PD-ABF 468

Regional Inspector General for Audit
Dakar

AUDIT OF USAID/TUNISIA'S AND THE A.I.D. REGIONAL CONTRACTING OFFICE'S CONTROLS OVER A.I.D.-DIRECT CONTRACTS FOR TECHNICAL ASSISTANCE

Audit Report No. 7-664-93-02
December 9, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

December 9, 1992

MEMORANDUM

TO: Mary Reynolds, Regional Contracting Officer, USAID/Morocco

FROM: Thomas B. Anklewich, RIG/A/Dakar

SUBJECT: Audit of USAID/Tunisia's and the A.I.D. Regional Contracting Office's Controls over A.I.D.-Direct Contracts for Technical Assistance - Report No. 7-664-93-02.

Enclosed are three copies of our final audit report on USAID/Tunisia's and the A.I.D. Regional Contracting Office's Controls Over A.I.D.-Direct Contracts for Technical Assistance. We reviewed your cabled comments on the draft report (Tunis 07254) when finalizing this report and have included the full text as Appendix II herein.

The report contains six recommendations of which Recommendation Nos. 2 and 4 are addressed to your office. Based on your response to the draft audit report, Recommendation No. 4 is resolved and can be closed upon completion of the agreed upon corrective actions. Recommendation No. 2 is unresolved pending an agreement on the necessary corrective actions.

Please provide us information within 30 days on any actions planned or taken to implement the open recommendations. I appreciate your cooperation and courtesies to my staff during the audit.

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December 9, 1992

MEMORANDUM

TO: James A. Graham, Director, USAID/Tunisia

Thomas B. Anklewich

FROM: Thomas B. Anklewich, RIG/A/Dakar

SUBJECT: Audit of USAID/Tunisia's and the A.I.D. Regional Contracting Office's Controls over A.I.D.-Direct Contracts for Technical Assistance - Audit Report No. 7-664-93-02.

Enclosed are five copies of our final report on USAID/Tunisia's and the A.I.D. Regional Contracting Office's Controls Over A.I.D.-Direct Contracts for Technical Assistance. We reviewed your cabled comments to the draft report (Tunis 07254) when finalizing the audit report and have included the full text as Appendix II herein.

The report has six recommendations of which Recommendation Nos. 1, 3, 5 and 6 are addressed to USAID/Tunisia. Based on your response to the draft audit report, Recommendations Nos. 3 and 5 are resolved and can be closed upon completion of the agreed upon corrective actions. Recommendation Nos. 1 and 6 are unresolved pending an agreement with the Mission on the necessary corrective actions.

Please provide us information within 30 days of any actions planned or taken to implement the open recommendations. I appreciate your cooperation and courtesies to my staff during the audit.

EXECUTIVE SUMMARY

Background

USAID/Tunisia relies extensively on A.I.D.-direct contracts for technical assistance to implement its projects. The Mission plans, procures and monitors such contracts to ensure that A.I.D. funds spent on such services are properly accounted for. The A.I.D. Regional Contracting Office - based in Rabat, Morocco - provides technical support services in processing, negotiating and finalizing the contracts. From January 1990 through December 1991, USAID/Tunisia and the Regional Contracting Office administered 41 active technical assistance contracts under eight projects which included institutional, buy-in, indefinite quantity and personal services contracts. Commitments and disbursements as of March 2, 1992 for these contracts totaled $11.9 million and $10.1 million, respectively (Appendices III and IV).

Audit Objectives

We audited USAID/Tunisia's and the A.I.D. Regional Contracting Office's controls over A.I.D.-direct contracts for technical assistance to answer the following four questions:

- Did USAID/Tunisia follow A.I.D. policies and procedures in planning for technical assistance? (Page 3).

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in procuring technical services competitively, at a fair price, in a timely manner and from qualified contractors? (Page 4).

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in earmarking, committing, expending and accounting for technical services funds? (Page 7).

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in monitoring contractor performance? (Page 13).

The audit was conducted from February to June 1992 in accordance with generally accepted government auditing standards, except that auditee management declined to provide us with a representation letter confirming essential information relating to the audit objectives (Page 22).

Summary of Audit

We were unable to fully answer our audit objectives because the USAID/Tunisia Director and the Regional Contracting Officer would not provide us with a written confirmation that, to the best of their knowledge and belief: (1) all essential information was provided to us, (2) the information provided was accurate and complete, and (3) management had followed A.I.D. policies.

In view of the above, this report is limited because we cannot state positively that USAID/Tunisia and the Regional Contracting Office followed all A.I.D. policies and procedures applicable to the audit objectives. Based on the information provided and the tests made, the following problem areas came to our attention.

USAID/Tunisia and/or the Regional Contracting Office did not 1) ensure that benefits granted under personal services contracts were in all cases necessary and allowable; 2) coordinate with the A.I.D. Office of Procurement in establishing final overhead rates for A.I.D.-direct contracts in a timely manner; 3) liquidate unused funds or review contracts for fund availability; 4) ensure that contractors established required controls on A.I.D.-funded non-expendable property; and 5) report material internal control weaknesses identified in this audit in its 1991 vulnerability assessment required under the Federal Manager's Financial Integrity Act.

Audit Findings

As discussed above, we cannot fully answer the audit objectives. However USAID/Tunisia's and the Regional Contracting Office's records showed that USAID/Tunisia planned for technical assistance, solicited offers from qualified contractors and earmarked funds for technical services contracts in accordance with applicable U.S. Government regulations and A.I.D. policies and procedures. In addition, the following problem areas came to our attention.

Questionable Benefits Granted
<u>Under Personal Services Contracts</u>

Notwithstanding A.I.D. Handbook 14 guidance, USAID/Tunisia awarded benefits totaling $77,560 to four personal services contractors which were unallowable, unnecessary and not normally provided under A.I.D. guidelines. The questionable benefits included housing, education, and transportation allowances as well as post differential and rest and recuperation. This occurred because contracting officials were not fully cognizant of applicable policies and procedures and there was an absence of formalized Mission guidance. Clear and comprehensive guidance, such as a Mission Order, is therefore essential to prevent A.I.D. funds from future misuse.

Final Overhead Rates
Not Timely Established

Federal regulations require that contractors' final overhead rates be established by the cognizant contracting office within specified time frames. For the two largest contracts reviewed, final rates had not been established for the entire contractual periods of four years and even after expiry of the contracts. Lack of comprehensive procedures and insufficient coordination between A.I.D.'s regional and principal contracting offices caused this breakdown in internal controls which resulted in USAID/Tunisia paying $1.3 million for indirect costs without determining whether the amounts were consistent with the contractors' established final overhead rates.

Unused Funds Not
Timely Liquidated

Federal regulations require periodic reviews of U.S. Government financial obligations to identify idle funds and put them to better use. The audit identified $918,444 under 18 expired contracts which remained idle for up to five years because USAID/Tunisia failed to decommit or otherwise liquidate the funds. This deficiency was principally due to a lack of prompt inter-action between the Mission and the A.I.D. Office of Financial Management which caused delays in processing outstanding charges against the appropriated funds. Establishing a tracking system at the Mission could ensure that necessary information is rapidly obtained and timely processed and scarce A.I.D. funds are put to better use.

Contract Documents Not Reviewed
For Fund Availability

A.I.D. financial offices are required to review and certify contract documents to confirm fund availability and ascertain incorporation of proper payment provisions. USAID/Tunisia did not perform this function because of the Regional Contracting Office's failure to forward the necessary documents. Consequently, contracts were awarded without ensuring that funds were available, exposing the Mission to the risk of incurring commitments in excess of available funds.

Controls Over Non-Expendable
Property Not Established

A.I.D. project officials are required to ensure that contractors establish and implement a system to account for A.I.D.-financed non-expendable property procured under contracts. USAID/Tunisia did not fulfill this responsibility for a contract which budgeted $80,000 for non-expendable property because the Mission did not establish formalized guidance. Therefore, USAID/Tunisia does not have adequate assurance whether A.I.D. funds designated for non-expendable property were used for their intended purposes.

Summary of Recommendations

This report contains six recommendations, of which four are addressed to USAID/Tunisia and two to the cognizant A.I.D. Regional Contracting Office in Morocco.

The four recommendations to USAID/Tunisia include (1) establishing a written policy on benefits payable under each type of personal service contract; (2) decommitting or otherwise liquidating $918,444 under expired buy-in contracts; (3) establishing procedures to ensure that contractors implement a system for receipt, use, maintenance, and safeguarding of non-expendable property; and (4) addressing the internal control weaknesses identified in this report in the Mission's next vulnerability assessment under the Federal Managers' Financial Integrity Act.

The two recommendations to the A.I.D. Regional Contracting Office include: (1) coordinating with the A.I.D. Office of Procurement to ensure that final overhead rates for contracts are established in a timely manner; and (2) forwarding contract documents to the USAID/Tunisia Controller's Office to ensure availability of funds and inclusion of proper payment provisions prior to contract award.

Management Comments and Our Evaluation

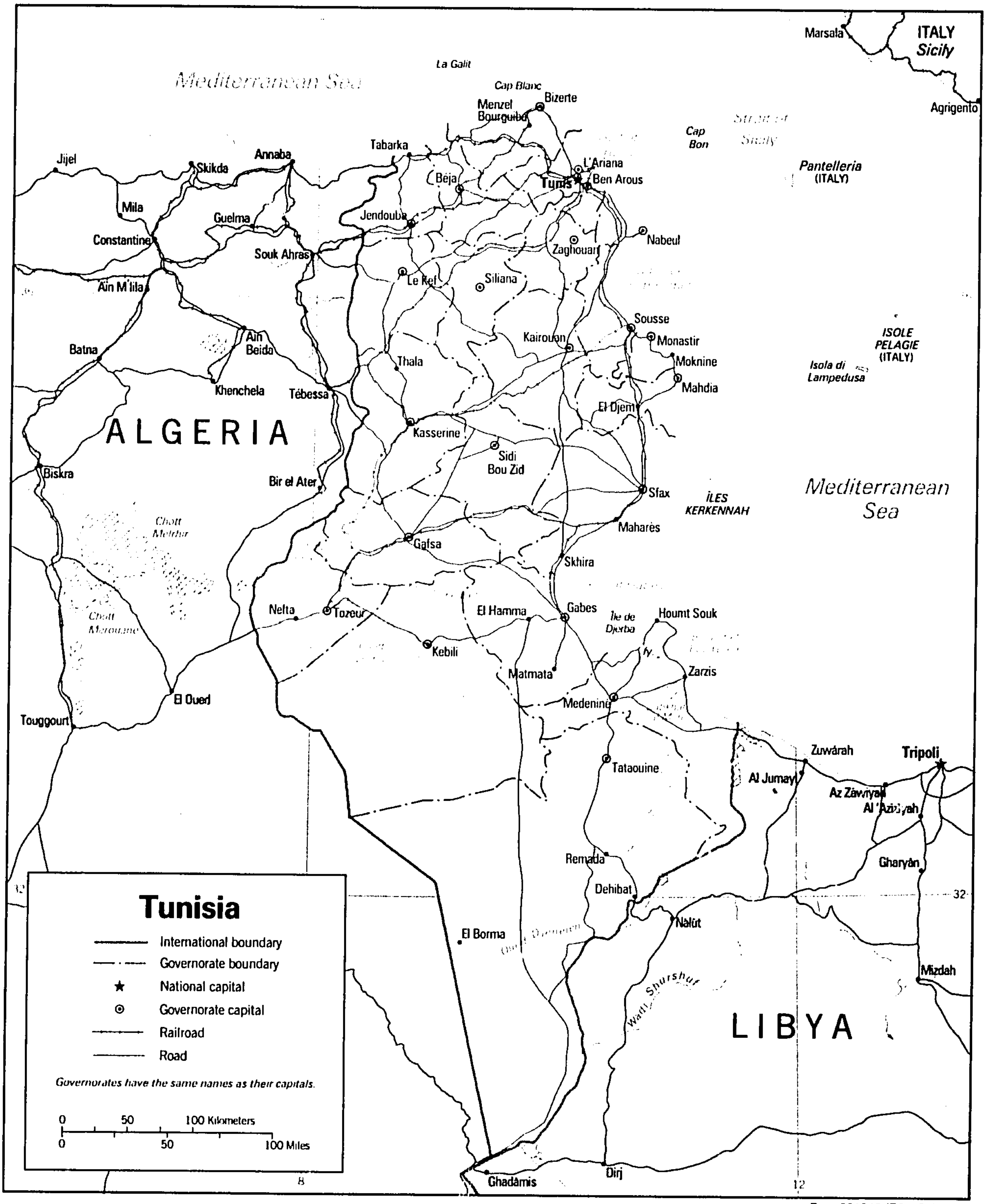
In response to our draft audit report, the USAID/Tunisia Director and the Regional Contracting Officer - collectively referred to as management - submitted their written comments which are included in their entirety in Appendix II herein.

Management concurred with our findings and related Recommendation Nos. 3, and 5 and the overall intent of Recommendation No. 4. These recommendations are therefore considered resolved and can be closed upon implementation of the required corrective actions. However, they disagreed substantially with our findings and related Recommendation Nos. 1, 2, and 6 and stated that 1) benefits totalling $77,560 paid to personal service contractors, with one exception, were proper and allowable; 2) A.I.D. has an adequate mechanism for establishing final overhead rates for contracts; and 3) the Mission's internal control assessment should not be a part of our audit process.

We have carefully considered management's response and, apart from minor changes, have substantially retained our position relating to Recommendation Nos. 1, 2 and 6, which are considered open and unresolved pending agreements with management on the necessary corrective actions.

Office of The Inspector General

Office of the Inspector General
December 9, 1992



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INTRODUCTION

Background

USAID/Tunisia uses A.I.D.-direct contracts to provide technical assistance for its projects. The Mission is responsible for planning technical assistance, procuring certain contracts, monitoring contractor performance, and ensuring that A.I.D. funds spent on technical assistance are properly accounted for. The Regional Contracting Office (RCO)--located at the A.I.D. Mission in Rabat, Morocco--is primarily responsible for procuring, negotiating and finalizing contracts. The A.I.D. Directorate for Finance and Administration in Washington, D.C. is responsible for formulating, reviewing, issuing and evaluating policies and procedures relating to A.I.D.-direct contracts.

From January 1990 through December 1991, USAID/Tunisia and the RCO administered 41 active A.I.D.-direct contracts for technical assistance under eight projects (Appendix III). Commitments and disbursements as of March 2, 1992 for these contracts totalled \$11.9 million and \$10.1 million, respectively. The 41 contracts include 8 institutional, 12 buy-in, 12 Indefinite Quantity and 9 personal services contracts (Appendix IV). The personal services contracts included those under the A.I.D. Regional Housing and Urban Development Office for Near East and North Africa which is based at USAID/Tunisia and uses the Mission's administrative and financial services to conduct its operations.

Audit Objectives

In accordance with its fiscal year 1992 audit plan, the Regional Inspector General for Audit, Dakar, audited USAID/Tunisia's and the A.I.D. Regional Contracting Office's controls over A.I.D.-direct contracts for technical assistance to answer the following audit objectives:

- Did USAID/Tunisia follow A.I.D. policies and procedures in planning for technical assistance?

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in procuring technical services competitively, at a fair price, in a timely manner and from qualified contractors?

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in earmarking, committing, expending and accounting for technical services funds?

- Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in monitoring contractor performance?

In answering these objectives, we tested whether USAID/Tunisia and the Regional Contracting Office: (1) followed applicable internal control procedures and (2) complied with certain provisions of laws and regulations. When we found problem areas, we performed additional work to:

- conclusively determine whether USAID/Tunisia or the Regional Contracting Office was following a procedure or complying with a legal requirement,

- identify the cause and effect of the problems, and

- make recommendations for correcting the condition and cause of the problems.

Appendix I on page 22 contains the scope and methodology of this audit.

REPORT OF AUDIT FINDINGS

We are not able to fully answer our audit objectives because the USAID/Tunisia Director and the Regional Contracting Officer, hereafter referred to collectively as management, declined to provide us in writing all the information essential for us to render a professional conclusion.

For example, management would not confirm that to the best of their knowledge and belief:

- they had provided us with all the essential information,
- the information provided was accurate and complete, and
- they had followed A.I.D.'s policies.

A complete description of the essential information that management would not confirm in writing is provided in the Scope and Methodology section of this report in Appendix I.

Without these confirmations, we cannot fully determine if management did what they were required to do. Without such confirmations, we would in essence, be stating that management complied with A.I.D.'s policies and procedures when they themselves are unwilling to make such a statement.

While we cannot state positively that management followed its policies and procedures, this lack of a confirmation would not preclude us from reporting on any problem areas that came to our attention. Based on the information that management did provide to us and the tests that we were able to perform, the following problem areas came to our attention.

Did USAID/Tunisia follow A.I.D. policies and procedures in planning for technical assistance?

Because management declined to provide a representation letter, we are unable to fully answer this audit objective. However, Mission records and our discussions with cognizant officials showed that for four projects selected from the eight in the audit universe which contained A.I.D.-direct contracts (Appendix IV), the planning and design documents identified technical assistance needs; specified types of goods and services to be procured; and analyzed, estimated and budgeted cost of such services. Also, Mission records showed that USAID/Tunisia officials coordinated with the Government of Tunisia in identifying and determining the need for technical services.

Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in procuring technical services competitively, at a fair price, in a timely manner and from qualified contractors?

As discussed earlier, we cannot fully answer this audit objective. However, USAID/Tunisia and the Regional Contracting Office records and our discussions with cognizant officials showed that, for the 12 institutional and personal services contracts tested, USAID/Tunisia and the Regional Contracting Office complied with U.S. Government and A.I.D. competition requirements in soliciting offers from qualified contractors in a timely manner and procuring technical services at a fair price, except that USAID/Tunisia did not always ensure benefits granted under personal services contracts were necessary and allowable as discussed below in detail.[1]

Benefits Granted Under Personal Service Contracts Should be Both Allowable and Necessary

A.I.D. Handbook 14 specifies the conditions under which benefits are to be granted for each type of personal services contract (PSC). Of nine such contracts tested, USAID/Tunisia awarded benefits totalling $77,560 to four contractors which were unallowable, unnecessary, or not normally provided under A.I.D. guidelines. This occurred because contracting officials were not fully cognizant of Handbook 14 guidelines on benefits allowable under various types of personal service contracts and lacked formalized Mission guidance. As a result, A.I.D. funds totalling $77,560 were improperly granted and/or paid.

> **Recommendation No. 1: We recommend that the Director, USAID/Tunisia, establish a comprehensive written policy specifying what benefits are payable to U.S. citizens, U.S. resident aliens and third country nationals under personal service contracts when they are hired in-country as well as outside Tunisia.**

A.I.D. Handbook 14, Appendices D and J, provide guidelines on allowances payable under personal services contracts to U.S. citizens, U.S. resident aliens and third country nationals. Contractors who are U.S. citizens or U.S. resident aliens are eligible for various benefits on the same basis as U.S. Government employees. These include allowances relating to lodging, separate maintenance, education and travel as well as post differential, evacuation and danger pay.

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[1] As part of determining whether USAID/Tunisia and the Regional Contracting Office followed U.S. Government Regulations and A.I.D. policies and procedures in procuring personal services contracts (PSC) at a fair price, we tested whether benefits granted under PSCs were necessary and allowable.

However, a U.S. citizen or U.S. resident alien residing in the cooperating country at the time of hire as a PSC is not eligible for the above benefits unless (1) these were also awarded by the previous employer or, (2) such benefits are determined to be consistent with the Mission's policy and practice and in the best interests of the U.S. Government.

Notwithstanding the above requirements, the following four of the nine USAID/Tunisia personal service contractors in the audit sample were granted benefits totalling $77,560 which were not allowable, unnecessary, or not normally provided under A.I.D. guidelines.

A Tunisian citizen **was awarded a new personal service contract after he obtained a U.S. resident alien status which provided for post differential, housing/utilities, dependent education, rest and recuperation, and transportation of household effects to the U.S. totalling $41,003 even though he was employed by USAID/Tunisia as a local hire immediately preceding the contract award.**

A U.S. citizen was awarded a transportation allowance of $3,076 under a personal service contract for traveling to/from work which is not allowable under A.I.D. Handbook 14 guidelines. Subsequently, the Mission Controller discovered this error upon receiving the contractor's reimbursement request for local travel and denied the claim.

A U.S. citizen was awarded post differential, housing/utilities, transportation of household effects, furniture and appliances and travel to the U.S. totalling $26,900 under a personal service contract even though she was residing in Tunisia and was employed in another job at the time of hire. No evidence was available in the Mission's contract files that she received similar benefits from her previous employer.

Finally, **a personal services contractor was granted post differential, totalling $6,581, although he was on a short-term assignment of less than 43 days, and therefore not eligible for this benefit.** Subsequently, the Mission Controller discovered this contracting error, **but not until 16 months had elapsed and $4,563 already paid.** The Mission later recovered the amount from the contractor.

These benefits were authorized because: (1) responsible officials were not fully cognizant on what benefits were allowable under various types of personal service contracts and lacked formalized Mission guidance; and (2) A.I.D. policies were not clear as to what constituted a resident hire under personal service contracts when the individual in question was a U.S. resident alien.

To illustrate, USAID/Tunisia had neither a written policy on the payment of nonmandatory benefits, nor did they document a rationale for awarding such benefits although required to do so under Appendix D of A.I.D. Handbook 14.

Resulting from the above deficiencies and lack of clear and comprehensive guidance, USAID/Tunisia authorized benefits totaling $77,560 to four personal service contractors which are not eligible under A.I.D. guidelines. Because A.I.D. extensively uses personal service contractors, it is imperative that USAID/Tunisia issue comprehensive guidance on this subject to ensure that A.I.D. funds are properly used.

Management Comments and Our Evaluation

The RCO and the Mission Director disagreed with Recommendation No. 1 and took exception to the findings and conclusions in three out of the four cases identified in this audit.

In the first case, the RCO disagreed that the Tunisian PSC in question was employed in Tunisia by the Mission as a local national employee at the time of the new contract award. The RCO maintained that this individual had ended his employment with USAID/Tunisia in July 1991 and the new PSC became effective on September 28, 1991.

We believe that the benefits granted to this PSC are questionable because he was employed by the Mission as a local national employee at the time of the contract award (Amendment No. 7 to personal services contract #940-1008-C-8105 extended the contract through September 27, 1991 and not July 1991 as stated by the RCO). Moreover, he received benefits which even a U.S. citizen working in the cooperating country would not normally receive.

In the second case, the RCO and the Mission did not agree that the PSC in question was awarded home/work transportation allowance totaling $3,076, but stated that the benefit constituted an in-country allowance for official travel.

However, the Mission's contract documents showed conclusive evidence that a home/to work transport allowance was in fact awarded. In a Memorandum of Negotiation signed on September 30, 1991 the Mission's Executive Office stated: "*The acting Regional Contracting Officer was consulted on this point and agreed that this cost, per Handbook 14, was allowable. The original contract budget was re-calculated to include additional funds to cover transportation. The original budget only included in-country travel for project related activities and didn't cover transportation as an overhead expense of the Contractor. The travel and transportation line item of this budget was increased from $1,170 to $4,246...*"

Furthermore, our interpretation of this benefit is also shared by the then USAID/Tunisia Controller who disallowed the PSC's reimbursement claim of $3,076 for home/work travel allowance, because he determined that it was not a reimbursable cost under A.I.D. Handbook guidance.

In the third case of the U.S. citizen PSC who received questionable benefits totaling $26,900, the Mission Director and the RCO stated that it was not clear from our draft report as to which contractor was being referred to.

We do not concur with the above statement. The draft audit report did not refer to any of the four personal service contractors by name because legal considerations preclude us from doing so. However, at various meetings and discussions with the Mission Director, the Executive Officer, the Controller and the RCO, all four PSCs in question were identified by the auditors. Moreover, in memoranda submitted by the auditors to the Mission on May 15 and 20, 1992, the relevant contract numbers of the four contractors were provided. The PSC that USAID/Tunisia and the RCO referred to in their comments only received post differential and was not included in the draft report.

In conclusion, we reiterate that USAID/Tunisia awarded benefits totaling $77,560 under four personal service contracts which were unallowable, unnecessary, or not normally provided under A.I.D. guidelines. It is therefore essential that clear and comprehensive guidelines be established by the Mission to prevent such contracting errors and safeguard A.I.D. funds from misuse. Recommendation Number 1 is considered unresolved pending an agreement on the required corrective actions.

Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in earmarking, committing, expending and accounting for technical services funds?

As discussed earlier, we cannot fully answer this audit objective. However, Mission records and discussions with cognizant officials showed that, for the six contracts tested, USAID/Tunisia and the Regional Contracting Office followed U.S. Government regulations and A.I.D. policies and procedures in earmarking, committing, expending and accounting for technical services funds, except that:

- the Regional Contracting Office did not coordinate with the A.I.D. Office of Procurement in Washington, D.C. in establishing final overhead rates for the Mission's technical service contracts within the time-frames established by the Federal Acquisition Regulations;

- USAID/Tunisia did not follow Federal regulations and A.I.D. policies for liquidating timely unused funds under expired buy-in contracts; and

- contracts issued by the Regional Contracting Office were not reviewed by the Mission Controller's Office for fund availability as required under A.I.D. guidelines.

These problem areas are discussed below.

Final Indirect Cost Rates
Were Not Timely Established

The Federal Acquisition Regulations require a contractor to submit final indirect cost rate proposals to the cognizant contracting office within 90 days after the end of the contractor's fiscal year. However, for the two institutional contracts tested, A.I.D. contracting officials had not finalized the indirect cost rates during the entire contractual periods of four years and even after expiration of the contracts. This occurred because of a lack of comprehensive written procedures in A.I.D. and insufficient coordination between the A.I.D. Office of Procurement and the Regional Contracting Office in ensuring timely submissions of cost proposals and negotiating final indirect cost rates with contractors. Consequently, USAID/Tunisia paid approximately $1.3 million for indirect costs to two contractors without determining whether the amounts claimed were consistent with their established final overhead rates.

> **Recommendation No. 2: We recommend that the Regional Contracting Officer (RCO) coordinate with the Office of Overhead and Special Cost and Contract Close-out, A.I.D. Office of Procurement (OP/PS/OCC) to:**
>
> **3.1 ensure that all final indirect cost rate proposals relating to USAID/Tunisia-funded contracts are submitted, negotiated and approved in a timely manner; and**
>
> **3.2 expeditiously obtain the final overhead rates and adjust the provisional indirect cost payments made under two expired contracts with ABT Associates Inc. and RONCO Consulting Corporation.**

Subpart 52.216 of the Federal Acquisition Regulations (FAR) requires a contractor to submit final indirect cost rate proposals to the cognizant contracting office within 90 days of the contractor's fiscal year-end, or a later date, if approved by the contracting officer. The proposals should be based upon the contractor's cost experience for that period. The appropriate U.S. Government representative and the contractor should establish final indirect cost rates as promptly as practical thereafter.

We selected a sample of two USAID/Tunisia technical services contracts with ABT Associates, Inc. (ABT) and RONCO Consulting Corporation (RONCO), which represented 94 per cent of the commitments and disbursements totalling $6.9 million and $6.8 million respectively of USAID/Tunisia's 8 institutional A.I.D.-direct contracts (Appendix IV). A review of the related contract files maintained by the Mission's Regional Contracting Office (RCO) showed inadequate documentation concerning the submission, negotiation, approval, monitoring and follow-up of provisional and final indirect cost rates for both contractors.

When questioned about this lack of information, the RCO stated that she did not know if either contractor had submitted the proposed final indirect cost rates as required by the FAR. Moreover, she was not certain as to which U.S. Government Agency was responsible for establishing the provisional and final indirect cost rates for ABT and RONCO. She further stated that the Office of Overhead and Special Cost and Contract Close-out, A.I.D. Office of Procurement (OP/PS/OCC) in Washington, D.C. was responsible for ensuring that contractors provided timely submissions of their indirect cost rate proposals and negotiating the overhead rates.

In response to our cabled request, OP/PS/OCC stated that **no final indirect cost rates had been established for ABT since March, 1987. As for RONCO, no final rates had ever been established during the life of the contract. In fact, the only rate established for this contractor was a provisional indirect cost rate as far back as April 1984.**

Both RONCO and ABT had four-year contracts with USAID/Tunisia that expired in December 1990 and August 1991, respectively. **During these four-year periods, the Mission regularly certified contractors' billings and authorized their payments without either following-up or monitoring the timely submission of the contractors' final indirect cost rates. In all, A.I.D. paid approximately $1.3 million to RONCO and ABT for indirect costs without determining whether the amounts claimed by the contractors were consistent with their established and negotiated overhead rates.**

The above deficiencies occurred because of 1) a lack of clear policy guidance and comprehensive written procedures in A.I.D. on following-up and finalizing indirect cost rates; and 2) insufficient coordination between the Mission's RCO and the A.I.D. Office of Procurement (OP/PS/OCC) in Washington, D.C. for following up on contractor submissions to ensure timely establishment of final indirect cost rates.

We recognize that the primary responsibility to negotiate and establish overhead rates is with the A.I.D. Office of Procurement in Washington, D.C. Nevertheless, in a widely dispersed and decentralized organization like A.I.D., management controls could be considerably strengthened if A.I.D. Regional Contracting Offices ensure that copies of all pertinent information and documents relating to overhead rates are forwarded by OP/PS/OCC and retained in the RCO contract files. Moreover, RCOs should coordinate with the A.I.D. Office of Procurement to ensure that indirect cost rates for contracts under their management are established in a timely manner.

We believe that overhead rates for the above USAID/Tunisia contracts were not finalized in a timely manner primarily **because of the lack of a clear definition of the RCO's role and responsibility on the extent to which this office should coordinate with OP/PS/OCC to follow up on overhead rates.** This problem was also identified in an audit at USAID/Sri Lanka in which the A.I.D. Office of The Inspector General recommended that the Associate Administrator for Finance and Administration clarify Agency policy on finalizing indirect cost rates and devise procedures to implement it (Audit Report No. 5-383-92-04, dated March 19, 1992). But until this issue is clarified, USAID/Tunisia's Regional Contracting Office needs to coordinate with the A.I.D. Office of Procurement in Washington D.C. to ensure timely submission of final indirect cost rates for the Mission's A.I.D.-direct contracts with U.S.-based contractors.

Management Comments and Our Evaluation

The Regional Contracting Officer (RCO) disagreed with Recommendation No. 2 because in her opinion:

- it is the OP/PS/OCC's and not the RCO's responsibility to negotiate and establish overhead rates;
- the most up-to-date indirect cost rates were included in the ABT Associates and RONCO consulting contracts;
- the aforementioned contracts have not been closed by the RCO pending notification from the OP/PS/OCC of final rates for the period of these contracts; and
- any adjustments to the contractors' indirect cost reimbursements would be made in the normal course of operations.

We have carefully considered the RCO's comments and have substantially retained Recommendation No. 2 based on our understanding of the FAR, current A.I.D. contracting guidance and sound management controls. Our rationale is summarized below.

The RCO is responsible for administering contracts for several A.I.D. Missions. Therefore, management controls could be considerably strengthened by ensuring that all contract files for which the RCO is responsible have complete and up-to-date information on overhead rates. This was not the case for the two USAID/Tunisia contracts that we tested.

While it is OP/PS/OCC's responsibility to negotiate and establish overhead rates, the RCO, for the contracts under his/her cognizance, should follow-up with the OP/PS/OCC whenever any delays occur in establishing such rates. This was not done. For example, according to the RCO, *"the most up-to-date indirect cost rates were included in the ABT Associates and RONCO consulting contracts"*. This statement is not correct. In both cases, final overhead rates had not been established since the inception of the contracts in 1986 and 1987 and even after their expiration in 1990 and 1991, a clear violation of the FAR provisions which require that overhead rate proposals be submitted within 90 days from the end of the contractors' fiscal year and final rates established as promptly as practical thereafter.

Therefore, we believe that the RCO should assume a more pro-active role in managing contracts and take appropriate action in coordinating with the OP/PS/OCC whenever significant delays in establishing overhead rates occur. Recommendation No. 2 is considered unresolved pending an agreement on the necessary corrective actions.

Unused funds for Expired Buy-In
Contracts Should be Liquidated

Federal regulations and A.I.D. policies require missions to review and identify surplus project funds to deobligate or decommit or channel them to other priority needs to better utilize scarce Agency resources. USAID/Tunisia did not decommit or otherwise liquidate excess funds totalling $918,444 under 18 expired buy-in contracts. This occurred because the Mission 1) was awaiting outstanding Advice of Charges from the A.I.D. Office of Financial Management (FA/FM) before liquidating the funds and 2) did not consistently follow-up with FA/FM for such payment information. As a result, unliquidated funds totalling $918,444, which could otherwise have been better utilized, remained idle for up to five years.

> **Recommendation No. 3: We recommend that the Director, USAID/Tunisia:**
>
> **4.1 decommit or otherwise liquidate $918,444 under the Mission's 18 expired buy-in contracts; and**
>
> **4.2 establish a tracking system that would promptly request payment information relating to disbursements out of appropriated funds from the A.I.D. Office of Financial Management in Washington D.C. and follow-up such requests periodically.**

The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance) and A.I.D. Handbook 19, Chapter 2, require missions to periodically review their unliquidated obligations and commitments to determine validity of fund balances. These reviews are important because missions can identify funds which can be timely deobligated/decommitted and released for other priority needs, thus achieving a better utilization of A.I.D. resources.

Although USAID/Tunisia had conducted these reviews and identified idle funds for liquidation, these were not timely liquidated. As of May 1992, unused funds totalling $918,444 under 18 buy-in contracts which expired between September 1987 and September 1991 were not decommitted or otherwise liquidated by the Mission.

According to the USAID/Tunisia Controller, no action was taken because of delays in receiving the required Advice of Charges (AOCs) from FA/FM--the paying office for buy-in contracts--before determining the amount of funds to be decommitted. The Mission had to wait as long as eight months to receive an AOC and did not promptly request payment information from FA/FM on unliquidated balances in spite of such delays.

Consequently, unused residual funds totaling $918,444 on 18 expired buy-in contracts have remained unliquidated for up to five years. If promptly handled, such funds could have been released for other purposes, resulting in a more efficient and economical use of scarce U.S. Government funds.

Management Comments and Our Evaluation

USAID/Tunisia concurred with the finding and agreed to take the recommended corrective actions. Recommendation No. 3 is hereby resolved and can be closed when USAID/Tunisia provides documentary evidence that the agreed upon actions have been taken.

Contracts Issued by the Regional Contracting Office Were Not Reviewed for Fund Availability

Federal regulations and A.I.D. policies require the Agency to establish a system to prevent incurring obligations resulting in appropriations in excess of available funds. A.I.D. Mission controllers must certify that funds are available prior to awarding contracts and also review contract documents for inclusion of proper payment provisions. For all eight USAID/Tunisia contracts tested, the Mission Controller's Office could not perform the above monitoring functions because the RCO did not forward the necessary documents prior to contract execution. According to the RCO, forwarding contract documents for Controller review would lengthen the contracting process. Consequently, contracts were executed without ensuring that funds were available and payment provisions were proper, thus exposing the Mission to the risk of incurring commitments in excess of available funds.

> Recommendation No. 4: **We recommend that the Regional Contracting Office forward all USAID/Tunisia contract documents to the Mission Controller and obtain certification that funds are available and proper payment provisions have been included prior to executing a contract.**

Section 3679 of the revised statutes (31 U.S.C. 665), "the Antideficiency Act," requires every Agency to have a system to prevent the incurring of obligations resulting in appropriations in excess of available funds. A.I.D. Handbook 19, Appendix 1A, states that mission controllers are responsible for maintaining accounting records for all funds allotted to the Mission and prevalidating binding documents (such as contracts) for fund availability. Also, USAID/Tunisia issued a Mission Order in December 1990 on fund control procedures which requires that all documents committing funds be forwarded to the Mission Controller for confirmation of availability of funds; recording in the books of account; and inclusion of payment provisions.

However, the Regional Contracting Office in Morocco did not forward the USAID/Tunisia contract documents to the Mission Controller's Office in Tunis so that the above procedures could be performed. We tested a sample of eight contracts, totalling $206,405, executed by the RCO between September 1991 and March 1992 and found that none was forwarded to the Controller's Office for review of fund availability and inclusion of payment provisions.

According to the RCO, the contracting process would be considerably lengthened by complying with the above requirement. As a result of this noncompliance, the Mission entered into binding agreements without ensuring that funds were available and payment provisions were proper. In one indefinite quantity contract executed by the RCO in January 1992, the agreement provided for a maximum amount of $150,000 with a guaranteed minimum of $1,000 during the life of the contract. However, the earmarking document authorized a guaranteed minimum of only $750. While the resulting deficiency of $250 is minor, it nevertheless demonstrates the importance of complying with A.I.D. funds control procedures.

Management Comments and Our Evaluation

The Regional Contracting Officer concurred with the overall intent of our recommendation but also pointed out the RCO's difficulties of administering contracts for several A.I.D. Missions from one location. She further stated that the funds violation referred to above was not a violation of the Antideficiency Act but only a noncompliance with agency fund control procedures. Finally, she stated that USAID/Tunisia and the RCO had established procedures requiring contract documents to be forwarded to the Controller's Office for reviewing availability of funds and payment provisions prior to executing contracts. Based on actions taken, Recommendation No. 4 is resolved and can be closed when the RCO provides documentary evidence that the aforementioned procedures are in place.

Did USAID/Tunisia and the Regional Contracting Office follow U.S. Government regulations and A.I.D. policies and procedures in monitoring contractor performance?

For reasons stated earlier, we are unable to fully answer this audit objective. However, for the four contracts tested, USAID/Tunisia's and the Regional Contracting Office's project documents and contracting records and our discussions with cognizant officials showed that they followed U.S. Government regulations and A.I.D. policies and procedures in monitoring contractor performance except for not ensuring that a major contractor established the required controls on non-expendable property purchased under the contract. This problem area is discussed below.

Controls Over Contractor Procured Non-Expendable Property Need Strengthening

A.I.D. Acquisition Regulations and contract provisions require A.I.D. contractors to establish procedures and controls for receipt, use, maintenance, and safeguarding of non-expendable property which are to be approved by A.I.D. USAID/Tunisia project officials did not ensure that this responsibility was met for the only contract in the audit universe which had funds (totaling $80,000) budgeted for non-expendable property. This occurred because comprehensive written procedures were not in place. As a result, USAID/Tunisia did not have adequate control over project-funded property, thereby increasing its vulnerability to waste and misuse.

> **Recommendation No. 5: We recommend that the Director, USAID/Tunisia issue a mission order establishing procedures to monitor the internal controls of A.I.D. contractors relating to the receipt, use, maintenance, and safeguarding of A.I.D.-funded non-expendable property purchased under contracts.**

A.I.D. Acquisition Regulations (AIDAR 752.245) state that a contractor is required to establish programs and internal controls to be approved by the Mission for receipt, use, maintenance and safeguarding of non-expendable property for which it has custodial responsibility.

However, USAID/Tunisia did not require ABT Associates Inc., an institutional contractor with a budget for non-expendable property totalling $80,000, to establish such controls although required by the contract. Moreover, the cognizant Mission project officer stated that USAID/Tunisia had no formal procedures to ensure the requirement was fulfilled and was not even aware of its existence in the contract.

As a result, **A.I.D. had no satisfactory accounting from ABT Associates of non-expendable property procured under a four-year contract which expired in August, 1991.**

The former resident advisor of ABT Associates (now a USAID/Tunisia project manager) stated that household furniture and appliances as well as office furniture and equipment funded by A.I.D. were transferred by the contractor to the Government of Tunisia (GOT). Although the GOT provided us with a list of the items transferred, it did not show the dollar value or the serial numbers. Moreover, ABT Associates did not provide USAID/Tunisia the cost of procuring the items, but only an aggregated voucher for reimbursement. The Mission had no information on how much was spent on procuring the non-expendable property and did not ensure a satisfactory accounting of the items by the contractor prior to their transfer to the GOT upon expiry of the contract.

A physical inventory of non-expendable property by the contractor in coordination with USAID/Tunisia prior to their transfer to the GOT would have provided considerably greater assurance that no items were diverted. Therefore, the mission should henceforth ensure that contractors establish and implement a system for receipt, use, maintenance, and safeguarding of non-expendable property.

Management Comments and Our Evaluation

USAID/Tunisia concurred with the finding and agreed to take the recommended action. Recommendation No. 5 is resolved and can be closed when USAID/Tunisia provides documentary evidence that the required actions have been taken.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls relating to the audit objectives. As a result of this assessment, we have made one recommendation to improve the Mission's reporting of its internal control weaknesses under the Federal Managers' Financial Integrity Act (page 19).

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter confirming, among other things, its responsibility for the internal controls related to the audit objectives and, whether or not it had provided us with all the information related to the audit. A complete description of the essential information that USAID/Tunisia would not confirm is provided in the Scope and Methodology section in Appendix I (page 22). A lack of such representation constitutes a limitation on the scope of the audit and is sufficient to preclude an unqualified conclusion on the reliability of the internal controls related to the audit objectives.

We have classified significant internal control policies and procedures applicable to each audit objective by processes. For each process, we obtained an understanding of the design of relevant policies and procedures, determined whether they were in operation and then assessed control risk. We have reported significant weaknesses relating to each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget's implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls for U.S. Government 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. Moreover, predicting whether internal controls will work in the future is risky because (1) changes in conditions may require additional procedures, or (2) effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions on Internal Controls

We reviewed USAID/Tunisia's and the Regional Contracting Office's internal controls relating to the four audit objectives. We are not, however, able to reach a conclusion on the reliability of these controls, as management was not willing to confirm essential information related to these controls in a representation letter (page 22).

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to the audit objectives are effective and can be relied on. However, based on the information that management did provide to us and the tests that we were able to perform, we identified five significant instances of internal control weaknesses relating to the audit objectives which are reported below.

Conclusions For Audit Objective One

The first objective was to determine if USAID/Tunisia followed A.I.D. policies and procedures in planning for technical assistance. We considered applicable internal control policies and procedures in A.I.D. Handbook 3 (Chapter 3 and Supplement A). For purposes of this report, we have classified relevant policies and procedures into the technical assistance needs process.

Based on information provided by the Mission, no significant internal control weaknesses came to our attention, other than USAID/Tunisia's inability to confirm in writing essential information about its own internal controls.

Conclusions For Audit Objective Two

The second objective was to determine if USAID/Tunisia and the A.I.D. Regional Contracting Office followed U.S. Government regulations and A.I.D. policies and procedures in procuring technical services competitively, at a fair price, in a timely manner and from qualified contractors. We considered applicable internal control policies and procedures cited in A.I.D. Handbook 1, Supplement B (Section 12B), A.I.D. Handbook 14, Appendices D and J, and the Federal Acquisition Regulations, Parts 4, 9, 15, 16, and 42.

We have classified relevant policies and procedures into three processes: contractor-type selection, contract-type selection, and contract awards. We noted one significant weakness - **USAID/Tunisia did not have a written policy specifying what benefits are eligible under each type of personal services contract.**

Conclusions For Audit Objective Three

The third objective was to determine if USAID/Tunisia and the A.I.D. Regional Contracting Office followed U.S. Government regulations and A.I.D. policies and procedures in earmarking, committing, expending and accounting for technical services funds. We considered applicable internal control policies and procedures in Federal Acquisition Regulation Part 52, General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7 -- Fiscal Guidance), the Antideficiency Act, OMB Circular A-125 concerning the Prompt Payment Act of 1988, A.I.D. Handbook 19 and the A.I.D. Controller Guidebook.

We have classified relevant policies and procedures into the fund control and payment processes. We noted three significant weaknesses.

- **The Regional Contracting Office did not coordinate with the A.I.D. Office of Procurement in Washington to follow-up and ensure timely establishment of contractors' final overhead rates;**

- **USAID/Tunisia did not follow Federal regulations and A.I.D. policies for timely liquidating unused funds under expired buy-in contracts; and**

- **Contracts issued by the Regional Contracting Office were not reviewed by the USAID/Tunisia Controller's Office for fund availability and inclusion of proper payment provisions.**

Conclusions For Audit Objective Four

The fourth objective was to determine if USAID/Tunisia and the Regional Contracting Office followed U.S. Government regulations and A.I.D. policies and procedures in monitoring contractor performance. We considered applicable internal control policies and procedures in A.I.D. Handbooks 1, 3, and 14; and A.I.D. Contract Information Bulletin No. 90-12.

We have classified relevant policies and procedures into three processes. contract monitoring, controls over non-expendable property and contract close-out. We noted one significant weakness - **USAID/Tunisia did not ensure that contractors established adequate controls for non-expendable property purchased under the contracts.**

Reporting Under Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that Federal agencies provide annual reports to the President and the Congress on their compliance with the Act and the internal control standards prescribed by the General Accounting Office. To facilitate compliance with this legislation, the A.I.D. Office of Financial Management requires all A.I.D. Bureaus and Missions to provide an annual certification and report on material internal control weaknesses. USAID/Tunisia did not report any of the internal control weaknesses identified in this audit in its 1991 internal control assessment. Therefore, to ensure accurate reporting under the Federal Managers' Financial Integrity Act, we make the following recommendation:

> Recommendation 6: **We recommend that the Director, USAID/Tunisia, in preparing the next report under the Federal Manager's Financial Integrity Act, perform an assessment of the internal control weaknesses identified in this report and report the material weaknesses.**

Management Comments and Our Evaluation

USAID/Tunisia and the RCO disagreed with the recommendation. They stated that the Mission's internal control assessment should be separate from the audit process. However, OMB Circular A-123 requires that the Inspector General of each Federal Agency determine whether the Agency's review and evaluation has been conducted in a manner consistent with the Circular. Based on this requirement, the A.I.D. Inspector General has instituted a policy that each audit should determine whether the internal control weaknesses identified were addressed by the auditees in their latest internal control assessment. We followed this policy and our findings resulted in the above recommendation. Recommendation No. 6 is considered unresolved pending an agreement with the Mission on the required corrective actions.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Tunisia's and the Regional Contracting Office's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter confirming to the best of their knowledge and belief their responsibility for compliance with applicable laws and regulations and whether or not there were any irregularities involving management or employees, and whether or not there were any instances of violations or possible violations of those laws and regulations. A complete description of the essential information that USAID/Tunisia and the Regional Contracting Office would not confirm is provided in the Scope and Methodology section in Appendix I. A lack of such representations constitutes a limitation on the scope of the audit and is sufficient to preclude us from obtaining reasonable assurance on the absence of abuse and illegal acts and from giving an unqualified opinion on compliance with the Federal Acquisition Regulations, Parts 4, 9, 15, 16, 42 and 52; (OMB) Circular A-125 concerning the Prompt Payment Act of 1988; and the General Accounting Office's Policy and Procedure Manual for Guidance of Federal Agencies (Title 7 -- Fiscal Guidance) as they relate to our audit objectives.

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 entity'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 A.I.D. Handbooks generally does not fit into this definition of noncompliance, 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 laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with laws and regulations applicable to the Mission's technical assistance contracts is the overall responsibility of USAID/Tunisia and the Regional Contracting Office management.

Conclusions on Compliance

We reviewed USAID/Tunisia's and the Regional Contracting Office's compliance with Federal Acquisition Regulations, Parts 4, 9, 15, 16, 42 and 52, OMB Circular A-125 concerning the Prompt Payment Act of 1988, and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7 -- Fiscal Guidance) as they relate to our audit objectives. As management was not willing to confirm in a representation letter essential information related to such compliance, we cannot therefore state positively that USAID/Tunisia and the Regional Contracting Office has complied with the aforementioned laws and regulations. However, based on the information that USAID/Tunisia and the Regional Contracting Office did provide to us and the tests that we were able to perform two significant instances of noncompliance came to our attention:

- Subpart 52.216 of the Federal Acquisition Regulations requires the appropriate U.S. Government representative and the Contractor to establish final indirect cost rates within specified time-frames. **The cognizant Regional Contracting Officer for USAID/Tunisia did not coordinate with the A.I.D. Office of Procurement to ensure that final indirect cost rates for USAID/Tunisia's A.I.D.-direct contracts with U.S.-based contractors were timely established (Page 8).**

- Title 7, Chapter 3, Section 3.7A of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to periodically review their unliquidated obligations to determine validity of fund balances. **Although USAID/Tunisia conducted such reviews, they did not decommit or otherwise liquidate $918,444 of unused fund under 18 expired buy-in contracts (page 11).**

SCOPE AND METHODOLOGY

Scope

Although we followed generally accepted government auditing standards, we were unable to fully answer the audit objectives because USAID/Tunisia and the Regional Contracting Office management declined to provide us with a representation letter confirming essential information relating to our audit objectives. Lack of such representations constitutes a limitation on the scope of the audit. We requested USAID/Tunisia and the Regional Contracting Office to provide us the following written representations to the best of their knowledge and belief.

1. For the A.I.D.-direct contracts for technical assistance under audit, USAID/Tunisia and the Regional Contracting Office are responsible for

   - the internal control system,
   - compliance with applicable laws and regulations, and
   - the fairness and accuracy of the accounting and management information.

2. USAID/Tunisia and the Regional Contracting Office have made available to the auditors all financial and management information associated with A.I.D.-direct contracts for technical assistance.

3. USAID/Tunisia and the Regional Contracting Office have disclosed all

   - irregularities involving management or employees who have roles in the internal control structure,
   - irregularities involving any other organizations that could affect A.I.D.-direct contracts for technical assistance, and
   - communications from any other organization concerning noncompliance with or deficiencies in the A.I.D.-direct contracts for technical assistance.

4. USAID/Tunisia and the Regional Contracting Office are not aware of any material instances where financial or management information has not been properly and accurately recorded and reported.

5. For A.I.D.-direct contracts for technical assistance, USAID/Tunisia and the Regional Contracting Office are not aware of any

   - material instances of noncompliance with A.I.D. policies and procedures, and

   - material violations or possible violations of laws or regulations.

6. USAID/Tunisia and the Regional Contracting Office have complied with all aspects of contractual agreements that would materially affect the A.I.D.-direct contracts for technical assistance.

7. USAID/Tunisia and the Regional Contracting Office are not aware of any events that have occurred subsequent to the period under audit that would materially affect the above representations.

The USAID/Tunisia Director declined to sign the representation letter because the audit covered a time period prior to his arrival in Tunis in January 1992. Accordingly, he believed that he could in no way comply with the intent of the representation letter. The RCO also declined to sign.

Without such representations, we cannot attest whether USAID/Tunisia and the Regional Contracting Office followed A.I.D. policies and procedures or complied with applicable laws and regulations. However, this lack of a management representation does not preclude us from reporting on any problem areas that came to our attention and we have done so.

We conducted the audit from February to June 1992, and covered the systems and procedures relating to 41 A.I.D.-direct contracts totaling $11.9 million in commitments that were active between January 1990 and December 1991. We conducted our field work in the offices of USAID/Tunisia in Tunis, Tunisia and the Regional Contracting Office in Rabat, Morocco.

Methodology

Audit Objective One

We judgmentally selected four of the eight projects which contained A.I.D.-direct contracts from USAID/Tunisia's Comprehensive Pipeline Report (Mission Accounting and Control System Report PO7C). We selected the two projects which contained the only two institutional contracts greater than $100,000 (totaling $6.5 million). In addition, we selected two of the remaining six projects in the audit universe. There were a total of 13 contracts under the four projects tested (App . V). We then analyzed the related project documents to determine if they identified technical assistance needs, types of goods and services to be procured, and estimates of the cost of technical services. We reviewed correspondence between the Mission and the Government of Tunisia (GOT) to determine whether USAID/Tunisia coordinated with the GOT in identifying and determining the need for technical services. We interviewed USAID/Tunisia officials to discuss the adequacy of the planning process.

Audit Objective Two

We judgmentally selected 12 of the 17 contracts in the audit universe which are applicable to this objective from the MACS PO7C Report (Appendix V). Because of initial problem areas discovered in contracting for personal services contracts, we selected all nine PSCs in the audit universe. In addition, we selected three of the eight institutional contracts, which represent approximately 94 percent of commitments and disbursements for the eight institutional contracts. For the contracts selected, we determined whether USAID/Tunisia and the Regional Contracting Office followed Federal Acquisition Regulations (Parts 4, 9, 15, 16, and 42), A.I.D. Handbook 1, Supplement B (Section 12B), and A.I.D. Handbook 14, Appendices D and J to: (1) provide for competition; (2) procure technical services timely; (3) select qualified contractors; and (4) ensure reasonableness of the negotiated prices.

We reviewed the contract files and documents which included notices to prospective offerors, lists of qualified offerors, requests for technical and cost proposals, technical selection panel results, prospective contractors' cost proposals, contractor biographical data sheets, support for indirect cost rates and memoranda of negotiations. We also interviewed the contracting officers, other USAID/Tunisia officials and contractors.

Audit Objective Three

We judgmentally selected six of the 41 contracts in the audit universe for testing (Appendix V) from the MACS PO7C Reports. We selected the only two institutional contracts greater than $100,000. Moreover, we selected two of the nine personal services contracts and two of the 24 Buy-ins and IQCs (for the testing relating to expending and accounting for technical services funds, we expanded our sample to include all 24 buy-ins and IQCs in the audit universe because of initial problems identified). These six contracts represent 58 percent of commitments and 65 percent of disbursements for the 41 contracts. To determine whether the technical service funds were properly earmarked, committed and accounted for, we reviewed the applicable PIO/Ts, executed contracts, and held discussions with the Mission Controller's Office and Regional Contracting Office personnel. To determine whether the technical service funds were properly expended and accounted for, we reviewed contractor vouchers and supporting documentation, advice of charges, cables, voucher logbooks, MACS Commitment Liquidation Report No. P04, MACS Disbursing Office Reconciliation Report No. A-14, administrative approval forms, and held discussions with USAID/Tunisia Controller Office personnel.

Audit Objective Four

We judgmentally selected four of the 32 contracts in the audit universe which are applicable to this objective from the MACS PO7C Report (Appendix V). We selected the only two institutional contracts greater than $100,000 and two of the 24 buy-ins and IQCs. These four contracts represent 64 percent of commitments and 69 percent of disbursements for the 32 contracts. We determined whether: (1) the contractors' work statements were well-defined, work plans and progress reporting complied with contract requirements and were adequate for measuring the contractors' performance in achieving the contract and related project objectives; (2) USAID/Tunisia ensured that contractors had adequate controls over A.I.D.-funded property and submitted required reports on those controls to USAID/Tunisia; (3) the Contracting Officer approved prime contractors' subcontracts for goods and services in accordance with the Federal Acquisition Regulations and the contract requirements; and (4) project officers documented their site visits in accordance with A.I.D. Handbook 3, Supplement A. We interviewed rcsponsible officials and reviewed applicable files and records including project papers, contract files and related documents, work plans, progress reports and contractor non-expendable property reports.

ACTION: RIG INFO: EXEC

VZCZCDK0024
RR RUEHDK
DE RUEHTU #7254/01 2471249
ZNR UUUUU ZZH
R 031249Z SEP 92
FM AMEMBASSY TUNIS
TO RUEHDK/AMEMBASSY DAKAR 0002
INFO RUFHRA/AMEMBASSY RABAT 0047
BT
UNCLAS SECTION 01 OF 09 TUNIS 07254

LOC: 207 895
03 SEP 92 1252
CN: 08434
CHRG: RIG
DIST: RIG

AIDAC FOR RIG/A/DAKAR

E.O. 12356: N/A
SUBJECT: DRAFT AUDIT REPORT - TA CONTRACTING

REFERENCE: DAKAR 7646

1. USAID/TUNISIA AND THE REGIONAL CONTRACTING OFFICE HAVE REVIEWED THE DRAFT AUDIT AND IN PARAGRAPH 3 BELOW PROVIDE COMMENTS FOR RIG/A CONSIDERATION:

2. PERTAINING TO THE FIVE RECOMMENDATIONS DIRECTED TO USAID/TUNISIA FOR ITS ACTION, WE WOULD LIKE TO STATE THAT WE HAVE NO OVERALL OBJECTION TO NUMBERS 4 AND 7, AND ACCEPT THE OVERALL INTENT OF THE OTHER RECOMMENDATIONS WITHOUT NECESSARILY ACCEPTING THE SPECIFIC WORDING.

3. AS A GENERAL STATEMENT TO THE DRAFT REPORT'S SUMMARY OF INTERNAL CONTROLS AND SUMMARY OF AUDIT FINDINGS WE HAVE THE FOLLOWING COMMENTS:

A. IN THE SECTION ON COMPLIANCE (SEE PAGE 21) THE TEXT SUGGESTS THAT THREE VIOLATIONS OF LAW, INCLUDING THE ANTI-DEFICIENCY ACT HAVE OCCURRED. YET THE MORE EXHAUSTIVE PRESENTATION OF THE ALLEGED VIOLATIONS ON PAGES 10 AND 11 SHOWS THAT ONLY ONE MINOR FUNDS CONTROL DISCREPANCY OCCURRED. WE BELIEVE THAT IT IS INAPPROPRIATE FOR RIG TO ALLEGE VIOLATIONS OF LAW AND GIVE NO EVIDENCE FOR SUCH ALLEGATIONS. AS RIG/A KNOWS, THE ANTI-DEFICIENCY ACT IS VIOLATED WHEN THERE IS OVER OBLIGATION, OVER EXPENDITURE, OR OVER COMMITMENT OF ALLOTMENTS AND AUTHORIZATION OF FUNDS. THE ACT REACHES ONLY THE ALLOTMENT LEVEL, AND ONCE AN ALLOTMENT HAS BEEN GIVEN TO USAID, NO FURTHER ACTIONS ON THE PART OF USAID OR THE RCO WHICH DO NOT CAUSE THE ALLOTMENT TO BE EXCEEDED COULD POSSIBLY VIOLATE THE ANTI- DEFICIENCY ACT. IN ALL CASES ADDRESSED BY THE AUDITORS OBLIGATION OF FUNDS HAD ALREADY OCCURRED. THE WORST POSSIBLE ERROR THAT COULD HAVE BEEN MADE BY USAID OR THE RCO, THEN, WOULD HAVE BEEN A VIOLATION OF AGENCY FUNDS CONTROL PROCEDURES. BUT EVEN THESE WERE NOT VIOLATED SINCE THE PIO/T, ISSUED BY THE MISSION BEFORE EACH CONTRACTING ACTION GENERATED BY THE RCO EARMARKED FUNDS. FOR THE PURPOSE OF THE CONTRACT. RIG'S

UNSUBSTANTIATED ALLEGATIONS IN THIS INSTANCE DOES NOT PROVIDE A HELPFUL MANAGEMENT TOOL, WHICH AN AUDIT SHOULD BE.

B. THE SENTENCE ON P. 10 WHICH READS "MOREOVER, UNLIQUIDATED AMOUNTS ON EXPIRED CONTRACTS COULD BE VULNERABLE TO ABUSE" IS ENTIRELY UNSUBSTANTIATED AND SHOULD BE DELETED OR RIG/A NEEDS TO PROVIDE SPECIFIC, GERMANE EXAMPLES OF SUCH "ABUSE VULNERABILITY".

C. ON PAGE 1, SECOND PARAGRAPH, IT SHOULD BE NOTED THAT RHUDO DID NOT EXECUTE ANY PSCS.

D. USAID/TUNISIA FINDS THE FIRST "BULLET" IN THE SUMMARY OF AUDIT FINDINGS (P. II) INCONSISTENT WITH THE REFERENCE ON PAGE 4. THE "BULLET" CONTENDS THAT DOLS 77,560 WERE NOT NECESSARY OR ALLOWABLE, WHILE THE CONTENTIONS ON PAGE 4 INDICATE SUCH COSTS WERE IDENTIFIED AS EITHER NOT NECESSARY OR NOT ALLOWABLE OR NOT NORMALLY PROVIDED UNDER AID GUIDELINES. THE "BULLET" STATEMENT NEEDS TO BE REDRAFTED. (SEE FURTHER DISCUSSION IN PARAS E AND F BELOW) FURTHER, THE LAST "BULLET" CONTENDS THAT USAID DID NOT ADEQUATELY MONITOR PROGRESS REPORTS. NO EVIDENCE ON PAGE 11 SUPPORTS SUCH A STATEMENT. A MORE ACCURATE STATEMENT WOULD CONTEND THAT USAID DID NOT ADEQUATELY DOCUMENT REPEAT DOCUMENT THEIR MONITORING OF PROGRESS REPORTS (SEE DISCUSSION IN PARA 8 BELOW).

4. RESPONSE TO RECOMMENDATIONS NOS. 1 AND 2

WITH RESPECT TO THESE RECOMMENDATIONS, IT SHOULD BE NOTED THAT FOR RECOMMENDATION NO. 2 THE DIRECTOR FOR FINANCE AND ADMINISTRATION, OFFICE OF PROCUREMENT POLICY AND EVALUATION (FA/PPE) HAD NOT RECEIVED A COPY OF THE AUDIT DRAFT FOR COMMENT AS OF 14 AUGUST 1992 WHEN THE RCO SENT BY FACSIMILE CERTAIN PAGES FROM THE DRAFT REPORT. RIG/A/DAKAR SHOULD FORMALLY SEND THE DRAFT AUDIT TO PPE FOR INCLUSION OF ITS COMMENTS.

IN THE INTERIM, THE RCO AND USAID/TUNISIA WOULD LIKE TO RESPOND TO SOME OF THE AUDITORS COMMENTS CONCERNING

PERSONAL SERVICES CONTRACTORS. HANDBOOK 14, APPENDICES D AND J. IS CLEAR ABOUT MOST ISSUES SURROUNDING PERSONAL SERVICES CONTRACTORS AND THEIR BENEFITS AND/OR ALLOWANCES.

BEGINNING ON PAGE 5 WITH THE VARIOUS EXAMPLES OF "PROBLEMS" WHICH THE RIG/A HAS IDENTIFIED, WE HAVE THESE COMMENTS:

A. WITH RESPECT TO THE TUNISIAN CITIZEN WHO OBTAINED HIS RESIDENT ALIEN STATUS FOR THE U.S. AND THEN RECEIVED BENEFITS UNDER APPENDIX D OF HANDBOOK 14, THE RIG SHOULD BE AWARE OF THE FOLLOWING:

THE MEMORANDUM OF NEGOTIATION FOR THIS FILE POINTS OUT CLEARLY THE THOUGHT PROCESSES THAT THE RCO WENT THROUGH IN DETERMINING WHAT WAS APPROPRIATE FOR A RESIDENT ALIEN.

FIRST. THE CONTRACTOR WAS NOT WORKING UNDER A FSN PERSONAL SERVICES CONTRACT AT THE TIME HE HAS AWARDED THE U.S. PERSONAL SERVICES CONTRACT, AS STATED IN THE AUDIT. THE FSN PSC ENDED IN JULY 1991 AND THE NEW CONTRACT WAS EFFECTIVE 28 SEPTEMBER 1992. THE AUDIT DRAFT SHOULD DELETE THE STATEMENT "...EVEN THOUGH HE WAS WORKING FOR USAID/TUNISIA AS A LOCAL HIRE EMPLOYEE IN TUNIS AT THE TIME OF THE CONTRACT AWARD."

SECOND, THE RCO WAS IN CONTACT WITH PPE REGARDING THE ISSUE OF A TUNISIAN CITIZEN RECEIVING RESIDENT ALIEN STATUS. THE ADVICE WHICH THE RCO RECEIVED HAS THAT HIS NEW STATUS HAD TO BE ACKNOWLEDGED THROUGH A CHANGE IN HIS SALARY AND ALLOWANCES. THIS WAS BASED ON ADVICE OF THE GENERAL COUNSEL FOR A.I.D. THE RCO, IN DISCUSSIONS WITH RHUDO, ASSURED THAT THE STATEMENT OF WORK REFLECTED A NEW, MORE RESPONSIBLE POSITION.

THIRD. THE SALARY WHICH HAS NEGOTIATED HAS APPROXIMATELY $10,000 HIGHER THAN THE SALARY HE HAS RECEIVING AS A FOREIGN SERVICE NATIONAL, NOT THE DOLS 30,000 THAT THE CONTRACTOR HAD REQUESTED. AT THE TIME NEGOTIATIONS WERE BEGINNING, THE CONTRACTOR HAS IN THE U.S. DISCUSSING ALTERNATIVE JOB OPPORTUNITIES WITH THE WORLD BANK AND OTHERS WITH WHOM HE HAD WORKED PREVIOUSLY. WITH RESPECT TO ALLOWANCES, IT HAS CLEAR TO THE RCO THAT HAD THE POSITION WITH RHUDO NOT MATERIALIZED FOR THE CONTRACTOR, HE WOULD HAVE RETURNED TO THE U.S. TO WORK WITH THE WORLD BANK OR OTHER AGENCY. HE WOULD NOT HAVE REMAINED IN TUNISIA.

THE DRAFT AUDIT REPORT SUGGESTS THAT THE CONTRACTOR COULD HAVE BEEN GIVEN "RESIDENT HIRE" STATUS. HOWEVER, HANDBOOK 14, APPENDIX D, STATES VERY CLEARLY HOW RESIDENT HIRE STATUS IS DETERMINED. DETERMINATION OF STATUS QUOTED BELOW:

- "'RESIDENT HIRE' MEANS A U.S. CITIZEN WHO, AT THE
- TIME OF HIRE AS A PSC, RESIDES IN THE COOPERATING

- COUNTRY (I) AS A SPOUSE OR DEPENDENT OF A U.S.
- CITIZEN EMPLOYED BY A U.S. GOVERNMENT AGENCY OR
- UNDER ANY U.S. GOVERNMENT-FINANCED CONTRACT OR
- AGREEMENT, OR (II) FOR REASONS OTHER THAN FOR
- EMPLOYMENT WITH A U.S. GOVERNMENT AGENCY OR UNDER
- ANY U.S. GOVERNMENT-FINANCED CONTRACT OR AGREEMENT.
- A U.S. CITIZEN FOR PURPOSES OF THIS DEFINITION ALSO
- INCLUDES PERSONS WHO AT THE TIME OF CONTRACTING ARE
- LAWFULLY ADMITTED PERMANENT RESIDENTS OF THE UNITED
- STATES."

AS STATED ABOVE, THE CONTRACTOR HAS NOT UNDER CONTRACT TO THE U.S. GOVERNMENT AT TIME OF AWARDING HIS CONTRACT. THE CONTRACTOR'S PERMANENT ADDRESS IS IN THE UNITED STATES, NOT TUNISIA. HIS INTENTION HAS TO WORK IN THE UNITED STATES HAD HE NOT BEEN AWARDED THE RHUDO CONTRACT, ACCORDING TO HIS COMMENTS TO THE RCO. THEREFORE, THE RCO DETERMINED THAT HE DID NOT MEET THE REQUIREMENTS FOR A "RESIDENT HIRE AND PROVIDED HIM WITH CERTAIN ALLOWANCES SUCH AS POST DIFFERENTIAL, HOUSING, R&R. AND SHIPMENT -- BUT ONLY REPEAT ONLY FROM TUNISIA TO THE UNITED STATES AT THE END OF HIS CONTRACT. THESE ALLOWANCES WERE DISCUSSED WITH PPE AS TO THEIR REASONABLENESS, IN LIGHT OF THE RCO BEING TOLD BY PPE THAT THE CONTRACTOR HAD TO BE HANDLED AS A U.S.

CONTRACTOR.

IT IS THIS RCO'S UNDERSTANDING THAT PPE IS TRYING TO OBTAIN FINAL GUIDANCE FROM THE GENERAL COUNSEL'S OFFICE ON THIS SUBJECT OF HOW FOREIGN SERVICE NATIONALS-TURNED-U.S.-RESIDENT-ALIENS ARE TO BE CONTRACTED, AND WHAT ALLOWANCES SHOULD BE CONSIDERED.

THE DRAFT REPORT STATES THAT PPE SHOULD ISSUE GUIDELINES WITH RESPECT TO U.S. RESIDENT ALIEN ALLOWANCES, ETC. SUCH GUIDELINES ARE ALREADY BEING CONSIDERED; HOWEVER, THE RIG/A/DAKAR SHOULD FORMALLY SEND THE AUDIT DRAFT REPORT TO PPE FOR COMMENT.

B. ACCORDING TO THE DRAFT REPORT, "...A U.S. CITIZEN WAS AWARDED A LOCAL TRANSPORTATION ALLOWANCE OF DOLS 3,076 UNDER A PERSONAL SERVICE CONTRACT FOR TRAVELING TO/FROM WORK WHICH IS NOT ALLOWABLE UNDER A.I.D. HANDBOOK 14 GUIDELINES." WE AGREE THAT TRANSPORTATION COSTS TO/FROM WORK ARE NOT ALLOWABLE. WE ARE ALSO UNCLEAR WHY THE AUDITORS REACHED THE CONCLUSION THAT THE CONTRACT ALLOWED LOCAL TRANSPORTATION FOR TRAVEL TO/FROM WORK. WE FREQUENTLY ADD FUNDS TO PSCS IN ORDER THAT THEY MIGHT BE REIMBURSED FOR PERSONAL USE OF THEIR VEHICLES FOR WORK PURPOSES IN THOSE CASES WHERE OFFICIAL VEHICLES MAY NOT BE AVAILABLE FOR WORK REQUIREMENTS. PERHAPS THE CONFUSION AROSE BECAUSE THE CONTRACTOR WAS UNCLEAR AS TO THE PURPOSE OF THE LOCAL TRANSPORTATION ALLOWANCE AND ATTEMPTED TO SUBMIT AN INVOICE CLAIMING EXPENSES TO/FROM WORK. HOWEVER, THE CONTROLLER POINTED OUT THAT THE EXPENSE HAS NOT ALLOWABLE. THE RIG/A SHOULD BE AWARE THAT THE CONTRACT HAS EXPIRED AND NO FUNDS WERE EXPENDED FOR LOCAL TRANSPORTATION COSTS. WE BELIEVE THAT THIS EXAMPLE OF CONTRACTING "PROBLEMS" FOR PERSONAL SERVICES CONTRACTS SHOULD BE DELETED SINCE THE CONTRACT HAS WRITTEN CORRECTLY AND ONLY THE CONTRACTOR MISINTERPRETED THE CONTRACT.

C. WITH RESPECT TO THE U.S. CITIZEN WHO SUPPOSEDLY RECEIVED "...POST DIFFERENTIAL, HOUSING/UTILITIES, TRANSPORTATION OF HOUSEHOLD EFFECTS, FURNITURE AND APPLIANCES AND TRAVEL TO THE U.S. TOTALLING DOLS 26,900 UNDER A PERSONAL SERVICE CONTRACT EVEN THOUGH SHE HAS RESIDING IN TUNISIA AND HAS EMPLOYED IN ANOTHER JOB AT THE TIME OF HIRE", WE HAVE THE FOLLOWING COMMENTS.

IT HAS UNCLEAR TO THE USAID EXACTLY WHICH CONTRACTOR THE AUDITORS MEANT. USAID/TUNISIA WOULD BE IN A BETTER POSITION TO RESPOND IF WE KNEW THE NAME OF THE CONTRACTOR. BY PROCESS OF ELIMINATION, WE BELIEVE WE HAVE IDENTIFIED THE PSC WHICH THE AUDITORS CONTEND HAS AWARDED SOME $26,900 IN "UNNECESSARY" ALLOWANCES. BEFORE BECOMING A PERSONAL SERVICES CONTRACTOR, THE INDIVIDUAL HAS WORKING IN TUNISIA UNDER AN A.I.D.-FUNDED INSTITUTIONAL CONTRACT. AS SUCH, SHE RECEIVED ALL OF THE ALLOWANCES QUOTED ABOVE WHICH THE AUDITORS LISTED IN THEIR DRAFT REPORT. AS AN EMPLOYEE

OF THE INSTITUTIONAL CONTRACTOR, SHE RETURNED TO THE U.S. AT THE END OF HER ASSIGNMENT (HENCE, THE "TRAVEL TO THE U.S."). HER PERSONAL SERVICES CONTRACT WITH USAID/TUNISIA, WHICH BEGAN AFTER HER RETURN TO TUNISIA TO JOIN HER HUSBAND, DOES NOT CONTAIN ALL OF THE ALLOWANCES LISTED ABOVE, BUT ONLY POST DIFFERENTIAL BECAUSE SHE HAD RECEIVED IT IN HER PREVIOUS JOB. THE AUDITORS ONLY PARTIALLY SUMMARIZED THE AIDAR CLAUSE REGARDING HOW A RESIDENT HIRE MAY RECEIVE BENEFITS, AND ALLOWANCES. IN ADDITION TO THE AUDITORS' COMMENTS THAT SUCH BENEFITS MAY BE ALLOWED "...ONLY IF THE PAYMENT OF SUCH BENEFITS WOULD BE CONSISTENT WITH THE MISSION'S POLICY AND PRACTICE AND IN THE BEST INTEREST OF THE U.S.GOVERNMENT," THE AIDAR CLAUSE STATES THAT SUCH BENEFITS MAY BE CONSIDERED IF THE "...INDIVIDUAL CAN DEMONSTRATE TO THE SATISFACTION OF THE CONTRACTING OFFICER THAT HE/SHE HAS RECEIVED SIMILAR BENEFITS/ALLOWANCES FROM THEIR IMMEDIATELY PREVIOUS EMPLOYER IN THE COOPERATING COUNTRY...." IN THE CASE OF THIS PSC, IT HAS VERY CLEAR THAT SHE COULD DEMONSTRATE HAVING RECEIVED SUCH ALLOWANCES/BENEFITS.

IT SHOULD BE NOTED THAT HER CONTRACT ALSO CONTAINED IN-COUNTRY AND INTERNATIONAL TRAVEL--AGAIN THE PURPOSE HAS FOR USE OF PERSONAL VEHICLES IN OFFICIAL WORK, AND

INTERNATIONAL TRAVEL SHOULD SHE BE ELIGIBLE FOR TRAINING, OR OTHER TDY TRAVEL. SHE WAS CONTRACTED AS A "RESIDENT HIRE."

THE MISSION BELIEVES THAT THIS PARTICULAR EXAMPLE OF "PROBLEM" PSC CONTRACTING SHOULD BE DELETED FROM THE REPORT BECAUSE THE CONTRACT WAS CORRECT, AND DID NOT REQUIRE ANY POLICY OTHER THAN THAT OF HANDBOOK 14, APPENDIX D, CLAUSE 24, "RESIDENT HIRE."

D. THE DRAFT REPORT'S FINAL EXAMPLE OF INAPPROPRIATE CONTRACTING ACTIONS BY THE MISSION AND/OR RCO REFER TO A PERSONAL SERVICES CONTRACTOR WHO WAS PAID POST DIFFERENTIAL, TOTALLING $6,531, ALTHOUGH HE WAS ON SHORT-TERM ASSIGNMENT OF LESS THAN 43 DAYS, AND THEREFORE NOT ELIGIBLE FOR POST DIFFERENTIAL. WHILE IT IS TRUE THAT THE PAYMENTS TOOK PLACE AND THAT THE MISSION RECOVERED THE AMOUNT FROM THE CONTRACTOR, IT IS ALSO TRUE THAT THE CONTRACT STATES THAT POST DIFFERENTIAL WAS "...TO BE PAID ONLY FOR WORK DONE IN POSTS WITH DIFFERENTIAL AS PER THE STANDARDIZED REGULATIONS." THE STANDARDIZED REGULATIONS CLEARLY STATE THAT POST DIFFERENTIAL IS PERMITTED FOR SHORT-TERM ACTIVITIES ONLY AFTER 42 CONSECUTIVE DAYS OF WORK. THE ERROR WAS THAT THE CONTRACT WAS NOT FOLLOWED WITH RESPECT TO PAYMENTS. THE ERROR WAS NOT IN THE CONTRACT WORDING.

5. RESPONSE TO RECOMMENDATION NO. 3

A.
THE RIG/A/DAKAR SHOULD BE MADE AWARE THAT THE INTRODUCTORY PARAGRAPH DEALING WITH THE FINALIZATION OF INDIRECT COST RATES (PAGE 7) IS INCORRECT. THE INITIAL SENTENCE OF THIS PARAGRAPH STATES THAT CONTRACTING OFFICES ARE REQUIRED TO ESTABLISH FINAL RATES WITHIN 90 DAYS AFTER THE END OF THE CONTRACTOR'S FISCAL YEAR. THIS SENTENCE SHOULD BE CORRECTED TO READ THE SAME AS THE TOP OF PAGE 8 WHERE THE FAR REQUIREMENT IS CORRECTLY STATED: FAR 52.216 REQUIRES CONTRACTORS TO SUBMIT THEIR INDIRECT RATE PROPOSALS TO THE COGNIZANT CONTRACTING OFFICE WITHIN THE 90-DAY TIMEFRAME. THE FAR CLAUSE DOES NOT REQUIRE CONTRACTING OFFICES TO ESTABLISH FINAL RATES FOR CONTRACTORS WITHIN 90 DAYS AFTER THE END OF THE CONTRACTOR'S FISCAL YEAR.

B. CONTRACT INFORMATION BULLETIN (CIB) 90-21 DATED 10/10/90, WAS PUBLISHED TO PROVIDE COMPREHENSIVE PROCEDURES AND TO CLARIFY RESPONSIBILITIES FOR THE INDIRECT RATE SETTING PROCESS IN A.I.D. FOR A.I.D.-COGNIZANT U.S. FIRMS, AID/W' FA/OP/PS/OCC IS THE ONLY OFFICE IN THE AGENCY RESPONSIBLE FOR OBTAINING THE U.S. CONTRACTOR'S PROPOSALS, REQUESTING AUDITS, AND NEGOTIATING FINAL AND PROVISIONAL RATES. AS NOTED IN FAR 52.216, IT IS THE COGNIZANT AGENCY'S RESPONSIBILITY TO FINALIZE THE RATES "...AS PROMPTLY AS PRACTICAL AFTER RECEIVING THE PROPOSAL." THUS, IT IS NOT USAID/TUNISIA OR THE REGIONAL CONTRACTING OFFICER'S

RESPONSIBILITY TO NEGOTIATE AND FINALIZE RATES.

OUR DISCUSSIONS WITH FA/OP/PS/OCC HAVE VERIFIED THAT WHILE FA/OP/PS/OCC BELIEVES THAT THE CIB COVERAGE CONCERNING NEGOTIATION OF INDIRECT COST RATES IS CLEAR AND UNAMBIGUOUS, IT HAS AGREED WITH IG/A IN AID/W TO ISSUE FURTHER CLARIFYING INSTRUCTIONS AND RE- EMPHASIZE THE PROPER WORKING OF THE PROCESS. HOWEVER, THERE IS NO INTENTION TO CHANGE THE RESPONSIBLE OFFICE IN A.I.D. THEREFORE, NEITHER USAID/TUNISIA NOR THE REGIONAL CONTRACTING OFFICER IS RESPONSIBLE FOR ESTABLISHING FINAL RATES.

C. RECOMMENDATION 3.1 AND THROUGHOUT THE DISCUSSION IN THE DRAFT AUDIT REPORT ABOUT INDIRECT COSTS RATES, THE REPORT STATES THAT UP- -TO-DATE FINAL INDIRECT COST RATES FOR ABT ASSOCIATES, INC. AND RONCO CONSULTING CORPORATION NEEDED TO BE OBTAINED AND INCLUDED IN ORDER TO ENSURE THAT THE DOLS 1.3 MILLION IN INDIRECT COSTS PAID TO THESE CONTRACTORS WERE CONSISTENT WITH THEIR ESTABLISHED FINAL OVERHEAD RATES.

THIS RECOMMENDATION SHOULD BE DELETED BECAUSE BOTH CONTRACTS CONTAINED THE MOST RECENT FINAL AND/OR PROVISIONAL RATES ESTABLISHED BY THE COGNIZANT AGENCIES

FOR EACH CONTRACTOR. WHERE PROVISIONAL RATES HAVE BEEN USED, THEY ARE SUBJECT TO FINALIZATION WITH ANY NECESSARY ADJUSTMENT TO CONTRACT PAYMENTS BEFORE THE CONTRACT CAN BE CLOSED. THUS, THE INTERESTS OF THE U.S. GOVERNMENT ARE PROTECTED. THE REGIONAL CONTRACTING OFFICER SHOULD BE CREDITED WITH FOLLOWING PROPER PROCEDURES.

D. THE SECOND PARAGRAPH ON PAGE 8 OF THE DRAFT REPORT STATES THAT RCO FILES INCLUDED INADEQUATE DOCUMENTATION CONCERNING "...THE SUBMISSION, NEGOTIATION, APPROVAL, MONITORING AND FOLLOW-UP OF PROVISIONAL AND FINAL INDIRECT COST RATES FOR BOTH CONTRACTORS." AS NOTED ABOVE. AND AS SPECIFIED IN CIB 90-21, IT IS THE RESPONSIBILITY OF FA/OP/PS/OCC TO TAKE THE REQUIRED ACTIONS AND MAINTAIN THE APPROPRIATE FILES ON THIS SUBJECT FOR A.I.D. COGNIZANT FIRMS. THIS PROCESS HAS BEEN FURTHER CLARIFIED AND CONFIRMED BY THE PROMULGATION OF THE AGENCY'S NEW AUDIT MANAGEMENT AND RESOLUTION PROGRAM (AMRP) IN APRIL 1992. AN A.I.D. GENERAL NOTICE WAS PUBLISHED ON THE SUBJECT IN APRIL 1992 AND AN A.I.D. WORLDWIDE CABLE (STATE 118468) HAS TRANSMITTED TO EACH MISSION. IF RIG/A/DAKAR HAS NOT RECEIVED THIS INFORMATION, USAID/TUNISIA WILL BE HAPPY TO PROVIDE IT TO YOU. THEREFORE, IT IS CLEAR THAT THE RCO'S FILES WOULD NOT REPEAT NOT HAVE CONTAINED THE SUBMISSION, NEGOTIATION, APPROVAL, MONITORING AND FOLLOW-UP OF PROVISIONAL AND FINAL INDIRECT COST RATES FOR THESE CONTRACTORS.

THE RCO'S RESPONSE TO THE AUDITORS' QUESTIONS AS SUMMARIZED IN PARAGRAPH 3, PAGE 8, HAS CORRECT AND IN ACCORDANCE WITH AGENCY POLICY.

E. THE RCO WOULD LIKE TO CLARIFY THE COMMENT MADE IN PARAGRAPH 3, PAGE 8, THAT "...MOREOVER, SHE HAD NO KNOWLEDGE AS TO WHICH U.S. GOVERNMENT AGENCY HAS RESPONSIBLE FOR ESTABLISHING THE PROVISIONAL AND FINAL INDIRECT COST RATES FOR ART AND RONCO." PLEASE HAVE THE AUDITORS CHECK THEIR NOTES OF THIS DISCUSSION FOR THE COMMENT THAT THE RCO MADE THAT SHE DID NOT KNOW FOR CERTAIN WHICH GOVERNMENT AGENCY WAS COGNIZANT BUT BELIEVED THAT IT HAS EITHER DCAA, A.I.D., OR HHS. THE RCO IS FAMILIAR WITH THE VARIOUS COGNIZANT GOVERNMENT AUDIT AGENCIES, HAVING BEEN INVOLVED IN U.S. GOVERNMENT CONTRACTING SINCE 1976. IN THE INTEREST OF A MORE BALANCED REPORT, THIS SENTENCE SHOULD BE DELETED.

F. WITH RESPECT TO SPECIFIC CONTRACTORS, ABT AND RONCO. RCO IS AWARE THAT RIG/A/DAKAR REQUESTED INFORMATION FROM FA/OP/PS/OCC ABOUT THESE FIRMS' INDIRECT RATES. RCO HAS A COPY OF THIS CABLE SINCE IT IS NOT CLEAR FROM THE DRAFT REPORT THAT RIG/A/DAKAR HAD RECEIVED IT PRIOR TO ISSUING ITS DRAFT REPORT. RCO WILL BE HAPPY TO SEND THIS CABLE TO RIG IF IT HAS NOT YET RECEIVED IT. THE RESPONSE FROM THE OFFICE RESPONSIBLE FOR INDIRECT COST RATES, FA/OP/PS/OCC IS SUMMARIZED BELOW.

- ABT ASSOCIATES, INC.: THE DEPARTMENT OF HEALTH AND
- HUMAN SERVICES (DHSS), NATIONAL INSTITUTES OF HEALTH
- (NIH) IS THE COGNIZANT AGENCY. THE LATEST FINAL
- RATES COVER THE PERIOD 4/1/86 3/31/87. FUTURE
- UPDATED OR SUPERSEDING RATES MUST BE ESTABLISHED BY
- DHHS-NIH.

- RONCO CONSULTING CORPORATION: A.I.D. IS THE
- COGNIZANT AGENCY FOR THIS FIRM. THERE ARE
- PROVISIONAL RATES BUT NOT FINAL RATES COVERING THE
- PERIOD FROM 4/1/84 FORWARD UNTIL AMENDED. HOWEVER,
- THE CABLE FROM FA/OP/PS/OCC STATES THAT A RECENTLY
- COMPLETED AUDIT COVERING THE PERIOD 4/1/84 TO
- 3/31/89 WAS BEING PROCESSED BY THAT OFFICE.

- ONCE NEW/REVISED RATES ARE ESTABLISHED FOR RONCO AND
- ABT BY THE COGNIZANT AGENCY, A.I.D. AND DHHS-NIH
- RESPECTIVELY, MISSIONS WILL BE NOTIFIED BY CABLE.
- IT IS THEN THE RESPONSIBILITY OF THE MISSIONS TO
- ENSURE THAT BILLINGS ARE ADJUSTED ACCORDINGLY.
- THIS. BY THE WAY, IS THE PROCEDURE FOR ANY
- CONTRACTOR WITH ANY COGNIZANT U.S. GOVERNMENT AUDIT
- AGENCY.

ACTION: RIG INFO: EXEC

VZCZCDK0029 LOC: 207 942
RR RUEHDK 03 SEP 92 1258
DE RUEHTU #7254/06 2471254 CN: 08439
ZNR UUUUU ZZH CHRG: RIG
R 031249Z SEP 92 DIST: RIG
FM AMEMBASSY TUNIS
TO RUEHDK/AMEMBASSY DAKAR 0007
INFO RUFHRA/AMEMBASSY RABAT 0052
BT

UNCLAS SECTION 06 OF 09 TUNIS 07254

- EFFECTIVE 10/1/92, IT WILL BE FA/OP' RESPONSIBILITY
- TO TRACK THE STATUS OF AUDITS OF U.S. CONTRACTORS.
- UNTIL THAT TIME, THE RESPONSIBILITY REMAINS WITH THE
- IG IN AID/W WHERE IT HAS BEEN FOR SOME YEARS.

IT SHOULD BE NOTED THAT IN THE CASE OF RONCO, FOR WHICH A.I.D. IS COGNIZANT, INDIRECT COST RATE PROPOSALS WERE RECEIVED BY FA/OP/PS/OCC IN ACCORDANCE WITH FAR REQUIREMENTS FOR EACH OF THE CONTRACTOR'S FISCAL YEARS 1984-1990. THESE PROPOSALS WERE GIVEN TO IG/A/FA WHEN THEY WERE RECEIVED, ALONG WITH A REQUEST FOR AUDIT. AS NOTED ABOVE, AN AUDIT COVERING FISCAL YEARS 84-89 HAS NOW BEEN RECEIVED (1992). ACCORDING TO COMMENTS FROM FA/OP/PS/OCC, IT IS UNCLEAR WHAT CAUSED THE DELAY IN HONORING THE AUDIT REQUESTS.

WITH RESPECT TO ART ASSOCIATES, FA/OP/PS/OCC RECENTLY RECEIVED A COPY OF THEIR FY 1992 RATE PROPOSAL WHICH WAS SUBMITTED TO DHSS-NIB IN JUNE 1992. THE PROPOSAL HAS REVIEWED INFORMALLY BY FA/OP/PS/OCC AND FOUND TO BE SUFFICIENTLY CLOSE TO CURRENT PROVISIONAL RATES USED BY A.I.D. THAT NO NOTICE WAS SENT TO MISSIONS. WHEN FINAL RATES OR REVISED PROVISIONAL RATES ARE NEGOTIATED BY DHSS-NIH, FA/OP/PS/OCC HAS THE RESPONSIBILITY TO NOTIFY MISSIONS.

G. ON THE TOP OF PAGE 9, THE REPORT STATES THAT "...WE BELIEVE THAT INDIRECT COST RATES FOR USAID/TUNISIA'S U.S.-BASED CONTRACTORS WERE NOT FINALIZED PRIMARILY BECAUSE OF THE CONFUSION OF ROLES AND RESPONSIBILITY WITHIN A.I.D. FOR FOLLOWING UP ON AND THEN ESTABLISHING THESE RATES." HOWEVER, ON PAGE 8, PARAGRAPH 3, IT IS CLEAR THAT THERE IS NO CONFUSION IN THE RCO'S MIND AS TO WHERE THE RESPONSIBILITY LIES FOR OBTAINING, NEGOTIATING, APPROVING, MONITORING, AND FOLLOWING-UP ON PROVISIONAL AND FINAL COST RATES. THE RCO HOPES THAT THIS DISCUSSION CLARIFIES ANY CONFUSION THAT THE RIG/A/DAKAR MAY HAVE RATES OR REVISED PROVISIONAL RATES ARE NEGOTIATED BY DHSS-NIH, FA/OP/PS/OCC HAS THE RESPONSIBILITY TO NOTIFY MISSIONS.

G. ON THE TOP OF PAGE 9, THE REPORT STATES THAT "...WE BELIEVE THAT INDIRECT COST RATES FOR USAID/TUNISIA'S U.S.-BASED CONTRACTORS WERE NOT FINALIZED PRIMARILY BECAUSE OF THE CONFUSION OF ROLES AND RESPONSIBILITY

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WITHIN A.I.D. FOR FOLLOWING UP ON AND THEN ESTABLISHING THESE RATES." HOWEVER, ON PAGE 8, PARAGRAPH 3, IT IS CLEAR THAT THERE IS NO CONFUSION IN THE RCO'S MIND AS TO WHERE THE RESPONSIBILITY LIES FOR OBTAINING, NEGOTIATING, APPROVING, MONITORING, AND FOLLOWING-UP ON PROVISIONAL AND FINAL COST RATES. THE RCO HOPES THAT THIS DISCUSSION CLARIFIES ANY CONFUSION THAT THE RIG/A/DAKAR MAY HAVE CONCERNING ROLES AND RESPONSIBILITIES FOR FINALIZING INDIRECT COST RATES.

H. THE RECENT AUDIT IN USAID/SRI LANKA (DISCUSSED ON PAGE 9 OF THIS DRAFT AUDIT) WHICH IDENTIFIED THIS SAME ISSUE WAS RESOLVED BY THE INSPECTOR GENERAL'S OFFICE AND A.I.D.'S ASSOCIATE ADMINISTRATOR FOR FINANCE AND ADMINISTRATION BY AGREEING ON THE NEED TO CLARIFY A.I.D.'S POLICY ON PROVISIONAL COST RATES, WHICH IS BEING DONE IN FA/OP/PS/OCC. BASED ON THIS AGREEMENT, SIMILAR RECOMMENDATIONS IN THE SRI LANKA AUDIT WERE RESOLVED. BECAUSE THE AGREEMENT HAS MADE AT LEVELS CONSIDERABLY HIGHER THAN THE REGIONAL INSPECTOR GENERAL'S OFFICE IN SENEGAL AND THE REGIONAL CONTRACTING OFFICE IN MOROCCO, WE WOULD ANTICIPATE THAT RIG/A/DAKAR WOULD DELETE RECOMMENDATIONS 3.1 AND 3.2, GIVEN THAT FINAL OVERHEAD RATES WILL BE DETERMINED AND ADJUSTED FOR INDIRECT COST REIMBURSEMENTS IN THE NORMAL COURSE OF OPERATIONS AS DESCRIBED ABOVE.

RECOMMENDATIONS 3.1 AND 3.2 SHOULD BE DELETED BASED ON THE DISCUSSION PRESENTED ABOVE:

- THAT THE MOST UP-TO-DATE INDIRECT COST RATES WERE
- INCLUDED IN THE ABT ASSOCIATES AND RONCO CONSULTING
- CONTRACTS.
- THAT THESE CONTRACTS HAVE NOT BEEN CLOSED PENDING
- NOTIFICATION FROM FA/OP/PS/OCC OF FINAL RATES FOR
- THE PERIODS OF THESE CONTRACTS.

- THAT ANY ADJUSTMENTS TO THE INDIRECT COSTS

- REIMBURSEMENTS WILL BE MADE FOR THESE TWO
- CONTRACTORS IN THE NORMAL COURSE OF OPERATIONS.

6. RESPONSE TO RECOMMENDATION NO. 6

IT IS IMPORTANT THAT THE AUDIT REPORT INCLUDE AN APPRECIATION OF THE DIFFICULTIES OF A REGIONAL CONTRACTING OFFICER WHO IS LOCATED IN ONE COUNTRY BUT IS RESPONSIBLE FOR THE CONTRACTING ACTIONS FOR MORE THAN JUST THE COUNTRY IN WHICH HE/SHE IS LIVING. DIFFICULTIES WITH COMMUNICATIONS, POSTAL SERVICE, AND LACK OF COURIER SERVICE FREQUENTLY INTERFERE WITH THE BEST OF INTENTIONS BY THE RCO.

FOR EXAMPLE, THIS RCO SPENT 4 YEARS AT REDSO/WCA, IN ABIDJAN, COVERING SOME 15 COUNTRIES DURING HER TOUR. ONLY ON THOSE RARE OCCASIONS WHERE THE RCO WAS CONTRACTING FOR A MISSION WHOSE CONTROLLER FUNCTIONS WERE HANDLED BY THE REDSO/WCA DID THIS CONTRACTING OFFICER HAVE THE LUXURY OF HAVING THE CONTROLLER'S INITIALS ON THE CONTRACTING DOCUMENT BEFORE IT HAS SIGNED. NORMALLY, THIS HAS NOT POSSIBLE BECAUSE OF THE DELAYS THAT WOULD BE CAUSED BY DOING SO. THE WAY THAT WE WERE ABLE TO AWARD ANY CONTRACTS IN A TIMELY MANNER HAS TO BE ASSURED THAT WE HAD A PROJECT IMPLEMENTATION ORDER FOR TECHNICAL SERVICES (PIO/T) OR OTHER PIO FOR COMMODITY OR PARTICIPANT TRAINING WHICH HAS FULLY SIGNED, INCLUDING THE CONTROLLER'S INITIALS AND STAMP THAT STATED THAT "FUNDS ARE AVAILABLE." THIS RCO NEVER SIGNED A CONTRACT OR AMENDMENT WITHOUT SUCH A DOCUMENT. THIS, BY THE WAY, HAS AN ACCEPTABLE ARRANGEMENT FOR MISSIONS IN THE REGION THAT HAD THEIR OWN CONTROLLER.

A. IT SHOULD BE NOTED THAT WITH RESPECT TO THE FINAL PARAGRAPH OF THIS RECOMMENDATION, THE RCO HAD A FULLY SIGNED PIO/T IN THE AMOUNT OF DOTS 1,000 TO OBLIGATE THE MINIMUM GUARANTEED AMOUNT FOR THE INDEFINITE QUANTITY CONTRACT. HOWEVER, THE MISSION CHANGED THE AMOUNT OF THE PIO/T, AN ACTION OF WHICH THE RCO HAS UNAWARE. THIS PROVIDES A GLIMPSE OF BOTH THE PROBLEMS OF COMMUNICATIONS AND POINTS OUT THE RIG'S RECOMMENDATION REGARDING THE CONTROLLER'S NEED TO REVIEW CONTRACTS BEFORE SIGNATURE BY THE CONTRACTING OFFICER.

B. WITH RESPECT TO THE CONTRACTING SITUATION BETWEEN THE RCO AND USAID/TUNISIA, THE DRAFT REPORT SHOULD REFLECT THE FOLLOWING INFORMATION. DURING THE PERIOD OF 1 JUNE 1991 AND 1 FEBRUARY 1992, THE RCO HAS RESPONSIBLE FOR EVERY PROJECT CONTRACT ACTION FOR USAID/TUNISIA, NO MATTER WHAT THE AMOUNT. THIS INCLUDED $50 PURCHASE ORDERS, FOR EXAMPLE. THE COST IN TIME AND MONEY OF SENDING THESE DOCUMENTS BETWEEN MOROCCO AND TUNISIA PRETTY MUCH GUARANTEED THAT CONTRACTS WOULD NOT BE HANDLED IN A TIMELY MANNER. NOTE THAT THIS PERIOD INCLUDED THE END OF FISCAL YEAR 1991. THE DRAFT AUDIT REPORT MENTIONS EIGHT CONTRACTS DURING THIS PERIOD. THIS IS AN INADEQUATE PICTURE

SINCE IT DOES NOT REFLECT ALL OF THE ACTIONS--PSC, MODIFICATIONS, PURCHASE ORDERS, ETC. THAT THE RCO ACTUALLY DID. ADDING THESE TO THE NUMBER BRINGS THE TOTAL TO APPROXIMATELY 40 ACTIONS DURING THIS PERIOD.

C. IN THE FALL OF 1991, A CONTRACTS SPECIALIST HAS HIRED FOR THE FIRST TIME AT USAID/TUNISIA. PREVIOUSLY, THERE HAS NO ONE AT THE MISSION TO HANDLE PROJECT CONTRACT ACTIONS BY PREPARING DRAFT DOCUMENTS, HANDLING PROPER FILE DOCUMENTATION, AND OBTAINING THE CONTROLLER'S INITIALS ON DOCUMENTS TO BE SIGNED. FOR THE USAID. THE RCO AND CONTRACTS SPECIALIST WORKED OUT AN ARRANGEMENT WHEREBY THE RCO WOULD REVIEW THE DRAFT DOCUMENTS AND FILE DOCUMENTATION PREPARED BY THE CONTRACTS SPECIALIST, SIGN THE DOCUMENT, RETURN IT TO THE CONTRACTS SPECIALIST WHO WOULD GIVE THE CONTRACT TO THE CONTROLLER FOR REVIEW AND INITIALLING. THEN THE CONTRACT WOULD BE GIVEN TO THE CONTRACTOR FOR SIGNATURE (WHEN THESE WERE LOCAL CONTRACTORS, WHICH HAS THE CASE IN THE MAJORITY OF INSTANCES).

D. WITH THE ARRIVAL OF THE NEW MISSION DIRECTOR IN JANUARY 1992, THE PROCEDURES AND WORKLOAD FOR THE RCO CHANGED DRAMATICALLY. THE NEW DIRECTOR DETERMINED THAT USAID/TUNISIA WOULD HANDLE ALL PROJECT CONTRACTING WITHIN THE DIRECTOR'S AUTHORITY - DOTS 100,000 FOR

CONTRACTS - AND THAT THE CONTRACTS SPECIALIST WOULD CONSULT WITH THE RCO AS NEEDED, REVIEWING VARIOUS FILES DURING TOYS BY THE RCO. THE RCO'S ROLE HAS MORE IN LINE WITH THE NORMAL REGIONAL-TYPE RESPONSIBILITIES OF AN RCO.

E. THE FOLLOWING PROCEDURES WERE PUT INTO PLACE DURING JANUARY AND APRIL 1992:

- FOR THOSE DOCUMENTS SIGNED BY THE MISSION DIRECTOR,
- THE CONTRACTS SPECIALIST PREPARES THE DRAFTS OF
- CONTRACTUAL DOCUMENTS FOR REVIEWING BY THE DIRECTOR
- AND INITIALLING BY THE CONTROLLER BEFORE SIGNATURE.

- FOR THOSE DOCUMENTS SIGNED BY THE RCO, THE CONTRACTS
- SPECIALIST PREPARES THE DRAFTS, HAS THE CONTROLLER'S
- REVIEW OF FUNDS AVAILABILITY AND PAYMENT CLAUSE,
- THEN SENDS THE CONTRACT TO THE RCO FOR REVIEW AND
- SIGNATURE.

IN ALL CASES THERE IS A PIO/T WHICH IS FULLY SIGNED ACCOMPANYING THE CONTRACT AND FILE DOCUMENTATION. THE RCO DOES NOT CHANGE THE MONEY OR PAYMENT CLAUSE FOR THESE CONTRACTS.

- FOR THOSE DOCUMENTS PREPARED AND SIGNED BY THE RCO,
- RELEVANT PAGES ARE FAXED TO THE CONTROLLER FOR
- INITIALLING AVAILABILITY OF FUNDS AND REVIEWING OF
- ANY PAYMENT CLAUSES. THE INITIALLED PAGES ARE FAXED
- TO THE RCO FOR FILE DOCUMENTATION PURPOSES.

IN ALL CASES THERE IS A PIO/T, FULLY SIGNED BY THE MISSION, INCLUDING THE CONTROLLER, WHICH STATES THAT FUNDS ARE AVAILABLE. THIS MEANS THAT THERE IS NO BASIS FOR RIG/A/DAKAR'S CONTENTION THAT "THE REGIONAL CONTRACTING OFFICE DID NOT FOLLOW SECTION 3679 OF THE REVISED STATUTES (31 U.S.C. 665), 'THE ANTI-DEFICIENCY ACT' BY NOT FORWARDING CONTRACT DOCUMENTS TO USAID/TUNISIA CONTROLLER'S OFFICE TO ENSURE AVAILABILITY OF FUNDS BEFORE THEIR FINALIZATION." (PAGE 31 OF THE DRAFT AUDIT.) FOR THE AUDITORS' INFORMATION, A PIO/T SIGNED BY THE CONTROLLER DOES SIGNIFY THE AVAILABILITY OF FUNDS. PLEASE REREAD THE DISCUSSION IN PARAGRAPH 3 ABOVE.

WE BELIEVE THAT THE PROCEDURES ABOVE SHOULD RESOLVE THE AUDIT RECOMMENDATION, AND THAT THE RIG SHOULD DELETE REFERENCE TO THE "ANTI-DEFICIENCY ACT" FROM THIS REPORT.

. RESPONSE TO RECOMMENDATION NO. 7

REGARDING THE DISCUSSION OF CONTROLS OVER NON-EXPENDABLE PROPERTY USAID WOULD LIKE TO POINT OUT THE FOLLOWING:

. THE SPECIFIC AMOUNTS WHICH ABT SPENT ON NXP PROCUREMENT IS AVAILABLE IN ABT'S FILES IN THE U.S. AND CAN BE PROVIDED TO THE AUDITORS IF NECESSARY.

B. THE FIRST SENTENCE IN THE FIRST PARAGRAPH OF PAGE 13 IS DELIBERATELY MISLEADING. NO PROPERTY HAS BEEN DIVERTED.

8. RESPONSE TO RECOMMENDATION NO. 8

REGARDING THE DISCUSSION OF PROJECT MONITORING USAID WOULD LIKE TO POINT OUT THE FOLLOWING:

A. IN THE CASE OF ABT, THE APIP PROJECT HAD REGULAR REVIEW MEETINGS WITH USAID AND THE GOT.

B. RONCO DID PROVIDE USAID WITH A CLOSE OUT PLAN WHICH WAS USED BY THE USAID PROJECT MANAGER TO MONITOR PROJECT CLOSE-OUT.

C. USAID/TUNISIA HAS HAD A GOOD RECORD OF DAILY AND WEEKLY INTERACTION WITH THE GOT AND THE CONTRACTOR. PROJECT OFFICERS' DOCUMENTATION OF THESE MEETINGS TENDS TO BE BASED ON REPORTING OF PROBLEMS (EXCEPTION REPORTING) RATHER THAN EXCHANGING OF MEMORANDA. THE RESULT IS A FAIRLY LIMITED ROUTINE WRITTEN DOCUMENTARY RECORD. USAID/TUNISIA STANDS ON ITS RECORD THAT, DESPITE RELATIVELY LIMITED ROUTINE WRITTEN

DOCUMENTATION, THE ACCOMPLISHMENTS OF ITS PROJECTS HAVE BEEN SIGNIFICANT AND SUCCESSFUL. THE AUDITORS' OWN REFERENCE (P. 14) TO RIG/A/DAKAR'S RECENTLY COMPLETED AUDIT OF THE COMPUTER TECHNOLOGY PROJECT (NO 7-664-92-05 DATED MARCH 9, 1992) IS A CLASSIC EXAMPLE. THAT PROJECT, COMPLETED IN MARCH 1990, CREATED THE FINEST COMPUTER INSTITUTION IN THE ARAB WORLD--AN INSTITUTION WHICH IS NOW NEGOTIATING CONTRACTS FOR SERVICES WITH MICROSOFT, THE INDUSTRY GIANT. WE CONCLUDE THAT THE AUDITORS MUST HAVE SEARCHED THROUGH FILES FOR MEMOS DOCUMENTING VARIOUS PHASES OF IMPLEMENTATION RATHER THAN OBSERVING A SUCCESSFUL, FUNCTIONING INSTITUTION.

9. FINALLY,

A. THE FOUR AUDIT OBJECTIVES AS STATED ON P. I OF THE EXECUTIVE SUMMARY DO NOT MENTION INTERNAL CONTROLS. CONSEQUENTLY, THE READER IS LEFT WITH THE IMPRESSION THAT THE ENTIRE SECTION ON INTERNAL CONTROLS IS TANGENTIAL AND HAS BEEN CREATED TO SUPPORT THE WORDING OF RECOMMENDATION NUMBER 9. THE ICA PROCESS IS A MISSION MECHANISM, FUNDAMENTALLY DIFFERENT FROM AND SEPARATE FROM THE AUDIT PROCESS, AND USING THE LATTER TO PROD A GIVEN RESPONSE IN THE ICA IS NOT AN APPROPRIATE USE OF THE AUDIT PROCESS.

B. THE CONTINUED REFERENCE TO LIMITATION OF SCOPE OF AUDIT IS TIRESOME. THIS AUDIT IS AN EXCELLENT EXAMPLE OF WHY THERE IS CONTINUED RESISTANCE ON THE PART OF MISSION MANAGEMENT TO SIGN SUCH LETTERS. THE AUDIT CONSIDERED THE TIME PERIOD OF JANUARY 1, 1990 TO DECEMBER 31, 1991. THE MISSION DIRECTOR WHO HAS ASKED TO SIGN THE REPRESENTATION LETTER ARRIVED AT POST ON JANUARY 24, 1992, AND THUS COULD IN NO WAY COMPLY WITH THE INTENT OF THE REPRESENTATION LETTER. STOCKER
BT
#7254

NNNN

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SUMMARY OF USAID/TUNISIA A.I.D.-DIRECT CONTRACTS BY PROJECT As of March 2, 1992

Project Number	Project Title	No. of Contracts	Commitments	Disbursements
398-0249	Project Development and Support	13	$709,698	$570,174
664-0353	Development Studies	3	185,891	183,358
664-0315	Technology Transfer	1	65,224	64,480
664-0328	Private Sector Development	9	2,010,459	1,522,330
664-0331	Family Planning	1	3,012,942	2,978,989
664-0337	Rural Potable Water	4	1,484,021	850,623
664-0343	Agricultural Policy Implementation	5	3,900,332	3,560,704
940-1000	Regional Housing and Urban Development	5	511,862	350,437
	TOTAL	41	$11,880,429	$10,081,095

Note: The source of the above financial data is USAID/Tunisia's Comprehensive Pipeline Report (Mission Accounting and Control System Report P07C). The amounts were audited during our testing for audit objective no. 3.

SUMMARY OF USAID/TUNISIA
A.I.D.-DIRECT CONTRACTS BY TYPE
As of March 2, 1992

	No. of Contracts	Commitments	Disbursements
Institutional A.I.D.-Direct Contracts	8 *	$6,920,491	$6,765,913
Buy-in Contracts	12	3,399,512	2,102,642
Indefinite Quantity Contracts	12	913,625	796,398
Personal Service Contracts	9	646,801	416,142
TOTAL	41	$11,880,429	$10,081,095

* Two of these contracts - ABT Associates, Inc. and RONCO Consulting Corporation- represent 94 percent of commitments and disbursements for the eight institutional contracts.

Note: See Appendix III for source of the above financial data.

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SAMPLING STATISTICS FOR AUDIT OF USAID/TUNISIA TECHNICAL ASSISTANCE

Audit Objective No. 1

Contract Type	No. of Contracts Tested	Total No. in Population	% of Contracts in Population
Institutional	3	8	38
Personal Services	3	9	33
Buy-ins and IQCs	7	24	29
TOTAL	13*	41	32

Audit Objective No. 2

Contract Type	No. of Contracts Tested	Total No. in Population	% of Contracts in Population
Institutional	3	8	38
Personal Service	9	9	100
Buy-Ins & IQCs**	-	-	-
TOTAL	12	17	71

*We selected four of the eight projects which contained technical services contracts. There were a total of 13 contracts under the four projects tested.

**Not applicable for this objective because buy-in contracts are procured by A.I.D./Washington.

SAMPLING STATISTICS FOR AUDIT OF USAID/TUNISIA TECHNICAL ASSISTANCE

Audit Objective No. 3

Contract Type	No. of Contracts Tested	Total No. in Population	% of Contract in Population
Institutional	2	8	25
Personal Services	2	9	22
Buy-ins and IQCs	2	24	8
TOTAL	6**	41	15

Audit Objective No. 4

Contract Type	No. of Contracts Tested	Total No. in Population	% of Contracts in Population
Institutional	2*	8	25
Personal Service***	-	-	-
Buy-Ins &IQCs	2	24	8
TOTAL	4 ****	32	13

*These two contracts represent 94 percent of commitments and disbursements for the eight institutional contracts.
**These six contracts represent 58 percent of commitments and 65 percent of disbursements for the 41 contracts.
***Not applicable for this objective.
****These four contracts represent 64 percent of commitments and 69 percent of disbursements for the 32 contracts.

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