

Regional Inspector General for Audit
Cairo, Egypt

**Audit of USAID/Egypt's
Implementation of Agency Guidance
on Host Country Contracting**

Report No. 6-263-93-11
August 19, 1993



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

August 19, 1993

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

FROM : A/RIG/A/Cairo, Phillip C. Holt, Jr. 

SUBJECT: Audit of USAID/Egypt's Implementation of Agency Guidance on Host Country Contracting (Audit Report No. 6-263-93-11)

Enclosed are ten copies of the subject audit report. We received the Acting Mission Director's comments on a draft of the report and have included them as a report appendix. The report contains one recommendation. Based on actions taken to address this recommendation, we consider the recommendation to be closed.

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

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

**Tel. Country Code (202)
357-3909
Fax # (202) 355-4318**

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

EXECUTIVE SUMMARY

Background

A.I.D. issued a worldwide cable in November 1990 containing immediately effective guidance to strengthen A.I.D. missions' oversight of host-country contracts exceeding \$250,000 in value. The cable responded to criticism of the Agency's oversight expressed by the Congress, the U.S. General Accounting Office, and the Agency's Inspector General. The GAO had criticized the quality of missions' assessments of host-country capabilities and the lack of professional contracting officer involvement in the host-country contracting process. (See page 1.)

During the two years following November 1990, USAID/Egypt financed 26 new host-country contracts exceeding \$250,000 in value costing about \$519 million and 6 amendments to existing host-country contracts that expanded scopes of work at a cost of about \$48 million. These "new procurement actions" involved 13 host-government agencies and 14 Mission projects. (See page 2.)

The Regional Inspector General for Audit/Cairo audited USAID/Egypt's implementation of the November 1990 guidance on host-country contracting to answer the following questions:

- Did USAID/Egypt assess and certify host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host-country contracting guidance? (See page 2.)
- Did USAID/Egypt comply with A.I.D.'s November 1990 host-country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to Mission contracting officers? (See page 2.)

Our answers to these questions are qualified to the extent of the effect of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. (Appendix I discusses this qualifier.)

Audit Findings

USAID/Egypt's records show that it assessed and certified host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 guidance. Assessment reports covered virtually the entire range of host-agency capabilities cited by the guidance. And USAID/Egypt's Director certified these agencies' capabilities before the agencies awarded new host-country contracts. (See page 3.) The Mission also complied with the guidance in approving host agencies' procurement steps and contract administration actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to contracting officers for host-country contracts. (See page 5.)

However, the Mission did not consult with contracting officers before it approved three executed host-country contracts valued at \$128 million. In one case, the project officer explained that the contracting officer had already reviewed a draft of the contract. However, contracting officers should participate in each step of the process to review and approve the host agency's procurement actions, including the process to review and approve executed contracts. Thus, the officers should have the same opportunity to compare signed contracts with contract drafts as other designated Mission staff. Such comparisons would disclose any material discrepancies and help ensure the officers' comments on the drafts had been satisfactorily addressed. (See page 7.)

The report recommends that USAID/Egypt notify its project staff of the need to consult with contracting officers before approving both draft and executed host-country contracts. (See page 7.)

Management Comments and Our Evaluation

USAID/Egypt's management commented that its revised procedures require project officers to consult with contracting officers when there are substantive changes between approved host-country contract drafts and the executed contracts. The Mission also issued a staff notice to remind project officers of these procedures and of the need to obtain the Mission Contracting Office's formal approval of executed host-country contracts when the contracts exceed \$10 million in value. (See page 9.)

Office of the Inspector General

Office of the Inspector General

August 19, 1993

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INTRODUCTION

Background

A.I.D. obtains contractor services and materials under bilateral assistance projects either by contracting directly for them or by using host-country contracts, in which it finances the contract but the host government is the contracting party. For such procurements, A.I.D. is responsible, nonetheless, for assessing the host government's ability to manage the procurement and for monitoring its procurement actions. These responsibilities are described in Agency Handbooks--in particular, Handbook 11 on "Country Contracting."

In November 1990, A.I.D. issued a worldwide cable (90 State 399975) entitled "Final HCC [Host Country Contracts] Guidance Cable" which provided **immediately effective** guidance for Handbook 11 contracts exceeding \$250,000 in value. Containing measures to strengthen A.I.D. missions' oversight of the host-country contracting process, the cable responded to criticism of the Agency's oversight expressed by the Congress, the U.S. General Accounting Office (GAO), and the Agency's Inspector General. The cable noted that the GAO had criticized the quality of Agency assessments of host-country capabilities and the lack of professional contracting officer involvement in the host-country contracting process. In a May 1991 report¹, the GAO recommended that the A.I.D. Administrator "ensure that missions fully comply with recently issued AID guidance on conducting capability assessments"--namely, the November 1990 final guidance cable.

In a 1992 "Report on A.I.D. Host Country Contracting," the Agency acknowledged criticism of its oversight of the host-country contracting process and the "risks inherent in entrusting procurement responsibility to an organization outside of A.I.D." It noted, however, that steps had been taken to reduce those risks, including prescribing "a methodology for assessing the host country contracting agency's procurement capability," requiring mission directors to "certify the acceptability of the proposed contracting agency," expanding "the requirements for formal approval by A.I.D. of significant steps that the host country contracting agency takes in the contracting process," and assigning

¹ "Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts," GAO/NSIAD-91-108.

a "larger role in approving and monitoring the use of host country contracts" to contracting officers.

During the two years following November 1990, USAID/Egypt financed 26 new host-country contracts exceeding \$250,000 in value costing about \$519 million and 6 amendments to existing host-country contracts that expanded scopes of work at a cost of about \$48 million. These "new procurement actions" involved 13 host-government agencies and 14 Mission projects.

Audit Objectives

The Office of the Regional Inspector General for Audit/Cairo audited USAID/Egypt's implementation of A.I.D.'s November 1990 final host-country contracting guidance to answer the following audit questions:

- Did USAID/Egypt assess and certify host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host-country contracting guidance?
- Did USAID/Egypt comply with A.I.D.'s November 1990 host-country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to Mission contracting officers?

To answer these questions, we tested whether USAID/Egypt implemented and followed the procedures described in the November 1990 guidance. Appendix I discusses these tests and the scope of the audit.

REPORT OF AUDIT FINDINGS

Our answers to the following audit questions are qualified to the extent of the effect of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a full discussion of this qualifier.

Did USAID/Egypt assess and certify host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host-country contracting guidance?

USAID/Egypt's records show that it assessed and certified host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 guidance.

This guidance requires mission directors to certify in writing that host-country contracting agencies have or will obtain the capability to undertake A.I.D.-financed procurements when the procurements exceed \$250,000 in value. Missions must also arrange to assess all such agencies before the agencies initiate "new procurement actions"--defined as "new contracts and amendments to contracts which expand scope of work."

During the two years following November 1990, USAID/Egypt financed 32 "new procurement actions"--26 new host-country contracts exceeding \$250,000 in value and 6 contract amendments that expanded scopes of work--involving 13 host-government agencies. USAID/Egypt's director certified these agencies' capabilities--in some cases, with "interim" certifications pending completion of full capability assessments--before the agencies awarded or amended the contracts in all but three cases. However, these cases involved procurements that began before November 1990; and in two cases the contracts were awarded in early December 1990. Given the length of time needed to plan for and complete full capability assessments, we would not have expected the Mission to have been able to implement the guidance immediately for ongoing procurements or to have indefinitely suspended such procurements nearing completion. The November 1990 guidance, moreover, does not state that it applied to ongoing procurements at the time it was issued.

The November 1990 guidance requires assessment teams--whether mission personnel, local management consultants, or public accounting firms--to have "knowledge and expertise in procurement procedures and A.I.D. requirements for contract provisions and approvals" in order to provide mission directors with the "facts and recommendations sufficient for [their] certification of...agency capabilities." Specifically, assessment teams should prepare reports that: (a) describe the agency's organization, staffing, decision-making authority and procurement policies and procedures; (b) determine if the agency's procedures are compatible with A.I.D.'s; (c) appraise the agency's ability to advertise, negotiate and award contracts, monitor contract implementation, examine invoices, and audit and close out contracts; and (d) include conclusions and recommendations. The assessments, moreover, should be repeated or updated every three years or whenever more current assessments are needed.

USAID/Egypt contracted with two public accounting firms to perform 14 host-agency assessments. We examined seven assessment reports--five prepared by one firm, two by the other--which were for agencies that had from one to seven "new procurement actions." We also examined the corresponding mission director certifications as well as the memoranda prepared by Mission staff that discussed the assessments and recommended the certifications. We compared these documents and found no material discrepancies. For example, when the reports identified host-agency weaknesses, the memoranda addressed the weaknesses, and appropriate adjustments were made, when necessary, to the certifications. In addition, all but one certification stated that the assessment would be repeated or updated within three years from the date of the certification or that the certification would lapse in less than three years. Based on our review of the seven reports and on Mission staff's statements on how the public accounting firms were selected, we believe the firms were qualified in accordance with the November 1990 guidance.

To aid the firms in performing the assessments, USAID/Egypt prepared a statement of work that reflected salient points of the November 1990 guidance. We found that the assessment reports described the host agencies' organization, staffing, decision-making authority, and procurement procedures and compared them with A.I.D.'s procedures and standards. The reports also appraised the host agencies' ability to advertise, negotiate and award contracts, monitor contract implementation, and examine contractor invoices. However, six reports did not fully assess the agencies' ability to audit and/or close out contracts.

The November 1990 guidance states that host-agency assessments should evaluate the agencies' ability to perform required steps in the procurement process "from solicitation to audit and closeout" as well as their ability to "audit contractor records and reports" and "close out contracts." Although six reports did not fully report on the host agencies' or government's ability to audit contracts, we do not believe this is a problem because the Mission has acted to ensure such audits will be done by independent public

accountants. In a September 1992 report², we noted that the Mission could not rely on the Government of Egypt's Central Audit Organization to provide audit coverage because the organization's reports are not available for review. Also, the Mission's efforts to encourage the host government to hire independent public accountants to audit host-country contracts were not successful. We also noted, however, that Mission project papers had assessed the need for financial audits and had estimated the audits' costs. Also, our office is working with the Mission to prioritize an inventory of U.S. and non-U.S. agencies and organizations subject to audit and to plan for audit coverage. Therefore, in light of these actions, we do not believe the reports' incomplete assessments of host agencies' capabilities to audit contracts will or should have any adverse effect.

Did USAID/Egypt comply with A.I.D.'s November 1990 host-country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to Mission contracting officers?

USAID/Egypt's records show that it approved host agencies' contracting actions, assigned Mission representatives as observers on the agencies' proposal evaluation panels, and gave contracting officers new responsibilities for host-country contracts in accordance with the November 1990 guidance. However, the officers were not always consulted when the Mission formally approved the contracts.

The November 1990 guidance requires A.I.D. missions to formally approve certain host-agency procurement actions before contracts are awarded when the contracts exceed \$250,000 in value and contract administration actions if a mission decides to approve such actions. Specifically, missions must formally approve actions such as: (a) notices to prospective offerors, (b) lists of prequalified offerors, (c) solicitation documents, (d) selected contractors, (e) draft contracts, (f) signed contracts before financing, and (g) contract administration actions such as subcontracts and contract amendments. The guidance also requires missions to assign representatives as observers on host-agency proposal evaluation panels to ensure the agencies evaluate contractor proposals fairly in accordance with the stated method and criteria in solicitation documents when the contracts exceed \$250,000.

We reviewed USAID/Egypt's approvals of procurement actions and its assignment of observers on proposal evaluation panels for 10 of the 26 host-country contracts valued

² "Audit of USAID/Egypt's Accountability," RIG/A/Cairo Report No. 6-263-92-09, dated September 24, 1992.

at over \$250,000 which the Mission financed during the two years following November 1990. We selected these contracts because they were higher dollar value award (collectively costing about \$337 million) for which most of the procurement action requiring approval would have occurred after November 1990. We found that USAID/Egypt approved virtually all of the procurement steps and contract administration actions for the 10 contracts. However, in three cases, it did not approve the signed or executed contracts although it had approved contract drafts in each case. We identified this same problem in a September 1992 audit report.³ However, since the three cases occurred before September 1992 and since the Mission has now corrected this problem we no longer consider it a matter for further action.

We also found that Mission personnel served as observers on host-agency proposal evaluation panels in the three cases where requests for proposals (RFP's) were used to select contractors and where the panels met after November 1990. In each case, in accordance with the November 1990 guidance, Mission observers were present at the initial panel meeting when evaluation criteria were discussed; determined that panel members were given appropriate instructions to impartially evaluate proposals; and confirmed, insofar as possible, that the panels followed established procedures, used the stated evaluation criteria, and properly documented their scoring and recommendations.

A.I.D.'s November 1990 guidance also requires missions to issue orders or directives giving contracting officers new professional responsibilities to ensure host-agency procurements meet professional standards for solicitation, negotiation, selection, award and administration. The orders should ensure that the officers participate in the process to assess host agencies' contracting capabilities and in approving the agencies' procurement steps and contract administration actions.

We found that USAID/Egypt issued orders or directives⁴ giving contracting officers new responsibilities to oversee host-country contracts and that the officers generally acted in accordance with the directives. For example, we found that the officers were among Mission officials who cleared memoranda that discussed host-agency capability assessments and recommended mission director certifications in the case of all seven assessments discussed in a prior report section. We also found that the Mission has consulted with the officers and obtained their recommendations since February 1991 in

³ "Audit of USAID/Egypt's Project Technical Services Procured by the Government of Egypt," RIG/A/Cairo Report No. 6-263-92-08, dated September 24, 1992. See pages 10 and 11 on "Signed Contracts Were Not Always Approved Before Financing."

⁴ See USAID/Egypt Mission Order No. 5-4 (revised October 8, 1991) on "Responsibilities and Authorities: Approval, Negotiation and Implementation of Projects." See also USAID/Egypt Staff Notice No. 92-007 of January 22, 1992 on "Mission Policy and Procedures for Host Country Agencies Certification on Host Country Contracting."

the case of the 10 contracts mentioned above when approvals were sought for such actions as notices to prospective offerors, lists of prequalified offerors, solicitation documents, selected contractors, draft contracts, and contract administration actions. However, the officers were not consulted in three of seven cases when the Mission formally approved executed host-country contracts.

Contracting Officers' Recommendations Were Not Always Obtained for Executed Contracts

According to the November 1990 guidance, A.I.D. missions must formally approve host-country contracts "prior to execution" and "signed contract documents, before financing" and obtain contracting officers' recommendations before informing host agencies of the approvals. However, for three of seven contracts we reviewed where USAID/Egypt formally approved the signed contracts, the contracting officers did not participate in the approval process. One project officer explained that the contracting officer had already reviewed and commented on a draft of the contract. However, in accordance with the November 1990 guidance, contracting officers should not only comment on draft contracts but also have the opportunity to compare them with the executed contracts. Such comparisons would disclose any discrepancies and, in accordance with the guidance, help ensure host agencies meet professional standards for contract award.

Recommendation No. 1: We recommend that USAID/Egypt issue a staff notification to remind project staff of the need to approve both host-country "contracts prior to execution" and "signed contract documents" and of the need to obtain contracting officers' recommendations for both draft and executed contracts before informing host agencies of the approvals.

A.I.D.'s November 1990 final guidance cable (Section 3.C.3) requires missions to approve host-country contracts "prior to execution" and "signed contract documents, before financing." The guidance notes that, "approval [of the executed contract] normally follows a routine comparison with the previously approved, unsigned document." The guidance (Section 3.C.4) also requires missions to "ensure that the recommendations of contracting officers...are included in the mission clearance process along with those of legal advisors, controllers, technical officers and others before approvals are conveyed to [host] agencies." In addition, USAID/Egypt Mission Order 5-4 ("Responsibilities and Authorities: Approval, Negotiation and Implementation of Projects") states that, "For many actions listed in [this order] related to host country contracting [including the "Approval of Executed Host Country Contracts"], Action Officers are to consult with a Contracts Officer for advice and recommendations prior to commencing the clearance process."

Nevertheless, we found that Mission action officers--i.e., project officers--did not consult with contracting officers in the case of three of seven host-country contracts we reviewed

when USAID/Egypt formally approved the signed contracts.⁵ These three contracts cost about \$128 million. One project officer explained that the contracting officer had already reviewed a draft of the contract. Similarly, contracting officers had reviewed contract drafts in the other two cases too. However, according to the November 1990 guidance, contracting officers should participate in each step of the process to review and approve the host agency's procurement actions, including the process to review and approve executed contracts. Thus, under the guidance, the officers should have the same opportunity to analyze and compare signed contracts with contract drafts as other designated mission personnel. Such comparisons would disclose any material discrepancies between the contracts and the drafts and help ensure the officers' comments on the drafts had been satisfactorily addressed. In accordance with the guidance, such comparisons would help ensure host agencies meet professional standards for contract award.

⁵ As noted earlier, we sampled a total of 10 contracts. However, USAID/Egypt formally approved only seven of these contracts, and contracting officers were consulted regarding only four of the approvals.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Egypt's management stated that its revised procedures (Mission Order 5-4, revised as of March 1993) require project officers to determine if any changes have been made between approved host-country contract drafts and the executed contracts and to consult with contracting officers when there are "substantive changes" between the drafts and the executed contracts. The Mission also issued a staff notice (Staff Notice No. 93-094 of August 10, 1993) to remind project officers of these procedures and of the need to obtain the Mission Contracting Office's formal approval of executed host-country contracts when the contracts exceed \$10 million in value. Based on this action, we consider Recommendation No. 1, which is the report's only recommendation, to be closed. See Appendix II for the Mission's complete comments.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's implementation of A.I.D.'s November 1990 final guidance on host-country contracting as part of a multiregion audit of A.I.D. missions' implementation of the guidance. We conducted the audit at USAID/Egypt from November 23, 1992 through April 1993 and covered the Mission's implementation of the procedures and controls cited in the guidance through November 1992. We performed the audit in accordance with generally accepted government auditing standards, except as noted below regarding the extent of representations made by Mission officials.

Government auditing standards require auditors to obtain management's written representations when the auditors deem them useful. The Office of the Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Acting Director provided us a letter of representation for this audit that contained essential assertions about the activities we audited. However, in accordance with A.I.D./Washington guidance of May 13, 1992, Mission officials directly responsible for the activities did not provide written representations. As a result, our positive answers to the audit objectives are qualified to the extent of the effect of not having such representations.

We obtained computer-generated lists from USAID/Egypt's computerized Contract Information Management System showing (a) active host-country contracts whose values exceed \$250,000 as of November 30, 1992 and (b) host-country contracts awarded during the two years following November 30, 1990 whose values exceed \$250,000. We also obtained corresponding computer-generated lists from the Mission's computerized Mission Accounting and Control System showing (a) host-country contracts with ending dates on or after December 1, 1992 and (b) host-country contracts with beginning dates on or after December 1, 1990. We did not verify the overall reliability of this data. However, we compared these lists with one another and with source documents, such as contracts and letters of commitment, to corroborate contract award dates for the contracts awarded after November 1990; and we derived adjusted lists showing that USAID/Egypt had (a) 47 active host-country contracts whose values exceed \$250,000 as of December

1, 1992 costing about \$1.4 billion and (b) 26 host-country contracts awarded during the two years following November 1990 whose values exceed \$250,000 costing about \$519 million.

We also reviewed USAID/Egypt's Contracting Office files for the 47 active host-country contracts, interviewed project staff to verify key data, and determined that 6 of the contracts had modifications during the two years following November 1990 that expanded scopes of work at a cost of about \$48 million. Finally, we obtained copies of all USAID/Egypt mission director certifications of host agencies' capabilities to undertake A.I.D.-financed procurements issued since November 1990 and copies of all assessment reports prepared since November 1990 on the agencies' contracting capabilities.

The following methodology section contains additional information on the kinds and sources of information used during the audit and on audit techniques for each audit objective. We examined the internal controls related to each objective and considered prior audit findings applicable to the areas under review.

Methodology

The methodology for each audit objective follows.

Audit Objective One

This audit objective was to determine if USAID/Egypt assessed and certified host-country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host-country contracting guidance. To accomplish this objective, we compared the award dates for the 26 host-country contracts awarded during the two years following November 1990 whose values exceed \$250,000 and the dates of the 6 contract modifications that expanded scopes of work, as noted in the above scope section, with the dates of the host-agency assessments and mission director certifications in order to determine if all required assessments had been performed and if the certifications preceded the contract awards and modifications.

We also judgmentally selected and read 7 of the 14 assessment reports prepared by two public accounting firms on host agencies' contracting capabilities. We selected these reports--five prepared by one firm, two by the other--because they assessed agencies that had more USAID/Egypt-financed "new procurement actions" during the two years following November 1990 than did other agencies. We analyzed these reports to determine if they assessed the full range of host-agency capabilities cited by the November 1990 guidance. We also reviewed the corresponding mission director certifications of agencies' capabilities to see if the certifications contained the assertions

cited in the November 1990 guidance, including a statement that the determination would be repeated or updated within three years from the date of certification. We then compared the certifications with the corresponding assessment reports and the memoranda prepared by Mission staff that discussed the assessments to determine if the certification decisions were consistent with the assessments and memoranda. Finally, we discussed any shortcomings in the assessment reports or certifications with Mission personnel.

Audit Objective Two

This audit objective was to determine if USAID/Egypt complied with A.I.D.'s November 1990 host-country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to Mission contracting officers.

To accomplish this objective, we judgmentally selected 10 of the 26 host-country contracts awarded during the two years following November 1990 whose values exceed \$250,000 for review. We selected these contracts because they were higher dollar value awards (costing about \$337 million or 65 percent of the \$519 million total for all 26 contracts) for which most of the procurement steps or actions requiring Mission approval would have occurred after November 1990. For the selected contracts, we interviewed project personnel and obtained copies of relevant implementation letters and action memoranda to determine if the Mission formally approved the host-agency steps and actions described in the November 1990 guidance. We also determined which of the 10 contracts involved the host agency's use of evaluation panels to rank contractor proposals after November 1990, determined if Mission representatives observed panel proceedings, and interviewed the representatives on the extent of their observations.

Finally, we examined relevant Mission Orders and other directives to determine if USAID/Egypt developed and issued directives giving contracting officers new responsibility for ensuring that host agencies' procurement actions meet professional standards for solicitation, negotiation, selection, award, and administration. We determined if the officers were among Mission personnel who cleared memoranda that discussed host-agency capability assessments and recommended mission director certifications for the seven assessments discussed under the first audit objective. And we determined if the officers were consulted for their recommendations in the case of the 10 contracts noted above when approvals were sought for host-agency procurement steps and contract administration actions.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

AUG 10 1993

MEMORANDUM

10 AUG 1993

TO: Phillip Holt, A/RIG/A/Cairo
FROM: Christopher D. Crowley, A/DIR
SUBJECT: Audit of USAID/Egypt's Implementation of Agency
Guidance on Host Country Contracting - Draft Report

The audit confirmed that the Mission has properly implemented internal and administrative controls to strengthen oversight of host country contracts as called for by the 1990 Agency guidance. Mission review of these control systems resulted in further modifications in March 1993 when Mission Order No. 5-4 (copy attached) was revised.

Recommendation No. 1:

We recommend that USAID/Egypt issue a staff notification to remind project staff of the need to approve both host-country "contracts prior to execution" and "signed contract documents" and of the need to obtain contracting officers' recommendations for both draft and executed contracts before informing host agencies of the approvals.

Mission Response:

It is unfortunate that the internal control modification of March 1993 Mission Order No. 5-4 was not reviewed by the audit as this revision eliminated the requirement that contracting officers review the executed contracts except when the contract exceeds \$ 10.0 million.

We have reviewed these new internal control procedures since the issuance of the draft report and continue to believe they provide the most cost effective assurance that the concerns addressed by the GAO and IG in the past with respect to host country contracting are met. We have observed that there were no substantive changes between the approved draft and executed contracts which required contracting officer input. The Mission's Contracting Officers are heavily burdened. Given the

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above, the cost of Contracting Officer review of executed contracts, time taken away from other contracting actions, is greater than the possible benefit of finding a problem in the executed contract. The revised procedures require the project officer to determine if any changes have been made and requires clearances by other Mission offices. Furthermore, the project officer as well as other offices are encouraged through the project committee process to call on the contracting officer for assistance, when necessary. The Mission thinks these procedures adequately address the risk.

The Mission has issued a Staff Notice to remind Project offices as well as other cognizant Mission personnel to consult with Contracting Offices when there are substantive changes between the approved draft and the executed contract. The Notice also reminds staff of the requirement to obtain OD/DIR/CS approval for all contracts over \$10 million, before seeking the Director's approval.

Based on the above, we request that this recommendation be closed.

Att: a/s above

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32. Approval of Draft and Executed Host Country Contracts, Subcontracts, Purchase Orders and Amendments and Change Orders; and Execution of Direct AID Contracts, Subcontracts, Purchase Orders, Change Orders and Amendments

a. Draft and Executed Host Country Contracts^{24 25}

- | | |
|----------------|---|
| Action Officer | • Project Officer |
| Consultation | • Contracting Officer |
| Clearances | • PDS/PS
• LEG
• Others according to subject matter guidelines
• FM |
| Approval | • Responsible OD up to \$250,000 (non-cumulative);
• Responsible AD up to \$5 million (non-cumulative);
• Mission Director up to \$10 million;
• Mission Director and OD/DIR/CS ²⁶ over \$10 million. |

²⁴ Mission approval is required for all host country contracts which exceed \$250,000. The dollar thresholds for Mission approval of subcontracts, amendments and change orders are stated in each contract and thus vary from one contract to another. It is Mission policy to require A.I.D. approval for each subcontract which exceeds \$100,000; each change order which exceeds \$50,000; and each amendment which increases the scope of work, level of effort or contract amount or extends the completion date of the contract. Unless the circumstances require otherwise, each new host country contract should include approval thresholds which are at least as stringent as those just stated.

²⁵ Approval of draft host country contracts prior to execution is required to identify problems before the contract is signed. Generally, there should be no substantive changes between the A.I.D.-approved draft contract and the executed contract. Nonetheless, the executed contract must be circulated for clearance and approval as provided above. To expedite this process, Project Officers are encouraged to attach to the executed contract a note which identifies the differences, if any, between the executed contract and the previously approved draft.

²⁶ See footnote 17. The approval of OD/DIR/CS should be obtained before seeking the Mission Director's approval.

DRAFT STAFF NOTICE

Subject: Contracting Officer (DIR/CS) Involvement in the Executed Host Country Contract Review and Approval Process

The purpose of this Staff Notice is to issue a procedural reminder.

Mission Order 5-4, Responsibilities and Authorities in the Design, Approval and Implementation of Projects, Attachment 1, Part 32 requires DIR/CS Contracting Officer consultation on various host country contracting-related actions. The question has arisen as to whether the Contracting Officer (CO) must see and clear final, executed host country contracts. The answer depends on the extent to which the final contract differs from the final draft that was previously reviewed by the CO. Normally, editorial changes aside, the contract documents will be the same hence the executed contract approval process may be expedited by not returning the file to DIR/CS. It follows that should there be substantive changes, the project officer is obliged to seek further consultation with all concerned staff offices, which would include the CO.

Notwithstanding the above, staff are reminded that when the host country contract value exceeds \$10 million, formal approval by the OD/DIR/CS of the executed contract is required prior to seeking the approval of the Mission Director.

Drafted: J. Dunlap



APPENDIX III

	<u>No. of Copies</u>
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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
IG/LC	1
AIG/I&S	1
IG/RM	12
IG/I	1
Other RIG/A's	1 each