
AUDIT OF USAID'S CONTROLS OVER ADVISORY AND ASSISTANCE SERVICES CONTRACTS

Report No. 9-000-94-002
February 4, 1994



INSPECTOR
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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ADVISORY AND ASSISTANCE SERVICES CONTRACTS**

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USAID/Washington classified advisory and assistance services contracts properly, but it did not comply with all management requirements in OMB Circular A-120.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

*Assistant Inspector General
for Audit*

February 4, 1994

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM:

for AIG/A, James B. Durnil *John L. Jarman*

SUBJECT:

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

In meeting our legislatively mandated reporting requirements, our office is issuing this report on USAID's management controls over advisory and assistance services contracts for fiscal year 1993. In completing the report we considered the Office of Procurement's comments and included them as an appendix.

The report does not contain any recommendations for your action. I appreciate the cooperation and assistance provided to my staff during the audit. Please provide your response to the report, if any, within 30 days.

Background

Federal agencies contract for advisory and assistance services as a way to improve government services and operations. Although Congress recognizes the legitimate need for such services, it also recognizes the potential for waste and abuse in their procurement if adequate controls are not in place. Therefore, the Congress enacted the Money and Finance Act (Public Law 97-258), which mandated that controls and reporting requirements over advisory and assistance services be developed.

The Office of Management and Budget (OMB) Circular A-120 established these government-wide controls and provided guidance for federal agencies to follow in managing and reporting on these services. This guidance is also included in the

Federal Acquisition Regulation¹ and in the U.S. Agency for International Development's (USAID) Acquisition Regulation and Contract Information Bulletins.

USAID estimated that it would obligate \$81.9 million in 1993 and \$86.3 million in 1994 for contracted advisory and assistance services. USAID contract officers are responsible for procuring these services in accordance with the regulations and guidance mentioned above. The Directorate for Management's Procurement Policy and Evaluation Staff develops Agency policies and conducts evaluations of the contract offices' compliance with regulations and policies. Overall responsibility for the procurement of advisory and assistance services rests with the Associate Administrator for Management and the Deputy Associate Administrator for Finance and Administration, who serve as USAID's designated Advisory and Assistance Services Executive and Procurement Executive, respectively.

Public Law 97-258 also requires the Inspector General of each federal agency to submit an annual report to the Congress on the agency's progress in instituting effective management controls over advisory and assistance services and in improving the accuracy and completeness of data provided to the Federal Procurement Data System (FPDS)². Accordingly, the USAID Inspector General has issued annual reports on this subject since 1982.

Audit Objectives

The Office of Inspector General's Office of Programs and Systems Audits performed this audit to answer the following questions.

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

¹ The Federal Acquisition Regulation (FAR) brings together in Chapter 1, Title 48 of the Code of Federal Regulations the procurement regulations that apply to all agencies of the federal government. Contract officers rely on the FAR, which is supplemented by specific agency policy, for guidance in conducting the contracting actions of the agency.

² The Federal Procurement Data System (FPDS) is the federal government's centralized contract database. All federal agencies and departments report their contracting activity to the FPDS. The information is then made available to the public and Congress.

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

See Appendix I for the scope and methodology of this audit including scope limitations.

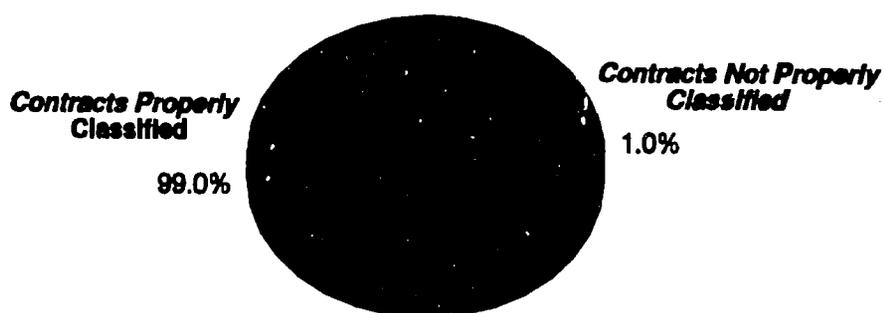
Audit Findings

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

For the items tested, USAID/Washington classified advisory and assistance services in accordance with OMB Circular A-120. We reviewed 50 contracts determined by contract officers to be non-advisory and assistance services and 48 contracts classified as advisory and assistance services. We determined that 97 of the 98 contracts were classified consistent with OMB and Agency guidance and the recommendations made during our last audit.

Advisory and Assistance Services Contracts

Classification



Even though our review did not identify problems with the classifying of these contracts, the Agency is developing a new method of determining the type of services contracted. This method will link advisory and assistance services contracts with product/services codes which are assigned to all contracts recorded in the Agency's

Contract Information Management System and reported to the Federal Procurement Data System.

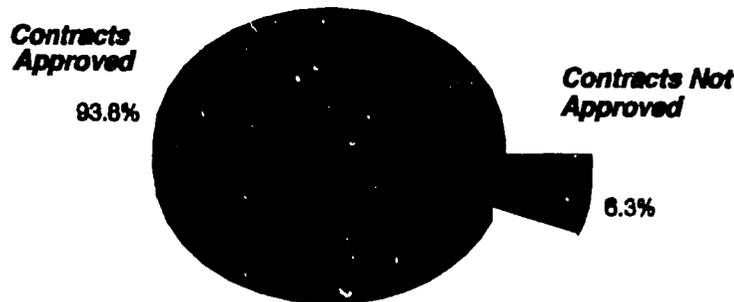
The Agency is developing a computer application which will classify contracts for advisory and assistance services based on the use of these product/service codes. For example, "Economic Studies" (Code B507) and "Technical Assistance" (Code R421) are advisory and assistance services. Therefore, if B507 or R421 is entered as a product/service, the computer will automatically re-classify the contract as advisory and assistance services. This computer-assisted classification process should provide the Agency with a simpler, more consistent method of classifying contracts.

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

USAID/Washington did not manage advisory and assistance services in accordance with certain OMB Circular A-120 provisions. Specifically, we reviewed whether advisory and assistance services contacts were approved, whether they were justified, and whether final evaluations of the contractors' performance and the utility of the contracts were completed.

We determined that USAID/Washington generally obtained appropriate levels of approval of advisory and assistance contracts. Of the 48 such contracts in our sample, 45 had been approved in accordance with OMB Circular A-120.

***Advisory and Assistance Services Contracts
Approval***



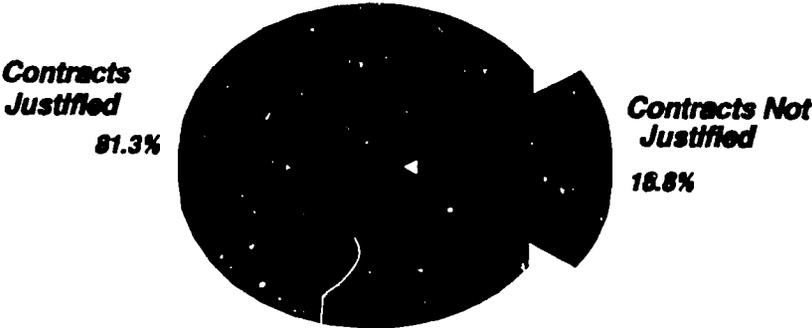
The Agency, however, did not complete the justifications and the evaluations required by OMB Circular A-120. Because this Circular was rescinded in November 1993, we are not making any recommendations.

**Required Justifications
Were Not Obtained**

OMB Circular A-120 states that requests for advisory and assistance services must include a written justification that "will provide a statement of need and will certify that such services do not unnecessarily duplicate any previously performed work or services." USAID's Acquisition Regulation (Section 737.206(c)(2)) further defines this requirement by specifying that the justification must state (1) that there is the "Need and Utilization" of the service to the Agency, (2) that a "Review of Prior Work" was performed to ensure that the service does not duplicate prior work and (3) that there does not exist an "In-House Capacity" available to complete the work.

Of the 48 contract files examined, 39 were properly justified in accordance with OMB Circular A-120 and 9 contained no justifications.

**Advisory and Assistance Services Contracts
Justification**



We believe the nine contracts lacked justifications because a contract officer was either not aware of the requirement or did not ensure that project officers complied with Agency policy. Other contract officers stated that the justifications were not critical management controls since the project implementation order justifies the need

for such services.

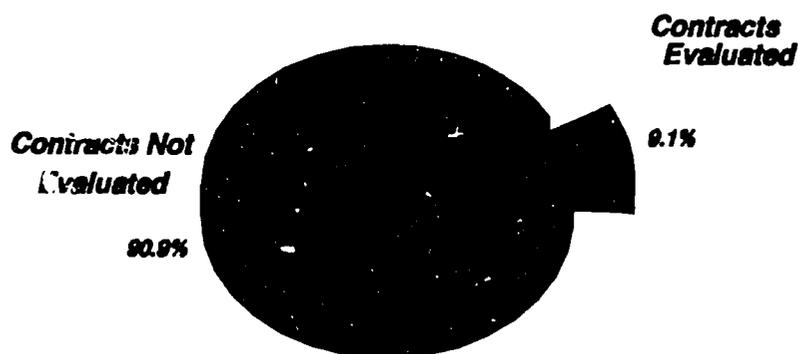
**Required Contractor Evaluations
Were Not Obtained**

OMB Circular A-120 requires a written evaluation of an advisory and assistance services contract at the conclusion of the contract. The evaluation assesses the performance of the contractor and the utility of the contracted action to the agency.

We examined the entire collection of evaluations in the Advisory and Assistance Services Executive's files and found only 22 contract evaluations on the numerous completed advisory and assistance services for the entire agency³. Further, only one evaluation for the eleven completed contracts in our sample was in the contract file.

Advisory and Assistance Services Contracts

Evaluation



In March of 1993, the Office of Procurement Policy and Evaluation Staff issued a memorandum reminding contract officers of the requirement that contractors be evaluated in response to our February 1992 audit report on advisory and assistance services. The memorandum also cited problems with the evaluation of advisory and assistance services contracts and asked contract officers to inform project officers of their responsibility to complete contract evaluations. However, it did not specify any new procedures for ensuring that evaluations are completed.

³The exact number of completed advisory and assistance services contracts was not available.

Contract officers do not always ensure that evaluations are completed when finalizing contracting activities or placed in the contract file and sent to the Advisory and Assistance Services Executive. Since project officers do not always complete evaluations, no record of contractor performance is developed and maintained by the agency for possible use in future contracting decisions.

Rescission of OMB Circular A-120

In December 1991, OMB concluded that its Circular A-120 had not resulted in better management oversight of service contracting by the Federal Government due to the difficulty in developing a clear definition of the types of services needing more management scrutiny. As a result, OMB's Office of Federal Procurement Policy (OFPP) issued Letter No. 93-1, effective January 1994, which replaced OMB Circular A-120.

The Policy Letter was developed to provide guidance on managing the acquisition and use of service contracts to ensure that users obtain the services they need. The Letter eliminates the requirement to categorize separately contract advisory and assistance services.

The requirements related to the deficiencies identified in our report--lack of justifications and evaluations--have been revised in the new OMB guidance. The Guidance states that Agency heads must establish written procedures to ensure (1) that "requirements for services are fully justified in writing and are responsive to the user's needs" and (2) that "the contract will be properly administered and monitored to evaluate contractor compliance with contract requirements and performance standards".

Since OMB calls for Agencies to develop new implementing procedures for these and other service contract requirements, we are not making any recommendation at this time. These new procedures, once developed and implemented, may be the subject of future audits.

Management Comments and Our Evaluation

In responding to the draft report, the Office of Procurement had only one minor comment relating to project officers' not completing evaluations. We have revised the report to address their concern. See Appendix II for management's response.

SCOPE AND METHODOLOGY

Scope

The audit was conducted in accordance with generally accepted government auditing standards, except that we did not design the audit to provide reasonable assurance of detecting abuse and illegal acts for advisory and assistance services contracts awarded during the period of review.

We performed the audit from October 13, 1993 through November 29, 1993 at USAID's Office of Procurement located in Rosslyn, Virginia. We used the computer processed data contained in USAID's Contract Information Management System (CIMS) to determine the universe of contracts awarded by USAID/Washington. We reviewed 98 of all 538 contracts awarded by USAID/Washington during the period June 4 through September 30, 1993. On June 4, 1993, the Agency provided plans to implement the recommendations in last year's IG audit report.⁴

We used CIMS data to establish our universe because it is the system used by USAID to manage information on contract activity. We did not establish the reliability of this data because the preciseness of the detailed data contained in the system was not important to answering our audit objective.

To answer the audit objectives, we reviewed the Federal Acquisition Regulation, and OMB Circulars and Policy letters. We also examined USAID's Acquisition Regulation, Policy Handbooks, and Contract Information Bulletins, the report of the National Performance Review, and past Inspector General reports that were

⁴ Audit of A.I.D.'s Controls Over Advisory And Assistance Services Contracts, Report No. 9-000-93-002, March 29, 1993.

applicable to the objectives.

We did not include in our review a determination of whether the Agency used advisory and assistance services contracts to bypass personnel ceilings which the Federal Acquisition Regulation prohibits. While we recognize this is a risk to the Agency under current regulations, we excluded the issue because the National Performance Review Report indicates that agencies should stop using full-time equivalent ceilings to control spending.

Methodology

The specific methodology for each audit objective is described below.

Audit Objective One

We interviewed officials in the USAID Office of Procurement, reviewed Agency documents and database information to determine if USAID had developed and implemented procedures for correctly determining whether contracts were for advisory and assistance services. To determine if USAID/Washington had properly classified contracts for advisory and assistance services, we reviewed a judgmental sample of 98 contracts--48 classified as advisory and assistance services and 50 classified as non-advisory and assistance services--to determine if they were classified consistent with OMB and Agency guidance.

Audit Objective Two

We interviewed officials in the USAID/Washington Office of Procurement and reviewed Agency documents and database information to determine (1) if USAID had developed and implemented procedures for contract officers to obtain justifications and approvals for advisory and assistance services contracts and (2) if the justification was approved by an official at an organizational level above the requesting office.

We also reviewed 11 completed contracts to determine whether (1) contract officers obtained evaluations of contracts at the end of the contract period and placed these evaluations in the contract file and (2) contract evaluations were being sent to the Advisory and Assistance Services Executive.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 3, 1994

MEMORANDUM

TO: IG/A/PSA, Toby L. Jarman
From: M/OP, Frederick A. Will *for*
Subject: Audit of USAID's Controls over Advisory and Assistance
Services Contracts

Reference is made to your memorandum of January 27, 1994,
transmitting subject draft audit report.

We have only one minor comment to make on this draft. The first full paragraph on page 11 seems to indict contracting officers for the lack of final evaluations. Evaluations are required of the project officers and contracting officers are usually not successful in requiring their completion. I would suggest that the paragraph be revised to say that Project Officers still do not always complete evaluations.

APPENDIX III

REPORT DISTRIBUTION

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