

**Audit of the Bureau for Europe's
Technical Assistance Contracts**

Report No. 8-180-93-05
June 30, 1993





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 30, 1993

MEMORANDUM FOR ACTING AA/EUROPE, David N. Merrill

FROM: RIG/A/B, John P. Competello

SUBJECT: Audit of the Bureau for Europe's Technical Assistance
Contracts, Report No. 8-180-93-05

Enclosed are five copies of our audit report on the Bureau for Europe's Technical Assistance Contracts, Audit Report No. 8-180-93-05.

We have reviewed your comments to the draft report and included them as Appendix II to this report. We also acknowledge receipt of the representation letter that you provided and which we found to meet the needs of our audit. This letter is also in Appendix II.

Based on your comments, all four recommendations remain unresolved and can be resolved when we have agreed upon a plan of action to address the recommendations. These recommendations may be closed when the planned actions are completed.

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

Enclosure: a/s

EXECUTIVE SUMMARY

Background

The Bureau for Europe uses direct contracts as one method to obtain technical services under the Support for Eastern European Democracy Act of 1989 (the SEED Act). A.I.D. management of the assistance effort is centralized in the Bureau for Europe and the Regional Mission for Europe, which are co-located in Washington, D.C. Thus, most planning, procuring, accounting and monitoring is performed from Washington. A limited number of A.I.D. direct-hire staff are located in Offices of the A.I.D. Representative (AIDRep) in Central and East European countries to primarily coordinate the in-country assistance and provide support to the A.I.D./Washington staff.

As of September 30, 1992, the Bureau had 29 contracts initiated specifically on its behalf and funded under the SEED Act. These 29 contracts had recorded obligations and expenditures totaling \$92,132,569 and \$25,082,353, respectively. From this universe we selected seven contracts with unaudited obligations and expenditures totaling \$20,442,782 and \$3,873,978, respectively. Also, at the time of our audit, the U.S. General Accounting Office was conducting a special review of four of the Bureau's Indefinite Quantity Contracts. Thus, these contracts were not included in our audit. Additional information on A.I.D.'s management of the award and administration of technical services contracts, including the Bureau for Europe, can be obtained by reviewing Audit Report No. 9-000-93-004, dated March 31, 1993. (See page 1)

Audit Objectives

We audited the Bureau for Europe's process for procuring and monitoring technical services to answer the following audit objectives:

- Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in a) establishing the need for technical services and b) preparing Project Implementation Order for Technical Services with substantial

specificity to allow the Contracting Officer to develop and award a contract for which performance can be measured?

- Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in monitoring contractors?

We conducted the field work from September 23, 1992 through March 12, 1993. (See Scope and Methodology, Appendix I.)

Summary of Audit

For the seven contracts reviewed, the Bureau for Europe essentially followed A.I.D. policies and procedures, as modified for Central and Eastern Europe, in establishing the need for technical services contracts, and in preparing the forms to order technical services (PIO/T). However, only one of these seven contained substantial specificity to measure performance. Further, there is some evidence that A.I.D. needs to involve the actual recipients in planning contractor services in any future contracts. The Bureau acknowledged this as a problem area, but is working to mitigate the problem in future projects. (See page 4)

Except in certain instances, the Bureau also followed the policies and procedures in monitoring contractors, such as delineating monitoring and oversight responsibilities, making some site visits, and obtaining progress reports from contractors. However, the Bureau did not provide the A.I.D. Representatives with certain essential documentation to monitor contractor performance. In addition, the Bureau and A.I.D. Representatives did not monitor recipients' use of contractor services after completion of the contract to determine the effect of the technical services provided. (See page 11)

The Acting Deputy Assistant Administrator for the Bureau for Europe and the Acting Mission Director for the Regional Mission for Europe provided us with written representations covering Bureau and Mission responsibilities and other matters. (The complete representation is contained in Appendix II.)

Audit Findings

- **Scopes of Work Need Progress Measurements** - For six of seven contracts, the Bureau did not include specific progress indicators in the scopes of work. The lack of specificity raises questions as to the effectiveness of the \$17.9 million committed for these contract services. (See page 5)

- **A.I.D. Representatives Need Contract Documents to Monitor Contractor Activities -** For the four contracts with overseas activity, AIDReps did not always have the appropriate documentation to monitor contractor activities. The Bureau and the AIDReps have not clearly identified the documentation needed for monitoring. (See page 11)
- **The Bureau Needs to Establish a Post-Contract Monitoring System -** For the four contracts with overseas activity, the Bureau and the AIDReps were not monitoring the recipients use of the technical services provided after the contractors had completed their activities, nor had they established procedures to prioritize follow-up activity. (See page 14)

Summary of Recommendations

We recommend that the Bureau for Europe:

- Modify its Mission Order No. 503, Preparation, Review and Clearance of Project Implementation Orders/Technical Services, to require project officers to specify performance factors and progress indicators for the proposed contract's scope of work. (See page 5)
- Request that the A.I.D. Office of Procurement, when amending current contracts for another purpose or developing future contracts, include requirements for the Bureau's Technical Services contractors to forward the technical progress reports directly to the A.I.D. Representatives. (See page 12)
- Revise its internal procedures for document distribution to require that A.I.D. Representatives be sent documents establishing the performance requirements of contractors, such as "Request for Services" and annual work plans, which are created subsequent to the contract. (See page 12)
- Incorporate post contract monitoring of technical services contracts into its policies and procedures and include requirements for prioritizing the monitoring of technical services contracts in monitoring plans. (See page 14)

Management Comments and Our Evaluation

The Bureau provided extensive comments. While not agreeing with all of the recommendations, the Bureau generally agreed with the objective of our recommendations. (See Appendix II) The Bureau did not believe that it could easily or correctly put progress

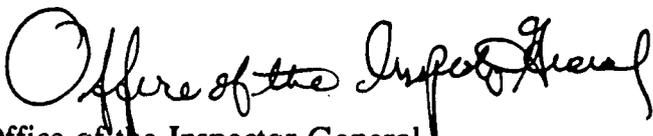
indicators and performance factors into the Project Implementation Order/Technical Services, but agreed these are important and must be established. The Bureau suggested that alternative methods could be used. We agree in principal that another document could be used, but still believe that the contract ordering document should identify these or it should clearly state when and where these will be established. (See page 9)

The Bureau requested we delete comments that they had not followed their own and A.I.D. procedures in establishing these factors and indicators. They also mentioned that we need to be reminded of the unilateral and regional nature of their program because we frequently mention the need for greater local government involvement in the contract process. While the comments of local officials receiving the assistance may not be representative of the entire program, we believe they indicate a concern at the recipient level. We agree with the Bureau's comments that it must continue to strive for more involvement at the local level. (See page 9)

The Bureau agreed with our second recommendation with some modification. We did modify the recommendation to only require amendment of the current contracts when these are being modified for another purpose. (See page 14)

For our third recommendation, the Bureau asked that we delete it, because the system is in place and while it may not be perfect, it is increasingly responsive to the A.I.D. Representatives needs. We believe that the Bureau needs to specifically identify the core documents which must be sent to the A.I.D. Representatives. (See page 14)

On the fourth recommendation, the Bureau agreed with the intent and importance of following-up on contractor activities after the activity is finished. But the Bureau mentioned that it does not have the staff to do this and asked for assistance on defining priorities. We believe the project officers and A.I.D. Representatives can develop listings of contracts about to be completed, identifying those which should be reviewed and when. From this list, Bureau managers should be able to establish the priorities. (See page 16)


Office of the Inspector General
June 28, 1993

Eastern Europe



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INTRODUCTION

Background

U.S. economic assistance to Central and Eastern Europe is provided under the Support for Eastern European Democracy Act of 1989 (the SEED Act). A.I.D. management of the assistance effort is centralized in Washington, D.C. Under this centralized management structure, much of the A.I.D. work, which is normally performed at overseas missions, is performed by the Bureau for Europe and the Regional Mission for Europe which are co-located in Washington. Thus, most planning, procuring, accounting and monitoring is performed from Washington. A limited number of A.I.D. direct-hire staff are located in Offices of the A.I.D. Representative (AIDRep) in Central and East European countries to primarily coordinate the in-country assistance and provide support to the A.I.D./Washington staff.

Projects being implemented under the SEED Act fall into one of three program components:

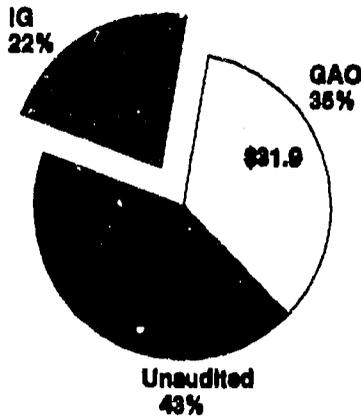
- Strengthening Democratic Institutions,
- Economic Restructuring, and
- Quality of Life

This audit involves contracts for technical assistance awarded under all three components.

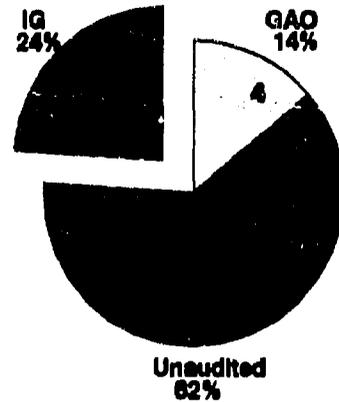
The principal purpose of a contract is the acquisition of property or services for the direct benefit or use of the Federal Government. Contracts are appropriate when the Agency intends to specify an identifiable and measurable input/output objective while retaining remedies for breach of agreement terms and conditions.

As of September 30, 1992, the Bureau had 29 contracts initiated specifically on its behalf and funded under the SEED Act. These 29 contracts had recorded obligations and expenditures totaling \$92,132,569 and \$25,082,353 respectively. From this universe we selected seven contracts with unaudited obligations and expenditures totaling \$20,442,782 and \$3,873,978, respectively. Excluded from our sample were four Indefinite Quantity Contracts which are the subject of a special review by the U.S. General Accounting Office (GAO). These four contracts had obligations of \$31,868,583. The following charts show a profile of the contracts administered by the Bureau for Europe during the audit period. These also show the size of our audit sample in terms of dollars obligated and number of contracts and the relationship of the GAO audit to the universe.

**TECHNICAL SERVICES CONTRACTS UNIVERSE
Bureau for Europe**



**Value of Contracts
in Millions**



Number of Contracts

This report is limited to actions on technical services contracts not being audited by others. More information on the Bureau's contracting for technical services can be obtained by reviewing the Office of Inspector General's audit report: "A.I.D. Office of Procurement's Management of the Award and Administration of Technical Services Contracts" (Audit Report No. 9-000-93-004, dated March 31, 1993). The scope of this audit included technical services contracts awarded for the Bureau. Also, the GAO report on the Indefinite Quantity Contracts for the Bureau's Economic Restructuring Component should be available later this year.

Audit Objectives

The Office of the Regional Inspector General For Audit/Bonn audited the Bureau's process for procuring and monitoring technical services to answer the following audit objectives:

1. Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in a) establishing the need for technical services and b) preparing Project Implementation Order for Technical Services with substantial specificity to allow the Contracting Officer to develop and award a contract for which performance can be measured?
2. Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in monitoring contractors.

Our conclusions on each audit objective are limited to the items tested. Because the GAO review encompasses a significant portion of the value of the universe, our sample is not sufficient to warrant a conclusion on the whole process covered in each audit objective. Our audit objectives do not cover the award of the contracts. Appendix I contains a complete discussion of the scope and methodology for this audit. Appendix II contains the Bureau's comments on this report.

REPORT OF AUDIT FINDINGS

Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in a) establishing the need for technical services and b) preparing Project Implementation Orders for Technical Services with substantial specificity to allow the Contracting Officer to develop and award a contract for which performance can be measured?

For the seven contracts reviewed, the Bureau for Europe followed A.I.D. policies and procedures, as modified for Central and Eastern Europe, in establishing the need for technical services. While the Bureau followed A.I.D. policies and procedures for preparing the Project Implementation Order for Technical Services (PIO/T) form and contracts were developed and awarded for the seven contracts reviewed, only one of these seven contracts contained substantial specificity for which performance could be measured. The Bureau followed the guidance for contracting technical assistance provided in the 1991 Action Plan for U.S. Assistance to Central and Eastern Europe. Planning for these contracts was in conformance with the initiatives prescribed in the 1991 Action Plan. However, a small number of recipients from privatized refineries, local governments and university indicated that A.I.D. needs to involve them in the planning for contractor services in any future contracts.

The project approval documents, including Project Decision Papers and Project Memoranda, for all seven contracts reviewed established the need for the technical services proposed and the ability of the services to address the objectives stated in the Bureau's Action Plan. In addition, the individual PIO/T's for the seven contracts reviewed were correctly prepared and approved for forwarding to the appropriate contracting office.

However, as discussed below, six of the seven scopes of work in the individual PIO/Ts did not contain descriptions to measure the progress of the contractor.

**Scopes of Work Need
Progress Measurements**

Contrary to Bureau procedures, contracts let by the Bureau for Europe did not include specific performance factors. The rush to initiate activities in Central and Eastern Europe resulted in scopes of work which did not include progress indicators or performance factors, raising a question as to the effect of the \$17.9 million committed for these services.

Recommendation No. 1: We recommend that the Bureau for Europe modify its Mission Order No. 503, Preparation, Review and Clearance of Project Implementation Orders/Technical Services, to require project officers to specify performance factors and progress indicators for the proposed contract's scope of work.

The core of the PIO/T is the statement of work which describes the contract objectives and the steps which must be taken to achieve them. The project technical officers and program and backstop officers share responsibility with contracting personnel for developing a "contractable" statement of work specifying in detail what the contractor is to do and when it is to be done.

A.I.D. Handbook 3, Project Assistance, Supplement A, ("Project Officers' Guidebook for the Management of Direct A.I.D. Contracts, Grants, and Cooperative Agreements") states that "... to make meaningful monitoring and evaluation possible, the PIO/T (and the resultant contract) should include specific indicators of progress or benchmarks which will permit measurement of the contractor's progress against the expenditures of both time and money." The procedures go on to state that "... without clear indicators which permit an objective measurement of the contractor's progress, effective monitoring of a contract is not feasible." Although Mission Order No. 503, Preparation, Review and Clearance of Project Implementation Orders/Technical Services, touches on the requirements for the scope of work, the body of the procedure does not *emphasize* the importance of including performance factors and progress indicators. The specific details for scope of work preparation were included in an attachment to the Mission Order 503, which was copied from A.I.D. Handbook 3 for the preparation of a PIO/T. Although attached to the Mission Order, these important elements are not highlighted in it.

In six of the seven contracts reviewed, the scopes of work did not contain performance factors or progress indicators/bench marks, such as time periods for individual activities, numbers of activities to be completed, or quality of actions expected. Five of these six scopes of work required progress indicators be developed in subsequent documents, in some instances by the contractor. Review of the resulting documents (a needs assessment, three annual work plans, and various

"Requests for Services") revealed measures of contractor performance were not provided.

Examples demonstrating the effect of not having a clear scope of work with performance factors and progress indicators in the six contracts reviewed are detailed below. These examples were developed from various reports, our assessment of these documents and interviews with contractors and actual recipients.

Contract No. 1: Project evaluators commented that one reason a completed contract fell short in reaching the level of success expected was the failure to establish clearly defined objectives before beginning the project activities. The evaluators also commented that the early initiation of the project required leaving project objectives intentionally vague and fluid with the expectation that these would become clearer to project organizers during implementation. This latter condition allowed the production of a lengthy list of achievements, but in the view of the evaluators, these achievements did not add up to a comprehensive program.

The U. S. General Accounting Office (GAO) had reviewed the activities of this contractor and made several observations. The GAO observed that the contractor's assistance had been beneficial and its activities were conducted professionally in face of difficulties. According to the GAO, one major difficulty was the tension between the two principal goals of the project. One goal reflected the contractor's plan to assist the parliament through long-term assistance to academics and parliament's members and their staff. The other goal reflected the U. S. Government's desire to provide assistance timely, short-term technical assistance and directly to the new parliament. The GAO also said the contractor completed the tasks described and gone beyond those requirements to conduct valuable assistance to the government. However, GAO also said the contractor's prepared needs assessment (as called for in the contract) was not adequate to serve as a guide for later activities.

Officials, who received the assistance under the contract, believe that the foreign donors need to involve the local institutions in planning outside assistance in order to avoid duplication of assistance and better address local needs.

Contract Nos. 2 and 3: Two contracts awarded in support of one project identified the roles of each contractor, indicated location and personnel, and required annual work plans; but they did not describe performance indicators, such as when the personnel would be in place, how many initiatives would be minimally acceptable, or how many feasibility studies should be prepared. The first annual work plans, approved by the project officer, contained more specificity for deliverables, but were essentially listings of actions to be

completed by the *end* of the contracts. While, it seems acceptable for the plans to list actions to be completed by the end of the contract, these *annual* plans did not specifically identify what was to be accomplished in the first year nor minimum levels of performance expected.

Contract No. 4: This contract identified a total level of effort figure and contract length. However, it did not provide any progress indicators or activity targets such as the number or extent of required studies or amount and intended audience of training programs. These details were to be addressed in the Annual Technical Work Plan to be submitted by the contractor. The first annual work plan did not provide progress indicators.

Contract No. 5: This contract allowed the Bureau to issue "Request for Services" (RFS) to the contractor for specific tasks. The RFS's reviewed lacked specificity and did not provide measures for performance.

For example, two RFS's called for three interrelated tasks. Task No. 1 dealt with assisting in financial analysis and called for a report. Task No. 2 dealt with preparing a series of workshops. Task No. 3 called for preparation of one or two brief sessions which would cover in summary form *some of the topics* addressed in Task No. 2. While the total level of effort was given and reports required were described, these RFS's did not provide any performance factors, such as the number or specific topics to be covered, backgrounds and number of attendees expected, or the number and length of the seminars. The actual deliverables were one seminar and two reports. The materials for a "series of seminars" were apparently developed but no series was planned. One participant told us the seminar was interesting, but he did not know if the material applied to his work.

Another recipient from a local city government told us that he believed that it would be more beneficial if his organization were fully involved in the planning phase of potential A.I.D. assistance. Greater involvement would better assure that the recipient's priority needs were addressed.

An interview with a recipient demonstrated the need to talk to local officials after they have participated in an A.I.D. funded activity. He stated that he was not certain that the seminar he attended benefitted his work, but he did need some assistance in other related areas. This issue arose informally during the audit interview on the seminar. The AIDRep project officer believed that this opportunity probably would have been missed if he had not attended the interview with us. This type of situation occurred because the Bureau has not emphasized the need to involve lower level host country officials and recipients in planning or follow-up on prior assistance.

Contract No. 6: The scope of work in this contract for administrative assistance to the Bureau, in managing its Indefinite Quantity Contracts (IQC) under one project, furnished no bench marks for the tasks required. The tasks, which centered on establishing systems for timely handling of project documents, did not include progress indicators against which the contractor could be evaluated. For example, no time frames within which a successful system would operate or number of documents which should flow through a system were provided.

The press to get activities started in Central and Eastern Europe caused many projects to be approved without delineation of performance factors. Although the Bureau had the authority to develop projects on a condensed time frame under modified policies and procedures, according to the Action Plan and subsequent Mission Orders, elimination of activity measurements was not one of the modifications.

As a result, the scopes of work developed under these projects did not include evaluation elements such as performance factors or targets needed for measuring contractor progress or overall performance. Thus, the \$17.9 million committed on these six contracts may not yield the desired outcomes because the contractors' activities were not specifically described in their contracts.

Several recipients of assistance raised the question of the effectiveness of the contracted assistance. These recipients, who were from privatized refineries, local governments, and university, felt they should have been more involved in decisions related to the assistance. Interviews with the actual recipients of the assistance indicate that the contract services received were appreciated, but not necessarily needed or of the highest priority. Reports from one contractor verified that the recipients of their services already knew much of what the contractor recommended.

According to Bureau officials the examples outlined above may *not* portray a completely accurate picture of the issues at hand. The Bureau was aware of these types of comments and was very interested in trying to mitigate problems in future contracts. These officials also pointed out that local governments sometimes request assistance beyond what A.I.D. could provide. Further, local groups sometimes ask for things they do not really need or cannot effectively use, according to Bureau officials. In other instances, according to these officials, the recipients do not allow for initial efforts to be completed before asking for additional or large assistance packages.

Management Comments and Our Evaluation

The Bureau agreed with our discussion of the importance of having progress indicators and performance factors in order to effectively monitor contractors. However, the Bureau disagreed that these indicators/factors need to be in a PIO/T. The Bureau cites the Office of Procurement's reply to IG/A/PSA's report entitled "Audit of the Office of Procurement's Management of the Award and Administration of Technical Services Contracts" by stating "...the complex nature and type of activities carried out by A.I.D. do not make it easy to define all objectives up front." The Bureau goes on to cite A.I.D. Handbook 3 in further support that it is not always possible to define specific benchmarks at the time of contracting. The Bureau further commented that the difficulties of specifying benchmarks at the time of the PIO/T is drafted are compounded by the nature of the assistance being provided to Eastern Europe. The Bureau cites the regional nature of their contracts, the abbreviated design mechanism and the use of **annual work plans** as evidence for its position.

The Bureau requested that we delete references to them not following their own or A.I.D. procedures, because the criteria we used relates to monitoring and evaluation and not to the PIO/T process. The Bureau states that Mission Order No. 501 deals with the project approval process and not the PIO/Ts or contracts or benchmarks.

The Bureau goes on to state that they need to remind us of the unilateral, regional nature of the EUR program because of our frequent reference to the lack of host country involvement in the contracts. The Bureau mentions that the projects are not implemented under **bilateral** programs and do not require host government concurrence and input. The Eastern Europe program has not always lent itself to obtaining host country participation in the contracting process, according to the Bureau. However, the Bureau says it has always been working toward involving local authorities to the extent possible and are working toward that end.

We cannot delete references to the Bureau *not following* its policies and procedures, because Mission Order Nos. 501 and 503 both deal with description for contractor actions. No. 501 says that Project Memoranda should have the "statements of work for contracts" attached to it for approval. No. 503 specifies that the "statement of work" must be developed and attaches the A.I.D. procedure for this document. Both Mission Orders were issued on June 30, 1992 and seem reasonably complete. The later amply describes the requirements for establishing the description of the contractor's statement of work.

While there are other procedures involving obtaining contractor services, the **statement of work, containing timeframes and progress indicators, is the essence of the agreement between A.I.D. and the contractor on what is to be done and should bind the contractor to specific obligations.** Although there are times when the

project officer (Bureau) may not be fully able to establish the specific timeframes and progress indicators in the PIO/T, this should not be the case for most contracts, and even then, the project officer should state this in the PIO/T and indicate when these measurements will be established.

In recognizing the need to improve progress indicators and performance factors, the Bureau did not believe that it must do so in the scopes of work in PIO/Ts. The Bureau suggests that after the contract is awarded the "annual work plan" is an acceptable place to establish these indicators/factors. We do not disagree with this position, as long as this requirement is documented in the PIO/T, the PIO/T states clearly these factors and indicators will be established in the annual work plan, and when these plans will be completed and approved. This may not be sufficient, however, as indicated in one contract we reviewed calling for **annual work plans**. For this contract, the project officer did not establish these indicators/factors in the annual work plan. The cause for this was oversight according to the project officer.

The Agency as a whole has had difficulty in preparing adequate scopes of work for contractors as mentioned in the Office of Procurement's comments to IG/A/PSA's report, mentioned earlier. While persons inside and outside the Agency cite this as an Agency-wide problem, the Bureau needs to take specific steps to mitigate this problem in its technical offices. As cited by the Bureau, it is not **always easy** to establish these indicators/factors, but the project officer should be able to say when these will be established and document this in the request for the contracted services (PIO/T).

Although the Bureau thought it necessary to remind us of the regional nature of their program, it was not necessary to do so. We found that several of the recipients contacted believed that they should be more involved in the contracting process. These initial contracts may have not lent themselves to greater local involvement, but the perception of those receiving the assistance was that they should be more involved. We provided these observations because we believe they are germane to delivering assistance and for it to be as effective as possible. We agree with the Bureau that it must strive to work at the local level as much as possible.

Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and Eastern Europe, in monitoring contractors?

For the contracts reviewed, the Bureau for Europe followed A.I.D. policies and procedures, as modified for Central and Eastern Europe, in monitoring contractors except in the areas of providing AIDReps with documentation to monitor contractor performance and with the contractors' periodic reports and following-up with post-contract review on accomplishments. The responsible project officers in the Bureau or Regional Mission for Europe made some site visits to view contractor activities, but fewer than the goal for such visits. In accordance with the Appropriations Act for Fiscal Year 1993, the Bureau issued an amended Mission Order which clarifies the responsibilities of the project officers and the AIDReps with respect to monitoring the projects. The recipients of the technical assistance, with some mentioning reservations about their not being involved in the activity planning, were generally pleased with the assistance provided.

However, the Bureau did not fully ensure that the AIDReps were sent all documents necessary for the AIDReps to fully monitor contract activity within their respective countries. In addition, the Bureau and the Offices of the AIDRep did not monitor recipient use of the assistance after the contractor left the country or when the contract period expired. The Bureau mentioned they cannot meet their goal for 25 per cent travel overseas to observe project implementation.

A.I.D. Representatives Need Contract Documents to Monitor Contractor Activities

Mission Order No. 103 issued December 1, 1992, expanded the AIDReps' role for monitoring A.I.D. activities in their respective countries. To be able to carry-out these new requirements, the AIDReps need to know what the contractors' specific responsibilities are. Thus, the AIDReps need documentation, such as contracts, workplans, description of assignments and progress reports, so they can ensure that contractors' activities are those indicated in the contracts. The AIDReps, however, did not always have this documentation and therefore are not aware of what the contractors' should be doing. The Bureau has attempted to provide this documentation, but has not been fully successful in getting the documents to the AIDReps. The contracts did not require the contractors' to keep the AIDReps informed or to send them periodic reports. Also, the Bureau's internal procedures did not specify forwarding contractor performance requirements to the AIDReps. Consequently, the contractors' activities in country may not be those expected by A.I.D.

Recommendation No. 2: We recommend that the Bureau for Europe request the Office of Procurement, for new contracts or when amending current contracts for another purpose, to require the Bureau's Technical Services contractors to forward the technical progress reports directly to the A.I.D. Representatives.

Recommendation No. 3: We recommend that the Bureau for Europe revise its internal procedures for document distribution to require that A.I.D. Representatives be sent documents establishing the performance requirements of contractors, such as "Request for Services" and annual work plans, which are created subsequent to the contract.

On December 1, 1992, the Bureau, in accordance with the Appropriations Act for Fiscal Year 1993 (H.R. 5368), issued Mission Order No. 103 which clarifies the responsibilities of the Bureau project managers and the AIDReps with respect to monitoring the projects. The AIDReps are to have in-country oversight and monitoring responsibilities over all activities financed by or through A.I.D. in their countries of assignment. The Bureau project officers bear responsibility for overall management of the A.I.D. funded projects and activities. The Bureau project officers are also required to monitor their assigned projects and their trips are to be facilitated by the AIDReps.

In addition, Chapter 11 of A.I.D. Handbook 3 identifies contracts, contractor periodic reports and evaluations as principal documents to be reviewed during the monitoring process. However, AIDReps did not receive many of the documents necessary to monitor contractor and recipient use of the technical services. Missing documents included a) copies of Requests for Services (RFSs) and amendments; and b) contractor progress reports, and evaluation and audit reports. Below are examples of the nature and type of documentation not available to the AIDReps.

a. RFSs not available - The AIDReps in Budapest and Prague did not receive copies of the four RFSs for one contractor in our sample. The AIDReps became aware of these from the audit notification cable of December 1992. These RFSs contained the statement of work which the AIDRep personnel needed to understand the specific activity to be performed. The AIDRep's office in Prague requested their two RFSs from the Bureau project officer, and the AIDRep's office in Budapest requested their two RFSs from the Regional Housing and Urban Development Officer (RHUDO) in Warsaw. The AIDRep staff in Budapest said that they were not aware of what RFSs were active in Hungary at the time of our visit. Further, of the two RFSs recently received by Budapest one related to in-country work a subcontractor had started four months earlier. The other related to an activity that was completed. In addition, the AIDRep personnel were not

aware of another RFS until the subcontractor brought it to our, and their attention.

In Poland, the RHUDO stated that her regional responsibility included activity in Hungary, and that she received the Hungarian RFS mentioned above just prior to our visit. The RHUDO noted that the RFS related to our review in Poland had been modified but that she had no documentation on the change. In addition, the RHUDO noted that she is not certain that she has received all of the RFSs.

In the Czech Republic, the AIDRep had requested the project officer to forward the RFSs identified for audit. The RHUDO in Poland was also requesting these and other RFSs.

b. Reports not available - The AIDReps were not getting the contractors' progress and final reports, nor evaluation and audit reports. For example, the AIDReps did not have the final reports on energy audits performed for two petroleum plants. Also the AIDReps did not have the contractor's periodic progress reports related to the two energy audits (The Bureau disagreed with the comments by the AIDRep staff concerning the energy project). The AIDReps' staff noted that they did not have any of the energy audit reports probably because they had not been involved in overseeing these projects in the past and that the Bureau probably did not consider it necessary to forward copies. In the Office of the AIDRep/Budapest, project staff were not aware of mid-term evaluation commenting on the performance of one contractor in our sample and not aware of an audit report by the U. S. General Accounting Office (GAO) concerning the contractor (The Bureau believed that the distribution of this GAO report was not generally available).

The Communication and Records Section within the Regional Mission for Europe has not been fully successful in the distribution of documents to the AIDReps. Other factors also may have contributed to the problem of getting the necessary documents to the AIDReps. One factor is that the contracts do not require distribution of contractor generated documents to the AIDReps. While the contracts do not specifically include the AIDReps as recipients, changing this may provide the solution for providing AIDReps with contractor generated documents. Another factor with distribution was that some AIDRep staff believed that the information flow was limited because in the past the Bureau had planned only limited use of the AIDReps staffs for technical monitoring. Because the AIDReps were not fully involved in all project monitoring, the belief was that the Bureau did not consider it necessary to send the AIDReps contractors' reports.

The AIDReps need pertinent documentation so they can fulfill their roles as delineated by Mission Order No. 103 which requires the AIDReps and the Bureau

project managers to jointly prepare and implement a competent monitoring plan. The AIDReps cannot implement a competent monitoring program without documents which are pertinent to the activities being directed to their respective countries. Further, a competent monitoring program will support a timely determination of a project's effectiveness or ineffectiveness, and what corrective action, if any, needs to be taken.

Management Comments and Our Evaluation

The Bureau agreed with Recommendation Number 2 but requested it be modified to allow for them to amend contracts only when these were to be amended for another purpose. The Bureau did not agree with Recommendation Number 3 and said they did not need to modify their existing system for distributing project information to the A.I.D. Representatives. The Bureau mentioned that their system was increasingly responsive to the A.I.D. Representatives needs, but because of limited staff, they may not have been doing a perfect job. The Bureau requested that Recommendation Number 3 be deleted. Also, the Bureau made specific comments on the language in the section and offered its views on specific comments.

We modified Recommendation Number 2 reflecting the Bureau's comments. We did not delete Recommendation Number 3, because we believe that the Bureau's internal instruction needs to specifically identify core documents which must be sent to the A.I.D. Representatives. We considered the Bureau's other comments and made changes as appropriate.

The Bureau Needs to Establish a Post-Contract Monitoring System

After the contractors rendered services, neither the Bureau nor the Offices of the AIDReps were monitoring the recipients use of the technical services provided. This occurred even though A.I.D. Handbook 3 provides guidance on this and the new Mission Order expanding the monitoring responsibilities mentions this level of monitoring as necessary. However, the Bureau and AIDReps have not yet established procedures to prioritize the follow-up on technical services contractor activities. Following-up after contractors have completed activities can provide important information regarding the value and sustainability of the services provided. Follow-ups can also provide leads to future activities which A.I.D. may want to participate in.

Recommendation No. 4: We recommend that the Bureau for Europe incorporate post contract monitoring of technical services contracts into its

policies and procedures and include requirements for prioritizing the monitoring of technical services contracts in monitoring plans.

The requirement for monitoring on a contemporaneous and post-contract activity basis is laid out in Mission Order No. 103 and in A.I.D. Handbook 3. The Mission Order defines monitoring as inspections of specific project activities to check whether goods and services financed by A.I.D. are in fact delivered and are having the intended effects and how their effects compare with other A.I.D.-financed activities. Chapter 11 of A.I.D. Handbook 3 states that the project officer is responsible for developing and maintaining information and documentation which is critical to the successful completion of the activity. To determine whether activities have generated the intended effects or are successful requires some post-contract monitoring.

In a statement of work for one of the energy contracts, the Bureau also recognized the importance of and need for monitoring recipient progress after the contractor had departed. The statement of work states in part:

(Objectives) ...provides a data base for undertaking further and future work by others aimed at optimizing the petroleum system in each country....

(Approach) ...expectations are that this data base...can provide continuing inputs to other efforts aimed at improving operations in the non-refinery components...or to follow-on efforts aimed at implementing the longer-term improvement opportunities identified in the work.

(Counterpart Personnel) ...the counterpart team, as far as practical, will remain available to implement, for its particular refinery, results that can be immediately justified and to participate in future efforts for the results that require further evaluation because they will be impacted by other components of the petroleum-sector system.

While the Mission Order, A.I.D. handbook, and the statement of work discuss the importance of post-contract monitoring, the Bureau has not specifically included post-contract monitoring in its policies and procedures. Further, Bureau management commented that the project officers and their staff are unable to achieve their goal of being overseas 25 per cent of the time each year monitoring their respective projects. They stated that their heavy workload demand in Washington precluded meeting this goal. The travel goal was established in the 1991 Action Plan which calls for the project officers and their staffs to travel overseas 25 per cent of the time to provide oversight on the implementation of their projects.

The AIDReps also mentioned that their workloads limit the number of monitoring visits their staff can make. The Bureau and the AIDReps also stated that the current workload demands they limit monitoring to on-going activities. However, the Bureau

and the AIDReps have not yet prioritized their monitoring plans to determine to what extent they can cover post-contract activities.

The need for following up on technical services contractor activity was brought out in discussions with the recipients of energy audits and a seminar on housing issues.

Energy audits - Discussions with ministry, refinery and subcontract personnel in two countries indicated that the services provided were of practical and immediate use. The ministry and refinery officials told us that an ancillary benefit to the energy audits was that they realized the value of using independent consultants as an extension to their in-house problem solving capabilities. The use of consultants in this manner appeared to be a new concept to them and was not a stated purpose of the contract. Since, the Bureau and the AIDRep had not followed up with these recipients, A.I.D. did not know whether the refineries were implementing any of the A.I.D. funded contractors' recommendations. Without a follow-up to determine the extent the refineries were implementing the recommendations or why they were not doing so, the benefit of using consultants may be lost or wasted.

Seminar on housing issues - In a discussion arranged for the audit, a participant indicated that the seminar was one of many that he attended and that he was not certain it provided him with the information he needed for his district. During the meeting, he raised a question with the AIDRep staff member accompanying the auditors as to whether he could obtain technical assistance from A.I.D. on a current problem. The problem was not related to the seminar he had attended. Subsequently, the AIDRep agreed that this participant's comments identified a potential opportunity for A.I.D. assistance and forwarded the information to the Bureau.

The success and sustainability of the individual contracts cannot be determined without post-contract monitoring. Post-contract monitoring should also help the evaluation process by minimizing the data collection necessary at the time of the evaluation. Further, post-contract monitoring can identify other opportunities for A.I.D. assistance or involvement.

Management Comments and Our Evaluation

The Bureau agreed with the audit recommendation. However, they pointed out that they are limited in performing this function by the lack of staffing. They commented that it was possible to issue a mission order, but did not believe they could live up to the goal, given the number of countries covered, the nature of the program and their staffing limitations. They asked for our assistance in defining their priorities. The Bureau objected to our questioning of the value of the "energy" audits done

under the energy project. They stated that there has been follow-up and the audits were useful. They mentioned that a project evaluation was to start in May 1993.

While the Bureau agrees with the audit recommendation, it seems to be saying it cannot prioritize the review of contractors and needs more staff. We believe that project officers and AIDReps can develop a listing which identifies contractor activities about to be completed, those which should be reviewed and when. From this listing, priorities can be set by Bureau managers. We noted the Bureau's comments concerning the energy project, but our report is limited to the contracts in our sample and areas we visited. We expect that the energy project evaluation will cover more activities than our audit.

SCOPE AND METHODOLOGY

Scope

We audited the Bureau for Europe's management processes for determining the need for Technical Services, preparation of contract request documents with performance indicators, and monitoring of technical services contracts in Central and Eastern Europe. Our work was done in accordance with generally accepted government auditing standards. We conducted the audit from September 23, 1992 through March 12, 1993.

The audit work was performed in the following A.I.D. organizations in Washington: Bureau for Europe (EUR), the Regional Mission for Europe (EUR/RME), and the Office of Procurement (FA/OP). Field work was performed in the Czech Republic, Poland, and Hungary. We interviewed selected A.I.D. officials, contractor personnel, foreign government officials and actual recipients of the technical services. The criteria and evidence reviewed included A.I.D. Handbooks, the 1991 Action Plan for Central and Eastern Europe, policies and procedures issued by the EUR/RME, contract documents including the project memoranda, project decision papers, Project Implementation Order/Technical Services (PIO/T), and related correspondence. We also compared the list of contracts provided by the Bureau with a list of contracts maintained by the Office of Procurement. We reviewed the internal controls over the need for technical services, preparation of PIO/Ts and monitoring contractors.

The audit covered all contracts awarded for by the Bureau for Europe prior to September 30, 1992, and funded under the Support for Eastern European Democracy Act of 1989 (the SEED Act). This universe covered 29 contracts with a total obligated value of \$92.1 million. The audit did *not* cover the following:

1. Contracts awarded prior to the SEED Act, but subsequently amended to include activities authorized by the Act.

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2. Four "Indefinite Quantity Contracts" awarded under the Economic Restructuring Component with award value of \$31.9 million, which are under review by the U.S. General Accounting Office (GAO) at the request of the U.S. Congress.
3. The award of technical service contracts because the A.I.D. Office of Procurement made the awards on behalf of the Bureau and the Office of Procurement's processes were audited by the our Office of Program and System Audits (IG/A/PSA). See their Audit Report No. 9-000-93-004, dated March 31, 1993.
4. Personal Service Contracts (PSCs) because these create an employee/employer relationship with A.I.D.

Our conclusions on each audit objective are limited to the items tested. Because the GAO review encompasses a significant portion of the value of the universe, our sample is not sufficient to warrant a conclusion on the whole process, and we did not audit the award of the contracts. However, our tests were sufficient to demonstrate problems with the items tested and to make recommendations.

The audit covered the Bureau's adherence to its policies and procedures for determining the need for technical services and preparing the appropriate document for the contracting officer to award a contract with substantial specificity to measure performance. Also, the audit covered the Bureau's adherence to its policies and procedures for monitoring contractor performance. Since the audit was limited to identifying and testing adherence to polices and procedures, we did not test for compliance with laws and regulations. We believe that testing for compliance would not effect the answer to the audit objectives.

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Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective, we selected a sample of seven (7) awarded contracts totalling \$20.4 million in obligations from the universe of 29 awarded contracts, excluding the four (4) contracts being reviewed by the GAO. We stratified the universe into the three program components and further stratified the universe into three categories:

1. contracts awarded with a total value of over \$5.0 million,
2. contracts awarded with a total value of \$1.0 million to \$5.0 million, and
3. contracts awarded with a total value of less than \$1.0 million.

Individual contracts were judgmentally selected from each category on a random basis, giving each contract a near equal chance of being selected. We discussed the sample with EUR personnel to ensure that the sample was not biased, in their opinion. We were informed by the EUR personnel that the sample seemed to be reasonable.

We compared the PIO/T for each contract awarded with the Project Decision Paper and Project Memorandum or similar documentation to determine that the technical services were those described in the authorizing documents. We compared the PIO/Ts for these seven contracts with the policies and procedures provided in A.I.D. Handbook 3 Project Assistance, provided in EUR/RME Mission Orders and the 1991 Action Plan for Central and Eastern Europe. We discussed aspects of the PIO/T and contract with either the Project officer or the Contracting Officer or both parties. We discussed the activities completed with A.I.D. Representatives (AIDReps) and their staff overseas, foreign government officials and actual recipients of the services, where appropriate. We reviewed reports produced by the contractors to see if what was provided was similar to the description in the authorization documents.

We also developed a flow chart of the internal controls process for EUR/RME on the preparation and approval of PIO/Ts. We compared the process with the descriptions of the process given in A.I.D Handbook 3 and EUR/RME Mission Orders. We verified that the approval of these documents was done by authorized personnel and was complete.

Audit Objective Two

To accomplish this audit objective, we utilized the same sample from Audit Objective One. We determined what activity had taken place and obtained copies of contractor reports and other pertinent documentation. We obtained instructions to contractors, including "Requests for Services" and "annual work plans," and determined if these were within the scope of the contract. We discussed individual contractor performance with the project officer. We verified contractor reported activities by discussing their work with A.I.D. Representatives and their staff, foreign government officials, and actual recipients of the services in selected localities. We determined whether the project officer had the appropriate documents to facilitate monitoring the contractors and determined whether the A.I.D. Representatives had sufficient documentation to monitor contractor field activities.

Of the seven contractors, only four had performed any overseas field work. One contractor was supporting EUR activities in Washington and did not have field work responsibilities. The remaining two contractors had not performed any field work at the time of our audit. Thus, we limited our work to the project officer's monitoring actions for these four contracts.

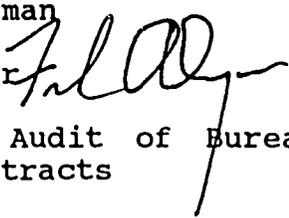


U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 11, 1993

MEMORANDUM

TO: RIG/A/EUR/W, Toby L. Jarman

FROM: A-DAA/EUR, Frank Almaguer 

SUBJECT: Response to RIG Draft Audit of Bureau for Europe's
Technical Assistance Contracts

We received RIG's draft report of the Audit of Bureau for Europe's Technical Assistance Contracts and have comments on the recommendations as follows.

Recommendation No. 1: We recommend that the Bureau for Europe modify its Mission Order No. 503, "Preparation, Review and Clearance of PIO/Ts," to require project officers to specify performance factors and progress indicators be included in the proposed contract's scope of work.

We agree with RIG's discussion of the importance of having progress indicators and performance factors in order to effectively monitor contractors. We do not agree, however, that these indicators/factors need to be contained in a PIO/T. In addition, we do not believe that we did not follow A.I.D. or EUR procedures.

RIG cites as its authority for the requirement that benchmarks be included in scopes of work for PIO/T's Handbook 3, Project Assistance, Supplement A, "Project Officers' Guidebook for the Management of Direct A.I.D. Contracts, Grants, and Cooperative Agreements," which states on p. 13 of Chapter II, Part A: "To make meaningful monitoring and evaluation possible, the PIO/T (and the resultant contract) should include specific indicators of progress or benchmarks which will permit measurement of the contractor's progress against the expenditures of both time and money." We fully agree that scopes of work should be as specific as possible and practicable; however, as noted by OP in their response to RIG's Audit of the Office of Procurement's Management of the Award and Administration of Technical Services Contracts, "...the complex nature and type of activities carried out by A.I.D. do not make it easy to define all objectives up front." A.I.D. recognizes in Handbook 3 that it is not always possible to define specific

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benchmarks at the time of contracting in its statements such as: (1) "Subsequent events can frequently not be scheduled until a contractor for professional services, ..., has begun work. In many cases, such a contractor is given responsibility for preparing a 'work plan' which should include a schedule of activities and events" (9C4b); and (2) "If an implementation agent is to be used, e.g., consulting firm, detailed planning should often await the consultants' inputs. This will further their agreement, understanding, and support for the scope, aims and manner of implementation of the project." (App. 9A).

The difficulties of specifying benchmarks at the time a PIO/T is drafted are compounded by the nature of the U.S. Government assistance being provided in Eastern Europe. Most of EUR's contracts are for regional technical services to be used over several years in a dozen countries. In addition, EUR follows an abbreviated design procedure which does not include the preparation of project papers; project benchmarks listed in the project paper are often incorporated verbatim into PIO/Ts under normal A.I.D. procedures. Given the reality of the EUR program, we have found the need to state benchmarks much more effectively met through the use of annual workplans that specify major tasks, countries, and levels of effort, or through individual task statements that contain detailed activity descriptions and deliverables. This is the approach EUR has been trying to take, and we are working toward the establishment of benchmarks in this manner.

We believe it would be more useful for RIG's recommendation to require that EUR issue, or modify an existing mission order which explicitly recognizes the importance of providing benchmarks and specifies alternative means of stating these indicators such as workplans.

We would also like to request that references to not following Bureau or A.I.D. procedures be deleted. The only appropriate authority for specifying benchmarks in PIO/Ts has been adequately discussed above. The other authorities cited by RIG in the draft are not applicable to PIO/T scopes of work as follows: (1) Mission Order 501 is the authority used by RIG for stating that the Bureau did not follow its procedures by failing to have benchmarks in PIO/Ts. However, Mission Order 501 discusses project approval documents and not PIO/Ts or contracts or benchmarks; and (2) RIG's quote, "...without clear indicators which permit an objective measurement of the contractor's progress, effective monitoring of a contract is not feasible" is made as a general statement in a discussion of basic documents for post contract award functions and does not specifically deal with PIO/T and contract scopes of work.

With reference to your comments throughout the discussion of Recommendation No. 1 on lack of host country involvement in contracting, we would like to remind RIG of the unilateral, regional nature of the EUR program. Projects which are not implemented under bilateral programs do not require the host government's concurrence and input, and the nature of the U.S.

government program in Eastern Europe has not always lent itself to obtaining host country participation in the contracting process. However, we have always been working toward involving local authorities to the extent possible and are continuing to work toward that end. It should also be noted that in our one bilateral project (Albania), the host country has been involved in all aspects of the project from the beginning and is actively involved in all phases of contracting.

We additionally have the following comments regarding statements made in the draft report about specific contracts:

Contract No. 1: RIG uses negative statements from one evaluation to support its conclusions but fails to mention the positive conclusions reached in a GAO review. GAO concluded that the contractor completed all of the contractually required tasks and that the program had a positive impact. GAO was additionally able to measure the contractor's performance against the scope of work and found no problem of specificity.

Contracts No. 2 and 3 : We do not agree that benchmarks in workplans must necessarily identify only those actions to be completed in one year; benchmarks indicating what is to be accomplished by the end of a contract is not an incorrect procedure.

Contract No. 4: Workplans and individual task statements were used under this contract to set benchmarks, and these documents were provided to RIG.

Contract No. 6: We do not agree that there was any need to state the scope of work more specifically. The scope of work more than adequately lists what is required under the contract; the addition of time frames or number of documents adds nothing to A.I.D.'s ability to measure the contractor's progress.

Recommendation No. 2: We recommend that the Bureau for Europe request OP to amend the Bureau's Technical Services contracts to require the contractors to forward the technical progress reports directly to the A.I.D. Representatives.

Recommendation No. 3: We recommend that the Bureau for Europe revise its internal procedures for document distribution to require that A.I.D. Representatives be sent documents establishing the performance requirements of contractors, such as "Request for Services," which are created subsequent to the contract.

With reference to Recommendation No. 2, we fully agree that technical progress reports should be sent to the AIDREPs but do not agree that having OP amend all technical services contracts to state this requirement is an efficient or cost-effective means to

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bring about this result. We request that this recommendation be made similar to that of Recommendation 4.1 in the RIG Audit of Grants and Cooperative Agreements Under the Economic and Restructuring Component which recommended that a change be made to contracts (for another purpose) only "when amending existing or developing future grants ...".

Regarding Recommendation No. 3, we do not feel it is necessary to revise our internal procedures for distribution of documentation to AIDREPs to cover documents such as Request for Services. We note this is related to Recommendation No. 1.3 in the RIG Audit of the A.I.D. Organizational Structure for Central and Eastern Europe which recommended that procedures be developed to ensure that AIDREPs routinely receive project documents. Procedures were put in place to answer this recommendation, and the recommendation was closed. Our distribution system is increasingly responsive to the needs of the AIDREPs; due to limited staff, however, we may not be doing a perfect job. We thus do not agree that there is a present problem of AIDREP document distribution that needs to be corrected through the revision of EUR internal procedures and request that this recommendation be deleted.

For the discussion of Recommendation Nos. 2 and 3, we have some specific comments regarding language:

1. The statement "(but less than hoped for)" regarding site visits in line 6 on page 9 is neither clear nor appropriate and should be deleted.
2. The statement in the last paragraph on page 9, "Also, the AIDREPs probably will not be able to meet these new monitoring requirements." is not clear as to its meaning and is unsupported. This sentence should be deleted.
3. The last sentence of the first paragraph on p. 10, "Consequently, the contractors' activities in country may not be those expected by A.I.D." is unsupported by the discussion and should be deleted.
4. On p. 11, in "Reports not Available," we do not agree with your statements on the energy contract. In fact, monthly reports containing the contractor's technical progress information were sent to each AIDREP during the project implementation as were full sets of the refinery characterization and audit reports. Also, regarding the unavailability of the GAO audit report, as was pointed out at the exit conference, the fact that the AIDREP did not have a copy of the report was a result of a problem with the distribution of the report by GAO A.I.D.-wide as copies were also not distributed to senior EUR or

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RME management, either audit coordination office in EUR and RME, or the A.I.D. Executive Secretariat.

5. On p. 10 and 11, the lack of distribution of RFSS is discussed. It should be noted that these relate to the RHUDO housing program which is run somewhat differently from the rest of EUR activities. RFSS were not provided to AIDREP offices prior to the promulgation of revised guidelines for project implementation in December 1992, because the AIDREPs played almost no substantive or logistical support role in the management of this program. PSCs are now being recruited to assist in managing the housing and urban programs in several countries in Eastern Europe. Once they are in place, there will be an office where RFS files can be easily accessed by the AIDREPs. All RFSS and progress reports for activities in Hungary and Poland have been provided to the RHUDO in Warsaw, who has regional responsibility for the housing and urban programs in those countries.

Recommendation No. 4: We recommend that the Bureau for Europe incorporate post contract monitoring of technical services contracts into its policies and procedures and include requirements for prioritizing the monitoring of technical services contracts in monitoring plans.

We agree with this recommendation on post-contract monitoring. However, as stated at the exit conference, we are limited in our ability to perform this important function by lack of staffing in AID/W and in the field. We can simply issue a mission order which states the need for follow-up of completed activities and states what process to use to prioritize the activities and/or agreements. However, given the number of countries we are working in, the nature of the EUR program, and our staffing limitations, we do not anticipate that we will be able to comply with the requirements we will have set for ourselves. We welcome any suggestions from RIG as to how we could comply with such a mission order or any assistance RIG could give us in defining our priorities.

Regarding your statements on the energy audits, we would like to note again as we did in the project officer's comments to RIG during and after the exit conference, that post-contract follow-up was done. Specifically, (1) A.I.D. followed up with the Slovafit Refinery in Bratislava, (2) the Bechtel contract is working with, and experts have visited, major refineries as part of a broader regional refinery rationalization task, (3) a regional workshop was held in November 1992 in Budapest with representatives from the refineries and governments, (4) the reports have been widely circulated to World Bank, IEA, EC, Commerce (NTIS) and U.S. industry, and (4) an evaluation will be starting in May that will visit many of the countries and refineries audited. RIG's

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statements about the energy audits are not accurate and should be modified accordingly. We also disagree with RIG's conclusion that the benefit of the consultants' work will be "lost or wasted" if there is no follow-up.



J.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 6, 1993

TO: RIG/A/Bonn

This representation letter is issued in connection with your audit of Technical Assistance Contracts within the Bureau for Europe (EUR Bureau) and the Regional Mission for Europe (EUR/RME). Your audit was conducted between September 23, 1992, and March 12, 1993, and included technical assistance contracts that were awarded prior to September 30, 1992. As of April 6, 1993, and to the best of our knowledge and belief, we confirm the following representations made to you during your audit.

1. Where your audit relates to planning for, authorizing, monitoring, evaluating, and reporting on technical assistance contracts, we are responsible for:
 - the internal control system,
 - compliance with applicable A.I.D. policies and procedures, as modified for EUR Bureau and EUR/RME, and U.S. laws and regulations, and
 - the fairness and accuracy of the management information.
2. We have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for the purposes of this audit. Based on the statements made by these individuals, of which we are aware, and our own personal knowledge, we believe that those records constitute a fair representation as to the status of technical assistance contracts within the EUR Bureau and EUR/RME. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

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3. To the best of our knowledge and belief, the EUR Bureau and EUR/RME have disclosed any known:
 - irregularity involving management or employees who have roles in the internal control structure,
 - irregularity involving any other organizations that could affect the subject audit of the program of technical assistance contracts, and
 - communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the program of technical assistance contracts.
4. To the best of our knowledge and belief, the EUR Bureau and EUR/RME are not aware of any material instance where significant management information has not been accurately reported to responsible management in the EUR Bureau or EUR/RME.
5. To the best of our knowledge and belief, the EUR Bureau and EUR/RME are not aware of any instance of material non-compliance with A.I.D. policies and procedures (as modified by Bureau and Mission policies and procedures) for the program of technical assistance contracts, other than those contained in the Record of Audit Findings.
6. To the best of our knowledge and belief as laymen, and not as lawyers, the EUR Bureau and EUR/RME have not withheld information about material non-compliance with A.I.D. policies and procedures or violations of U.S. laws and regulations.
7. Following our review of your Record of Audit Findings and further consultations with our staff, we know of no other facts as of the date of this letter which, to the best of our knowledge and belief, would materially alter the conclusions reached in that documents.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.



Frank Almaguer
Acting Deputy Assistant Administrator
Bureau for Europe



Robert Nachtrieb
Acting Director
Regional Mission for Europe

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