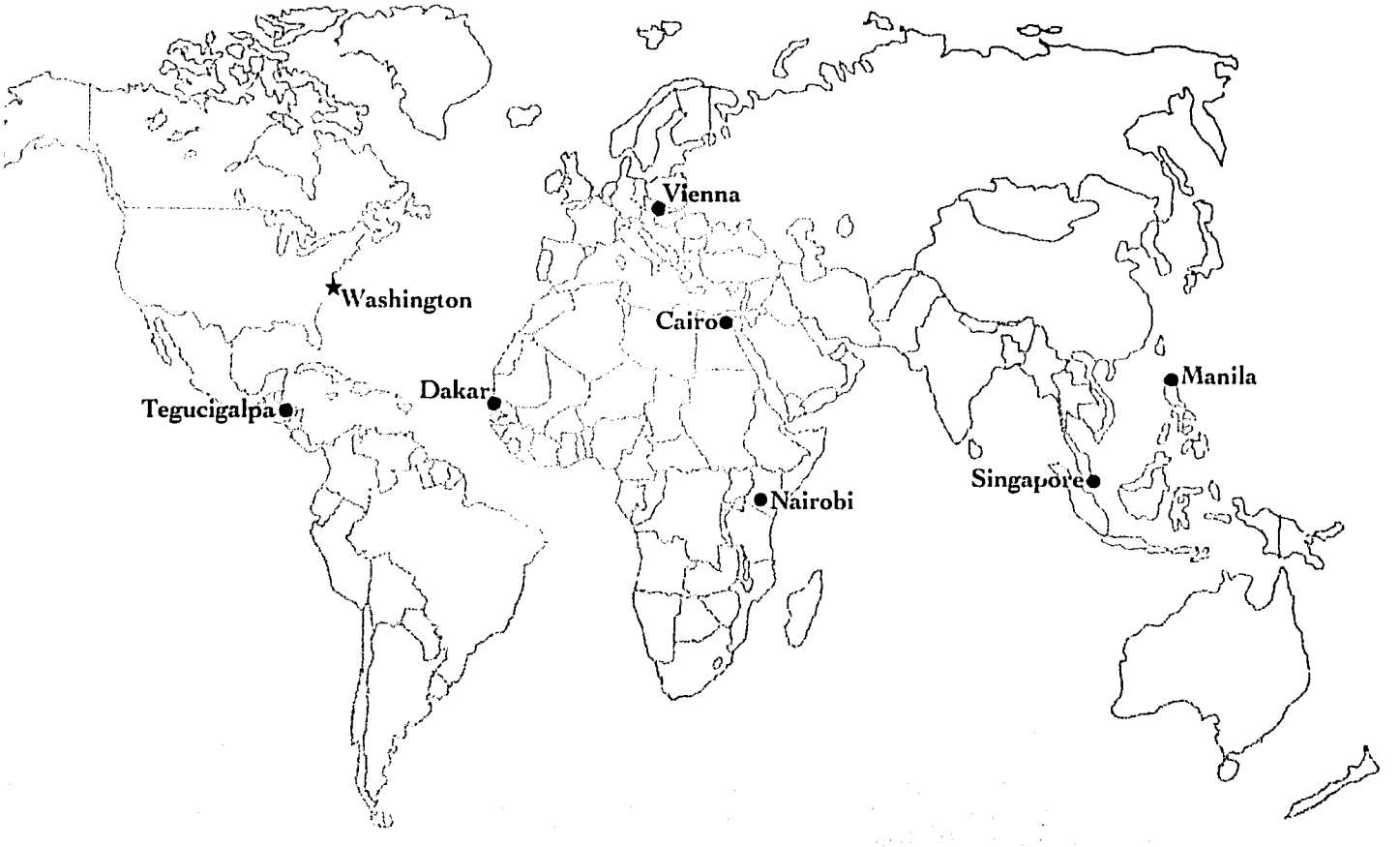
Assistant Inspector General for Audit

Audit of USAID Missions' Implementation of Agency Guidance on Host Country Contracting

Audit Report No. 6-263-94-001
December 29, 1993



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 29, 1993

*Assistant Inspector
General for
Audit*

MEMORANDUM

TO: AA/M, Lawrence E. Byrne

FROM: AIG/A, James B. Durnil

SUBJECT: Report on Audit of USAID Missions' Implementation of Agency Guidance on Host Country Contracting (Audit Report No. 6-263-94-001)

This is a report on USAID missions' implementation of the Agency's November 1990 guidance on strengthening the host country contracting process. We found that all three missions materially complied with the guidance. This report represents a summary of findings which have been previously reported to the missions in Egypt, Zimbabwe and the Philippines.[1]

Background

USAID's Procurement Executive issued a worldwide cable in November 1990 (State 399975) entitled "Final HCC (Host Country Contracts)

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1 Audit of USAID/Egypt's Implementation of Agency Guidance on Host Country Contracting *(Report No. 6-263-93-011, August 19, 1993)*

Audit of USAID/Zimbabwe's Implementation of Agency Guidance on Oversight of Host Country Contracting *(Report No. 3-613-93-009, May 25, 1993)*

Audit of A.I.D.'s Implementation of Agency Guidance on Host Country Contracting, USAID/Philippines *(Report No. 5-492-93-015, September 3, 1993)*

Guidance Cable" that contained guidance to strengthen USAID missions' oversight of host country contracts exceeding $250,000 in value. The Congress, the General Accounting Office, and the Agency's Inspector General have in the past criticized this oversight. For example, the General Accounting Office had criticized the quality of mission assessments of host country contracting capabilities and the lack of professional contracting officer involvement in overseeing host country contracts.

We reviewed USAID/Egypt's implementation of this guidance because its host country contracts involve more USAID dollars than any other mission. We also reviewed missions in the Philippines and Zimbabwe to test compliance with the guidance at other USAID locations.

During the two years following November 1990, USAID/Egypt financed 26 new host country contracts which exceeded $250,000 in value and cost about $519 million. Further, 6 amendments were made 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. Similarly, USAID/Zimbabwe financed 3 such contracts awarded by one agency at a cost of $33 million; and USAID/Philippines financed 34 such contracts awarded by one agency at a cost of $58 million.

Audit Objectives

We audited USAID missions' implementation of the Agency's November 1990 guidance on host country contracting to answer the following questions:

- Did USAID missions assess and certify host country contracting agencies' capabilities in accordance with USAID's November 1990 host country contracting guidance?

- Did USAID missions comply with USAID'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 missions in Egypt, Zimbabwe and the Philippines implemented the procedures described in the guidance. Our answers to these audit questions are qualified because USAID/Egypt

officials directly responsible for the audited activities did not provide written representations to us. USAID officials in Zimbabwe and Philippines did provide acceptable written representations. Appendix I discusses our tests, the scope of the audit, and the qualifier.

Audit Findings

Did USAID missions assess and certify host country contracting agencies' capabilities in accordance with USAID's November 1990 host country contracting guidance?

USAID missions in Egypt, Zimbabwe and the Philippines materially complied with the guidance when they assessed and certified the host agencies' contracting capabilities.

These missions made the assessments and prepared written certifications of the agencies' capabilities before the agencies undertook about $658 million worth of USAID-financed procurements after November 1990. The missions in Egypt and Zimbabwe performed comprehensive assessments of the agencies' capabilities in accordance with the guidance. USAID/Philippines' assessed the capabilities of its contracting agency; however, the assessment was not thorough and the Mission is now updating the assessment in accordance with the guidance. Following is additional information on USAID's guidance and how the three missions implemented it.

Details on USAID's November 1990 Guidance and
How Three Missions Implemented It

The November 1990 guidance requires USAID missions to certify in writing that host country contracting agencies have or will obtain the capability to undertake USAID-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." The assessments are supposed to be repeated or updated every three years or whenever more current assessments are needed.

Assessment teams (composed of mission personnel, management consultants or public accounting firms) should perform comprehensive assessments of the agencies' ability to perform required steps in the procurement process "from solicitation to audit and closeout." The teams should prepare reports that: a) describe the agency's organization, staffing, decision-making authority, and procurement policies and procedures; b) determine if the procedures are compatible with USAID'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.

We examined seven assessment reports and found they covered the entire range of capabilities cited by the guidance. USAID/Egypt prepared written certifications of the host agencies' capabilities before the agencies undertook new procurements valued at more than $250,000. This involved 13 agencies that awarded 26 contracts and amended 6 existing contracts' scopes of work after November 1990 at a cost of about $567 million. The Mission contracted with two public accounting firms to perform the host agency assessments.

USAID/Zimbabwe and USAID/Philippines also assessed and certified the host agencies' contracting capabilities after November 1990 before the agencies awarded new contracts valued at more than $250,000. This involved 2 USAID/Zimbabwe assessments and a certification of an agency that awarded 3 such contracts at a cost of about $33 million, and USAID/Philippines' assessment and certification of an agency that awarded 34 such contracts which cost about $58 million. USAID/Zimbabwe's assessment of the host country agency covered the entire range of capabilities cited by the guidance. However, USAID/Philippines' assessment did not report on the agency's decision-making authority and procurement policies and procedures. We believe this occurred because the assessment was done in October 1989—over a year before the November 1990 guidance was issued. We recommended that USAID/Philippines repeat or update this assessment in accordance with the guidance. The assessment is currently being updated by the Mission.

Did USAID missions comply with USAID'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 missions in Egypt, Zimbabwe and the Philippines materially complied with the guidance in approving host agencies' procurement steps and contract actions, in using observers on proposal evaluation panels, and in assigning new responsibilities to contracting officers.

These missions approved virtually all of the host agency procurement steps and contract administration actions for the 20 contracts that we sampled, costing about $392 million. Mission personnel also served as observers on host agencies' proposal evaluation panels when the panels met after November 1990 to evaluate contractor proposals. In addition, all three missions issued orders or directives giving contracting (or commodity management) officers new responsibilities to oversee host country contracts.

The USAID missions in Egypt and Zimbabwe consulted with the contracting officers and obtained their recommendations when approvals were sought for host agencies' procurement steps and actions. However, USAID/Philippines usually did not consult with its contracting officer before it approved such actions. The Mission recently issued an order giving the contracting officer authority to approve the actions. Nevertheless, other steps are needed to include the contracting officer in the clearance process. Accordingly, we have requested additional corrective action by USAID/Philippines. Following is additional information on USAID's guidance and on how the missions implemented it.

Details on USAID's November 1990 Guidance and How Three Missions Implemented It

The November 1990 guidance requires missions to formally approve certain host agency procurement steps before contracts are awarded when the contracts exceed $250,000 in value. Missions may also decide to approve contract administration actions after the contract awards. Missions must approve: a) notices to prospective offerors, b) lists of pre-qualified 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. When the contracts exceed $250,000, missions must also 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.

The November 1990 guidance also requires missions to issue orders or directives giving contracting (or commodity management) 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 contracting officers participate in the process of assessing host agencies' contracting capabilities and that they are consulted for their recommendations when missions approve the agencies' procurement steps and contract administration actions.

We found that the missions in Egypt, Zimbabwe and the Philippines formally approved all procurement steps and contract administration actions for the 20 contracts which exceeded $250,000 each. This included 10 contracts at USAID/Egypt which host agencies awarded at a cost of about $337 million, 7 contracts at USAID/Philippines which cost about $22 million, and 3 contracts at USAID/Zimbabwe which cost about $33 million. We also found that mission personnel served as observers on host agencies' proposal evaluation panels when the panels met after November 1990 to evaluate contractor proposals.

The missions also issued orders or directives giving contracting or commodity management officers new responsibilities to oversee host country contracts. We found that contracting officers in Egypt were among mission officials who cleared memoranda that discussed host agency capability assessments and recommended mission director certifications. Also, the missions in Egypt and Zimbabwe consulted with contracting or commodity management officers and obtained the officers' recommendations when approvals were sought for host agencies' procurement steps and contract administration actions. However, USAID/Philippines usually did not consult with its contracting officer when it approved such actions. This occurred because some mission personnel were unaware of the need to do so. We recommended that USAID/Philippines circulate all directives which give new responsibilities to the contracting officer and ensure that the contracting officer is included in all recommended phases of the clearance process. The Mission recently issued an order giving the contracting officer authority to approve host agencies' actions. However, we believe other steps are needed—e.g., require

the contracting officer's signature on approval memoranda to verify that the contracting officer was consulted, in accordance with USAID guidance. Accordingly, the recommendation remains unresolved pending the receipt of satisfactory proposed corrective action from USAID/Philippines.

SCOPE AND METHODOLOGY

Scope

We audited USAID missions' implementation of the Agency's November 1990 guidance on host country contracting in accordance with generally accepted government auditing standards, except as noted below regarding the extent of representations made by USAID/Egypt officials. We conducted the audit at the missions in Egypt, Zimbabwe and the Philippines from November 1992 through April 1993 and reviewed these missions' implementation through December 1992 of the procedures and controls cited in the guidance.

Generally accepted 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 USAID/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. Acceptable representations were received from the other two missions being audited.

We obtained documentation showing that: 1) USAID/Egypt financed 26 new host country contracts exceeding $250,000 in value during the two years following November 1990 at a cost of about $519 million and 6 amendments to existing contracts that expanded scopes of work at a cost of about $48 million, 2) USAID/Zimbabwe financed 3 such contracts

costing about $33 million, and 3) USAID/Philippines financed 34 such contracts costing about $58 million. We also determined that these awards and amendments involved 13 host government agencies in Egypt and one each in Zimbabwe and the Philippines.

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

Methodology

Audit Objective One

This audit objective was to determine if USAID missions in Egypt, Zimbabwe and the Philippines assessed and certified host country contracting agencies' capabilities in accordance with USAID's November 1990 host country contracting guidance. To accomplish this objective, we obtained copies of mission director certifications of host agencies' capabilities to undertake USAID-financed procurements and copies of assessment reports on the agencies' contracting capabilities to see if the missions assessed and certified the agencies before awarding USAID-financed contracts valued at over $250,000 after November 1990.

We also examined 10 assessment reports to determine if they assessed the full range of capabilities cited by the November 1990 guidance. We examined corresponding mission director certifications to see if they contained the assertions cited in the guidance. We then compared the certifications with the reports to determine if the certification decisions were consistent with the assessments. Finally, we interviewed mission personnel on their procedures for assessing and certifying host agencies.

Audit Objective Two

This audit objective was to find out if USAID missions in Egypt, Zimbabwe and the Philippines complied with USAID'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 reviewed 20 host country contracts awarded

after November 1990 at the three missions to determine if the missions approved host agencies' procurement steps and actions in accordance with the guidance. We also determined which contracts involved the host agencies' use of evaluation panels to rank contractor proposals after November 1990, identified if mission representatives observed panel proceedings, and interviewed the representatives on the extent of their observations.

We examined relevant mission orders and other directives to assess if the three missions developed and issued directives giving contracting (or commodity management) officers new responsibilities for ensuring that host agencies' procurement actions meet professional standards for solicitation, negotiation, selection, award, and administration. Finally, we determined if the contracting officers were consulted for their recommendations when the missions approved the host agencies' procurement steps and actions.

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