on this important control function. RDO/C is aware of this monitoring deficiency and the Contract Officer has addressed it by requesting RDO/C and U.S. Embassy approval to hire an assistant whose responsibilities would include helping to reduce the backlog of contracts to be closed out.

**Recommendation No. 2: We recommend that the Regional Development Office/Caribbean take action necessary to close out all completed contracts.**

Whether a contract is terminated prematurely or ends as planned, A.I.D. must end the particular relationship with the contractor by systematically "closing out" the contract. According to Contract Information Bulletin 90-12 mission managers have a great deal of flexibility in developing systems tailored to a mission's particular circumstance for closing out contracts awarded and managed by the mission.

RDO/C issued USAID Order No. 14-3 in July 1987 which established a mission system for the orderly closeout of RDO/C direct contract files and A.I.D./Washington direct contract files administered by RDO/C. This Order established procedures and responsibilities and other requirements for contract closeouts, including a procedure that requires the Contract Officer to initiate actions incident to closeout within 90 calendar days following the completion of a direct contract.

RDO/C has a two-year backlog of 250 contracts awaiting closeout action. According to the Contract Officer his office is understaffed which requires him to prioritize his duties. And contract officers are more often pressured by mission staff to process new contracts than to closeout completed contracts. Therefore, when compared to the task of negotiating new or amended contracts, contract closeout is a low priority item. Despite the Contract Officer's statement regarding staffing, RDO/C management, in its 1990 General Assessment report, stated that it "...is adequately staffed to monitor and evaluate all program activities...." And in its 1990 Internal Control Assessment, RDO/C assessed each of its contracting control techniques--including closeout procedures--as satisfactory.

The Contract Officer did not believe that the backlog of contracts to be closed out represented a high risk that A.I.D resources would be misused or unused. He believed that the Controller's Office took independent action to deobligate unneeded funds and to request audits of contracts greater than \$500,000 as required by the Federal Acquisition Regulations.

The Controller's Office independently taking some actions related to Contract closeouts does not relieve the Contract Office of its responsibility to ensure that contracts are closed out. RDO/C needs to take corrective action to enable the Contract Office to timely close out completed contracts.

### **Management Comments and Our Evaluation**

Management agreed with Recommendation No.2. They reported that the Contract Office has initiated contract closeouts on over 50 percent of the Mission's completed contracts. Also, RDO/C is planning to obtain short-term contractual assistance to deal with the remainder of the backlog and to develop an automated closeout system for the future. In addition, RDO/C reported that the hiring of a permanent FSN Contracting Assistant has been authorized and the position will be filled by December 31, 1991.

We concur with the planned action reported by RDO/C. Recommendation No. 2 is resolved.

# **REPORT ON INTERNAL CONTROLS**

**This section provides a summary of our assessment of internal controls for the audit objectives.**

## **Scope of Our Internal Control Assessment**

**We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weakness found during the audit.**

**In planning and performing our audit we limited our assessment of internal controls to those controls applicable to the audit's objectives and not to provide assurance on RDO/C's overall internal control structure.**

**We classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.**

## **General Background on Internal Controls**

**Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (FMFIA) in September 1982. This act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls. The management of A.I.D., including RDO/C, is responsible for establishing and maintaining adequate internal controls.**

**In response to the FMFIA the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these**

guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal controls and procedures for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Predicting whether a system will work in the future is risky because: (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

### **Audit Objective One**

The first audit objective relates to the planning of project technical services. In planning and performing our audit of RDO/C's planning of technical services, we considered the relevant internal control policies and procedures cited in A.I.D. Handbooks 1, 3, 12, 14, and 17. For the purpose of this report, we have classified the relevant policies and procedures into the following categories: technical service needs and contractor-type selection.

We noted one reportable condition; namely, RDO/C has not adequately instructed its staff as to what specific action to take when faced with a project modification (see page 3).

### **Audit Objective Two**

This objective relates to the procurement of qualified technical contractors for a fair price and in a timely manner. In planning and performing the audit of this activity, we considered the relevant internal control policies and procedures cited in A.I.D. Handbooks 1, 3 and 14. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: project implementation order/technical services development process and contract award process.

We noted one reportable condition . RDO/C had not determined if its Contract Officer had an adequate number of staff to handle its workload. Understaffing may have contributed to RDO/C appearing to be in noncompliance with Federal and A.I.D. acquisition regulations concerning contract negotiations (see page 7) and A.I.D. requirements concerning contract closeouts (see page 11).

### **Audit Objective Three**

The third audit objective relates to the expenditure and accounting for project technical services funds. In planning and performing our audit for the expenditure and accounting of funds, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 1, 3, and 19 and the Controller's Guidebook. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: fund control procedures and payment methods.

We did not note any reportable condition regarding internal controls relating to the expenditure and accounting for project technical services funds.

### **Audit Objective Four**

The fourth audit objective concerns RDO/C's monitoring of contractor performance. In planning and performing our audit for this activity we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 14. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: monitorship of contractor performance and contract termination and closeout.

We noted one reportable condition concerning staffing which is discussed under Audit Objective Two on page 14.

A material weakness is a reportable condition in which the design or operation of the specified internal control element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on project funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be a reportable condition and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under audit objectives one, two and four are material weaknesses.

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# **REPORT ON COMPLIANCE**

This section summarizes our conclusions on RDO's compliance with applicable laws and regulations.

## **Scope of Our Compliance Assessment**

We conducted our audit in accordance with generally accepted government auditing standards which require that we: (1) assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested RDO/C's compliance with: (1) The Federal Manager's Financial Integrity Act, (2) Federal and A.I.D. Acquisition Regulations, (3) Section 621 of the Foreign Assistance Act- Policies for Acquiring Services for the U.S. Government, (4) contract provisions, and (5) project agreements as they could affect our audit objectives. However, our objective was not to provide an opinion on RDO/C's overall compliance with such provisions.

## **General Background on Compliance**

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants, and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls.

Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with laws and regulations, and the other criteria mentioned on page 19 applicable to technical services is the overall responsibility of RDO/C management.

**Conclusions on Compliance**

The results of our tests of compliance indicate that, with respect to the items tested, RDO/C complied, in all significant respects, with the provisions referred to in the third paragraph of this report.

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## **SCOPE AND METHODOLOGY**

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### **Scope**

We audited RDO/C's technical services in accordance with generally accepted government auditing standards. We conducted the audit from May 21, 1991, through July 15, 1991, and covered the systems and procedures relating to the management of technical services financed directly by A.I.D. from January 1, 1985, through April 30, 1991. The total amount disbursed for these technical services was \$20.3 million as of April 30, 1991. These technical services consisted of five A.I.D. - direct contracts with five professional firms and seven personal services contracts. We tested two of the five contracts with professional firms and two of the seven personal services contracts; \$3.9 million had been disbursed for these contracts.

We conducted our field work in the offices of RDO/C in Barbados.

The audit was limited to covering whether the Mission has established and was following the management systems required to implement the four areas covered under the audit. Our review was limited to the procedures and systems in effect at the A.I.D. Mission and not at the contractor or host country.

Our audit work did not include tests to verify the accuracy of contractor progress reports because RDO/C was taking action to correct problems in this area as a result of our Audit Report No. 538-91-011.

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### **Methodology**

Generally, the audit methodology for all audit objectives followed the audit guidelines and steps set forth in IG/PPO Audit Guide on A.I.D. project technical services procured directly by A.I.D. For each objective we made an assessment of risk exposure in terms of high, moderate and low in accordance with GAO/OP 4.1.4- Assessing Internal Controls in Performance Audits and the OIG Internal Control Guidance. Similarly, for work on compliance, the audit methodology followed GAO guide GAO/OP-4.1.2. To

determine the extent of audit testing, we assessed risk exposure and internal controls as follows.

To assess and document risk exposure; namely the likelihood of significant abuse or illegal acts or misuse of resources, failure to achieve program objectives, noncompliance with laws, regulations and management policies, we assessed risk in terms of high, moderate and low (see Chapter 1, Assessing Internal Controls in Performance Audits, GAO/OP-4.1.4). The key factors we considered in determining risk exposure were:

- Significance and sensitivity.
- Susceptibility of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources.
- "Red flags" such as poorly defined and documented internal controls.
- Management support and the control environment.
- Competency of personnel.

To assess and document the effectiveness of internal controls; namely the extent to which they can be relied on we assessed the controls' effectiveness in terms of strong, adequate and weak. In making this assessment we:

- Identified and understood relevant internal controls.
- Determined what was already known about control effectiveness, i.e. whether other audit/evaluation organizations conducted audits or evaluations recently.
- Assessed the adequacy of control design, projected what is most likely to go wrong, and examined internal controls to see if they were logical, reasonably complete, and likely to determine or detect possible misuse, failure or errors.
- Determined if transactions were properly documented.

Our audit sample was judgementally selected to include as many RDO/C technical offices as possible considering two relatively recent audits of RDO/C projects--the Infrastructure Expansion Maintenance Systems Project and the High Impact Agricultural Marketing Project.

The methodology for each audit objective follows.

### **Audit Objective One**

To accomplish the first objective, we analyzed the project paper, authorization and agreement and related files to determine how the technical services needs were determined and justified. We also determined how the type of contractor was determined or justified. We reviewed the minutes of the Project Paper Review Committee meetings to determine the extent the committee looked at the reasonableness of the technical services needs and the contractor-type selection process.

We determined if contractors, who were involved in the determination of technical service needs and in project design, received preferential treatment in the award of the technical service contract. We determined and assessed the adequacy of RDO/C's process for determining the technical services needs and the reasonableness of those needs to meet the project goal, purpose and outputs. And finally, we discussed our audit observations with project officers, the Contract Officer and other RDO/C officials who were involved in determining technical services needs and the contractor-type selection process.

### **Audit Objective Two**

To accomplish the second objective, we documented RDO/C's system for processing PIO/Ts and determined if they and the resulting contract clearly defined what the contractor was supposed to do and/or provide. In this regard we determined if: (1) the tasks to be completed were clearly identified in terms of what was to be done or provided, (2) the contract clearly stated when the contractor was supposed to complete each of his contractually assigned tasks, (3) the statement of work included indicators of progress which would permit measurement of contractor progress in meeting contract objectives, and (4) adequate baseline data was available to use as the basis for measuring the contractor progress.

Regarding the contract award process, we documented RDO/C's system for awarding contracts and determined if the contracts were awarded under formal competitive bidding, competitive negotiation, small value procurement, or noncompetitive procedures and assessed whether the procedure used was reasonable under the circumstances of the procurement. We determined whether A.I.D. properly advertised the availability of the invitations for bid or requests for proposals and reviewed those documents to determine whether they contained all the required information, particularly a clear and detailed statement of work with specific progress indicators and an explanation of the contract award criteria. We determined if the technical proposal review process complied with A.I.D. requirements for impartiality and adherence to approved evaluation criteria and resulted in the selection of contractors qualified to

do the work. Also, we determined if the negotiated contract costs were reasonably related to the planned cost estimates in the PIO/T. Finally, we discussed our audit observations with project officers, the Contract Officer, other RDO/C officials, and the contractor who were involved in the contract award process.

### **Audit Objective Three**

To accomplish the third objective, to review the control over funds we determined whether the mission prevalidated, earmarked and committed funds in accordance with prescribed procedures. We determined whether valid and binding earmark and commitment documents were used and signed by authorized officials, and that commitments were not made after the project assistance completion dates. We also discussed our audit observations with project officers, the Contract Officer and Controller, and other RDO/C officials involved in the funds control process.

To review control over payments, we identified the accounting system used by RDO/C and ensured that the system was in place. We determined if the Controller's Office had established a system to track receipt and scheduling of invoices and whether it was operating and whether the project officers reviewed and administratively approved all invoices for payment. We also determined whether responsibilities in the Controller's office were properly segregated and that the voucher examiner performed a detailed review of all invoices, and if the appropriate accounting officials and the certifying officer reviewed all invoices for payment.

We determined whether advices of charge (AOCs) were received in a timely manner--no more than three months--advising that payment was made and whether AOCs were properly recorded to commitment liquidation records and correctly reported on Report U-101. We also reviewed advance payments and found that RDO/C had not made any on these contracts. Finally we discussed our audit observations with project officers, the Contract Officer and Controller, and other RDO/C officials who were involved in the disbursement of technical services funds.

### **Audit Objective Four**

To accomplish our fourth objective on monitoring contractor performance we reviewed the methods RDO/C used to ensure that the contractor had developed a work plan to implement the statement of work, provided the required personnel in a timely manner to implement the work plan, and effectively reported on the progress made in regard to each task of the work plan. We determined whether project officers or other RDO/C personnel performed site visits at the contractor's work place and whether they

**followed up with the contractor on project implementation deficiencies observed or noted in reports to ensure corrective action was taken.**

**We reviewed site visit reports to determine the adequacy of the reviews and tests which the mission personnel performed during their site visits. We also determined if the contractor's records had been audited in accordance with the contract and A.I.D. policies and procedures.**

**For contract closeouts we determined that RDO/C had not done any for two years and limited our work to determining the reason for not doing closeouts. We discussed our audit observations with project officers, the Contract Officer, other RDO/C officials, and contract personnel who were involved in the contract monitoring process. Finally, to help accomplish this audit objective, we considered the results of our recent audit of RDO/C's Infrastructure Expansion Maintenance System Project.**

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UNITED STATES GOVERNMENT

## memorandum

DATE: October 24, 1991

REPLY TO  
ATTN OF: Mosina Jordan, Regional Director

SUBJECT: RIG/A/T Draft Report on RDO/C Technical Services Activities

TO: Darryl Burris, RIG/A/T

RDO/C has reviewed the draft audit report and wishes to compliment RIG/A/T for the professional fashion in which the audit of Technical Services Activities in the Eastern Caribbean was conducted. RDO/C believes the findings, conclusions, and recommendations have been presented in an objective and forthright manner and that the quality of the report is generally excellent. Mission further believes that the RIG/A/T report is testimony to the efficient acquisition and management of technical services by RDO/C.

Mission appreciates RIG's recommendations that: a) mission issue guidance to clarify project or contract modification procedures; and b) mission formally close out all completed contracts. Mission has already taken steps to implement these recommendations.

Notwithstanding the above, RDO/C wishes to provide some clarifications with regard to certain statements in the draft in order that the final report more accurately represent such issues.

1. Issue

The table of contents only shows the weaknesses but not the strengths in the RDO/C's systems.

RDO/C Response

The audit resulted in positive conclusions for each of the audit questions. For a more balanced introduction to the findings, the table of contents should be modified to include the strengths as well as the weaknesses discussed in the report, or alternatively, neither the strengths nor the weaknesses.

2. Issue

Paragraph 1 on page 14 states that a contract modification was not properly documented.

RDO/C Response

RDO/C agrees with the RIG/A/T that the question raised concerning this contract modification relate to a documentation problem, and not to any underlying impropriety. At the time this action was executed, the RCO had just arrived at post and was under heavy pressure to complete a dozen contract actions in only one week (to meet the Mission's obligation target on 06/30 of that year). The RCO was in complete control of the negotiation process, but had not prepared a negotiation memo. That memo has since been prepared and is now in the contract file. The requisite cost analysis was done at the time, and has been included in the negotiation memo.

3. Issue

The third sentence of page 23 states "Apparently this backlog exists because the Contract Office has not placed sufficient emphasis on this important control function".

RDO/C Response

RDO/C feels that this statement is inaccurate. In fact, the Contract Office considers this control function very important. RDO/C recommends the sentence be amended to read "This backlog exists because the Contract Office did not have the resources to deal with this important control function".

4. Issue

Paragraph 1, page 25 second sentence states "He believed that the Controller's Office took independent action to deobligate unneeded funds relating to completed contracts and to request audits of contracts greater than \$500,000 as required by the Federal Acquisition Regulations."

RDO/C Response

Since this is a statement of fact, RDO/C recommends that the words "He believed that" be deleted from this sentence.

Progress on Recommendations

Below is a report of actions taken and progress made towards closure of the recommendations contained in the draft report.

Recommendation No. 1

We recommend that the RDO/C issue a Mission Order that defines the mechanism or procedure to be used - possibly an Action Memorandum - to document the evaluation, options considered, justifications and recommended actions for making substantive project (or contract) modifications.

Action taken

The RDO/C Project Development Office has drafted a Mission Order which defines the mechanism or procedure to be used to document the evaluation, options considered, justifications and recommended actions for making substantive project (or contract) modifications. This Mission Order is now circulating for Mission clearance .

Recommendation No. 2

We recommend that RDO/C take action necessary to close out all completed contracts.

Action Taken

The Contract Office has initiated contract closeouts on over 50% of the mission's completed contracts. The Mission is planning to obtain short-term contractual assistance to deal with the remainder of the backlog and to develop an automated closeout system for the future. In addition, the hiring of a permanent FSN Contracting Assistant has been authorized and the position will be filled by December 31, 1991.

Based on the above actions, Mission requests both recommendations be listed as resolved. We will immediately advise you upon completion of the actions necessary for closure of these recommendations.

Thank you for your cooperation and assistance.

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