PD-ABF-997

Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Controls Over Advisory and Assistance Services Contracts

Report No. 6-263-93-07
May 11, 1993

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

May 11, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, Philippe L. Darcy

SUBJECT: Report on Audit of USAID/Egypt's Controls Over Advisory and Assistance Services Contracts (Report No. 6-263-93-07)

This is the final report of our audit of USAID/Egypt's Advisory and Assistance Services Contracts. According to a memorandum from your Associate Director of Financial Management (included in Appendix II of this report), the Mission had no comments to offer regarding a draft of this report. This report has no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Federal agencies contract for advisory and assistance services as a legitimate way to improve government services and operations. Office of Management and Budget (OMB) Circular A-120, dated January 4, 1988, established government-wide controls for federal agencies to follow in managing and reporting on these services. These controls have been incorporated into the Federal Acquisition Regulations (FAR), A.I.D. Acquisition Regulations (AIDAR), and A.I.D. Handbook 14. As issues have been raised, OMB has provided federal agencies with additional guidance on Circular A-120 subsequent to its issuance in 1988.

USAID/Egypt's contracting officers are responsible for ensuring that advisory and assistance services are procured by USAID/Egypt in accordance with the regulations mentioned above. However, the overall responsibility for ensuring that A.I.D. complies with OMB Circular A-120 rests with the Associate Administrator for Finance and Administration who serves as A.I.D.'s designated Advisory and Assistance Services Executive.

U.S. Mailing Adress
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909

106, Kasr El Aini St.
Cairo Center Building
Garden City, Egypt

Audit Objectives

The objectives of this audit were to answer the following questions.

1. Does USAID/Egypt classify advisory and assistance services contracts in accordance with OMB Circular A-120?

2. Does USAID/Egypt manage advisory and assistance services in accordance with OMB Circular A-120 provisions which relate uniquely to advisory and assistance services?

This audit was designed as part of a worldwide audit to be centrally directed by the Inspector General's Office of Program and Systems Audits in Washington, D.C.

Audit Findings

Does USAID/Egypt classify advisory and assistance services contracts in accordance with OMB Circular A-120?

In our opinion, USAID/Egypt did not classify advisory and assistance services contracts awarded during fiscal year 1992 in accordance with OMB Circular A-120.

USAID/Egypt Did Not Classify Contracts As Advisory and Assistance Services

USAID/Egypt did not consider any of the 79 contracts it awarded in fiscal year 1992 as being for advisory and assistance services. We believe that 65 of those contracts should have been classified as such. Most of the contracts which we believe were not correctly classified directly benefited the host country. USAID/Egypt did not know that such contracts met OMB A-120's definition of advisory and assistance services because A.I.D./Washington procurement officials did not ensure that USAID/Egypt received OMB guidance which specifically explained this issue. Consequently, USAID/Egypt's reporting of the procurement of advisory and assistance services contracts may have been understated by $3.6 million. Further, USAID/Egypt did not obtain special justifications and approvals for those contracts which were classified as being for advisory and assistance services.[1]

[1] Because the source of this problem area relates directly to A.I.D./Washington, we did not include a recommendation for USAID/Egypt in this report.

USAID/Egypt awarded 79 contracts during fiscal year 1992 totaling about $11.5 million. According to USAID/Egypt's Office Director of Contracts Services, none of those 79 contracts was for advisory and assistance services. However, 65 of those contracts carried descriptions which our reading of OMB Circular A-120, along with supplemental guidance, would indicate should have been classified as advisory and assistance services.

The Contracts Services Office Director attributes the above difference to differing interpretations of OMB Circular A-120. For the 65 contracts which we believe should have been classified as advisory and assistance services, the Contracts Services Office Director stated that based on his understanding of the definition of advisory and assistance services, none of those contracts met that definition. His interpretation was that only contracts which directly gave the Mission organization a managerial benefit should be considered advisory and assistance services contracts. He stated that the majority of USAID/Egypt's contracts do not directly benefit USAID/Egypt and therefore should not be considered as being for advisory and assistance services.

This interpretation is reflected in USAID/Egypt's Mission Order 14-1 which indicates that OMB Circular A-120 requirements do not apply to project-funded contracts if "USAID is contracting on behalf of the GOE and it is the GOE that has the primary interest in the services." In the case of the 65 contracts, over 60 percent of the total costs of those contracts was project-funded, meaning that the host country was presumably the primary beneficiary of the contracted services.

In January 1991, OMB issued a memorandum to all agencies which clarified the definition of advisory and assistance services. The memo stipulated that the beneficiary of a contract is irrelevant as to the determination of whether the contract is for advisory and assistance services. The memorandum stated that "contracts in which the contractor is providing technical assistance or advice that benefits a third party are advisory and assistance services in the context of OMB Circular A-120". Although this memo provided much needed clarification with regard to this issue, USAID/Egypt did not receive this supplemental guidance because A.I.D./Washington procurement officials did not ensure that this guidance reached USAID/Egypt.

Because USAID/Egypt did not classify any contracts awarded in fiscal year 1992 as being for advisory and assistance services, their reporting of the procurement of advisory and assistance services contracts, required by OMB Circular A-120, may have been understated by $3.6 million. Further, USAID/Egypt did not obtain special justifications and approvals for advisory and assistance services, required by OMB Circular A-120, for those contracts which we believe should have been classified as advisory and assistance services contracts.

We have identified the source of this problem area as relating directly to A.I.D./Washington. Therefore, this report does not include a recommendation for USAID/Egypt. An audit report recently issued by the A.I.D. Inspector General's Office

of Program and Systems Audits (Report No. 9-000-93-002) included recommendations directed toward the A.I.D. Procurement Executive which should correct the cause and condition relative to this problem area.

Does USAID/Egypt manage advisory and assistance services in accordance with OMB Circular A-120 provisions which relate uniquely to advisory and assistance services?

We had no basis upon which to answer this question because USAID/Egypt did not consider any of its contracts which were awarded or expired during fiscal year 1992 to be for advisory and assistance services.

Management Comments and Our Evaluation

USAID/Egypt had no comments concerning the draft report. This does not mean that Mission Management necessarily agreed with the draft report. In fact, Mission Management indicated during the Exit Conference that they would direct their concerns over the audit to A.I.D./Washington, the office which was to respond to the worldwide audit conducted by IG/PSA on the same subject.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's controls over advisory and assistance services contracts in accordance with generally accepted government auditing standards. We conducted the audit during the period November through December 1992 using as our criteria guidance provided by the Office of Management and Budget (OMB), Federal Acquisition Regulations (FAR), and A.I.D. Acquisition Regulations (AIDAR). The audit covered all applicable contracts awarded by USAID/Egypt during Fiscal Year 1992 (about $11.5 million), as well as any applicable contracts which expired during that same period. Audit field work was conducted in USAID/Egypt's Office of Contracts Services.

Methodology

This audit was designed as part of a worldwide audit to be centrally directed by the Inspector General's Office of Program and Systems Audits (IG/A/PSA) in Washington, D.C. IG/A/PSA developed an audit program for participating audit offices including Regional Inspector General offices in Cairo, Nairobi, and Tegucigalpa. This report deals only with contracts awarded by USAID/Egypt.

To accomplish the first audit objective we interviewed the Director of USAID/Egypt's Office of Contracts Services. We obtained a list from USAID/Egypt's Contract Information Management System (CIMS) of all contracts awarded by USAID/Egypt during fiscal year 1992. We reviewed the brief description of each contract included in the CIMS report. Based on our interpretation of OMB Circular A-120, and supplemental guidance from OMB, we made a determination as to whether or not in our opinion each contract should have been classified as being for advisory and assistance services. We then compared our determinations to those made by USAID/Egypt's contracting officers. The contracting officers' determination as to whether or not a contract should be

classified as advisory and assistance services was the key internal control tested under this audit objective.

Since USAID/Egypt did not consider any of the contracts made or expired during fiscal year 1992 as being for advisory and assistance services, we could not conduct any of the tests designed to answer the second audit objective.

We discussed the results of our reviews with cognizant USAID/Egypt officials. These results were submitted in summary to the Inspector General's Office of Program and Systems Audits for inclusion in a Congressionally mandated worldwide audit centrally directed by that office.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

May 2, 1993

RECEIVED
3 MAY 1993

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Douglas S. Franklin, AD/FM

SUBJECT: Audit of USAID/Egypt's Advisory and Assistance Services Contracts - Draft Report

Mission has completed its review of the subject draft report, and has no comments to offer at this time. Please issue the final report.

xc: C. Crowley, D/DIR
J. Dunlap, OD/DIR/CS
B. Cypser, A/OD/PDS/PS

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MAY 6 1993

Mr. Philippe L. Darcy
Regional Inspector General
for Audits
Cairo, Egypt

Dear Mr. Darcy:

This Representation Letter is being issued in accordance with Agency guidance in response to the audit of "**Advisory and Assistance Services Contracts**".

Based upon discussions with Mission Staff, and taking into account identified staffing constraints and vulnerabilities as expressed in Mission ICAs, to the best of my knowledge and belief, I confirm that all appropriate financial records in the possession and under the control of USAID/Cairo relating to the function being audited have been made available to you. To the best of my knowledge and belief, the records made available to you are accurate and complete, and they fairly represent the status of **Advisory and Assistance Services Contracts** within the Mission. To the best of my knowledge and belief, as a layman and not as a lawyer, in conjunction with A, B, C and D below, USAID/Egypt has reported all known instances pertaining to USAID/Egypt's compliance with **Advisory and Assistance Services Contracts**, which, in the Mission's judgement, would evidence material irregularities or non-compliance with AID policies, or violations of U.S. laws and regulations. Specifically I represent that:

(A) USAID/Egypt is responsible for the internal control system, for the fairness and accuracy of accounting and management information for the function under audit. USAID/Egypt to the best of my knowledge and belief exercises its best efforts to ascertain and follow applicable U.S. laws and AID regulations and AID interpretations of those laws and regulations.

(B) To the best of my knowledge and belief, and based on discussions and verbal representations by others in the Mission, USAID/Egypt has made available to you or otherwise provided you at your request all financial and management information related to the audit objectives.

(C) To the best of my knowledge and belief, except for any findings or other matters included in the audit report, USAID/Egypt is unaware of any material instances associated with the function being audited where financial or management information has not been properly and accurately recorded/reported.

(D) To the best of my knowledge and belief, USAID/Egypt has complied with all contractual agreements, to the extent there are such agreements, which could have any material effect on Advisory and Assistance Services Contracts.

Upon review of your draft report and following further discussion with my staff, I know of no events subsequent to the date of your draft report, (other than those which were included in our response to that report), which to the best of my knowledge and belief would materially alter the statements in (A) thru (D) above.

All representations made herein by me are made in light of my experience since my arrival at post.

Sincerely yours,

Henry H. Bassford
Director

REPORT DISTRIBUTION

	No. of Copies
U.S. Ambassador to Egypt	1
A.I.D. Administrator	2
Mission Director, USAID/Egypt	10
Assistant Administrator for Bureau for Near East, AA/NE	1
Associate Administrator for Finance and Administration, AA/FA	1
Associate Administrator for Operations, AA/OPS	1
Audit Liaison Office for Near East	1
Office of Press Relations, XA/PR	1
Office of Financial Management, FA/FM	1
AA/R&D	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
POL/CDIE/DI, Acquisitions	1
FA/MCS	2
FA/FM/FPS	2
IG	1
AIG/A	1
IG/A/PPO	3
AIG/A	1
IG/LC	1
AIG/I&S	1
IG/RM	12
Other RIG/A's	1 each