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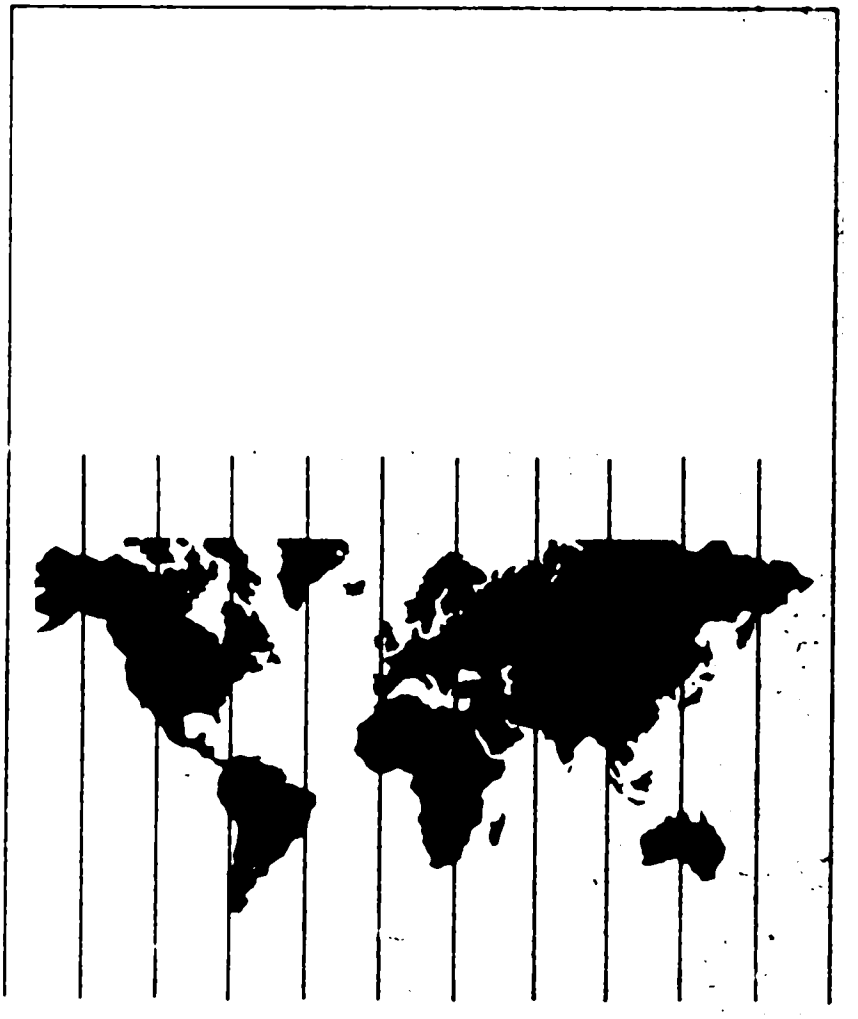
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



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DRAFT AUDIT SURVEY DOCUMENT ON A.I.D. PROGRAMS, FUNCTIONS AND ADMINISTRATIVE SYSTEMS

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PREFACE

This guidance has been developed to assist auditors in identifying and assessing the internal controls relating to A.I.D. programs, functions and administrative systems. It draws on data from A.I.D. Handbooks and policy documents and organizes that data into a logical structure for documenting and understanding the Agency's systems of internal control.

The Agency's assistance activities are planned, implemented and monitored in accordance with prescribed systems, methods and procedures which are designed to achieve such purposes as:

- A.I.D.-provided funds are properly used for authorized purposes and accounted for in compliance with applicable laws, regulations and policy guidance.

- A.I.D.-financed inputs are competitively procured in accordance with applicable laws, regulations and policies.

- A.I.D.-financed local currencies are properly utilized and accounted for in a timely manner.

- A.I.D.-financed inputs are effectively managed and host country actions adequately monitored to ensure inputs are producing outputs within the parameters of the line item budget; outputs are effectively achieving project purposes; and the project purpose is contributing to the achievement of the Country Development Strategy Statement (CDSS) sector goal.

The purpose of performance audits is to determine whether these Agency systems, methods and procedures are operating as intended. These systems, methods and procedures must be designed to ensure compliance with legislative, regulatory and policy requirements. Recognizing the need for strengthening compliance with these requirements, Congress enacted the Federal Managers Financial Integrity Act in 1982. This Act puts the burden on Agency management to ensure that the totality of these systems, methods and procedures, as they relate to the various activities, provide adequate internal controls over Agency operations.

Audit objectives are the key to performance audits. The objectives not only define the audit purpose but also provide the focus for formulating subsequent audit findings. All planning, evidence gathering and data evaluation begin with the objectives and end when sufficient competent and relevant evidence has been developed to satisfy the audit objectives. Thus, in planning a performance audit, it is important to begin with a precise statement of objectives which fully and clearly articulates what the audit is expected to achieve.

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In developing an audit program to audit the objectives, the revised Government Auditing Standards require that:

- An assessment should be made of compliance with the applicable requirements of laws and regulations when necessary to satisfy the audit objectives.

- An assessment should be made of applicable internal controls when necessary to satisfy the audit objectives.

- The audit should be designed so as to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives.

Thus, in a very real sense, we, as auditors, are responsible for determining whether the Agency's systems, methods and procedures are adequate to control the appropriations made available by Congress to achieve the intended results in an efficient and economic manner.

To plan audits properly, auditors must have a sound understanding of the systems, methods and procedures relating to the various A.I.D. programs, functions and administrative activities. This guidance document should be useful to auditors in identifying audit objectives and developing the audit program methodology to achieve the objectives.

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PART I

INTERNAL CONTROL REVIEW PROCESS IN A.I.D.

INTRODUCTION

Recognizing the need to reemphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (the Integrity Act) in September 1982. The Integrity Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies, and managers delegated responsibility by agency heads, legally responsible for maintaining adequate systems of internal control. Pursuant to the Integrity Act, the General Accounting Office (GAO) was instructed to develop standards to be used by the agencies in establishing and maintaining internal controls, and the Office of Management and Budget (OMB) was instructed to issue guidance to be used by the agencies in evaluating its systems of internal control. Though the agencies' heads and managers are responsible for developing and administering the internal control systems in their organizations, OMB Circular A-123 (Revised), assigns certain responsibilities to the Inspectors General (IG). These responsibilities include reviewing the adequacy of the agencies' processes for evaluating the internal control systems and studying and evaluating the agencies' internal controls as a routine part of all Office of Inspector General (OIG) audits.

The literature on internal controls provides many definitions used by accountants, auditors, managers, et al. These definitions generally identify the types of controls such as: accounting, administrative, management, program and budget. These controls are only subsets of an agency's overall internal control system. In this sense, the terms are more descriptive of what the controls are designed to achieve than descriptive of the controls themselves.

The following definition developed by GAO encompasses these specific definitions:

> "Internal Controls are the combination of management objectives (policies) and techniques (procedures) used by managers to help assure that their agencies, programs or functions are effectively and efficiently managed in conformity with applicable laws and regulations."

This definition stresses the idea that internal controls are a tool used by the management of an agency to accomplish its objectives. All the techniques or procedures used by an Agency may thus constitute a system of internal control.

The ultimate responsibility for good internal controls rests with management. Thus, in elaborating on the definition, GAO states:

> "Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they

should be recognized as an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls. Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers."

OMB Circular A-123 (Revised), issued in August 1986, requires that the OIG of each agency include within the scope of audits a written evaluation of internal controls and report the results thereof in the audit reports. In carrying out this responsibility, the President's Council on Integrity and Efficiency (PCIE) guidelines state the auditor should:

- Examine the agency's evaluations performed under the Integrity Act, including risk assessments, internal control reviews, and alternative internal control reviews. The auditors should use these evaluations in planning their audit work so as to avoid unnecessary duplication of effort. The working papers should describe the scope of the auditors' review and the extent of their reliance upon the Agency's evaluations.

- Include routine evaluations of internal controls within the scope of OIG internal audits. The working papers should specifically describe the nature and extent of the review of internal controls. The resultant reports should state which findings are material internal control weaknesses in the judgment of the auditors. These material weaknesses should be considered for inclusion in the annual agency statement to the President and the Congress, unless corrective action has already been taken.

- Compare the findings disclosed by the audit with the results of the Integrity Act evaluation for the Agency component. The purpose of this comparison is to determine if the Integrity Act evaluation accurately reflected conditions in the involved component. The results of the comparison should be forwarded periodically to Agency managers for their use in improving the Integrity Act evaluation.

The PCIE guidance requires that the results of the auditor's review on internal controls be reported to Agency managers so effective action can be taken to address the weaknesses. By taking action on the reported weaknesses, the Agency is able to strengthen its internal control process and thereby reduce or eliminate whatever the adverse effects of the weakness may be. Audits thus provide a means of assisting the Agency to strengthen its internal control system and thereby bring its program and administrative functions under control.

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In performing the audit survey, the auditor should document the Agency's system of internal control as it relates to the audit objectives. The survey does not involve tests of these internal controls, since this work is normally conducted during the detailed audit cycle. Identifying the internal controls can be difficult if the auditor does not fully understand the Agency's system of internal control. Thus, to facilitate this understanding, the OIG has surveyed the Agency's system of internal control by functions and programs. The internal control relating to these key functions and programs are set forth in the subsequent parts of this guidance document.

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CHAPTER 1

MANAGEMENT RESPONSIBILITIES FOR INTERNAL CONTROLS

A. FINANCIAL MANAGERS INTEGRITY ACT

Responsibility for developing and maintaining internal controls has been assigned to the managements of the agencies by statute. The Accounting and Auditing Act of 1950 placed responsibility for establishing and maintaining adequate systems of accounting and internal control on the head of each executive agency (31 CFR Title Section 66[a]). Since this requirement was not implemented satisfactorily, the Budget and Accounting Act was amended on September 8, 1982, by the Integrity Act to reemphasize the importance of maintaining sound accounting and administrative controls in Government.

The Integrity Act provides for:

- Standards developed by the Comptroller General for establishing internal control systems;
- Guidelines developed by OMB, in consultation with GAO, for evaluating internal control systems;
- Evaluations of the agencies internal controls in accordance with the GAO standards and OMB guidelines;
- Identification of material internal control weaknesses and plans for correcting those weaknesses; and
- Reports by the heads of the agencies to the President and the Congress indicating whether the agencies internal controls comply with the standards issued by the GAO.

To comply with these requirements, each agency is required to develop a plan of continuous internal control evaluations. These evaluations form the basis for the agencies annual reports to the President and the Congress.

B. GAO INTERNAL CONTROL STANDARDS

The internal control standards developed by the GAO, in response to the Integrity Act, define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated. These internal control standards apply to all operations and administrative functions. The GAO developed twelve internal control standards - categorized as general, specific and audit resolution standards - as indicated below:

General Standards

- Reasonable Assurance - Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.

- Supportive Attitude - Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

- Competent Personnel - Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.

- Control Objectives - Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

- Control Techniques - Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

Specific Standards

- Documentation - Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

- Recording of Transactions and Events - Transactions and other significant events are to be promptly recorded and properly classified.

- Execution of Transactions and Events - Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

- Separation of Duties - Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

- Supervision - Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

- Access to and Accountability for Resources - Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned

and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Audit Resolution Standard

- Prompt Resolution of Audit Findings - Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management's attention.

Auditors should recognize there is an important difference between the general and specific standards. The general standards relate to the overall control environment and are the foundation blocks of an effective control system. In other words, the ideal control system will meet all of the general standards. The specific standards apply to the control **techniques** or procedures used in the event cycles of the program and administrative functions of the organizational components. As a general rule, the **control techniques** within a cycle will not meet all of the specific standards. This distinction should become clear in the discussion of OMB's Internal Control Guidelines.

An explanation of the GAO standards and how they apply to all aspects of internal controls is provided in the GAO's Standards for Internal Control In the Federal Government, commonly referred to as the Green Book. A copy of the Green Book has been provided to all OIG audit offices.

C. OMB INTERNAL CONTROL GUIDELINES

Pursuant to the Integrity Act, OMB issued specific guidance for evaluating internal controls in December 1982. This guidance is contained in Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government (Guidelines).

Since the issuance of these guidelines, OMB made certain modifications to reduce the duplication of effort and the paperwork in documenting the systems and evaluation reviews. These modifications are cited in OMB Circular A-123 (Revised), issued on August 4, 1986.

A brief description of the internal control process outlined in these guidelines and Circular A-123 (Revised) is provided below.

1. Organizing the Process

The guidelines recognize it is critical that an executive agency, whether large or small, carefully organize and assign

responsibilities in a manner that ensures the evaluation, improvement, and reporting on internal controls is conducted in an efficient and effective manner. Because of the importance of organizing the process, OMB Circular A-123 (Revised) instituted certain requirements for formalizing the process. In regard to the responsibilities for the process, the circular assigns the following roles to Agency officials:

- The head of each agency is responsible for ensuring that the design, installation, documentation, evaluation and improvement of internal controls, and issuance of reports on the agency's internal controls, are in accordance with the Integrity Act, GAO standards, and the Circular.

- A senior official shall be designated in each agency who is responsible for coordinating the overall agency-wide effort to comply and evaluate compliance with the Integrity Act and OMB Circular.

- Heads of Agency components are responsible for developing and administering the systems of internal controls in their units. This responsibility includes reporting to the Agency head each year on the compliance of the internal controls systems in their components with the requirements of the Integrity Act and the Circular.

- The OIG, as an integral part of the agency's internal control process, should routinely include within the scope of the audits an evaluation of internal controls and report thereon. In addition, the OIG should review and evaluate the agency's internal control process to ensure it has been conducted in accordance with the Circular. The OIG should also provide technical assistance in the agency's efforts to evaluate and improve systems affected by the Circular.

In regard to the organization of the process, the Circular states the Agency should:

> "Maintain a current internal control directive assigning management responsibility for internal controls in accordance with this circular and the Internal Control Guidelines with the following provisions. Provide for coordination on internal control matters among the designated internal control official, heads of agency components, program managers and staffs, and the IG office or its equivalent. Establish administrative procedures to enforce the intended functioning of internal controls. Require performance agreements, for each Senior Executive Service and Merit Pay or equivalent

> employee with significant responsibility for internal controls, which result in recognition for positive internal control accomplishments such as timely correction of internal control weaknesses and appropriate action for violations of internal controls."

In regard to scheduling the evaluation process, the circular states the Agency should:

> "Develop a Management Control Plan (MCP) or plans to be updated annually. The primary purpose of an MCP is to identify component inventory, to show risk rating of component (high, medium, low), and to provide for necessary evaluations over a five-year period. Material weaknesses and other areas of management concern may also be monitored through the plan. High risk components and material weaknesses must be acted upon during the first year of the plan. The plan should be based upon the schedule of actions in each major component, and identify the senior managers responsible. Management should utilize the plan for monitoring progress and ensuring that planned actions are in fact taken. MCP's are intended to be part of each agency's overall planning process and, at a minimum, should be linked to activities under A-127 and A-130. The first MCP should be issued and in effect by December 31, 1987."

Based on these requirements, the Agency should assign responsibilities for the process to Agency officials, document how the process operates, and develop a schedule for performing risk analyses and internal control reviews. This documentation should provide the auditors with an overall understanding of how the Agency's evaluation system operates.

2. **Identifying Components, Programs, and Functions**

Since Federal agencies are large complex organizations, the OMB guidelines suggest that the most effective way to perform an evaluation of the systems upon which an agency head can submit a statement is to segment the agency first into organizational components and then into programs and administrative functions within each component. The program and administrative functions should in turn be segmented into event cycles.

The event cycle is the basic unit reviewed in evaluating internal controls. These cycles are simply the processes or procedures used within the program and administrative functions to achieve the functions' goals or objectives.

The OIG is an example of an organizational component. Within the Inspector General component, the Office of Audit is a function, as are the Offices of Investigations, Security and Administration.

Under the audit function, there are the following cycles:

- Audit planning cycle
- Audit cycle
- Draft audit report cycle
- Final audit report cycle

Each of these cycles contain procedures identified and spelled out in the OIG Handbook. The procedures in the audit cycle include:

- Preparation and approval of audit programs spelling out the audit objectives and work steps
- Assignment of duties and supervision of staff
- Preparation of workpapers evidencing work performed
- Review of workpapers

Thus, in order to evaluate the audit cycle, it is necessary to review the procedures within that cycle. By reviewing the procedures of the other cycles in a similar manner, the OIG is able to determine whether audits are conducted in accordance with GAO audit standards and OIG policies.

At this point it is useful to anticipate the discussion on internal control reviews by emphasizing why the segmentation of components into functions and functions into cycles is so important to the internal control process. To determine the inherent risks of a function, it is necessary to determine the risks of the cycles within the function. Based on the risks of the cycles, the risks of the function can be easily determined. The risks of the functions would in turn be used to arrive at the risk of the component.

When the risks of a cycle are rated as high, internal control **objectives** should be established to control those risks. **Control techniques** would then be identified and reviewed to ensure they are adequate to achieve the **control objectives.** These **control techniques** are simply those procedural steps within the cycle that provide an element of control within the context of GAO's specific standards of internal control.

The audit cycle, discussed above, can be used to clarify this. In reviewing the audit cycle, the OIG may have determined that there is

a high degree of risk in this cycle. The following **control objective** would thus be established for the cycle: audits are to be conducted in accordance with OIG policies and GAO standards. The **control techniques** relating to this **control objective** would be the procedures spelled out in the OIG Handbook. In this case, a review of the procedures or techniques indicates they satisfy four of the six GAO internal control specific standards:

- Documentation - the policies outlined in the handbook explaining the procedures of the audit cycle.
- Records - workpapers evidencing the work performed.
- Authorization - approval of audit programs and assignment of responsibilities.
- Supervision - review of work evidenced by review and approval of the audit program and workpapers.

The proper segmentation of a component into functions and functions into cycles is thus crucial to the evaluation process. Auditors should realize that segmentation has a significant influence on how effectively internal controls are evaluated. Thus, by understanding how components are segmented into functions and functions into cycles, auditors are better able to identify and review which internal controls are not functioning efficiently and effectively.

3. **Vulnerability Assessments**

A vulnerability assessment is a preliminary top down review of a component's program and administrative functions to determine its susceptibility to financial or non-financial loss. The results of this review are then used to take immediate actions on weaknesses noted and to set priorities for more in-depth internal control reviews.

The vulnerability assessment procedures, outlined in the OMB guidelines, entail a five-step process which is briefly described below.

The first step is to analyze the general control environment. This analysis may be performed for the component as a whole or based on individual analyses of each program and administrative function within the component. The determining factors would be the size, nature and degree of centralization of the program and administrative functions within the component. Considering the subsequent steps, the preferred method would be to analyze the control environment for each function based on an evaluation of the cycles within the function and then make an overall assessment for the component based

on the results of each function. In making this analysis, the control environment is assessed in terms of GAO's general standards of internal control.

The second step is to determine the potential risk of the functions to loss of resource inputs or the failure to achieve desired results. Though this determination is intended to be based on a preliminary top down review of the functions, it implicitly involves a preliminary review of the risks within the cycles of the functions. These preliminary reviews thus result in the identification of high, medium and low risk cycles. It follows that when high risk cycles are identified within the functions, control objectives should be tentatively established for them. Based on the ratings of the cycles, an overall risk rating for the functions can be derived.

The third step is to make a preliminary evaluation of the safeguards or procedures in place to minimize the risks. An in-depth review of the existing controls is not appropriate at this stage. Instead, the evaluation should be based largely on the preliminary knowledge of the existence and functioning of safeguards or procedures to protect the program and administrative functions from loss of resources or failure to achieve objectives. The evaluation, however, must be thoughtful and based on a working knowledge of the program and administrative functions. The OMB guidelines state that judgments made without detailed knowledge of the program are not usually reliable. What this means is that the cycles within the function be quickly reviewed to ensure there is documentation in the form of handbooks, policies and so on, spelling out the procedures of the cycles. Where cycles have been rated as high, control objectives should be tentatively developed. If this is done, the procedures would then be quickly assessed in the context of whether they provide adequate control techniques to meet the control objectives.

The fourth step is to make an overall assessment of the component based on the risk rating of the functions. This involves weighing the potential risks of the component against the existing safeguards and making an overall judgment whether the vulnerability of the component is high, medium, or low.

The fifth step is to use the summarized vulnerability assessments to determine appropriate action. The guidelines suggest the component establish a prioritized schedule for internal control reviews based on highly vulnerable risk ratings of functions and the cycles within those functions. High risk functions would require an in-depth detailed review; moderately vulnerable functions would require a less intensive review; and low vulnerability functions even less of a review.

Though vulnerability assessments are intended as a diagnostic or preliminary overall review of the component, it is easy to see it could involve a fairly significant expenditure of time and resources, if done conscientiously. Perhaps, with this in mind, OMB made it an optional rather than mandatory requirement in Circular A-123 (Revised). Based on the modification, OMB now requires that only a risk assessment be performed as follows:

> "Make risk assessments to identify potential risks in agency operations which require corrective action or further investigation through internal control evaluations or other actions. These may follow the vulnerability assessment on a systematic review building on management's knowledge, information obtained from management reporting systems, previous risk assessments, audits, etc. Management should update its risk assessment of agency components at least once every five years and as major changes occur. Risk assessment on new or substantially revised programs should occur as part of the Management Control Plan (MCP). Risk assessments are to be considered as part of planning for implementation and the results reflected in the developing MCP."

By making the vulnerability assessment procedures optional, the Agency now has the flexibility to shortcut the vulnerability procedures to arrive at an overall risk rating for the component. When the Agency shortcuts these preliminary or diagnostic procedures, as it has, the internal control review procedures thus become the central focus of the evaluation process.

4. Internal Control Reviews

OMB defines an internal control review as a detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent the occurrence of potential risks in a cost effective manner. Internal control reviews are thus detailed reviews of the procedures applicable to the cycles within the functions of the component. By identifying the high risk cycles within the functions of the component during the vulnerability assessment, the Agency is then able to develop a prioritized schedule for performing the detailed internal control reviews. The high risk cycles in the function would receive more intensive reviews than those with lower risk ratings. However, since the Agency has elected to shortcut the vulnerability procedures to arrive at its risk rating for the components, the internal control review procedures take on added importance. Instead of two separate stages, there is only one stage, the internal control review.

description of the steps involved in performing internal control reviews is provided below.

Identification and Documentation of the Event Cycles

An event cycle is a series of steps taken to get something done. As discussed earlier, each program and administrative function within a component contains one or more event cycles. An example would be the contracting function within a component which might include three cycles: solicitation, award, and administration. These event cycles provide the focal points for the internal control review.

Event cycles must be documented in order to obtain a thorough understanding of how they operate. The OMB guidelines state that this is done by interviewing persons involved in the cycles, reviewing documentation, observing the activity, and then preparing either a narrative explanation or flow chart, accompanied by pertinent narrative information in sufficient detail to permit an in-depth analysis of the existence and adequacy of internal controls. This documentation should identify such things as the procedures, personnel performing the procedures, and the form of research developed and maintained.

It is clear that documenting the cycles in this manner involves a very detailed and paper-intensive exercise. Recognizing this, OMB Circular A-123 (Revised) permits a less detailed and paper-intensive response. In regard to this documentation, the circular states:

> "System documentation includes policies and procedures, organization charts, manuals, memoranda, flow charts, and related written materials necessary to describe organizational structure, operating procedures, and administrative practices; and to communicate responsibilities and authorities for accomplishing programs and activities. Such documentation should be present to the extent required by management to effectively control their operations."

Based on this revised documentation requirement, it is no longer necessary to develop detailed written narrative summaries on the steps of event cycles within a function. Reference to appropriate handbooks, memoranda, etcetera, spelling out the procedures will now satisfy the system documentation requirements. The circular thus greatly reduces the amount of paperwork in the process.

b. **Establishing Control Objectives**

Control objectives should be identified for each event cycle having a high degree of risk. To do this, it is necessary to identify the risks within the cycle by reviewing each step for potential loss. Control objectives are then established for those cycles with a high degree of risk. These control objectives thus establish goals for reducing or eliminating the potential risk. OMB guidelines require that these control objectives:

- be written for each event cycle of the function;
- cover all important aspects of the function;
- relate to the potential risks; and
- support the achievement of the function's mission and the overall goal of the internal control mandates.

c. **Identifying and Evaluating Control Techniques**

Control techniques should be identified for each control objective. A control objective may be met by a single control technique or combination of control techniques. The important factor is not the number of techniques but the ability of the control techniques to meet the control objectives. To identify control techniques, it is necessary to review the documentation and processes relating to the steps of the cycle. The techniques may include one or a combination of the following methods relating to GAO's seven specific internal control standards or other measures:

- written descriptions of methods or procedures;
- the system of records or recordings of transactions;
- authorization procedures;
- segregation of duties;
- supervisory reviews;
- security measures and/or access controls; and
- other methods.

OMB guidelines require that the control techniques:

- o be defined in writing;
- o be directly linked to the specific control objectives; and
- o include a judgment on the efficiency and effectiveness of existing control techniques.

Once the control techniques relating to the specific control objectives have been identified and written, it is necessary to make an overall evaluation of the existing controls. This evaluation should provide reasonable assurance on paper that the system meets the control objectives and GAO standards. This evaluation should result in identifying:

- o control techniques that are adequate and will be tested;
- o control objectives for which control techniques are not adequate and system changes must be made; and
- o control techniques that are unnecessary and can be eliminated.

The results of the evaluation should be documented. However, in issuing Circular A-123 (Revised), OMB modified the review documentation requirements as follows:

"Review documentation shows the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer."

The key words "reasonably knowledgeable reviewer" which would apply to auditors.

d. Testing the Internal Controls

The next step in the internal control review process is the testing of the necessary control techniques to determine whether they are functioning as intended. This process begins by selecting those controls to be tested. Various testing methods may be used, such as document analysis, observations, interviews, as well as sampling techniques. Both the testing process and results should be documented to satisfy a reasonably knowledgeable reviewer.

e. **Analyzing the General Control Environment**

Analyzing the control environment involves reviewing the information collected and making an overall judgment on the adequacy of the internal control system as a whole. GAO's five general internal control standards should be used in making this judgment:

- Reasonable assurance that adequate measures are in place to control identified risks.
- Managers and employees maintain and demonstrate a positive and supportive attitude toward internal controls.
- Personnel have the skills and knowledge necessary to accomplish their assigned tasks and support the internal control system.
- Tailor-made control objectives have been established for all functions.
- Control techniques are effective and efficient.

The conclusions reached regarding each of these control standards and the reasons for the conclusions must be documented. A description of any material weaknesses uncovered and the effect created by the weakness must also be documented.

5. **Reporting the Results of the Internal Control Reviews**

Two types of reports should result from the internal control reviews. The first are the reports for initiating corrective action prepared for the managers of the programs and administrative functions and other managers. These reports should identify the weaknesses within the system and contain recommendations addressing them. More specifically, the reports should indicate:

- In what ways is the general control environment inadequate to provide the necessary atmosphere for the appropriate functioning of specific controls?
- In what areas are necessary control techniques nonexistent or inadequate?
- In what areas are necessary control techniques not functioning as intended?
- In what areas are control techniques excessive, thereby fostering a lack of economy or creating inefficiencies?

The second report concerns the Administrator's statement to the President and the Congress. This report requires a statement as to whether the Agency has established a system of internal accounting and administrative control in accordance with standards prescribed by the GAO; and whether this system provides reasonable assurances that:

- Obligations and costs are in accordance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures are properly recorded and permit the preparation of reliable financial and statistical reports.

The report must also include a listing of identified material weaknesses in internal accounting and administrative control and a schedule for their correction.

6. Follow-up Actions

Recommendations made in the reports to management should receive appropriate corrective actions as promptly as possible. A formal follow-up system must therefore be established which logs and tracks recommendations and target dates, provides assistance for the development of plans for implementation of the corrections, and monitors whether the changes are made as scheduled.

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CHAPTER 2

A.I.D.'S INTERNAL CONTROL REVIEW PROCESS

When OMB Circular A-123 (Revised) was issued in August 1986, it authorized agencies to adopt a more flexible approach for evaluating internal controls. Taking advantage of this flexibility, the Agency revised its internal control process in 1987. In undertaking this revision, A.I.D.'s objective was to streamline its internal control process to reduce paperwork and to involve senior management more actively in the process. This section provides an outline description of the Agency's revised process.

A. INTERNAL CONTROL DIRECTIVE

The Agency has developed an internal control directive which is cited in A.I.D. Handbook 19, Appendix 1D. This directive prescribes policies and assigns responsibilities for developing, establishing, evaluating, and reporting on the internal control system for the Agency's programs, financial, and administrative functions.

Internal control responsibilities are assigned as follows:

- Internal Control Manager - The Agency Controller, as Internal Control Manager, is responsible for issuing and clarifying all Agency policies on internal control and monitoring the application of internal control policies at all levels of the Agency.

- Internal Control Oversight Committee (ICOC) - The ICOC, comprising the Controller, as chairperson, and the Deputy Administrators of all central and geographic bureaus, as well as the Deputy Director of all independent offices in AID/Washington, is responsible for directing and monitoring the execution of internal control policies and prescribing standards and methodology for performing risk assessments and internal control reviews at all levels of A.I.D. The ICOC is also responsible for prescribing the formats for reporting weaknesses in internal control procedures and ensuring that corrective action is taken to eliminate those weaknesses. To monitor the weaknesses, the ICOC has established a follow-up system which records and tracks the weaknesses and determines whether appropriate action has been taken to correct them.

- Internal Control Contact - Each organizational component has designated an Internal Control Contact who reports to the Assistant Administrator of the Bureau or Director of the Office. The Internal Control Contacts are responsible for conducting, coordinating, and evaluating the risk assessments and internal control reviews within the organizational components according to the methodology prescribed by the ICOC.

B. MANAGEMENT CONTROL PLAN

In 1987, the ICOC developed a Management Control Plan for the Agency covering the five-year period from 1987 through 1991. The plan identifies an inventory of 34 organizational components covering program, financial, and administrative functions. It indicates the schedule of actions to be taken by each of the components to implement the Integrity Act. The 13 program components, for example, were required to perform risk assessments in 1987. Those program components whose risks were rated as high were also required to perform internal control reviews for three consecutive years. All other program components whose risk ratings were medium to low were required to perform internal control reviews starting in 1988.

The nine financial components were scheduled for risk assessments in 1988. Risk assessments for the remaining 12 administrative components are scheduled for 1989.

To monitor the status of risk assessments and internal control reviews, the ICOC updates the management control plan annually. Though OMB Circular A-123 (Revised), issued in August 1986, requires the organizational components to review its internal controls once during the five-year period, the ICOC requires the components to review the internal controls for three consecutive years. The rationale for the three consecutive annual reviews is two-fold. First, because of the frequent turnover of personnel, the ICOC felt it would give different managers the opportunity of reviewing the controls, thereby strengthening the process; and secondly, it would ensure managers are following-up on reported weaknesses.

C. RISK ASSESSMENTS

Under the Agency's procedures, each organizational component is required to assess its inherent risk. Inherent risk is simply the potential for fraud, waste, abuse, or mismanagement due to the nature of the program or function itself. It is important to note that the presence of risk does not reflect badly on the manager.

Determining the potential risk involves:

- an assessment of the likelihood of potential loss due to fraud, waste, abuse, and mismanagement of resources; and

- an estimate of the potential non-financial loss such as failure to achieve organizational objectives, loss of possible confidence, and loss of productivity.

In making risk assessments, the ICOC works with the organizational components to develop a questionnaire. As indicated below, this questionnaire contains several factors which should be considered in assessing the degree of risk in the component.

1. **Characteristics of the Program or Function**

The type of work performed or the way in which the work is performed can affect the likelihood of loss. The following aspects should thus be considered under this factor, since they often contribute to fraud, waste, and abuse:

- Broad or vague missions, goals, or objectives
- Interaction with organizations outside the chain of command
- Producing work under tight deadlines
- Handling cash receipts
- Handling valuable inventory items

2. **Budget Level of the Program or Function**

Programs or functions involving large amounts of money are more susceptible to loss than programs or functions involving smaller amounts. Accordingly, the level of funding should be determined by reviewing the component's budget and supporting materials. Aspects to be considered in assessing this factor include:

- Whether the component has a large budget compared with other programs and functions within the Agency.
- Whether the component controls property or resources of substantial value.
- Whether the component is responsible for controlling or monitoring trust or counterpart funds.

3. **Age and Life Expectancy of the Programs or Functions**

Consideration should be given to the age and life expectancy of the programs or functions. New (in existence less than two years), changing (undergoing substantial modification or reorganization), or phasing out (to be eliminated within one or two years) programs should be considered more susceptible to loss than stable programs (in existence for more than two years and not expected to phase out within two years). There are two reasons for this. First, new or changing programs may lack written policies or procedures, lack adequate resources, lack experienced managers, lack devices to measure program performance, and in general, have considerable confusion associated with them. Second, programs that are phasing out may lack adequate resources or may involve close-out activities, for which controls may not have been developed, and/or large amounts

of money or other resources which must be accounted for. Also, personnel often lose interest and motivation when a program is phasing out.

4. **Prior Reviews of the Programs or Functions**

Prior audit reports submitted by the OIG, the GAO, internal evaluations, Congressional reports, and consulting reports should be reviewed for any indication that the program or administrative function has previously been subject to loss. The amounts of estimated losses, if any, and the period covered by these prior reviews, should be considered. Programs or functions with minimal audit coverage or with significant and repeated findings should be considered more susceptible to waste.

Risk assessments are normally done jointly by the Internal Control Contact of the component and the Assistant Administrator or Office Director. These officials make an overall risk rating for the component based on an assessment of the individual factors discussed above. This overall risk rating is then reviewed and approved by the ICOC.

D. INTERNAL CONTROL REVIEWS

An internal control review is a detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent the occurrence of potential risks in a cost effective manner. In its Internal Control Guidelines, OMB recommended that certain steps be followed in performing internal control reviews. It is clear, however, that internal control reviews performed in accordance with the steps recommended in the Guidelines involve a very detailed exercise.

In regard to internal control evaluations, OMB Circular A-123 (Revised) states:

> "Internal Control Review is a detailed examination of a system of internal controls using the methodology specified in the Internal Control Guidelines. All reviews should produce written materials documenting what was done and what was found."
>
> "Alternative Internal Control Review is a process such as Circular A-130 computer security reviews, Circular A-127 financial system reviews, Inspector General audits, and other management and consulting reviews to determine that the control techniques in an agency component are operating in compliance with this circular. Such alternative reviews must determine overall compliance and include testing of controls and the development of required documentation."

Based on this modification, it is acceptable to substitute the reviews of others for Agency internal control reviews, provided the reviews of others are done in sufficient depth to meet OMB requirements. In other words, it is not necessary for the Agency to duplicate reviews done by consultants, auditors and others so long as their work meets OMB requirements. Thus, if the OIG audits meet OMB internal control requirements, the Agency can substitute this audit work for its own reviews of the program or function covered.

Taking advantage of the flexibility provided by the circular, the Agency has developed a questionnaire-type approach to internal control reviews. The Agency refers to this questionnaire-type approach as an Alternate Internal Control Review (AICR).

The Agency's review process commences with the preparation of a questionnaire for the component. To prepare the questionnaire, the ICOC works with the Internal Control Contact of the component and other senior officials. As a result of discussions and study, the program and administrative functional elements are identified. After this has been done, the risks within the program and administrative elements are reviewed and control objectives developed. A series of control techniques are then developed to address the control objectives. The accompanying instructions require that each of these control techniques be evaluated. This is done by indicating in an appropriate space on the questionnaire whether the technique is satisfactory, unsatisfactory or not applicable. If the technique is judged unsatisfactory, the deficiency must be reported with a resolution date indicating when it will be corrected. The questionnaire also makes provision for testing of certain techniques. Documentation relating to this testing must be retained. Any deficiencies noted as a result of this testing should also be reported and a resolution date provided for addressing it.

Upon completion, the questionnaire is given to the component for review. The accompanying instructions will state the date when the questionnaire, with appropriate comments on deficiencies, should be provided to the ICOC. Within the component, responsibility for performing the review is assigned to a review committee consisting of the Internal Control Contact and two other senior officials. This committee directs and coordinates the review with the managers of the various program and administrative elements within the component. In the case of geographic bureaus, it is important to note the bureaus are divided into two components: an A.I.D. Washington component and an overseas component. The individual missions constitute sub-components of the overseas component. Accordingly, in reviewing overseas sub-components, each mission should establish a review committee to direct and coordinate the review.

When the internal control review has been completed, the completed questionnaire and the comments on the results of the review are sent to

the ICOC. The ICOC reviews and analyzes the results. These results are then discussed with the assistant administrator or director of the component.

The ICOC is responsible for maintaining a system to identify all deficiencies and appropriate recommendations resulting from the reviews and tracking all follow-up action until the recommendations have been fully addressed. Accordingly, after the ICOC reviews and analyzes the results of the internal control reviews, it identifies and inputs the recommendations relating to the deficiencies of the component in the follow-up system. Throughout the year, the ICOC follows up with the components on the action taken to address the recommendations. About three months prior to the end of the year, the ICOC requests all components to report on the current status of all open recommendations and specify when final action will be taken. The follow-up system is then updated based on this information. When this has been done, the ICOC identifies all material weaknesses which should be included in the annual report to the President and the Congress.

Prior to year end, the ICOC develops a draft of the annual report in accordance with the reporting guidance outlined in OMB's Internal Control Guidelines. Based on this draft, a final report is prepared and cleared by appropriate members of the ICOC.

E. COMMENTS ON THE AGENCY REVIEW PROCESS

The internal control review process can be a very detailed and time-consuming process. Recognizing this, OMB endeavored to reduce some of the paperwork by the modifications cited in Circular A-123 (Revised).

One modification was to substitute the reviews by auditors, consultants and others for Agency internal control reviews, provided these reviews by others were done in sufficient depth to meet OMB internal control requirements. It is difficult to understand how the Agency could construe this definition of an Alternate Internal Control Review (AICR) to include its questionnaire methodology. Though Circular A-123 authorizes shortcutting techniques, it still requires that detailed reviews be performed. It is thus highly questionable whether the shortcutting techniques of the Agency's questionnaire methodology meets OMB internal control guidelines. At most, it is a perfunctory review. It fails to:

- identify the cycles within the functions;
- document the processes or procedures of the cycles;
- establish **control objectives** for the specific cycles of the function;
- relate the **control techniques** to specific **control objectives**; and
- relate GAO's internal control standards to the evaluation process.

An AICR would be the detailed annual review of the Agency's accounting and computer systems required by OMB Circulars A-127 and A-130. But there is no evidence that these reviews are being performed. Audits are another type of AICR. Yet, few of these audits meet OMB's Internal Control Guidelines.

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CHAPTER 3

INSPECTOR GENERAL REVIEW OF THE AGENCY'S INTERNAL CONTROL PROCESS

OMB Circular A-123 (Revised) requires that the Inspector General of the Agency determine whether the Agency's review and evaluation has been conducted in a manner consistent with the Circular. This OMB requirement imposes upon the OIG of the Agency a top-down type review of the Agency's internal control process to determine whether it is functioning efficiently and effectively. To assist the Inspector General, the President's Council on Integrity and Efficiency (PCIE) has developed guidelines for performing the review. These PCIE guidelines suggest a seven-step review process which is discussed below.

A. ORGANIZATION OF THE INTERNAL CONTROL PROCESS

In reviewing the organization of the Agency's internal control process, the PCIE states that the auditor should:

- o confirm that the Agency has an internal control directive;
- o verify that the procedures of this directive are in place to enforce the intended functioning of internal control matters among Agency officials; and
- o confirm, on a sampling basis, that Senior Executive Service, Senior Foreign Service, and Merit Pay employees with significant responsibility for internal controls have work requirements in their EERs on which they are judged.

B. MANAGEMENT CONTROL PLAN (MCP)

In reviewing the MCP, the PCIE states that the MCP should be reviewed to determine whether it:

- o contains an inventory of the Agency's components;
- o designates the risk ratings (high, medium, low) for each component; and
- o provides for evaluation over a five-year period, including scheduled dates for the evaluation, type of evaluation (e.g., internal control reviews or other internal control reviews) and the name of the management official responsible for each evaluation.

In regard to the schedule of evaluations, OMB requires that the high risk components should be scheduled and acted upon during the plan's first year. This does not necessarily mean the review of the component should be completed by the end of the first year of the plan. What is important is that high risk components receive priority attention and that the plan document the status of the planned actions.

C. RISK ASSESSMENT

In regard to risk assessments, the PCIE guidelines state that the auditor should:

- o verify that a documented review of the components' risk or susceptibility to waste, loss, unauthorized use or misappropriation has been performed on a five-year cycle and as major changes occur.

- o select a sample of risk assessments and through interviews with the assessors and review of available documentation determine whether the assessments were based on a systematic review building on management's knowledge, information obtained from management reporting systems, previous risk assessments or audits.

Risk analysis is a critical part of the internal control process. Only by properly analyzing the risks in the components can managers take appropriate action to address those risks. When risks are understated, appropriate control techniques may not be put in place to minimize the adverse effects of the risks. When risks are overstated, too many control techniques may be put in place, thereby resulting in an uneconomical use of limited resources. Thus, by properly assessing risks, managers will know what is at stake in their components. Knowing this, helps them to decide how much control is appropriate. Auditors should therefore ensure that the risk assessments of the components were based on the appropriate factors for determining risks and sufficient judgment exercised in establishing the degree of risk.

D. INTERNAL CONTROL EVALUATIONS

In regard to internal control evaluations, the PCIE guidelines state the auditors should:

- o determine what internal control evaluations have been performed, i.e. reviews using the methodology specified in the OMB guidelines or AICRs.

- o determine whether the required documentation was produced and testing of internal controls performed for a sample of evaluations.

The review documentation should show the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer, and if it adequately supports the conclusions reached. The testing of internal controls should include procedures to determine whether internal control systems are working in accordance with management internal control objectives.

E. CORRECTIVE ACTIONS

In regard to corrective actions, the PCIE guidelines state the auditor should:

- o determine whether a formal follow-up system has been established by the Agency that records and tracks recommendations and projected action dates, and monitors whether the changes are made as scheduled.

- o determine whether the Agency's follow-up system includes procedures to verify that corrective actions have, in fact, been taken as reported. (If the follow-up system includes procedures to verify that corrective action, in fact, have been taken as reported, the auditors should examine whether the procedures are effective. If there are no verification procedures as an integral part of the follow-up system, the auditors should select a sample of corrective actions on internal weaknesses. Through review of documentation and discussions with Agency personnel, they should verify that corrective action has been taken as reported, and that the corrective action appears to address the weaknesses.)

The internal control process is designed for managers to review the controls within their components, identify control weaknesses, and then take appropriate action to address those weaknesses. Unless action is taken to address the internal control weaknesses, the process is not effective. It is thus essential that recommended actions be addressed in a prompt manner.

F. AGENCY REPORTING

In regard to Agency reporting, the PCIE guidelines state the auditor should:

- o review the Agency's internal control statement to the President and the Congress and determine whether the statement:

  - (i) states whether the evaluation of internal controls was conducted in compliance with A-123, and whether the Agency's system of internal controls complies with GAO standards and provides reasonable assurance that programs are effectively carried out in accordance with applicable law;

  - (ii) reports material weaknesses in the Agency's system of internal controls, however identified; and

  - (iii) contains a plan for correcting material weaknesses.

- o determine whether the statement adequately discloses all identified material weaknesses, including those disclosed through audits.

- determine whether the Agency's system of internal control provides reasonable assurances, considering the nature and extent of the evaluation effort and the material weaknesses disclosed by the evaluation.

An explanation is warranted regarding the term material weakness. OMB Circular A-123 (Revised) defines a material weakness as:

> "a specific instance of non-compliance with the Integrity Act of sufficient importance to be reported to the President and Congress. Such weakness would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest."

Only those weaknesses meeting this definition would be reported as a material weakness. An example of a material weakness in the Office of Audit would be the lack of adequate personnel to provide sufficient audit coverage of the Agency's programs. Since audit is an important element of control within the Agency's system of internal control, it must have sufficient audit personnel to carry out its function. Because it does not, it is unable to meet its organizational responsibilities to the Agency. Material control weaknesses thus relate to significant weaknesses impacting on the Agency. The fact that work papers are not consistently reviewed by supervisors would not be an example of a material control weakness.

Determining whether the Agency has reported all material weaknesses is not an easy task. In addition to reviewing the results of the Agency's internal control reviews, the auditor should review the OIG Deficiency Tracking System reports. In reviewing the reports of this OIG system, the auditor may well question why the following were not reported as material weaknesses: large amounts of excessive cash advances reported in a number of OIG audit reports; failure of the host country entities to provide the required financial contributions reported in a number of OIG audits reports and failure of project designers to incorporate lessons learned into the design process.

G. OIG REPORTING

In regard to OIG reporting, the PCIE guidelines state the auditors should:

- provide written comments to the Agency head on the adequacy of the Agency's internal control statement to the President and the Congress.

- report to management any deficiencies in the evaluation disclosed through the limited review of the Agency's internal control process.

Within the OIG, responsibility for performing the review of the Agency's internal control process is assigned to the Office of Program and Systems Audit (PSA). In performing the review, PSA may request the Regional Audit Offices to provide assistance in reviewing the overseas sub-components. Responsibility for preparing an audit report, incorporating the results of the Regional Audit Offices, rests with PSA. The report will be prepared in accordance with the report presentation requirements described in Part I, Chapter 8, of the Audit Handbook.

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PART II

THE PROGRAMMING AND BUDGETING FUNCTIONS

INTRODUCTION

The purpose of Part II is to describe the Agency's programming and budgeting functions as they relate to the geographic bureaus. Throughout this part, the focus of the discussion is on the geographic bureaus.

To understand the processes within the programming and budgeting functions, auditors should have some familiarity with the legislation relating to the Agency's authorization and appropriations, the Agency's organizational structure, and the Agency's system of delegated authorities. By way of introduction, these legal and organizational aspects are described below. Because of space, this description must necessarily be brief. Auditors are thus encouraged to refer to the applicable legislative documents and Agency handbooks for a more thorough presentation of the details.

The Agency operates under the authority of the Foreign Assistance Act of 1961, as amended. This authorizing legislation, including subsequent amendments to the Act, provides the policy framework within which foreign assistance is provided. Though the authorizing legislation does not provide the funds, it does include the terms and conditions governing the use of funds. Therefore, in testing for compliance, auditors must not only have a familiarity with the Act but also an understanding of the control techniques or procedures used by the geographic bureaus to ensure compliance with the requirements of the Act.

The Agency's foreign assistance program consists of two major components. The first component is development assistance, accounting for about $1.6 billion annually, which addresses development needs and is justified on the basis of such needs. Development assistance consists of two basic appropriations: the Development Assistance Functional Program appropriations, which includes those funds individually appropriated under Section 103 to 106 of the Foreign Assistance Act and accounts for about $1.1 billion annually; and the Development Fund for Africa appropriation which accounts for about $500 million annually. In appropriating these funds, the Appropriations Act establishes certain ceilings and earmarks for the use of the funds, e.g., so much from the Sections to be used for the Private Sector Revolving Fund, Private Voluntary Organizations, and so on. This assistance is provided in the form of loans or grants, though all such funds will henceforth be provided on a grant basis starting in fiscal year 1989. Development assistance funds must be obligated within the fiscal year for which they have been appropriated.

The second major component is economic support funds, accounting for about $3.3 billion annually. This assistance is justified on the basis of political, security, and economic considerations. Of this economic support fund assistance, about 60 percent is provided in the form of cash transfers, about 10 percent in the form of commodity import program assistance, and about 30 percent in the form of project assistance. All such assistance will be provided on a grant basis, commencing in fiscal year 1989. Economic support fund assistance is appropriated under Section 533 of the Foreign Assistance Act. In appropriating these funds, the Appropriations Act also establishes

ceilings and earmarks for use of these funds as well, e.g., over 95 percent of these funds are earmarked for specific countries. However, unlike development assistance, the Agency has the authority to obligate these funds over a two-fiscal-year period.

Funds, accounting for about $100 to $150 million annually, are also appropriated for programs not included within these two major components. These programs include American Schools and Hospitals Abroad, International Disaster Assistance, and the Housing Investment Guaranty Program. Funds for these and other programs are appropriated under appropriate sections of the Foreign Assistance Act.

The Foreign Assistance Act gives the Agency deobligation-reobligation authority under which it can deobligate prior year funds and obligate them for current year programs. This is an extraordinary statutory authority which permits the reobligation of deobligated funds once the initial period for obligating the funds has expired. In giving the Agency this authority, Congress expressed its intent that this deobligation-reobligation authority not be used to sweep up small residual balances from terminating projects, but that it be used for capturing funds from non-performing projects or for the reallocation of resources in refocusing a mission's portfolio. In other words, it was intended to encourage responsible and active management of the Agency's portfolio.*

From time to time, Congress modifies the ground rules of this authority. For example, prior to Fiscal Year 1987, the Agency had to prepare a Congressional Notification Letter of each proposed deobligation and reobligation. In the Fiscal Year 1987 Foreign Assistance Appropriations Act, this deobligation-reobligation authority was liberalized. Under this liberalized authority, when development assistance and economic support funds are deobligated after the period for which they were made available, they become no-year funds. When deobligated, these funds become available for obligation without the need for any special Congressional action. When these funds are used to finance projects for which Congress has not been notified, a Congressional Notification Letter must be prepared.

This liberalized deobligation-reobligation was modified by the Fiscal Year 1989 Appropriations Act which stated that any funds deobligated remained available for the same period as the respective appropriations or until September 30, 1989, whichever is later. Under this modified authority, the Agency must again prepare a Congressional Notification Letter advising Congress of the proposed deobligation-reobligation. The 1989 Act also stated

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* When the Agency deobligates funds and plans to reobligate them, it must request OMB to reapportion the funds. The Office of Financial Management will process the request for reapportionment of development assistance funds and the Office of Policy and Program Coordination will process the request for reapportionment of economic support funds.

that the deobligation-reobligation authority no longer applied to the Economic Support Fund. Accordingly, if these funds are not used for the purposes intended, they revert to the Treasury upon deobligation.

Public Law 480 programs are discussed in Chapter 3. Though the Agency has responsibility for administering these programs, the funds are appropriated to the U.S. Department of Agriculture.

To carry out these foreign assistance programs, the Agency has a headquarters staff in Washington and a number of missions and offices located abroad. The structure of the Agency headquarters includes: the Office of the Administrator, which is supported by the Office of the Executive Secretary and Board for International Food and Agriculture Support Staff, eight staff offices, seven functional bureaus, and three geographic bureaus. Only a very brief description of the responsibilities of these organizational elements can be provided here. Because the responsibilities of these offices and bureaus are important to understanding the Agency's systems of internal controls, the auditor should refer to A.I.D. Handbook 17 for further details.

The Office of the Administrator

The Administrator - plans, directs, and coordinates the operations of the Agency and is responsible, subject to the approval of the Director of the International Development Cooperation Agency (IDCA) and the President, for the formulation and execution of U.S. foreign economic assistance policies and programs. The Administrator supervises and directs the activities of all personnel of the Agency in the United States and overseas.

Office of the Executive Secretary - serves as the channel of communication and coordination between the Office of the Administrator and the Agency's Senior Staff.

The BIFAD Support Staff - provides staff support to the Board for International Food and Agricultural Development (BIFAD) and its subcommittee as authorized by Section 298 of Title XII of the Foreign Assistance Act, as amended.

Staff Offices

The Office of the Inspector General - is the central authority concerned with the quality, coverage, and coordination of audit, inspection, and investigation services of the Agency. The Office also provides security services to the Agency.

The Office of Legislative Affairs - has the responsibility for the Agency's relations with Congress, also coordinates the preparation of A.I.D.'s legislative program, including the preparation and submission of information relating to legislative authority and appropriation requests.

The Office of General Counsel - provides all legal advice, counsel and services to the Agency both in the U.S. and abroad, and ensures that A.I.D. programs are administered in accordance with legislative authorities.

The Office of Disaster Assistance - plans and implements overseas disaster preparedness, relief, and rehabilitation programs.

The Office of Equal Opportunity - is the central Agency office responsible for directing the policy and coordinating and monitoring the implementation of all Government laws, executive orders, policies and regulations relating to equal opportunity for employees of, and applicants for employment with, A.I.D.

The Office of Science Advisor - serves as the focal point for coordinating the more innovative and collaborative approaches to the problems and processes of development research, technology transfer, and related capacity-building programs and activities.

The Office of Small and Disadvantaged Business - administers the Agency's small and disadvantage business utilization programs in association with governing legislation, including the Gray Amendment.

The Office of International Training - administers the Agency's International Training Program.

Functional Bureaus

Bureau for Program and Policy Coordination - is responsible for the Agency's overall program policy formulation, planning, coordination, resource allocations, evaluation and development information utilization activities, and the program management information systems which support them.

Bureau for Science and Technology - has primary responsibility for enhancing the Agency's capabilities to use science and technology to further economic and social progress in developing countries.

Bureau for Food for Peace and Voluntary Assistance - has central Agency responsibility for encouraging and strengthening the effective participation of non-governmental organizations in support of A.I.D.'s developmental and humanitarian objectives; performs designated Agency responsibilities for the Food for Peace Program; and administers the American Schools and Hospitals Abroad Program.

Bureau for Personnel and Financial Management - provides centralized services in the areas of personnel and financial management.

Bureau for Management - provides centralized services in the areas of information resources management, management operations, contract management, and commodity management.

Bureau for Private Enterprise - has the responsibility for developing a close and more effective partnership between the Agency and the U.S. private sector and administers the Agency's Housing Guaranty Program and serves as Agency liaison with IDCA's Trade and Development Program (TDP) and Overseas Private Investment Corporation (OPIC).

Bureau for External Affairs - has broad responsibility for the Agency's diverse external programs for communicating with the American public, private U.S. communities, other donor nations, and the developing economies concerning the purpose and role of the U.S. economic assistance program and its place in international efforts to foster stability and economic growth and development.

Geographic Bureaus

Bureaus for Africa, Asia and Near East, and Latin America and the Caribbean - are the principal A.I.D. line offices responsible for the planning, formulation, and management of U.S. economic development and/or supporting assistance programs in their respective areas overseas. These bureaus' programs are administered under delegated authorities, policies and standards established by the Administrator.

Each geographic bureau is headed by an Assistant Administrator who:

- Directs and supervises the activities of the Bureau and its overseas missions and offices.

- Directs the formulation of U.S. economic assistance programs; approves programs and projects within the limits of authorities delegated by the Administrator; and authorizes the execution of economic assistance agreements with Bureau countries and regional organizations.

- Exercises policy control within the region over the housing guaranty programs which are administered by the Office of Housing and Urban Programs within the Bureau for Private Enterprise.

- Submits, through the Bureau for Program and Policy Coordination, for the Administrator's approval, an annual budget of proposed Bureau activities and assists in presenting the Bureau's program and budget to the Congress.

- Approves and directs the allocation of available resources among bureau offices and overseas missions.

- Assures necessary liaison with other Agency offices, the Department of State, other U.S. bilateral, and multilateral agencies and officials of recipient countries; and represents the Agency at country consortia or consultative group meetings.

- Oversees the implementation of Bureau programs and projects; monitors performance under loan and grant agreements, contracts, and other operating agreements; and takes or recommends any required remedial action.

Overseas Missions and Offices - A.I.D.'s country organizations are located in countries where the Agency is carrying out bilateral economic assistance programs. Such organizations report to the geographic bureaus and include the following:

- Missions are currently located in 48 countries for which the Agency's program is major, continuing, and usually involves multiple types of aid in several sectors. Each mission is headed by a Mission Director who has been delegated program planning, implementation, and representation authorities.

- Offices are currently located in 17 countries for which the Agency's program is moderate, declining, or has limited objectives. Each office is usually headed by an Agency Representative who has been delegated program planning, implementation, and representation authorities.

- Sections of Embassy are currently located in six countries for which the Agency program is small or is being phased out. The Agency program planning and implementation authorities are delegated to the chief U.S. diplomatic representative in the country.

- Offices for Multicountry Programs (seven offices) administer the Agency's overseas program activities which involve more than one country. These offices may also perform "country organization" responsibilities for assigned countries and report directly to the geographic bureaus.

- Offices for Multicountry Services (four offices) provide services to other overseas organizations, primarily the Agency's country organizations and Multicountry Program Offices. (The Excess Property Field Offices report to the Bureau for Management; all others report to the geographic bureaus.)

In the context of these responsibilities, the offices, bureaus, and overseas missions and/or offices have been delegated certain authorities to approve, authorize, negotiate, and implement the project and non-project assistance. These authorities are delegated downward from the Administrator to assistant administrators of bureaus and directors of offices to mission directors, A.I.D. affairs officers, etcetera located overseas. In recent years, the Agency's policy has been to delegate more authority to the missions and offices overseas. The extent of the authorities delegated depends on the missions' and offices' staff resources. Most missions are generally delegated a full range of authorities to authorize, execute, and implement project and non-project assistance under these delegated authorities missions can:

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- authorize a project, if the project does not exceed $20 million over the approved life of the project; does not require issuance of waivers that may only be approved by the Assistant Administrator or the Administrator; and does not have a life of project in excess of 10 years.

- amend project authorizations if the amendment does not result in a total life of project funding of more than $30 million; does not present significant policy issues; and does not require issuance of waivers that may only be approved by the Assistant Administrator or the Administrator.

- negotiate and execute loan and grant agreements.

- prepare, negotiate, sign and deliver Letters of Implementation.

- review and approve documents and other evidence submitted by borrowers or grantees in satisfaction of conditions precedent.

- waive competition in selection of contractors for contracts financed by funds made available under loans and grants, provided that the amount does not exceed $1 million per transaction and the field post's noncompetitive review board finds the waiver to be justified in accordance with Handbook 11 and Federal Acquisition Regulation 6.302.

- approve contracts, review and approve terms of contracts, amendments and modifications thereto, and invitations for bids or requests for proposals with respect to such contracts financed by funds made available under such loans and grants.

- extend terminal dates for signing project agreements and for meeting conditions precedent for a cumulative period of not to exceed one year for each, and to extend terminal dates for requesting disbursement authorizations, terminal disbursement dates and Project Assistance Completion Dates for a cumulative period of not to exceed two years, provided that such extensions do not extend the life of project to more than 10 years.

- waive source, origin, and nationality requirements to permit financing of the procurement of goods and services other than transportation services, in countries included in A.I.D. Geographic Code 944 (Selected Free World) or the Cooperating Country, provided the costs of goods and services do not exceed $5 million per transaction.

The smaller offices are generally delegated only negotiating and implementing authorities. In the case of these smaller offices, approval and authorization authority may remain within the bureaus or be delegated to an overseas Office for Multicountry Services, i.e., a Regional Economic Development Support Office.

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CHAPTER 1

PROGRAMMING FUNCTION

Programming and budgeting are two closely related functions which operate on parallel tracks. The programming function translates the Agency's goals and objectives into country specific strategies which identify the sectors and problems to be addressed within specified annual funding levels. Based on these strategic considerations, programming decisions are then made regarding the mix of project and non-project assistance needed. These programming decisions result in the identification of specific project and non-project proposals. Approval of the proposals lead to the preparation of concept papers. After these concept papers have been reviewed and approved, papers are developed describing the projects and programs in detail. The review and approval of these papers result in the authorization of the project and non-project assistance. These authorizations serve as the basis for negotiating specific loan and grant agreements with the host country entities. Though specific funding of this project and non-project assistance is of importance in the programming function, it is the role of the budgeting function to provide the actual funding.

Both project and non-project assistance are processed in roughly the same manner. Thus, to avoid confusion with acronyms, in this discussion, reference is only made to the project related documents.

A. COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS) PROCESS

It is Agency policy that every mission and office prepare a CDSS every five years or sooner. When the political, economic, and social development conditions change, a revised or new CDSS may be warranted. Both the geographic bureau and mission and/or office will mutually determine whether this change in politico-socio-economic conditions is sufficient to warrant a new or revised CDSS.

Guidance for preparing the CDSS is issued annually by the Bureau for Policy and Program Coordination (PPC) in the form of a cable. Those missions and/or offices required to prepare a revised or new CDSS must adhere to the PPC guidance and any supplemental guidance provided by the geographic bureaus. This guidance not only includes policy requirements based on legislative requirements but also Agency guidance on program goals and objectives.

The purpose of the CDSS process is to provide an analytical basis for the proposed assistance strategy. To do so, it must provide a thorough, realistic and insightful analysis of the host country's development prospects and problems, both macroeconomic and sector specific. It thus requires the mission and/or office to think through its assessment of the basic problems faced by the host country and the role A.I.D. can play.

Working in coordination with the host country and others, which may include other donors, the mission prepares the CDSS in accordance with the following outline:

I. An Assessment of the overall political and economic environment in the country.

II. A description and analysis of such key problem areas as inadequate economic growth, hunger, health deficiencies (especially infant and child mortality), lack of education and population pressures.

III. A description of host country and other donor efforts and an explanation of those problem areas selected by the mission and/or office as well as the strategy of program assistance to be used in addressing the problem areas.

IV. A discussion of U.S. resources that may be available during the period as well as other donor resources.

The end product of this analysis is the determination of the overall objectives for the period and a program of varying types of assistance to achieve them. When the CDSS document has been prepared, it is forwarded to the appropriate geographic bureau for review and approval. It is normally due in Washington by the end of January.

When approved, the CDSS becomes the basic planning document in providing economic assistance to individual countries. In this sense, it serves several purposes.

- Sets forth what A.I.D. expects to achieve in a country and how it intends to do it.
- provides missions and/or offices with the conceptual framework for developing projects.
- provides the general framework for the geographic bureau's review of projects.
- provides the basis for long-term budget planning - overall levels, sectoral emphasis, program modalities, and program sources.
- serves as the basic reference document used by the geographic bureaus for overall country program reviews.

Because of its importance, the CDSS is subject to an intensive and high-level review in Washington. The review committee, chaired by the Assistant Administrator or his/her designee, comprises the office directors of the geographic bureau, representatives from the Bureau for Policy and Program Coordination, the Bureau for Science and Technology, the State Department, and the Office of Management and Budget. The committee's broad composition of expertise enables it to review critically the socio-economic, political, technical, and funding analyses of the document. Upon completion of the review, the committee will approve or disapprove the CDSS. In most instances, the CDSSs are

approved subject to certain reservations. These reservations may require further clarification and analyses of a particular sector and so on. A cable is then sent to the mission and/or office indicating the review committee's determinations. When the approval is subject to reservations, the mission and/or office should address the issues raised. Only after these reservations have been addressed by the mission and/or office and approved by the committee is the CDSS considered approved.

A basic premise of the programming function is that the mission and/or office must have an approved CDSS before new projects (and funding for those projects) can be approved. Since CDSSs are often partially approved, it follows that no new projects should be approved for those sectors of the CDSS not approved by the review committee.

New or updated CDSSs should be submitted to Washington by January 31 and reviewed and approved by March 31. Since the CDSSs are used by the missions and/or offices as a guide for budget preparation and project selection, this timeframe is required to meet the May 31 due date for the Annual Budget Submission.

The control objective of this process is to ensure that viable country specific strategy documents have been prepared and approved for use in preparing and budgeting assistance. To achieve this objective, the process uses the following control techniques:

- The policy guidance for preparing the CDSSs outlined in cable guidance (this guidance should be incorporated in the A.I.D. Handbook).
- The CDSS documents which record and justify the rationale for the assistance.
- The separation of duties whereby missions and/or offices prepare the CDSS and the geographic bureaus review and approve the CDSSs.

B. ACTION PAPER PROCESS

Commencing in fiscal year 1985, the Agency required that missions and/or offices start submitting Action Plans on an annual basis. These plans are to be submitted to the geographic bureaus in Washington prior to the preparation of the Annual Budget Submissions in May. Action Plans are intended to serve as a bridge between the missions' and/or offices' CDSSs and their operational programs and designed to link the strategies with projects while focusing management attention on important issues affecting the program and the effectiveness of the program in achieving CDSS goals. A geographic bureau review committee, similar in composition to the CDSS review committee, is responsible for reviewing the Action Plans with the director of each mission and/or office for a full week. This week-long review is referred to as Program Week. Because of the

time and effort required in the preparation and review of these plans, differences have evolved in the way these plans are prepared and reviewed among the geographic bureaus. Although the Action Plan is still an Agency requirement, the character of the plan, the timing, and the focus of the reviews now differ among the geographic bureaus.

In the Bureau for Asia and Near East (ANE), the Action Plan is concerned with the progress being made toward CDSS goals. In this regard, it focuses on such issues as:

- Changed circumstances which necessitate that the CDSS, or a portion of the CDSS, be examined.

- Indications of the overall impact of the mission and/or office program that confirm the strategy and its implementation are valid and working.

- Major events which have been completed since the last Action Plan or are planned for the current year which have a significant impact on the achievement of CDSS goals.

There is no established schedule for Action Plans in the ANE Bureau nor is it required that one be submitted each year. The decision to require an Action Plan is made annually and based on whether there are any significant issues which would require one. When a decision is made by the bureau to require an Action Plan, the bureau and mission negotiate the content at least six months before it is due. The purpose of doing this is to structure the Action Plan around a specific set of issues specific to the country and mission and/or office program. The content of the Action Plan thus depends on the issues identified.

The Program Week is also structured around the issues. If the issues are predominantly sectoral and technical, Program Week will center on a series of meeting with the bureau's technical offices. If the issues are more strategic in nature, then a review by senior bureau staff, chaired by the Assistant Administrator, may be held.

The Bureau for Africa (AFR) also uses its missions' Action Plans as management tools to structure its annual Program Week discussions. The purpose of the Plans and the Program Week discussions is to:

- establish the basis for senior bureau and mission management agreement on short and medium term priorities regarding implementation of an assistance strategy laid out in an approved CDSS.

- facilitate resolution of issues affecting progress and performance in achieving mission, bureau, and Agency strategic objectives.

The bureau divides its missions and/or offices into three (3) categories. Category I and II missions and/or offices generally receive at least $5 million in annual funding for bilateral assistance. These missions and/or offices are normally expected to develop two Action Plans between each CDSS. Though there are a large number of Category III missions and/or offices, about 24 as of 1987, these programs are small, place substantial reliance on private voluntary organizations and Regional Development Offices for program management, and address a single major development problem. These Category III missions and/or offices need not develop Action Plans. The bureau reviews these programs on an ad hoc basis.

Category I and II missions and/or offices draft their first Action Plan one year after CDSS approval. This Plan refines the original CDSS targets and benchmarks which the mission and/or office will use in monitoring progress toward strategic objectives. It also explains the mission's and/or office's methodology in managing its policy dialogue(s), programs, financial resources, staff, and operations to meet specific targets during the next two years. The second Action Plan, prepared two years later, should:

- reflect program performance in achieving the targets and benchmarks laid out in the first Plan.
- propose revisions to the first Plan.
- explain how the mission plans to manage its operations for the next two years.

The bureau determines which missions and/or offices will be reviewed during Program Weeks and notifies those missions of anticipated issues for discussion and their tentative program week dates. This notification generally takes place in November, with program weeks for each scheduled for the following February through May. The missions should submit their Action Plans to the bureau at least one month before their scheduled Program Week.

Program Week entails a series of up to five meetings between senior mission and/or office and bureau managers. The bureau's geographic desks set the agenda with the assistance of the bureau's Development Planning and Project Development staffs. Each meeting has a different purpose, ranging from progress assessments to discussions of various management issues. The geographic desk officer records the decisions made at each meeting and develops a cable soon after the end of the Program Week, detailing these decisions. This cable serves as the formal record of the proceedings.

The Bureau for Latin America and the Caribbean (LAC) has developed a detailed and highly structured format for its missions' Action Plans As with the other geographic bureaus, LAC uses the Action Plan as a core

document for discussing country programs and issues during each mission's and/or office's Program Week. The Action Plans should:

- reflect changes in CDSS strategy,
- assess the previous year's progress toward each LAC goal,
- discuss anticipated progress toward LAC goals during the upcoming year, and
- highlight critical program and policy issues requiring A.I.D./Washington attention.

LAC notifies its missions and/or offices in December of the upcoming Action Plan submission and Program Week schedules. Each mission or office submits a Plan each year between January and May. The program weeks are scheduled to take place approximately one month after a mission and/or office's Action Plan submission deadline.

Bureau and mission and/or office officials meet twice during the week preceding the mission's and/or office's program week. DUring the meeting, the officials review new projects which the mission and/or office wishes to add to its portfolio. During the second meeting, they attempt to identify critical issues before the Program Week meetings of senior officials begin. In this way, LAC tries to keep program week discussions focused upon only the most critical management and program issues facing the mission and/or office.

The control objective of the Action Plan is to ensure that the CDSS remains a valid document based on changing host country conditions, funding resources and program implementation. To achieve this objective, the following control techniques are used:

- **The annual cable policy guidance for preparing the Action Plan.**
- **The Action Plan which records and documents progress toward CDSS goals, actual and anticipated implementation problems and issues requiring mission and/or office and bureau attention.**
- **The separation of duties whereby missions and/or offices prepare the Action Plans and the geographic bureaus review and use them as a framework for Program Week reviews.**

C. NEW PROJECT IDENTIFICATION PROCESS

The New Project Description (NPD) is the first in a series of three documents prepared by the missions and/or offices which lead to the

approval of a specific project.* The NPD provides a short, three to five page, description of the project concept and the funding implications. Though it may be submitted to the geographic bureau earlier, it should be submitted no later than the Annual Budget Submission (ABS). In either case, the funding implications are included in the details of the ABS. In this sense, the NPD directly links and ties the program analyses in the CDSS with the funding decisions of the ABS.

Depending upon the geographic bureau, the NPD may be subject to a review, e.g., in the Asia and Near East and Africa Bureaus, though not in the Latin American and Caribbean Bureau.** When subject to a review, the purposes are to determine whether there will be sufficient resources to fund the new project and whether it conforms with the CDSS and the Agency's policies and guidelines. Upon completion of a favorable review, the geographic bureau advises the mission and/or office to continue with the development of the project. Under certain circumstances, e.g., in the case of training projects and projects with private voluntary organizations, the geographic bureau may authorize the mission to complete the documentary process without further review and approval by the geographic bureau.

Upon acceptance and approval of the NPD, the mission and/or office then prepares a Project Identification Document (PID).*** The PID describes the project in much more detail than the NPD. In doing so, it describes such aspects as the goals to be supported and the purposes to be achieved; the intended beneficiaries; a preliminary analysis of the financial requirements; and a preliminary analysis of major issues such as social, economic, and environmental. In addition, it sets forth a schedule for preparation of a full project description outlining the design issues yet to be settled and the requirements for expert design assistance from the geographic bureau, other bureaus, and the private sector.

Agency guidance requires that mission and/or office directors designate a Project Officer who will be responsible for developing the PID. According to the guidance, the recommended practice is to form a Project

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* In the case of non-project assistance, this document is referred to as the Program Assistance Initial Proposal (PAIP).

** The Latin American and Caribbean Bureau has carried the principle of decentralization further than the other geographic bureaus.

*** In the case of non-project assistance, this document is referred to as the Program Assistance Review Document (PARD).

Committee for the preparation of the PID under the leadership of the Project Officer. The composition of this committee should vary according to the nature and complexity of the project. In this regard, it should include personnel possessing the necessary skills to design the project.

In developing the basic PID concepts, the Project Committee should collaborate with host country officials. This collaboration, however, should not result in commitments being made on behalf of the Agency to develop the concept prior to receipt of approval of the PID by the geographic bureau.

Upon completion, the mission and/or office forwards the PID to the geographic bureau. In the geographic bureau, the PID is subjected to an intensive review by a committee chaired by the Assistant Administrator or his/her designee, which consists of office directors and representatives from other bureaus and offices.

The PID is initially circulated to the members of the committee to develop a paper on the substantive issues to be discussed. After this paper has been developed, the committee then formally meets to discuss the issues. In general, the committee focuses on such issues as:

- consistency of the project with applicable statutory and policy criteria.
- identification of deficiencies, if any, in the preliminary project concept and methodology.
- lessons learned from previous experience with similar projects.
- capacity of borrower/grantee to implement the proposed project, i.e. personnel, financial, and institutional.
- capability of the mission and/or office to monitor project implementation.

Some issues raised during the PID review may not be resolvable at the PID stage. If they are to be addressed later, appropriate recommendations of the review committee must be incorporated in the geographic bureau's message to the mission and/or office. If there are any major disagreements between committee members about issues or the final decision to approve or disapprove the PID which cannot be resolved between members of the review committee, such disagreements should be referred to the Administrator or his/her Deputy for final resolution.

The geographic bureau will review the committee's recommendations and make a decision on the document and, if appropriate, on supplementary information thereto. The decision will usually be one of the following:

- o approval with appropriate guidance for project design;
- o conditional approval with explicit requirements for granting full approval, plus appropriate guidance for project design;
- o approval and guidance on project design, but withholding final project paper approval for A.I.D./W, including citing the reasons therefor, or;
- o disapproval, including the basis for rejection.

As a general rule, the geographic bureau's decision should be made within 30 working days after receipt of the PID. Notification of the geographic bureau's decision and any PID guidance is given by cable. The Bureau for Program and Policy Coordination (PPC) must clear the decision and guidance cable to the field.*

Each bureau is required to maintain a log on PIDs received and actions taken on them and report such information to PPC. As required, PPC will prepare periodic reports for the Administrator summarizing the geographic bureaus' PID review and approval activities.

PID approval means that the geographic bureau has given its approval to the mission and/or office to proceed with the development of a Project Paper based on concepts defined in the PID. The approval may draw attention to certain issues in the PID document and require the mission and/or office to make adjustments in the concept or take actions to address specific design matters during development of the project.

Following approval of the PID, the geographic bureau designates a Project Officer and Project Committee to provide backstop support to the mission and/or office Project Officer and project committee.

Two control objectives can be identified under this process, one for NPD and the other for the PID. The control objective for the NPD is to ensure that new project ideas are developed and approved within the framework of the CDSS. To achieve this objective, the process uses the following control techniques:

- o **The policy guidance contained in A.I.D. Handbook 3 outlining the policies and procedures for preparing NPDs.**
- o **The NPD document recording the mission and/or office rationale and justification for the project idea.**

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* PPC maintains a computerized system for tracking all PIDs.

- The geographic bureau's review and approval of the NPD both in terms of consistency with strategy and availability of funding.

The control objective for the PID is to ensure that the project idea or concept is feasible in a technical, administrative, and financial sense. To achieve this objective, the process uses the following control techniques:

- The policy guidance contained in A.I.D. Handbook 3 outlining the policies and procedures for preparing the PID.

- The geographic bureau's authorization to proceed with the PID, including its comments on issues which need to be addressed in detail.

- The PID document recording and justifying the rationale for the project.

- The review and approval of the PID by the geographic bureau or the mission when it has been authorized to do so.

D. PROJECT PAPER PROCESS

Upon approval of the PID, the mission and/or office then proceeds with the detailed project description, commonly referred to as the Project Paper. The project committee, under the guidance of the Project Officer, is responsible for preparing the Project Paper. In preparing the Project Paper, the Project Officer coordinates any needed technical assistance with the geographic bureau Project Backstop Officer.

The Project Paper serves two purposes, namely:

- as the basis for approval of the project by the appropriate authorizing official; and

- as a historical record of the project rationale, description of project elements, analyses supporting the proposed design, and initial project implementation and monitoring plan.

The content of the Project Paper is thus determined by these purposes. According to Agency guidance set forth in A.I.D. Handbook 3, Chapter 3, the following sequence of information should be provided in all Project Papers for project assistance:

- Project Rationale and Description - A brief review of the rationale for the project stating why the project should be undertaken and putting it in the context of the CDSS and the host country's own development plans.

- Cost Estimate and Financial Plan - A breakdown of costs by foreign exchange and local currency by sources. The method used in estimating project costs should be explained. If the project contains a training component, the cost estimate for that component should conform to the training cost analysis framework. Projects which contain salary supplementation, must conform with the criteria outlined in A.I.D. Handbook 1, Chapter 7.

- Implementation Plan - This plan should cover the entire period from authorization of the project to its completion and a description of the responsibilities to be assumed by the host country and the mission and/or office. The narrative should be supported by appropriate annexes including, if the project involves significant procurement, a procurement plan. This plan should indicate the kinds of commodities and services to be procured, their probable sources, the contracting modes and procedures to be used, and the specific procurement and contracting responsibilities envisioned for the host country and the mission and/or office.

- Monitoring Plan - A description of arrangements for monitoring, including an assessment of mission and/or office staff for performing the monitoring tasks.

- Project Analyses - A summary of analyses (i.e. economic, financial, technical, administrative, environmental, etc.) performed during project development should be included in the body of the Project Paper.

- Conditions Precedent and Covenants - All Conditions Precedent and Covenants proposed for inclusion in the Project Agreement should be listed and the reasons for their inclusion cited.

- Evaluation Arrangements - A description of arrangements to be made for the collection of baseline data (if not yet completed), for follow-up surveys and analysis of such data preparatory to or as part of possible project evaluations. The A.I.D. Evaluation Handbook requires that all projects include an information component, i.e., management information system, that will provide data necessary for adequate monitoring and evaluation during implementation.

- Annexes, as appropriate - The annexes, both optional and required, would include such data as Log Frame Matrix, Statutory Checklist of Legislative Requirements, Implementation Schedule, Procurement List, etcetera.

It is apparent from this data that the Project Paper should describe the project in detail, how it will be implemented, what impact it is expected to have on progress toward CDSS objectives, and what contribution the

host country will make to it.* Consequently, in developing the Project Paper, such things as the technical feasibility, including any environmental impact, should be reviewed and assessed. The host country's technical, administrative and financial capabilities should also be reviewed and assessed. In addition, the mission and/or office must ensure that the project is consistent with Agency policy and legislative requirements.

Developing a Project Paper can thus take considerable time and resources. Not only are mission and/or office staff involved in developing the Project Paper but also geographic bureau technical staff as well as private consultants. Ideally, all aspects of the project should have been reviewed, assessed and described in the Project Paper. However, if timing is critical, it is not uncommon that some studies may be deferred to the implementation phase. This is most common in the case of data collection studies to establish benchmarks or baseline data for measuring the project's impact on project purpose. When this is the case, evidence indicates few of the studies are ever undertaken.

When completed, of the Project Paper is subject to an intense review. This review may take place at the mission, provided it:

- falls within the mission's delegated authority;
- does not raise significant issues requiring higher level approval; and
- was not identified at the PID stage as having special policy implications requiring review by the geographic bureau.

As a general rule, most Project Papers prepared by missions are reviewed in the field, whereas Project Papers prepared by overseas offices are generally reviewed by the geographic bureaus.

The composition of the geographic bureau review committee, chaired by the Assistant Administrator or his/her designee, consists of office directors and representatives from other bureaus and offices. In the case of field

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* In regard to non-project assistance, the content of the Project Paper focuses on the need to transfer resources to close resource gaps. Thus, while project assistance addresses discrete development problems, non-project assistance addresses problems resulting from budgetary deficiencies, adverse balance of payments problems, and a critical shortage of external resources. These resource needs may be addressed by cash transfers and/or commodity import programs. Agency guidance for this assistance is set forth in A.I.D. Handbook 4.

missions, the review committee is chaired by the mission director or his/her designee and comprises senior level officers from the appropriate technical, legal, financial, and contract offices.

Like the PID, the Project Paper is initially circulated to members of the review committee to develop a paper on the salient design features, risks, and issues which require attention during the review. In general, the committee focuses on such matters as:

- the soundness of the design and supporting analyses; and
- the need for processing actions such as Congressional Notifications, budget adjustments, waivers, and so on.

Based on this review, the review committee will recommend that the Project Paper be approved or disapproved. The committee may withhold its approval if it feels additional work on the Project Paper analyses is required. Under these circumstances, the committee would not make its recommendation until the additional analyses have been done.

The control objective of this process is to ensure that all relevant aspects of the project design have been thoroughly studied, reviewed, and assessed and that necessary analyses have been performed to address identified areas of weakness. To achieve this objective, the process uses the following control techniques:

- The detailed guidance contained in A.I.D. Handbook 3 authorizing the procedural steps for preparing the Project Paper.
- The Project Paper recording the analyses and comment of the project's technical, administrative, and financial soundness.
- The separation of responsibilities for preparing the Project Paper and the review and approval of the Project Paper.

E. AUTHORIZATION PROCESS

When the Project Paper has been approved, a project authorization package is prepared for the review and approval of the authorizing official. This authorization package consists of the following:

- An Action Memorandum - which summarizes the substance of what is proposed for signature.
- The Authorization Document - which must be included as part of the Project Paper after it has been signed. A Project Paper is not regarded as complete unless it contains, as its initial section, a copy of the executed authorization.

- The Project Data Sheet - which contains operational and recording information.

- The Project Paper - which was discussed.

- Waiver Requests and Justifications - which should be prepared for those regulations and procedures to be waived.

The documents in this package are usually prepared by the project committee responsible for drafting the Project Paper and reviewed by members of the Project Paper review committee.

Since authorization gives permission to negotiate a grant or loan agreement, the content of the authorization document must:

- be made subject to the availability of funds in accordance with the Agency's Operating Year Budget (OYB) process. This "subject to" reservation affects all funds planned for the project, whether it is to be fully funded at the outset or is to be funded incrementally. If the agreement initially does not fully fund the project, so that a subsequent increment or increments of funds must be added to complete the authorized life-of-project funding planned, this "subject to" must also be expressed in the project agreement.

- identify the estimated life-of-project period. This is the period during which A.I.D.-financed goods and services are being provided to the project. This period runs from the date of signature of the Project Agreement or other obligating document to the Project Assistance Completion Date (PACD).

- identify the approved source and origin of goods and the nationality of services to be financed. To allow for possible unforeseen circumstances, the authorization reserves authority for A.I.D. to agree to finance commodities or services from an otherwise ineligible source, origin, or nationality. Waivers known to be essential to the project's implementation at time of authorization should be presented for approval as part of the authorization package or in parallel to the appropriate approving official.

- be consistent with information in the body of the Project Paper. The description must be brief and clear so that it can form the basis of the project agreement to be negotiated with the borrower or grantee. It must also be sufficiently specific to indicate the limits of the approval and the constraints on project implementation.

- contain only essential conditions and covenants. Such conditions and covenants would normally be very few in number and would be the ones which the authorizing office does not want modified without its prior approval.

When the authorization has been approved and signed, negotiations with the host country entity are then initiated to conclude an agreement. In this regard, the Assistant Administrators have generally delegated the directors of missions and offices the authority to negotiate, execute, and implement such agreements.

The control objective of this process is to ensure that the project is authorized in accordance with the project design. To achieve this objective, the process uses the following control techniques:

- The detailed guidance contained in A.I.D. Handbook 3 outlining the procedural steps for preparing the project authorization.
- The project authorization document recording the purpose, conditions, etc. to be included in the project agreement.
- The review and approval of the project authorization document by an authorized official.

F. NEGOTIATION OF AGREEMENT PROCESS

Because there is about a 16-month period from the start of the budget cycle until funds are appropriated, the programming and funding decisions for new projects and programs must be made by May 31 of the current year to be available for the fiscal year starting October 1 of the next year. Ideally, within this 16 month period, the PID should have been completed and approved and the Project Paper completed and ready for review, approval, and authorization. When completion of the Project Paper runs well into the fiscal year for which the funds have been appropriated, time becomes critical in reviewing and approving the Project Paper, authorizing the project, and then negotiating the agreement. If the agreement cannot be negotiated and signed within the fiscal year for which funds have been budgeted, the project must then compete for funds in the next fiscal year budget. Thus, to avoid this situation, Agency guidance indicates that the substance of the project should be negotiated with the host country prior to submission of the Project Paper for final review and approval. These negotiations should be undertaken not only with the host country ministry, which will execute the agreement, but also with appropriate host country implementing entity, which will have project responsibilities. Such negotiations should normally cover:

- Project description;
- Implementation approach and schedule(s);
- Responsibilities of donors and participants;
- Budget, scope and timing of physical/financial/human resources;
- Procurement methods and schedules;

- Structure and methods of implementing agencies;
- Conditions and covenants;
- Special problems experienced in implementing projects in that country or sector; and
- Project Evaluation.

If changes in the substance of a project are required as part of the A.I.D. Project Paper review/approval process, these changes should be discussed with the host country during final negotiations.

Since time is an important factor in project development, Project Officers are responsible for seeing that projects are thoroughly and promptly negotiated with the host country and all important elements and responsibilities covered between the parties. The chances are that, if an agreement is properly developed and negotiated, host country implementation will start sooner and proceed more smoothly. Thus, to improve host country understanding of and compliance with the terms and conditions in the agreement, the draft agreement, especially the manner in which implementation requirements are to be satisfied, should be agreed upon as early as possible.

In conjunction with the Legal Officer, the Project Officer should determine the format and content of the agreement. The content of the agreement should usually state what is being furnished, by whom, for what, and subject to what restrictions. Accordingly, the agreement will usually include the following:

- A.I.D.'s undertaking to provide financing for a specified purpose, i.e., to assist the host country in executing the project. Specific amounts or percentages of financing undertaken to be provided by the host country should also be stated. This financing is included in the agreement as a budget annex.
- A description of the project for which financing is provided. The project description is based on and must be consistent with the summary description of the project in the authorization document.
- The establishment of an evaluation plan. A special covenant covers establishment of such a plan and delineates the elements to be covered.
- Conditions precedent which must be fulfilled prior to the disbursement of funds. These can be substantive actions (as opposed to financial steps) the recipient must take; financial steps such as budget allocations; specific organizational steps; logistic arrangements; administrative arrangements (such as legal opinions,

etc.); or other. In general, conditions precedent should be limited to those without which the project should not go forward. Conditions precedent called for by the authorization will be covered verbatim or in substance in the agreement.

- Formal undertakings by the recipient which are to be included in the form of covenants. These may be general in nature, or may be particularly framed for the project. Covenants called for by the authorization will be covered verbatim or in substance in the Agreement.

- The Agreement should be signed by officials formally authorized to do so and by such signature(s) to commit the host government to the undertakings contained in the agreement.

- Provisions of the agreement are to cover applicable statutory and regulatory requirements; e.g., A.I.D. procurement policies and procedures, record keeping requirements, and audit and inspection requirements. Such provisions also cover disbursement mechanics, as well as remedies, such as refund rights or default and termination provisions.

- Time controls based on a Project Assistance Completion Date (PACD), including a period for requesting disbursements. In addition, if applicable, there are to be terminal dates for meeting conditions precedent. Intermediate time controls (e.g., such as a terminal date for requesting Letters of Commitment) may be adopted, if necessary, in particular projects or for particular items.

Since the agreement is viewed as the culmination of the negotiation process, its signing should be viewed as the mutual understanding and acceptance by the parties of all major elements of the project. Accordingly, significant issues should not be left for resolution during the project's implementation. Signing an agreement without full commitment to project elements or responsibilities can result in lengthy project delays and increases in project costs.

Normally, agreements are executed in the field pursuant to authority delegated to the mission director or U.S. Ambassador. Often, authority to negotiate and sign are given together. Such delegations of authority may be existing or may be made by the Assistant Administrator only in connection with a given project. It should be noted that in the absence of an ad hoc delegation of authority, ambassadors are not normally authorized to sign A.I.D. agreements.

The Project Officer must be certain that funds have been made available for the project prior to signature of the agreement.

The control objective of this process is to ensure that a project agreement containing all relevant project authorization and legal provisions is expeditiously negotiated. To achieve this objective, the process uses the following control techniques:

- The guidance contained in A.I.D.Handbook 3 outlining the provisions to be included in the agreement and the procedures for negotiating the agreement.
- The review of the agreement in draft by an Agency Legal Officer.
- Clearance of the agreement by the mission and/or office Controller to ensure funds are available and administratively reserved.
- The signing of the agreement by an authorized officer when funds have been administratively reserved.

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CHAPTER 2

BUDGET FUNCTION

Funding for the programming decisions is provided through the budget function. The starting point for this function is the preparation of the Annual Budget Submissions (ABSs). The ABSs represent the proposed budgets of the missions and/or offices for new and on-going projects. These budgets must be submitted to the geographic bureaus no later than May 30, or about 16 months before the fiscal year begins. When the ABSs have been reviewed by the respective geographic bureaus, they are consolidated into bureau budgets and submitted to PPC. In PPC, the bureaus' submissions are again reviewed and consolidated into an Agency budget. The Agency budget is then submitted to the Administrator for review. In September, after the Administrator's review, it is integrated into International Development Cooperation Agency's budget and submitted to the Office of Management and Budget (OMB) where it is consolidated into the President's Foreign Assistance Budget. After this budget has been reviewed and Presidential decisions made, OMB notifies the Agency of its budget mark. The Agency's budget is then revised to conform with the OMB mark level.

Based on guidance provided by the Office of Legislative Affairs, the missions and/or offices then prepare the Congressional Presentation (CP), justifying and explaining the budget request. Like the ABSs, these presentations are reviewed and consolidated by the bureaus and forwarded to PPC for review and consolidation into the Agency's Congressional Presentation. In January, the Congressional Presentation budget is submitted to OMB for inclusion into the President's Foreign Assistance Budget and subsequent submission to the Congress. After legislation has been passed authorizing the program and appropriating the necessary funds, PPC establishes an Operating Year Budget (OYB). This budget is revised to conform with the level of funds appropriated by Congress for new and on-going projects to be funded for the fiscal year.

The legislation authorizing the program and appropriating the funds should occur just as the new fiscal year is about to start. However, in the past several years, Congress has been unable to pass foreign assistance legislation before the start of the fiscal year. Until fiscal year 1989, Congress had not passed an appropriations bill since Fiscal Year 1982. When Congress fails to pass new legislation, it passes a Continuing Resolution. In essence, this is an abbreviated bill which allows the program to continue into the new fiscal year and serves the legal purpose of both the authorization and appropriation legislation. Generally, a Continuing Resolution is based on the prior fiscal year's legislation, although it may allow new projects and programs and change funding levels. This is the case if the Continuing Resolution is to take the place of definitive legislation for the entire fiscal year.

A. ANNUAL BUDGET SUBMISSION (ABS) PROCESS

Establishing a budget for the Foreign Assistance Program is an annual process. It begins in April when PPC issues detailed guidance for the preparation of the ABS. This is preceded by separate cable guidance from

PPC on the Approved Annual Program Levels (AAPL)* for Development, Economic Support Fund, and PL 480 assistance, as well as the Personnel Planning levels. Supplementary guidance may also be provided by the geographic bureaus, e.g., emphasizing the importance of particular aspects of Agency policy or legislative requirements which should be discussed in the ABS. Based on this guidance, each of the missions and/or offices then updates the estimates for the current year program and develops the funding needs for the fiscal year in question, as well as projected funding needs for the four subsequent years. This information is presented in tabular form with a minimum of narrative and represents the best estimates of the funds needed to implement the program for the year in question. These estimates should not exceed the AAPLs for the various assistance programs.

The purpose of the ABS is to present the financial aspects of the proposed program for the fiscal year which will be carried out in line with the approved CDSS strategy. In this sense, the ABS serves as the link between the CDSS, the Action Plan, and the specific mix of projects and non-project assistance to be implemented. The ABS also serves as a source document for statistical budget information used in analyzing such issues as the project pipeline, the project mortgage,** the projected monthly obligation and disbursement level,*** and the percentage of funds channeled through private voluntary organizations.

In brief, the ABS contains several annexes providing the following data:

- A table on the long-range plan which summarizes, by appropriation account, the actual and projected estimates for certain specified years. These long-range projections should tie to the AAPLs and allocate the Development Assistance Functional Program AAPL among the functional accounts, e.g. Sections 103, 104, etcetera, of the Foreign Assistance Act. This data serves as the link between the overall program levels set by the AAPLs and the project specific data described below.

- The key element of the ABS is the project budget data which provide the detail for the long-range plan. This data include a listing of each project by appropriation and functional account; budget

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* The AAPLs are based in part on OMB's budget mark for future year funding and the Agency projected funding needs reflected in the ABSs and the CDSSs.

** Mortgage is the difference between the life of project amount authorized and the amount obligated.

*** This data is input into the Project Accounting Information System discussed in Part III, Chapter 2.

estimates for the current, forthcoming, and planning years; beginning and end of project; total project cost authorized and planned; pipeline as of prior year; mortgage as of end of current year; percentage of funds channeled through private voluntary organizations; coding sub-category classification of project and non-project assistance; and Project Assistance Completion Date. These data are designed to assist the geographic bureaus and PPC in understanding the financial basis for the missions' and/or offices' decisions on the planning year funding for on-going projects, the implications of future funding needs of those new projects the missions and/or offices plan to fund incrementally and the proportion of new projects the missions and/or offices fully plan to fund.

- Instructions for the preparation of New Project Descriptions (NPDs) which are to be included in the ABS. These should be prepared for each new project which is to be funded in the planning year; each new current year project not included in the current year Congressional Presentation; and each new current year project substantially changed from the Congressional Presentation description. If these NPDs have been submitted earlier, they should not be included in the ABS (but should be included in the Congressional Presentation).

- A local currency use plan when local currency is generated from commodity import programs, cash transfers, and PL 480 programs. A narrative for use of the generations is to be submitted along with a table on the generation. The narrative should describe the sources and intended uses of the local currency in terms of the CDSS strategy.

- A schedule of planned evaluations.

- A table on PL 480 requirements by title.

- A prioritization plan identifying proper mode in implementing the Agency's goal of at least two privatization activities per mission.

- Priority ranking of projects

- Summary data on overseas operating expense data.

The ABS should be prepared and transmitted to the geographic bureaus by May 30. The geographic bureaus are then responsible for reviewing and analyzing the submissions from its respective missions and/or offices. These reviews occur from May 31 to July 5, at which time the geographic bureaus must submit a consolidated budget proposal to PPC.

In conducting the review of the missions' and/or offices' submissions, copies of the ABS are circulated to office directors within the geographic bureaus, other bureaus and Agencies such as PPC, OMB,

Department of State, Peace Corps, etcetera. These reviews generally focus on such things as:

- the consistency of the ABS with the CDSS strategy.
- an analysis of current funding requirements.
- an analysis of the mortgage carried on incrementally funded projects.
- an analysis of the pipeline on projects. This pipeline is the difference between the amount obligated for the project and the amount disbursed.
- an analysis of the New Project Descriptions.
- a review of on-going activities to ensure they are performing according to plan.

Based on these reviews, the geographic bureaus may recommend that certain modifications be made in the missions' and/or offices' budgets. These modifications could cover such things as: withholding approval of new projects until a new CDSS has been prepared and reviewed; and changing project funding based on excessive mortgages and/or pipelines. In essence, these reviews provide the geographic bureaus with an insight of the funding implications stemming from the missions' and/or offices' programming decisions and implementation problems.

By July 5, the geographic bureau must develop a consolidated budget proposal, as well as the results of its mission and/or office reviews and submit it to PPC. This submission includes:

- a certification that the planning documents required of the missions and/or offices continue to be valid.
- a discussion of the major issues the geographic bureau expects to confront in implementing its requested program.
- a list of new projects.
- a request for dollar resources necessary to implement the program.

In developing the ABS, it is not uncommon for the geographic bureaus to deviate from the AAPLs developed by PPC. Thus, when PPC receives the geographic bureaus' budget submissions, it performs in-depth analyses and reviews of the submissions. These analyses and reviews are facilitated by using the ABS data which the geographic bureaus input into the Agency-level Congressional Presentation Data Base system. Using the data in this system and data maintained by bureaus outside the system, PPC performs the necessary reviews and analyses to ensure the ABSs meet

Congressional directives such as earmarks for private voluntary organizations, and so on. Among other things, it also calculates the level of funding by appropriation account requested by the bureaus. Based on these and other reviews and analyses, it identifies issues which need to be discussed with the bureaus.

When budgetary issues cannot be resolved at the bureau level, they are then raised to the Administrator level. These issues can include such budget matters as the allocation of funds among the Development Assistance Functional Program accounts when the bureaus' requests exceed PPC's initial allocation; funding for specific countries, and so on. To resolve these matters, PPC will develop policy options on the issues which need to be resolved by the Administrator. The Administrator will then review these issues and make the necessary decisions. Once these decisions on the Agency budget have been made, PPC is responsible for assembling the bureau submissions into an overall budget for the Agency. This Agency budget includes:

- o A program and appropriation request for the budget year including:
  - Fiscal data, total program proposal, new obligational authority, estimated recoveries of prior year obligations, and estimated transfers. The request is normally presented in the form of two alternatives: A "low" level within the OMB planning target, and a "recommended" level.
  - A brief narrative rationale.
- o An item-by-item listing of proposed new projects for the budget year, indicating which activities would be funded at the recommended level.
- o A discussion of the long-range direction which A.I.D. intends to pursue, together with a long-range projection of resource requirements.
- o An estimate of the manpower needs.

After the A.I.D. budget has been assembled and approved by the Administrator, PPC integrates it with the International Development Cooperation Agency (IDCA) budget. Upon completion of the IDCA budget, PPC collaborates with the Department of State and other agencies in integrating the IDCA budget into the overall Foreign Assistance Budget. When the Foreign Assistance Budget has been developed, it is presented to the Secretary of State for review. Only after this budget has been reviewed and approved by the Secretary of State is the IDCA budget, which includes the Agency budget, transmitted to OMB. OMB requires that the budget be transmitted by September 15.

In OMB, the Agency's budget proposal for the budget year is again reviewed. As a general practice, OMB examiners, who are familiar with the program issues, participate in the review. OMB decides on the budget level in mid-November and this decision is communicated to the Agency in the form of a limitation on budget authority and outlays. If there is fundamental disagreement with the OMB decision, the Agency may appeal, setting forth in a letter to the Director of OMB, its case for additional funding. OMB then presents its budget recommendations, together with the Agency's appeal, to the President. A final budgetary level decision is received by early December which is called the budget "mark".

The budget mark will set one gross figure for the Development Assistance Functional Program and another for Economic Support Fund assistance. In other words, the budget mark does not establish budget levels for the individual functional accounts such as Section 103,104, ecetera, nor does it establish levels for individual countries. Thus, when the Agency receives the budget mark, it has the flexibility to determine, by functional account, where the adjustments will be made to meet the budget mark. In making these adjustments, PPC meets with the Administrator and geographic bureaus to work out how and where the adjustments will be made. The geographic bureaus will in turn work out the needed adjustments with the mission and/or offices as it affects their respective budgets. The ABS process is completed when all the adjustments have been made.

The control objective of the ABS process is to develop, within the framework of an Agency budget, specific budgets for each of the geographic bureaus' missions and/or offices which enable them to carry out the project and non-project assistance justified by the CDSSs and authorized by specific programming decisions. To achieve this objective, a number of control techniques have been put in place, the more important being:

- The resource allocation targets, including the AAPLs, established by PPC.
- The ABS policy guidance developed by PPC for preparing the ABS.
- The ABS documents which record and justify the level of funding requested.
- The separation of duties whereby the missions and/or offices prepare the ABS documents and the geographic bureaus analyze, review, and consolidate them.
- The analyses and reviews performed by PPC of the geographic bureaus' submissions.
- The review and approval of the final ABS budget by the Administrator.

- **The discussion and decisions taking place among the geographic bureaus, PPC, and the Administrator to meet the budget mark.**

B. CONGRESSIONAL PRESENTATION PROCESS

The preparation of the annual Congressional Presentation is designed to further justify and explain the Agency's budget request. This process commences in September with the issuance of cable guidance to the field by the Office of Legislative Affairs (LEG) indicating how the budget data should be organized and developed for presentation to the Congress.

Preparation of the Congressional Presentation entails the missions and/or offices developing narrative and tabular material describing and justifying the budget proposal. In this process, summary program information and supporting data concentrate on programming policy, performance and accomplishments and emphasize proposed activities to be implemented. This narrative and tabular material should reflect the decisions made when the ABS was approved. When the required material for the mission and/or office program has been prepared, it is submitted to the geographic bureau.

The geographic bureaus are responsible for reviewing the material. In doing so, the geographic bureaus must ensure the budget conforms with the approved ABS and the needed adjustments have been made to conform with the budget mark. This adjustment is necessary since the Congressional Presentation process starts well before the OMB budget mark is provided in early December. The material is then consolidated into an overall Congressional Presentation budget for the geographic bureau. When completed, it is forwarded to PPC.

PPC in turn reviews the geographic bureaus' presentations and develops an Agency Congressional Presentation that is approved by the Administrator. This Agency Congressional Presentation is incorporated into the IDCA presentation which is included in the State Department's Foreign Assistance Budget. In January, the Foreign Assistance Budget is sent to OMB, which transmits it to the Congress as part of the President's Budget.

The control objective of this process is to ensure that the Agency's budget proposal is formulated and presented in accordance with Congressional needs. To achieve this objective, the following control techniques are used:

- **The policy guidance for preparing the Congressional Presentation outlined in cable guidance.**

- **The separation of duties whereby missions and/or offices prepare the Congressional Presentation and the geographic bureaus review and approve them and then prepare a consolidated Congressional presentation for the bureau.**

- **The review, consolidation, and preparation by PPC of an Agency Congressional Presentation, which is approved by the Administrator.**

C. LEGISLATIVE PROCESS

In the Congressional system, the authorization (policy direction) and appropriation (fiscal) functions are kept distinct. The Senate takes the lead in authorizations while the House of Representatives initiates appropriations. Both bills must be approved by both Houses, so there can be up to four sets of Congressional hearings each year.

The legislative process begins with hearings on the program of assistance described in the Congressional Presentation. This dialogue normally is carried out by committees of both the House of Representatives and the Senate responsible for authorizing foreign assistance programs. In effect, these are the policy making committees for foreign assistance. Representatives of A.I.D., the State Department, other agencies of the government, and the private sector are called to testify on various aspects of the program. The Congress, when it resolves all issues with the program, passes legislation authorizing the President to use his authority to implement the foreign assistance program and authorizing Congress to appropriate funds for foreign aid purposes. In separate appropriations legislation, Congress prescribes the amount of government funds to be made available for the Foreign Assistance Program for that particular fiscal year. When appropriations legislation has been signed by the President, a budget for the fiscal year has been established.

D. OPERATING YEAR BUDGET PROCESS

Because of the actions Congress may have taken in the process of passing legislation, the funds provided in the appropriations legislation may differ from the Agency's budget proposal included in the President's budget request. Therefore, once the legislation is passed and signed into law, the Agency must prepare a budget reflecting the provisions of the new legislation. This final budget, developed from a Congressionally approved program as reflected in the legislation, is called the Operating Year Budget (OYB). This budget is prepared by PPC in conjunction with the geographic bureaus and approved by the Administrator.

If by October 1, the Congress has not passed the authorization/appropriation legislation, it passes a Joint Resolution, commonly referred to as a Continuing Resolution. When signed by the President, the Continuing Resolution permits continuation of operations until a specified date or enactment of the authorization/appropriation bills, whichever comes first. The Continuing Resolution usually permits continuation of operations at the rate of the previous fiscal year or the budget request, whichever is lower. In such cases, the Office of Legislative Affairs transmits a circular telegram informing the missions

and/or offices when the Continuing Resolution has been passed and signed by the President and authorizing continuation of essential nondeferable operations pending receipt of further detailed guidelines.

PPC and the Office of Financial Management jointly compute the rate of operations for each appropriation category during the Continuing Resolution period. Within these limits, an interim OYB is prepared, which establishes funding levels by appropriation and Agency bureau. Upon enactment of the authorization/appropriation legislation, an Operational Year Budget is prepared.

Under Section 653 of the Foreign Assistance Act, the Agency must notify the Congress within 30 days after passage of the legislation of each country which will receive funds under the legislation and the amount of funds to be provided to that country by appropriation account. This legislative reporting requirement is based on the establishment of the OYB. Thus, to meet this requirement, the OYB must be established as soon as the authorization/appropriation budget reconciliation process has been completed by Congress and signed into law. In doing this, PPC will determine the funding levels for use in preparing the OYB to bring it in line with the legislatively approved budget. These funding levels will be based on the Congressional Presentation and the geographic bureaus' submissions to PPC. The levels include funding by appropriation account, bureau, country, etcetera. PPC will then present any bureau requests for relief from the funding level to the Administrator with its recommendations.

After the Administrator's review and decisions have been made, the OYB is established. When established, the OYB will contain the approved planning level allocated to each bureau for each country and interregional program in each appropriation account. This information, as well as a listing of approved new activities, is submitted to Congress.

In establishing the OYB, the proposed funding for specific projects may be affected which requires a subsequent adjustment of the OYB. Thus, when necessary, the OYB may be revised. These revisions are subject to the following procedures.

- Within each appropriation category, geographic bureaus may shift funds so long as no individual country or program listed in the OYB is changed by more than $1 million.

- Within overall availability, PPC may shift funds among bureaus and appropriation categories so long as no individual bureau program or appropriation category is changed by more than $5 million. Changes which exceed $5 million require the Administrator's approval.

To keep Congress informed of these OYB changes, PPC prepares a quarterly Section 634 Report. This reporting requirement keeps Congress advised of all funding changes to the OYB. In addition, the Agency must also notify

Congress in the case of new or substantially revised projects which were not approved during the legislative process.

When Congress appropriates funds and the President signs the legislation, the Treasury issues warrants for each appropriation account to the Office of the President. The Agency is then responsible for requesting Treasury to transfer the warrants for each account from the Office of the President to the Agency. Since the appropriation accounts may include funds for other agencies, the Agency will also request the Treasury to allocate the funds provided under the appropriation accounts to the respective agencies. Upon making this allocation and transfer, the Treasury will specify the accounting symbols the Agency should use when drawing funds from the individual appropriation accounts.

Before the Agency can obligate and draw down funds from the appropriation accounts at Treasury, it must request an apportionment of funds from OMB. Apportionment is the process whereby OMB provides the Agency with the authority to obligate funds up to a specified level for each appropriation account at Treasury. Thus, based on this process, the Development Assistance accounts are fully apportioned immediately; economic support funds are apportioned on an activity-by-activity basis; and operating expense funds are apportioned on a quarterly basis. With the apportionment of funds, the budgetary system for implementing the OYB can start.

The Agency has established a funds control system to ensure that the appropriations made available to carry out the OYB program are used as intended. This funds control system is fully integrated with the Agency's accounting system. Under this system, the Office of Financial Management controls the funds apportioned by OMB under the appropriation accounts by issuing allotments to the assistant administrators of the geographic bureaus. These allotments are made to the assistant administrators for those funds apportioned under each appropriation for which they have operational responsibility.

After the geographic bureaus have allotted funds by the Office of Financial Management allots funds to the geographic bureaus, the respective bureaus will prepare Requests for Advice of Allowance to fund the specific projects and programs of the missions and/or offices. These Requests for Advice of Allowance are recorded in the geographic bureaus' allotment control records, which provide a running total of the Requests for the Advices of Allowance made to the missions and/or offices under each allotment. The geographic bureaus in turn send the Requests for Advice of Allowance to the Office of Financial Management which reviews the requests to ensure the data is correct and conforms with the OYB. When approved, the Advices of Allowance are charged to allowance ledgers maintained for each bureau allotment. The Office of Financial Management then cables the missions and/or offices advising them of the projects and programs for which Advices of Allowance have been authorized.

Each mission and/or office director receiving an Advice of Allowance is responsible for restricting obligations to the amount available in the approved Advice of Allowance. To assist the directors in meeting this responsibility, the mission and/or office accounting station maintains budget allowance ledgers for each appropriation account.*

When the mission and/or office has been advised that a budget allowance for a specific project has been authorized, the accounting office will record the amount to the appropriate budget allowance ledger. With this budget allowance, the accounting office is then able to prevalidate documents for availability of funds. Thus, in the case of a project agreement, the accounting office would prevalidate, by an administrative reservation of funds, that a specified amount of funds to be provided under the agreement is available. This reservation of funds would be recorded to the budget allowance ledger. When the agreement has been signed, the project agreement becomes the obligating document. The obligation would then be recorded in both the budget allowance ledger and a project ledger.** By this process of administratively reserving funds until the obligating documents have been signed, the accounting office ensures that obligations do not exceed the budget allowances. At the end of each month, the accounting office prepares a report for each budget allowance ledger, the allowances received and obligations incurred (as well as disbursements, unliquidated obligations and unobligated balances). This report is sent to the Office of Financial Management which reconciles the missions and/or offices allowances against the budget allowances issued (summarizations are also made of the other data for recording to the Agency's ledger accounts).

In summary, general ledgers are maintained for each appropriation account and the apportionment of the appropriation. Allotment ledgers are maintained to control the allotment of apportioned funds to the bureaus. Allowance ledgers are maintained to control the Advice of Allowances requested by the bureaus for the missions and/or offices under the allotments. Mission and/or office budget allowance ledgers are maintained to control the allowance of funds received and obligated by the project agreement. Project ledgers and supporting earmark records are

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* In the case of the Development Assistance Functional Program, budget allowance ledgers are maintained for each functional account, i.e., health, education, and so on.

** The project ledger is subsidiary to the budget allowance ledger and established at the time the obligation is made. The budget allowance and project ledgers must always be in balance. Subsidiary to the project ledger is the element funds control ledger, the earmark control record and the commitment liquidation record.

maintained to control commitments. Commitment records are maintained to control disbursements. This system is designed to ensure project disbursements do not exceed commitments; commitments do not exceed obligations; obligations do not exceed the allowance of funds; the allowance of funds do not exceed the allotment of funds; the allotment of funds do not exceed the apportionment of funds; and the apportionment of funds do not exceed the appropriation.

The control objective of this process is to ensure that an OYB is prepared and carried out in accordance with the appropriations legislated by Congress and signed by the President. Among the control techniques used to achieve this objective are the following:

- The guidance contained in Handbooks 3 and 19 outlining the procedures for establishing and controlling the OYB.
- The OYB document prepared by PPC and approved by the Administrator.
- The execution of OYB transactions by authorized officials e.g., PPC, FM, geographic bureaus, etcetera.
- The prompt recording and proper classification of OYB transactions by PPC, FM, the geographic bureaus, and missions and/or offices.
- The separation of key duties and responsibilities in authorizing, processing, recording, and reviewing transactions.

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CHAPTER 8 PARTICIPANT TRAINING MANAGEMENT (Being Drafted)

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PART III

BILATERAL PROJECT IMPLEMENTATION AND MANAGEMENT FUNCTIONS

INTRODUCTION

Bilateral project assistance is a discrete form of assistance which the Agency uses to address specific problems or set of problems in agreement with a host government. This assistance requires a very management-intensive monitoring system. To facilitate the discussion of this system, monitoring responsibilities are discussed in Part III under such specific functions as Project Implementation, Financial Management, Contract Services Management, Commodity Procurement Management and Participant Training Management.

When the mission and/or office enters into a project agreement with the host country, it does so on the precept that the host country and its implementing entity are responsible for carrying out the project in accordance with the project description. This precept, which is embodied in the language of the agreement, is predicated on the rationale that the host country view the project as part of its own development effort. The host country implementing entity thus assumes the role of Project Manager. In this role, the host country implementing entity is responsible for such implementation tasks as planning and scheduling inputs; organizing, recruiting, and assigning host country staff; supervising host country staff and contractors; establishing and maintaining the project accounting system; and preparing required reports. Technical assistance is usually provided under the project to assist the host country implementing entity with these tasks.

Since project implementation proceeds in accordance with the project description set forth in the Project Paper, the bureau's and/or mission's authorization of the project description means that, in its judgment, the technical feasibility of the project has been assessed and found to be reasonably sound and in compliance with legislative requirements; and the host country and its implementing entity's technical, administrative, and financial capabilities and procedures have been assessed and found to be adequate to carry out the project subject to the provisions of necessary technical and financial assistance. Authorization does not mean that success is assured or that no risks are associated with implementing the project description. On the contrary, the Agency recognizes that success can never be assured and there is a high degree of risk in implementing projects in the lesser developed countries. To minimize this uncertainty and risk, the Agency relies on intensive monitoring procedures.

In this regard, the Agency's monitoring procedures are closely integrated into the host country's management of the project. These monitoring procedures are designed to ensure that the host country entity is doing such things as:

- complying with the conditions precedent of the agreement;
- making requests for financing which are consistent with planned project inputs;

- procuring goods and services competitively and in compliance with applicable laws, regulations, and policies;

- collecting, analyzing, and reporting data on inputs and the effect these inputs are having on achieving output targets and project purposes; and

- conducting evaluations to measure project results and identifying and addressing factors inhibiting such results.

When these monitoring procedures are properly performed, safeguards are built into the project to reduce uncertainty and the risks of fraud, waste, and abuse. The key element in these safeguards is the mission and/or office Project Officer. This officer is not only the official focal point for all contact with the host country entity but also the funnel through which all communication flows. These safeguards are undermined when the Project Officer is not well trained and/or becomes overburdened with programming duties and the monitoring responsibilities for multiple projects.

Throughout Part III, reference will be made to a number of requirements which Agency policy guidance imposes on the Project Officer. In this sense, it must be understood that the Project Officer can call upon the mission's and/or office's technical support staff for any required assistance. When necessary, the Project Officer can also call upon the geographic bureau Project Backstop Officer who in turn can call upon the bureau's or other Agency and external technical resources as required. The Project Officer can thus be characterized as a generalist who is supported by a broad network of technical, financial, and administrative resources.

DRAFT

CHAPTER 1

PROJECT IMPLEMENTATION MANAGEMENT

Bilateral projects are a discrete form of assistance which the Agency uses to address specific problems or set of problems. Projects may be simple or complex, depending upon the problems to be addressed. The simplest projects usually have only one element, an example being a training project to train a specified number of participants in the U.S. Usually, the more elements a project adds, the more complex it becomes. An example of a very complex project would be an integrated rural development project which could have a U.S. training element, an adult literacy element, a health delivery services element, an agricultural extension element, an agricultural credit element, an agricultural research element, and a road construction element. Each of these elements could logically be developed as separate projects. Experience has indicated that such projects are difficult to implement due in part to the need to coordinate the actions of a number of different host country ministries to a specific implementation schedule. Because of the problems involved, large integrated rural development type projects have become less common in recent years.

Projects are designed in such a way that each element has certain output targets which should be achieved through the input of project resources. This combination of input-output targets should in turn result in achieving the project purpose. Perhaps the easiest way to understand this is through the logical framework. The logical framework reduces the project description to a cause-effect matrix, linking inputs to outputs, outputs to project purpose, and project purpose to sector goal. Agency policy requires that in preparing the project description, a logical framework be prepared and included in the Project Paper.

The logical framework breaks the project down into four separate and distinct levels of objectives as shown below:

GOAL	
	IF PURPOSE, THEN GOAL
PURPOSE	
	IF OUTPUTS, THEN PURPOSE
OUTPUTS	
	IF INPUTS, THEN OUTPUTS
INPUTS	

At the lowest level are the project inputs which the mission and/or office and the host country have committed themselves to finance. They include technical services, commodities, training, operating expenses, etcetera. When properly managed, these inputs result in outputs. Outputs are the results that are directly expected to be accomplished by management of the inputs.

This cause-effect relationship can be briefly illustrated by an agricultural project which has two elements: a credit element under which banks will provide farmers with funds at low interest to procure fertilizer and a marketing element to develop a distribution system to get the fertilizer to distributors who will sell it to the farmers. The inputs could be the procurement of fertilizer, local currency funds made available to the banks, and the technical assistance to develop the distribution system. The outputs will be the availability of credit at the banks and the fertilizer stocks for purchase from the distributors.

The mere availability of credit and fertilizer is not the justification for the project. What is really expected by the project is that the farmers will buy the fertilizer using the low cost credit to increase the production of agricultural crops. This use, resulting in an increase in crop production, is the purpose of the project. The purpose, then, is what is expected to result from achieving the outputs. The outputs are thus a set of interrelated objectives and are aimed at achieving the project purpose, the third level of objective.

There may be instances when the project is well managed but the outputs do not lead to the achievement of the project purpose. This may be due to the assumptions in the design. Thus, continuing with the illustration, the designers may have obtained the host country's assurance that it would increase the official price level for certain controlled crops. Based on this assurance, the designers included it as a critical assumption in the design and as a covenant in the agreement. However, due to unforeseen circumstances, the host country may have decided against the price increase. Since prices have not increased, the farmers may determine that it is not economic to purchase the fertilizer to increase production--even though the project is helping subsidize that production.

Assumptions have a critical bearing on all projects, particularly at the output level. There are assumptions that farm inputs increase production by a specified level; that rainfall will be adequate; and that trained participants will return to work in the project. The list is endless. In a less than perfect world, these assumptions introduce an element of uncertainty into the project description. Congress recognized this uncertainty in programming projects and thereby gave the Agency deobligation-reobligation authority for the purpose of recapturing funds from projects going astray. Thus, in implementing the project, it is important that the project description, particularly at the output to purpose level, be assessed in the context of the

logical framework. The vehicle used for making this assessment is the project evaluation. As a general rule, this evaluation is made at the midpoint of the project's life or earlier, if circumstances warrant.

The fourth level in the logical framework is called the goal. Because the goal is usually associated with sector objectives, it is often not possible to demonstrate a direct linkage between the project purpose and goal. The project is one of the necessary conditions for achieving the goal, but usually not sufficient in itself. In order to achieve the goal, other projects may also need to be undertaken, either by the mission and/or office or in coordination with other donors. The totality of these projects (purposes) then becomes the basis for assessing the achievement of the goal. For this reason, it is often difficult to demonstrate whether the mission's and/or office's CDSS goals are being achieved.

Within the context of this logical framework, it is important that auditors understand how the Agency's monitoring control procedures are integrated into the implementation of the projects. The discussion below is designed to assist the auditor in achieving this understanding.

Project Management Structure

Under the Agency's decentralize organizational structure, missions have been delegated certain authorities to approve, authorize, negotiate and implement projects. The smaller missions and offices have generally been delegated only negotiating and implementing authorities. In the case of these smaller missions and offices, approval and authorization authority may remain within the bureau or be delegated to a Regional Economic Support Office.

A.I.D. expends millions of dollars annually in operating expense funds to maintain overseas missions to plan and manage country specific portfolios of projects and programs. Depending on the size of the portfolio, these missions and offices range in size from one or two to more than one hundred U.S. direct-hires.

Since there is no prescribed Agency pattern of organization, mission and office directors have considerable latitude in organizing their staffs. This lack of uniformity in organizational structure is due to the varying size of the missions and offices; the character of the project portfolios; and the varying composition of the staffs.

Agency policy requires that the mission and office directors appoint a Project Officer for each project. In most missions and offices, particularly the larger ones, the mission and office directors will also appoint a Project Committee. The Project Officer and Project Committee will be responsible for administering each active project.* In smaller missions and offices, the

---

* Project Officers are appointed and Project Committees are usually established during the project development stage. Over time, the composition of the Project Committee changes to reflect the expertise needed during implementation.

establishment of a Project Committee may not be considered practical. In such cases, the purpose of the Project Committee may be achieved by direct consultation with the technical support staff.

Regardless of the organizational structure used, the mission and/or office director must ensure that an adequate monitoring, reporting and evaluation system is in place. Agency policy requires that this system be articulated in the form of a Mission Order so the staff is clear about their responsibilities.

Under the mission's or office's monitoring, reporting and evaluation system, project results must be continuously reviewed through completion of the project. In reviewing project results, A.I.D. Handbook 3, Chapter 11E states the system should:

- monitor host country compliance with legislative, regulatory and A.I.D. policies, procedures and regulations;
- ensure timely and coordinated provision of A.I.D. financing and/or inputs;
- gather timely information on inputs, outputs and actions which are critical to project success for the purpose of identifying potential problems and issues;
- assure that A.I.D.-financed commodities and services are utilized effectively to produce the intended benefits;
- identify implementation problems;
- determine the continuing appropriateness of the project design and the need for in-depth evaluations;
- collect data and information for subsequent analyses and evaluations; and
- prepare periodic reports for the mission and bureau review.

The Project Officer is the key element in this system. This officer is not only the focal point for all contract with the host country entity, contractors and others but also the funnel through which all communication flows. In this sense, the Project Officer can call upon the Project Committee and/or mission technical support staff for assistance and advice. Through the geographic bureau Project Backstop Officer, the Project Officer can also call upon the bureau's technical resources. The Project Officer thus acts as coordinator for tracking project implementation and ensuring problems and issues are identified and dealt with as they arise.

According to A.I.D. Handbook 3, Chapter 8.B.5.d., the Project Committee is used to ensure that appropriate organizational units within the mission or office are kept informed of the progress of project implementation and that administrative or implementation actions are taken by those who are best qualified to do so by virtue of their functional responsibilities and experience. Project Committees may include members from the mission's or office's technical staff, Management Office, Accounting Officer, Engineering Advisor, Legal Advisor, Contracting Officer and Commodity/Logistics Officer. The composition of the Project Committee for any given project depends on the type of expertise needed for its implementation and on the size and composition of the mission's or office's staff. Any member may be assigned to one or more committees at a given time. ,The committee is chaired by the Project Officer who is responsible for reaching decisions and recommending actions to the director. Though the Project Committee can operate without formal meetings, members are, nonetheless, responsible for keeping themselves current on project activities and to perform functions for which they are responsible in a timely and professional manner.

A. PROJECT IMPLEMENTATION LETTER PROCESS

Implementation commences when the project agreement has been signed by representatives of the Agency and the host government. Throughout the implementation phase, the Project Officer will be communicating with the host government implementing entity on matters relating to the prompt and efficient implementation of the project agreement. This communication takes the official form of Project Implementation Letters, commonly referred to as PILs. In this sense, PILs are considered an official part of the agreement. The PILs must always be addressed to the person or organization designated by the host country in the section of the project agreement entitled "Communications." This requirement is necessary to ensure that the advice or notice contained in the PIL will be "deemed duly given" as provided for in the applicable clauses of the agreement.

After signature of the project agreement, the mission and/or office issues Project Implementation Letter No. 1, or the "Basic PIL." Subsequent PILs are serially numbered to permit control and identification. The Basic PIL gives the host country more detailed guidance on matters covered in the project agreement. It explains specifically what documents are to be submitted to satisfy the conditions precedent set forth in the project agreement, including the format of the legal opinion to be submitted; it spells out contracting and purchasing procedures and source/origin rules; it provides specific information on disbursement procedures; and it specifies what reports A.I.D. requires, defining their frequency, format, content and so on.

Because the host country will be required to act promptly on some of the matters discussed in the PIL, particularly on meeting conditions precedent and contracting for services (if they are required at the start

of the project), these subjects should be discussed with the host country in detail before the project agreement is signed. It is desirable that the Basic PIL be prepared in draft shortly after the Project Paper is completed. This allows detailed discussions with the host country during the interval between completion of the Project Paper and signature of the agreement. The Basic PIL should be negotiated simultaneously with the project agreement, although it will probably be negotiated with a lower working level within the host country entity, e.g., with the Project Manager.

Subsequent PILs are used to document approvals by the mission and/or office of actions or intended actions by the host country, notably in connection with contracting and with recording such changes in the project agreement as can be made without formally amending it. These are changes in all clauses of annexes which contain the words "except as A.I.D. may agree otherwise." Clauses not containing these words can only be changed by a formal amendment of the Agreement.

PILs frequently deal with subject matters which require the professional expertise of members of the mission and/or office staff other than the Project Officer. The "Basic PIL" is always in this category. The mission and/or office should thus establish procedures for clearing PILs by the Controller, Legal Advisor, Technical Specialist, Procurement Specialist, Contract Officer, etcetera.

A caveat is in order here. Since PILs are considered an official part of the project agreement, they should not be used to communicate mundane operational matters. Project Officers and PIL clearing officers within the missions and/or offices should thus have a clear understanding of the subject matter that should be communicated in the PIL. In other words, the PILs should not be used for micro-managing day-to-day operations.

The control object of the PIL is to ensure that the host country is officially notified of all significant actions concerning the implementation of the project agreement. To achieve this control objective, the following control techniques are used:

- **The guidance for preparing the PIL outlined in A.I.D. Handbook 3.**
- **The serial numbering of PILs.**
- **The review and approval process for clearing PILs.**

B. CONDITIONS PRECEDENT AND COVENANTS PROCESS

In developing the project description, the designers will develop conditions precedent (CP) and covenants to be included in the project agreement. These CPs and Covenants are included in the agreement to

ensure the host country undertakes specific actions in connection with the implementation of the project or actions which are necessary to optimize the results achieved from undertaking the project.

CPs are those provisions in the project agreement which are considered essential to project implementation. In this regard, CPs address specific actions which the host country must take in order to proceed with implementation or actions deemed necessary to optimize project results and/or benefits. CPs are thus one-time actions which must be fulfilled within a specified period of time.

The Basic PIL sets forth the CPs to initial disbursement of funds. These initial CPs refer to such host country actions as a legal opinion on the validity of the agreement and the requirement to designate official representatives. In addition, the Basic PIL will usually indicate those specific CP actions which should be taken in regard to the disbursement of funds for technical services. A target date, ranging up to four months, will be established to fulfill these CPs. If the host country is unable to fulfill the CPs within the specified period, the mission and/or office can extend the period. Generally, the mission and/or office only has the delegated authority to extend the CP period up to a year, after which the geographic bureau's assistant administrator must approve any further extensions. Under no circumstances can the mission and/or office rescind and/or change the CP without the prior approval of the assistant administrator.

The Project Officer is responsible for monitoring the host country's compliance with the CPs. Thus, when the necessary documents have been received and reviewed, the Project Officer will notify the host country representative through a PIL that the initial CPs to disbursement of funds have been approved.

The agreement may also contain CPs to disbursement of funds for other specific purposes. These CPs would be whatever the designers considered essential to project implementation. Accordingly, in the case of commodity procurement, the CPs may specify that a detailed listing of commodities be provided; or in the case of construction, the CPs may specify acquisition of sites needed for the project. Regardless of the number of subsequent CPs to disbursement, each would need to be fulfilled and then reviewed and approved before the Project Officer would process the financing for that particular input of the project.

A covenant is a more continuous action required of the host country which is not directly related to implementation but intended to create conditions related to but not a part of the project. Covenants include such actions as conducting project evaluations, undertaking policy changes, providing adequate staffing, and conducting the project in accordance with sound financial management practices. These actions are

often critical to achieving the benefits to be derived from the project. It is therefore essential that the Project Officer monitor these covenants during the life of the project.

The control objective of the CPs and covenants is to ensure that the host country undertakes specific actions which are considered essential to the implementation of the project. To achieve this objective, the following control techniques are used:

- The guidance contained in A.I.D. Handbook 3 outlining the procedures for monitoring the CPs and covenants.
- The time limitations imposed on meeting the CPs.
- The approvals required for extending CPs up to a year at the mission and/or office level and the need for prior geographic bureau approval of extensions beyond a year.
- The policy requirement that only the geographic bureau can authorize changes to or waivers for CPs.
- The non-release of project funds unless CPs have been met.

C. PROJECT BUDGET - HOST COUNTRY CONTRIBUTION PROCESS

In designing the project, the designers develop cost estimates for the inputs under each element of the project. The preparation of these estimates makes it possible to determine whether the project will be economically feasible. The designers must consequently exercise care in developing realistic cost estimates, since the financing of cost overruns can cause project delays and/or operational problems. Even though the host country obligates itself in the project agreement to provide all funds for costs not contributed by the mission and/or office, it often is not in the position to do so. Moreover, if project inputs and benefits are not costed and valued accurately, the project economic analysis could be seriously undermined, resulting in abandoning the activity after significant resources have been invested. Accurate cost estimates can thus be crucial to project success.

Once the cost estimates have been established, a project budget is prepared. This budget shows the annual amount of funds to be provided by the mission and/or office and the host country over the life of the project. In the context of this budget, A.I.D.-contributed funds are usually used for dollar costs and the host country funds for local currency costs.

To ensure that host countries have a vested interest in the success of A.I.D.-financed projects, Congress incorporated the concept of cost-sharing or matching participation into the Foreign Assistance Act. Section 110 of the Act provides that:

> "No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 per centum of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind' basis."
>
> While Section 110 of the Foreign Assistance Act is applicable only to bilateral, government-to-government projects funded with development assistance appropriations, A.I.D. has administratively extended this requirement to projects funded with economic support fund appropriations.

Under certain circumstances, this cost sharing or matching participation can be waived. In such cases, Section 124(d) provides that:

> "The President may, on a case-by-case basis, waive the requirement of Section 110 for financial or "in-kind" contributions in case of programs, projects, or activities in relatively least developed countries."

To implement Section 110 of the Act, A.I.D. Handbook 3, Appendix 2C states that:

> "... the contributions to be made by A.I.D. and the host government are to be based on the total costs of the project as defined in the Project Paper. Thus, if the total cost of the project, including A.I.D. and host government contributions, were the equivalent of $100, the host government would have to contribute the equivalent of at least $25. The nature and amount of this host government contribution is to be discussed in the Project Paper."

The guidance then goes on to state that, "prior to A.I.D.'s obligation of funds, the host government will provide A.I.D. with a written assurance that it will provide its contribution of "X" amount of funds which equals 25 percent or more of the total cost of the project." The geographic

bureau assistant administrator or mission director delegated authority to authorize projects must review and determine the acceptability of this assurance. In this regard, the guidance states:

> "... As part of the analyses of respective contributions, an acceptable answer to the requirements of Section 110(a) will be along the lines of:
>
> 'An assurance has been received from the recipient country that its contribution to the project will be as follows ... which equals ___% or more of the total project cost during the period of active A.I.D. involvement. A.I.D. finds the assurance satisfactory.'"
>
> In lieu of a project assurance, the guidance permits the host government to provide an assurance for a group of projects in a specific sector. This assurance is based on the following certification by the geographic bureau assistant administrator or mission director with authorization authority:
>
> "An assurance has been received from the recipient country that its contribution to the following projects ... will be as follows ... which equals ____% or more of the total cost of the projects during the period of active A.I.D. involvement. The regional assistant administrator finds the assurance satisfactory."

A caveat is provided for those relatively least developed countries under Section 124(d) of the Act. If, in assessing the host government's financial capabilities, A.I.D. finds that the host government is unable to contribute 25 percent of the total project costs, it can recommend a lower amount. In doing so, this action must be justified with a waiver approved by the regional assistant administrator.

The mission's and/or office's contributions to a project are generally used to cover capital costs, whereas host country contributions are usually used to cover those local currency costs which are incurred in connection with the operation of the activities to be carried out. Included in these local currency costs would be such things as salaries, gas and oil for vehicles, equipment maintenance, and operational costs of facilities, e.g., schools, health clinics, and research centers. The viability of a project can thus hinge on the host country's ability to defray these costs. Recognizing this, the project designers should have assessed the host country's financial capabilities to support the project when developing the project budget.

The host country's contributions should be monitored over the life of the project. The following aspects should thus be considered by Project Officers in monitoring host country contributions.

1. Exchange Rate

Project costs represent the contribution of dollars and local currency funds needed to finance such things as technical services, commodities, construction, training, and the recurring operating expenses incurred in carrying out the project. Those project costs to be financed with host country contributions are usually those costs financed with local currency funds. To calculate the host country's share of costs, the mission and/or office should convert the estimated local currency at the existing exchange rate on the date the agreement is signed. This conversion then expresses the total project costs in terms of one currency - the dollar. The host country's share should then equal 25 percent of the total dollar costs.

In June 1987, the Agency issued the following policy guidance on the appropriate exchange rate to be used to measure host country contributions:

"The value of the real resource contribution provided by a host country for a project or program generally should be obtained by first pricing the host country's real resource contribution in local currency. This figure then is converted into dollars at the highest rate current at the time of the project agreement so that A.I.D. and host country contributions can be expressed in one common monetary unit and so that the real resource contribution by the host country can be expressed in percentage and dollar-equivalent terms. Thus, at the signing of an assistance agreement, the host country's real resource contribution is to be expressed both in terms of absolute dollars and a percentage of the total project based on the domestic and foreign prices and the exchange rate existing at that date. This forms the basis for determining host country's absolute real resource contribution and percentage share of the total project throughout its life, and insulates the host country's contribution from the effect of any exchange rate fluctuations which may occur.

The host country's/recipients percentage share of project costs may be explicitly renegotiated on an exceptional basis if such adjustments are considered necessary for purposes of consistency with other A.I.D. assistance objectives, such as encouraging macroeconomic policy reform, and reducing domestic inflation. The rationale for such adjustments in host country/recipient

contributions should be well documented and the adjustment executed in a project agreement amendment or the equivalent. In no case, unless authorized by waiver in the case of the relatively least developed countries, is the host country contribution, after recalculation of the entire project budget at the new exchange rate, to be an amount less than 25 percent of total project costs. Automatic downward adjustment in host country/recipient percentage contribution due to devaluation, inflation, and similar financial or economic events is not acceptable."

2. Forms of Contributions

When the host country contribution is to be based on funds appropriated by the country's legislative body, the Project Office should ensure the project has been included in its budget. Only by budgeting for the project is there any possibility that the funds will be provided. Even then, budgetary constraints may not make the funds available. In such cases, it is not uncommon in those countries where the program includes non-project assistance (cash transfer, Commodity Import Program, and P.L. 480, Title I) that the mission and/or office and the host country agree to use a portion of the local currencies generated from this assistance to finance projects. When such funds are used for project purposes, they are represented as part of the host country's matching contribution. The weakness in this arrangement is that no permanent provision is made in the host country budget to ensure continuing support for the project.

For least developed countries, the project designers may justify a contribution substantially less than the 25 percent matching share. When this is the case, the mission and/or office will finance part of the local currency costs with A.I.D. dollars. In such instances, the waiver should be combined with a requirement for gradually increasing the host country's contribution. Such an arrangement provides reasonable assurance that the host country entity will eventually assume the necessary share of costs to assure the success of the project.

Part of the host country contributions may be made in-kind in the form of land, rent, utilities, and so on. When this is the case, questions may arise concerning the value to be placed on these in-kind contributions. The criterion to be used in valuing the in-kind contributions is reasonableness of cost. Since reasonableness is a subjective term, the Project Officer should be circumspect about the host country's methodology in valuing these contributions. Care needs to be exercised to ensure the value of in-kind contributions is not over-inflated to reduce the level of cash contributions.

Whatever arrangement is made, the Project Officer is responsible for ensuring that the host country contribution is provided. The Project Officer thus needs to establish some form of host country reporting to keep abreast of this commitment. Failure to do so could undermine the success of the project.

The control objective of the host country contribution is to ensure the host country has a vested financial interest in the success of the project. To achieve this objective, the only control technique that could be identified was:

- **The A.I.D. guidance in A.I.D. Handbook 3 requiring the host country to provide written assurance it would provide a contribution of a specified amount.**

No control techniques could be identified which required the Project Officer to verify whether the host country contributions were in fact provided. This lack of control techniques would seem to account for the frequent failure of the host countries to provide the required contributions.

D. PROJECT BUDGET - A.I.D. CONTRIBUTION PROCESS

As a general rule, the mission and/or office will finance the dollar costs of the project budget. These dollar costs cover such inputs as technical services, commodities and training. When the mission and/or office agrees to finance the recurring operating costs of the project, dollars will be exchanged for local currencies. These A.I.D.-financed dollar contributions are provided in accordance with the project implementation plan. This implementation plan indicates the sequence of actions to be taken and when the actions are to begin and end.

When the project agreement is signed, it will obligate a specified amount of funds for the purposes shown in the Project Budget Annex of the agreement. This Budget Annex will indicate the total amount of the project budget to be financed by line item, e.g., technical services, commodities, etcetera and the amount of funds made available by line item under the agreement.

The procurement of commodities and services is subject to the numerous policies and regulations set forth in the Foreign Assistance Act, Federal Acquisition Regulations, the supplemental A.I.D. Acquisition Regulations, and A.I.D. Handbooks. These policies and regulations dictate that the commodities and services be acquired in accordance with competitive practices to economize the use of Federal funds. Any exceptions to these competitive procurement practices require extensive written justification. A detailed discussion of these procurement practices is presented in Chapters 3 to 6 and thus not included below.

1. Earmark and Commitment Procedures

Under A.I.D.'s funds control system, the mission and/or office receives an allowance of funds to fund the project. Upon receipt of this advise, the allowance is recorded to an allowance of funds ledger relating to the appropriation from which the funds were derived, e.g., in the case of the Development Assistance Functional Program appropriation, the Agriculture, Food and Nutrition account. When the project agreement is signed, the mission and/or office accounting station will reduce the amount available in the allowance of funds ledger by the amount of the obligation. A project ledger will also be established and the amount of the obligation recorded. Project activity is recorded to this project ledger at the end of each month by a journal voucher summarizing the details from the following subsidiary records:

- An earmark control record which is established for each earmarking document to control the individual commitment liquidation records; and

- A commitment liquidation record which is established for each commitment document to control disbursement against commitments.

Presently, the mission and/or office accounting station has the option of establishing an element funds control ledger. When used, an element funds control ledger would be established for each item in the project budget, e..g., technical services, commodities, training, construction and so on. With the exception of commitment and expenditure data, these ledgers include basically the same financial information as maintained in the project ledger, but at the input level. This project accounting system, which is discussed in more detail in a later chapter, is thus designed to provide an integrated system of financial controls over the project implementation process. It is also designed to satisfy Agency fund control and fiscal reporting requirements as well as serve as a management tool at both the mission and/or office and geographic bureau levels in assessing the financial implementation of projects.

In order to use the obligated funds for the specified purposes, it is necessary under A.I.D.'s funds control system for the Project Officer to prepare earmark and commitment documents. Specific earmark and commitment documents would be prepared for each input.

Throughout this discussion, reference will be made to the terms "earmarks", "commitments", and "simultaneous earmarks/commitments". So that there is no misunderstanding what these terms mean, the following definitions are used by the Agency.

- Earmark: An earmark is a written (usually between the parties to the project agreement) authorization to use up to a specified amount of project resources in accordance with and for the purpose(s) contained in the authorization; earmarks contain implementing and/or commitment instructions. (An earmark can be a Project Implementation Order, PIO, or Project Implementation Letter, PIL, depending on the action being authorized/implemented.)

- Commitment: A commitment is an agreement, usually with a third party (outside the project agreement), to provide goods and/or services which will require disbursement of project funds; resources must be earmarked before a commitment can be made. (Contracts, including purchase orders, are typical commitment documents.)

- Simultaneous Earmarks/Commitments: A simultaneous earmark/commitment occurs when an authorized allocation of project resources also provides for implementation and delivery of goods and/or services and the disbursement of project funds. (PILs containing fixed amount reimbursement or other host country implementing agreements are an example. PIO/Ps are the only PIO document used as a simultaneous earmark/commitment; they authorize disbursement of training funds directly to the A.I.D./W Master Disbursing Account.)

a. **Technical Services**

Usually, the first input A.I.D. will finance under the project budget is the procurement of technical services. This procurement may be undertaken by either the host country or the Agency directly. When undertaken by the host country, the Basic PIL would spell out the conditions precedent which needed to be fulfilled before the Agency would finance the technical services contract. These conditions precedents could include preparation of Requests for Technical Proposals and other data to fulfill A.I.D.'s competitive procurement regulations. Upon receipt, review and approval of this documentation, the Project Officer would prepare an earmarking PIL advising the host country to proceed with the procurement.* The accounting office would use this PIL to earmark a specified amount of the obligated funds to finance the commitment. The contract, however, should not be signed by the host country and contractor until reviewed and approved by the Project

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* Before doing this, the Project Officer would request an earmark reservation.

Officer.** When reviewed and approved, the earmarked funds would be formally committed on the basis of a PIL advising the host country that the contract has been approved.

When the procurement of technical services is undertaken by the Agency, the Project Officer would prepare a Project Implementation Order/Technical Services (PIO/T). This PIO/T would be used to earmark a specified amount of the obligated funds to finance the commitment. The PIO/T would then be sent to the AID/W Office of Procurement. This office would then be responsible for such things as preparing the Request for Technical Proposals, advertising the proposal in the Commerce Business Daily, and handling the negotiation and award. After the award, either the Office of Procurement or the Project Officer, in conjunction with the Regional Contracting Officer and Regional Legal Counsel, would develop a contract. When the contract is signed by either an authorized official in the Office of Procurement or the mission and/or office director and the contractor, it becomes the commitment document.

b. Commodity Procurement

Project commodity procurement is handled in much the same manner as technical services procurement. When funds have been obligated for commodity procurement, the Project Officer would notify the host country of any conditions precedent which needed to be fulfilled before such procurement could be undertaken. When the host country provides the pertinent documentation requested by the conditions precedent, the Project Officer would review the documentation and, if acceptable, then prepare an earmarking PIL advising the host country the conditions precedent have been fulfilled. This PIL, would be used by the mission and/or office accounting station to earmark a specified amount of funds for the commodity procurement. When authorized by the mission and/or office, the host country has several options in undertaking this procurement:

- It can contract with a U.S. Procurement Service Agent (PSA) to do the procurement. In this case, proposals would be solicited from PSA firms.

- It can perform the procurement itself, which would entail soliciting bids from suppliers for the needed commodities.

** A reservation of funds would be requested before funds are committed.

- It can arrange to have the technical assistance contractor procure the commodities.

Whichever option the host country chooses to use, it must obtain the Project Officer's approval before signing the contract(s). This PIL approving the procurement by the Project Officer is then used as the commitment document by the accounting office.

When the commodity procurement is to be performed by the Agency, the Project Officer must prepare a Project Implementation Order/Commodities (PIO/C). This PIO/C, which instructs the AID/W Office of Procurement to procure the itemized list of commodities in accordance with the stated specifications, is used by the accounting office to earmark the funds. Depending on the type of commodities, the Office of Procurement would contract with a Procurement Service Agent, or another Federal Agency, to handle the procurement. This contract with the Procurement Agent would then be used as the commitment document.

c. Participant Training

When host country participants are to be sent to the U.S. for training, this training can be handled in one of two ways. The training can be handled by the technical assistance contractor, in which case the cost of the training would be included in the technical assistance contract. Or the training can be handled by the Agency directly. In this latter case, the Project Officer would prepare a Project Implementation Order/Training (PIO/T). This PIO/T would specify the number of participants and the amount of funding provided for the training. The PIO/T, when signed by the host country, would be used as a simultaneously earmark/commitment document.

d. Local Currency Costs

When the project includes provisions for local currency costs, the Project Officer, acting on a host country request, will prepare a PIL stating that the Agency will provide so much local currency at the existing exchange rate which is equivalent to so many dollars. This PIL will also serve as a simultaneous earmark/commitment document.

The control objectives of the fund control procedures are to ensure funds are only used for authorized purposes; are economically and efficiently used; and do not exceed the amounts authorized by earmark and commitment documents. To achieve these objectives, the Agency uses the following control techniques:

- The guidance provided in A.I.D. Handbook 19 and the Controllers Handbook, Chapter 13 outlining the process and requirements.
- Review and authorization approval of all earmarking and commodity documents by appropriate levels of management.
- Review, approval and authorization of all disbursements by separate and appropriate levels of management.
- Recording of all earmark and commitment and transactions in a prompt and appropriate manner.
- Maintenance of appropriate records and documentation supporting all transactions.

2. Payment Procedures

Usually, the mission and/or office accounting office will advise the Project Officer of the payment method to be used in financing the input. The Project Officer will then discuss and obtain the host country's approval for using this method. This financing method will then be set forth in a PIL.

There are several financing methods that can be used. These include:

- Direct Reimbursements where A.I.D. reimburses the host country for foreign exchange or local currency already made from its own sources.
- Direct Payments by A.I.D. against presentation of invoices and other specified documents.
- A.I.D. Direct Letters of Commitment to Contractors or suppliers under which A.I.D. makes direct payments to them on receipt of invoices and supporting documentation.
- A.I.D. Letters of Commitment to banks which utilizes commercial banking channels for making payments to contractors and suppliers, with A.I.D. then reimbursing the banks.
- Advance payment methods which advance funds to non-profit organizations and host government entities by Treasury check or Treasury letters of credit prior to the organization's disbursement of funds.

a. Direct Reimbursement

The direct reimbursement method is obviously the preferred method of financing for all types of assistance, since it gives

A.I.D. the opportunity to review the transaction before payment. When this method is used under a host country contract, it is only workable if the host country has sufficient financial resources to make the required payments and await reimbursement by A.I.D. Because few host countries have the necessary financial resources, this payment method is not frequently used under host country contracts.

b. Direct Letter of Commitment

Usually, the next preferred method is a direct letter of commitment. Under this method, the mission and/or office accounting office will issue a direct letter of commitment to the technical services contractor or commodity supplier. The direct letter of commitment is an irrevocable promise under which the Agency agrees to make payment to the contractor or supplier for eligible services and commodities furnished pursuant to a specific contract. The advantages of this payment method is that the contractor's or supplier's invoices are provided to the mission and/or office and the host country for review prior to payment.

In processing these invoices for payment, the host country entity would review the invoices, noting any exceptions.* The invoices would then be sent to the Project Officer who would review the invoices and then administratively approve them for payment. The Project Office would in turn send the invoices to the mission and/or office accounting station who would perform a final review, which includes certifying and processing the invoices for payment.

When the accounting station has processed the invoices and prepared the voucher for payment with the necessary accounting symbols, e.g., appropriation, allotment, etcetera, it is then ready for payment. If the invoice is under $5,000, it will be sent to the Regional U.S. Disbursing Office (USDO) for payment. The USDO will prepare and send the checks to the contractor or supplier. If the invoice exceeds $5,000, it will usually be paid by electronic funds transfer. In this case, the accounting station will send a cable to the AID/W Office of Financial Management with the appropriate instructions and voucher accounting data. The Financial Management Office will in turn relay this accounting data to the U.S. Treasury Department via the Federal Treasury Communication System.

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* This is the case when it relates to a host country awarded contract. This would not be necessary under an A.I.D.-direct awarded contract.

Depending upon the instructions, the Treasury will then either prepare and send a check to the contractor or supplier or the Treasury will instruct the Federal Reserve to electronically transfer the funds to the contractor's or supplier's bank account.

Upon payment, the Office of Financial Management will prepare an Advice of Charge which is then sent to the mission and/or office. Based on the Advice of Charge, the payment is recorded to the commitment liquidation record.

c. **Bank Letter of Commitment**

When A.I.D.-financed host country Procurement Service Agents are involved, the bank letter of commitment method is usually used. Under this method, the mission and/or office accounting office instructs the A.I.D./W Office of Financial Management to open a bank letter of commitment at a commercial bank designated by the Service Agent. When the Service Agent negotiates procurement with a supplier, the Service Agent will instruct the bank to open an irrevocable letter of credit in favor of the supplier. Upon completion of the terms spelled out in the letter of credit, the supplier will obtain payment from the Service Agent's bank upon presentation of the letter of credit and related documentation. The Service Agent's bank in turn will forward the transaction documents to the A.I.D. Office of Financial Management. This office then reviews the transaction documents and certifies the voucher for payment.

An Advice of Charge would be prepared for the payment and sent to the mission and/or office with the related documentation. Though guidance is silent on this point, A.I.D./W officials indicated the Project Officer is responsible for post-auditing the transaction for pricing and eligibility requirements. After this review, the accounting station records the payment to the commitment liquidation record.

d. **Advance by Treasury Letter of Credit**

In the case of non-profit institutions, the advance payment method is usually used. This payment method can only be used by A.I.D./W. Thus, upon instructions from the mission and/or office accounting station, the Office of Financial Management will prepare a form requesting the Treasury to open a letter of credit in favor of the organization for a specified amount of funds. Based on Treasury's opening this letter of credit, the non-profit organization will request periodic drawdowns through its commercial bank. Each time the organization requests a

drawdown, the bank will notify the Federal Reserve which will notify the Treasury through the Treasury's Federal Communication System (TFCS) of the request. Treasury will in turn notify A.I.D.'s Office of Financial Management through the TFCS. Financial Management will then review and approve the request. When approved, this will be noted in a Treasury letter of credit ledger for the organization maintained by Financial Management. Through the TFCS, Financial Management will notify Treasury to make payment. Treasury in turn will instruct the Federal Reserve to credit the organization's account at the commercial bank. Upon payment, the Federal Reserve will notify the Treasury and Treasury will notify A.I.D. through the TFCS that payment was made. Financial Management will then enter the advance to the organization's letter of credit ledger.

The non-profit organization is required to liquidate these advances quarterly by providing Financial Management with a voucher for the prior three months disbursements. Based on this accounting, which only indicates in summary form the amount disbursed for salaries, commodities and so on, Financial Management reviews and certifies the voucher. The voucher is then entered as a credit to the organization's Treasury letter of credit ledger. With the entry of this credit, advances for the amount of the credit are cleared from the advance ledger. Financial Management then prepares an Advice of Charge which is sent to the mission and/or office along with the voucher.

The Project Officer is responsible for reviewing and administratively approving the voucher. Since the voucher provides no details, this administrative approval has little significance. After Project Officer approval, it is then sent to the accounting office where it is entered to the project commitment liquidation record. Though A.I.D. recognizes this payment method has the least controls, there is little that can be done since the accounting form designed by OMB specifically states only summary information should be provided by function, e.g. salaries, procurement, etcetera.

e. **Advance Payment by Treasury Check**

When A.I.D. finances local currency costs, the funds will usually be provided in the form of advances to cover the financial requirements for a specific period of time - usually 30 days. In processing these advances, the Project Officer will notify the mission and/or office accounting office of the amount of local currencies required. Based on its review, the accounting station will prepare and certify a payment voucher

which is sent to the USDO.* A check drawn on a host country bank will then be prepared for the specified amount of local currency. This check will be sent to the accounting station. Upon receipt, the Project Officer will present the check to the host country.

In liquidating the advance, the host country should provide the mission and/or office with a detailed report and related documentation supporting the use of the funds. This report and supporting documentation should be reviewed and administratively approved by the Project Officer after which it is reviewed and certified by the accounting office. A no pay voucher is prepared for the dollar equivalent. This voucher is then used to liquidate the advance.

The control objectives of the payment procedures are to ensure the appropriate payment method is used, payments are made efficiently and economically in a timely manner (Prompt Payment Act), and payments are made in accordance with the authorizing documents. To achieve these objectives, the following control techniques are used:

- The guidance provided in A.I.D. Handbook 19 and the Controllers Handbook, Chapter 13, outlining the payment methods.
- Review, approval and authorization of the payment method by separate and appropriate levels of management.
- Review, approval and certification of all disbursements by separate and appropriate levels of management to ensure they are consistent with the commitment documents.
- Recording all payments in a prompt and appropriate manner.
- Maintenance of appropriate records and documentation supporting the transaction.

Auditors are reminded of the two weaknesses noted in this discussion. The first concerns the absence of written guidance regarding responsibility for the post-audit of pricing and eligibility under banks letters of commitment. This responsibility was previously assigned to the A.I.D./W Office of Procurement. This office indicated it no longer

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* The USDO will then acquire the local currency from the host country central bank or other host country source with U.S. dollars when it does not already own such currencies.

post-audits project commodity procurement and that the responsibility has been reassigned to Project Officers. The other weakness concerns the liquidation of advances under the Treasury Letter of Credit advance payment method. There is little A.I.D. can do about this weakness, since OMB restricts the liquidating voucher to a non-detailed functional accounting of the costs e.g., salaries, commodities, training and so on.

E. MONITORING PROCESS FOR PERFORMANCE OF TECHNICAL SERVICE CONTRACTS

Technical assistance is usually provided to assist the host government entity in implementing the project. In providing the technical assistance, the Project Officer must ensure the contractor knows precisely the services to be performed. The basis for doing so is the preparation of the statement of work which constitutes the essence of the agreement between the parties on what is to be done, and which sets forth the precise obligation of the contractor with respect to performance. Thus, in preparing the statement of work, the Project Officer must ensure it describes the contract objectives and the steps which must be taken to achieve them.

When the technical services are to be procured by A.I.D., the Project Officer is responsible for preparing the PIO/T which is then transmitted to the A.I.D./W Office of Procurement. The core of the PIO/T is the statement of work to be performed by the contractor. In preparing this PIO/T, the Project Officers' Guidebook states:

> "The statement of the work must be as precisely defined and articulated as possible if the contractor is to understand clearly the dimensions and purposes of the tasks to be undertaken. A poorly prepared statement of work is self-defeating in that it may result in delays in contracting while clarification is sought, or worse, in a contract replete with ambiguities and imprecise contractor responsibilities. Ultimately, a clear and complete statement of work may assume even added importance if there is a legal or administrative dispute as to the adequacy of the services provided, perhaps affecting a decision as to whether or not the contractor will be paid.
>
> 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. Provisions should be made for periodic reports by the contractor to facilitate assessment of his/her actual progress. Particular care should be taken to assure that each statement of work meets these requirements."

When the procurement responsibilities are assigned to the host country, the host country entity is responsible for preparing the scope of work. In those host countries with limited contracting experience, the Project Officers' Guidebook indicates the Project Officer should play a leading role in drafting the statement of work.

1. Reporting

The Project Officers' Guidebook states that, in the case of A.I.D.-direct contracts, the Project Officer should assure the contractor submits such reports as are required by the contract. Upon receipt of each report, the Project Officer should review and comment upon the report's adequacy and responsiveness. Where a contractor report is considered deficient or identifies problems, the Project Officer should meet with the contractor to discuss the situation. Deficiencies should be frankly discussed with the contractor and courses of action to rectify the problems should be suggested. Depending upon the nature and significance of the problems, the Project Officer should determine whether other mission and/or office officials should be alerted.

In the case of host country contracts, the Project Officers' Guidebook states that the Project Officer should make arrangements with the host country to receive copies of all reports which the contractor is required to submit to the host country entity.* Upon receipt of each report, the Project Officer should review the report for its adequacy and responsiveness, particularly its relationship to planned targets or benchmarks and its identification of potential problems likely to impede the work of the contractor. Where a contractor's report is seriously deficient or identifies major problems, the Project Officer should meet with the host country entity and, if appropriate, the contractor to review the situation. Where the significance of a problem warrants, the Project Officer should record such concerns in a memorandum to

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* Normally, under the provisions of the project agreement (and/or related PILs) and the terms of the host country contracts, both the host country and contractor are required to submit progress, financial, shipping, and other reports.

the host country, with copies to both the contractor and mission and/or office director. This technique puts the host country entity and the contractor on notice that A.I.D. considers the matter of some importance, and expects that appropriate corrective action will be taken.

The control objective for monitoring the technical assistant contractor's performance is to ensure that contractors perform those objectives defined and assigned to the contractors in the Project Papers. To achieve this objective, the following control techniques are used:

- The guidance in A.I.D. Handbook 3, Supplements A and B, outlining the Project Officer's responsibilities for direct and host country contracts.
- The requirement that the Project Officer prepare and/or assist the host country in preparing a contract scope of work which is specific and consistent with the project objectives assigned to the contractor.
- The contractor's reporting requirements contained in the contract.
- The requirement that the Project Officer review all contractor reports and take appropriate action as required.

F. MONITORING PROCESS FOR COMMODITY ARRIVAL, RECEIPT, STORAGE AND UTILIZATION

Commodities are procured under a variety of methods. The payment method will also depend upon the procurement method used. For example, when commodities are procured by a Procurement Service Agent, the bank letter of commitment method is used. Under this method, the Service Agent's bank pays the supplier for the cost of the commodities and related shipping charges and A.I.D. reimburses the Service Agent's bank. When commodities are procured from a limited number of suppliers, the direct letter of commitment method may be used. Under this method, the mission and/or office is billed directly for the cost of the commodities and related shipping charges. And when commodities are procured through technical assistance contracts, either the direct letter of commitment or advance payment method may be used. Under this latter method, the costs of the commodities and related shipping charges are included in the contractor's billing statements to A.I.D.

Under these various procurement and payment methods, payment is made to the supplier upon delivery of the commodities to the shipping agent. In other words, A.I.D. will pay for the commodities before shipment to the

host country. Recognizing this, A.I.D. guidance, outlined in A.I.D. Handbook 15, Chapter 5, requires that the mission and/or office accounting station, in coordination with the Project Officer, assure that all items paid for have been received.

In view of this, the project agreement will contain a covenant requiring the host country to maintain adequate records, accounting for any resources financed by A.I.D. This accounting records covenant places upon the host country the responsibility for establishing and maintaining records to document the arrival, receipt, storage and utilization of the commodities. When commodities are procured through technical assistance contracts, a provision is included in the contract requiring the contractors to maintain similar records.

In elaborating on these requirements, A.I.D. Handbook 3, Chapter 11 requires the Project Officer, in conjunction with the accounting station, assure that the host country has established an adequate accounting system to account for the arrival, receipt, storage, and utilization of the commodities. Arrival accounting requires that all commodities listed in the procurement contract be tracked to arrival in country. The purpose of these arrival procedures is to ensure that the commodities ordered and paid for are in fact received. Upon receipt of the commodities, the host country should inspect the commodities to ensure they conform with the required specifications. If commodities do not meet specifications or are damaged upon receipt, claims with the vendor and/or insurance company should be filed. The receiving procedures should thus be designed to ensure the commodities conform with specifications and are inspected for damages. Upon preparation of a receiving report, the commodities are stored until needed and the receiving report is used to record the commodities in the accounting records. When the commodities are to be used, they are transferred from storage to the location where they are to be utilized. The Project Officers Guidebook then states that Project Officers should selectively verify that the commodities are being used for the intended purposes of the project. As a means of verifying the adequacy of these procedures, the Project Officer should selectively verify paid commodity transactions to the host country accounting records and utilization in the field.

A detailed discussion of commodity procurement is presented in Chapters 5 and 6.

The control objective of the commodity procurement monitoring procedures is to ensure that A.I.D.-financed commodities are received and used for the purposes intended. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbooks 3 and 15 and the Project Officer Guidebook outlining the Project Officer's responsibilities**

for monitoring the arrival, receipt, storage and utilization of commodities.

- The accounting covenant included in project agreements requiring the host country to maintain adequate accounting for A.I.D.-financed commodities.

- The provision included in technical assistance contracts requiring the contractors to maintain records accounting for the arrival, receipt, storage and utilization of commodities paid for under the contract.

- The requirement that the Project Officer, in coordination with the mission and/or office accounting office selectively verify paid commodity transactions to the host country records and utilization in the project.

G. MONITORING PROCESS FOR PARTICIPANT TRAINING

In developing the Project Paper, the designers will assess the training needs of the project. This assessment will determine such things as the number of host country personnel to be trained, the type of training, the location of the training, the estimated cost of the training, and whether the training is to be funded and handled by A.I.D. directly or funded through the technical assistance contract and thereby handled by the contractor. In the case of participants funded under technical assistance contracts, the Project Officer is responsible for assuring that the contractor is aware of A.I.D. Handbook 10 requirements and implements the training in the appropriate manner. A detailed discussion of these requirements and procedures is presented in Chapter 7.

The training implementation schedule for a project should allow for sufficient time after participant training and prior to the Project Assistance Completion Date (PACD) to enable the participants to return home and resume their positions. This practice is necessary because Agency experience has shown that participants who return close to, or after, the PACD of the project frequently experience significant reintegration problems, including misunderstanding of project goals, exclusion from the host country team on the project and/or the actual loss of jobs. Only by allowing participants to return during the life of the project can the adaptation of their knowledge, skills, and attitudes as well as team-building be effectively accomplished. Agency guidance consequently requires that all participant training should be completed no later than six months prior to the end of a project in order to allow for adequate reintegration into the project. Thus, to ensure that long-term participants return in a timely manner, the Project Officer should assure that the host country selects participants as soon as project implementation starts.

Agency guidance requires that each mission and/or office director designate a U.S. officer to oversee the management and implementation of participant training. Usually, this officer will be supported by a local national staff to handle the participant training responsibilities. This officer and staff are responsible for the processing of participants, pre-departure orientation, program monitoring, evaluation and follow-up. In addition, the U.S. officer and local national staff are responsible for maintaining the Participant Training Management System (PTMS) which is a micro-computer system developed for missions and/or offices by the A.I.D./W Offices of International Training and Information Resource Management. Through the use of this system, the mission and/or office is able to plan its participant program through life-of-project; track training program implementation (pending, in-training and returned); and produce follow-up reports and returned participant directories.

In the case of participants funded directly by A.I.D. through PIO/Ts, the Project Officer should coordinate with the training staff to ensure the participants are expeditiously processed for U.S. or third country training. Using the resources of the Training staff, the Project Officer should ensure periodic tracking reports are received to review the participants' training progress. Upon completion of the training, the Project Officer should assure the participants return to the project positions for which they were trained.

In late September 1988, the Administrator approved policy guidance which makes all participants funded under technical assistance contracts subject to A.I.D. Handbook 10 requirements. This policy guidance places upon the Project Officer the responsibility to assure the technical assistance contractor provides the necessary documentation, including a non-funded PIO/T, to enter the participants in the mission's and/or office's PTMS and the A.I.D./W Office of International Training's Participant Training Information System. Periodic reports tracking the participants progress are also to be provided. Through the implementation of this guidance, the Agency aims to achieve a measure of control over these contract-funded participants.

The control objectives of the participant training monitoring procedures are to ensure that participants are selected as early as possible, trained and then return in sufficient time to be reintegrated into the project prior to the PACD. To achieve these objectives, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 10 outlining the procedures for monitoring A.I.D.-financed participants.**

- **The requirement that the mission and/or office establish a Participant Training Management System to track and issue reports on the participants' training and return which can be used by the Project Officer for monitoring purposes.**

- **The requirement making participants funded under technical assistance contracts subject to A.I.D. Handbook 10 requirements.**

Prior to the issuance of the Administrator's policy guidance, the Project Officers Guidebook only required that the contractor provide the Office of International Training (OIT) with a special report in accordance with Section 4.3.44 of Chapter I, Handbook 11. Though the Project Officer was responsible for assuring the contractor complied with this requirement, few Project Officers seemed to take the requirement seriously. As a result, many participants funded through technical assistance contracts are not picked up in the OIT's Participant Training Information System which is used for such purposes as monitoring the participants' return, statistics, and so on. In reviewing on-going projects, auditors should check whether contractors are complying with A.I.D. Handbook 11, Chapter 1 reporting requirements.

H. MONITORING PROCESS FOR USE OF A.I.D.-FINANCED LOCAL CURRENCY PROCESS

When the project budget calls for the Agency to finance part of the local currency operating costs, it is necessary that the host country maintain an adequate accounting system for the use of those funds. This need for maintaining an adequate system of books and records is included as a standard clause of project agreements. In this sense, the system should have adequate procedures to control the receipt and deposit of the funds to a bank account, documentation supporting the expenditures of the funds, and accounting records to record expenditures for reporting to the mission and/or office.

When A.I.D.-financed local currencies are provided to the host countries for operating costs, they are usually provided in the form of advances. To liquidate these advances, the host country should provide reports with supporting documentation indicating how the funds were used. When the host country requests advances without liquidating prior advances, this is usually an indication that the host country lacks an adequate accounting system.

When the host country submits periodic reports liquidating advances, the Project Officer is required to review the reports and then administratively approve them pursuant to the procedures spelled out in A.I.D. Handbook 19, Chapter 3. This administrative approval signifies that the Project Officer reviewed the report and to his or her knowledge, the report reflects the costs incurred. Upon the basis of this approval, the accounting office would then review the detail supporting the costs. Upon completion of this review, a no-pay voucher would be prepared and certified, thereby liquidating outstanding advances by the amount reported and certified.

In developing the Project Paper, the designers should assess the host country entity's accounting system when local currencies are to be

provided. When necessary, the designers should make some provision for providing technical assistance to the host country entity to establish the necessary system. Notwithstanding this assessment, the Project Officer, in conjunction with the mission and/or office accounting station, should continue to evaluate the adequacy of the accounting system. This requirement is contained in the Agency's Payment Verification Policies which state:

Policy Number 1:

> A comprehensive general assessment of methods of implementation and financing, reviewed from the standpoint of accountability, is to be presented on a regular basis and more specific assessments are to be included in the Project Papers.

Policy Number 5:

> If local currency is to be made available to an Intermediate Credit Institution or to any other organization responsible for controlling and reporting on the use of such funds, the mission should first assess the organization's financial management procedures and related internal controls. Such an assessment should also be performed as a prerequisite for providing grants to indigenous PVOs. Subsequent audit or evaluation reporting on the project should measure performance in reference to the assessments made under 1. above, as well as other appropriate factors.

The control objective of the local currency monitoring procedures is to ensure that the host country has established adequate accounting records and controls to report on the use of A.I.D.-financed local currencies. To achieve this objective, the following control techniques are used:

- **The policy guidance contained in A.I.D. Payment Verification Policies Numbers 1 and 5.**
- **The covenant contained in the project agreement requiring the host country to maintain adequate accounting record and controls.**
- **The Project Officer's administrative approval requirements contained in A.I.D. Handbook 19, Chapter 3.**
- **The accounting office's review and certification procedures discussed in A.I.D. Handbook 19, Chapter 3.**

I. SITE VISIT PROCESS

Agency guidance requires that the Project Officer, in conjunction with other mission and/or office personnel, perform site visits to check out the progress of the project on a first-hand basis and review, as appropriate, problem areas with host country operating personnel. The Agency considers these site visits an important monitoring tool for maintaining an independent check on the project and verifying the accuracy of the project implementation reporting system. The frequency of these site visits will depend upon such factors as:

- the nature, size and complexity of the project;
- the capability and effectiveness of the host country entity's personnel, its consultants, and other technical and supervisory personnel; and
- the urgency to address unresolved issues and problems.

A Site Inspection Report must be prepared for each site visit. The format of this report is outlined in Appendix 11C of A.I.D. Handbook 3. Among the activities to be covered in this report are:

- status of engineering, technical, and planning progress;
- status of procurement and goods and services;
- status of construction and installation;
- utilization of commodities; and
- disbursement of A.I.D. funds.

The Project Officer is responsible for assuring that Site Inspection Reports are prepared even when these site visits are made by other Agency personnel such as engineers, accountants, and technical specialists. Appropriate action should be initiated when problems and issues are raised in these reports.

The control objective of site visits is to verify that the project is progressing as reported by the host country entity, its consultants, and other technical contractors. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 3 requiring the Project Officer to perform site visits.**

- **The requirement that the Project Officer and other Agency personnel prepare site Inspection Reports reporting the results of field visits to the project site.**

- **The requirement that the Project Officer follow-up on the problems reported in Site Inspection Reports.**

J. PROJECT IMPLEMENTATION REPORT PROCESS

Project reporting is an important management tool to ensure that the Project Officer and other appropriate officials focus on specific project problems and issues requiring attention. Recognizing this, Agency guidance, cited in A.I.D. Handbook 3, Chapter 11, requires the Project Officer to prepare a Project Implementation Report (PIR) on each mission and/or office project in accordance with the guidance developed by the respective geographic bureaus. Since the PIRs are used by the geographic bureaus in conducting mission reviews of project portfolios, the guidance assigns to each bureau the responsibility to determine the frequency, format, and content of the PIR. These portfolio reviews, which should be performed at least annually, are commonly referred to as PIR Reviews, thereby indicating the importance attached to the reports.

A great deal of similarity has evolved among the geographic bureaus in terms of preparing the PIRs. Each bureau requires that the PIRs be prepared semiannually. Each has designed the report as a constructive management tool to serve the needs of field missions and/or offices as well as the bureaus. And each requires the PIR provide information on such matters as the financial status of the project; progress in meeting project objectives; substantive delays in implementing the project; an assessment by the mission and/or office director whether the project will meet its original objectives and have the planned development impact; evaluations that have been scheduled; and the need for geographic bureau assistance. Though there are some differences among the bureaus in terms of length, each geographic bureau generally requires that PIR be condensed to synoptic form.

When PIRs have been prepared on each mission and/or office project, the reports are forwarded to the respective bureau. Upon receipt of the reports, the geographic bureau then arranges for the PIR review committee to review each mission's and/or office's projects. This PIR review committee, which is chaired by either the Deputy Assistant Administrator or another senior level bureau director, comprises senior staff of the geographic bureaus, the Project Office Backstop Committee and members of other bureaus and offices. These reviews focus on such matters as:

- the implementation of the project portfolio and the impact on the CDSS's.

- the status of the projects' pipeline

- o implementation problems requiring attention.
- o compliance with such legislative requirements such as the Gray Amendment which mandates that at least 10 percent of all contracts be awarded to minority firms.
- o the need for geographic bureaus assistance in recruiting a Project Evaluation Team, and so on.

Upon completion of the review, the missions and/or offices are provided with comments regarding the need for certain corrective action. The PIR review process thus links the implementation of the mission's and/or office's project portfolio to the CDSS and Action Plan processes.

In addition to the geographic bureau reviews, missions and/or offices have also established project review processes. To facilitate these reviews, some missions and/or offices require the Project Officer to prepare quarterly project implementation reports whereas others use the semiannual report.

+The control objective of Project Implementation Reporting is to ensure that the Project Officer and other appropriate officials address project problems and issues requiring attention. To achieve this objective, the following control techniques are used:

- o the guidance contained in A.I.D. Handbook 3, Chapter 11 and geographic bureau guidance outlining the requirements for preparing project implementation reports.
- o the PIR review process whereby the missions and/or offices prepare the PIRs, the geographic bureaus review the reports and then provide appropriate comments to the missions and/or offices.
- o the missions and/or offices review process whereby the Project Officers reports are reviewed by the Project Committee and senior level officials.

Though mission and/or office directors are responsible for the implementation of the project portfolio, the precepts outlined in Handbook 3, Chapter 11 for mission portfolio oversight systems make no mention of establishing procedures for resolving problems. A.I.D. Handbook 3, Chapter 11, states that:

> **"... when problems are identified which the borrower/grantee is unable to quickly resolve itself, ... it is, of course, not enough to observe and record such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible, i.e., to accept an additional measure of support or implementation responsibility."**

Thus, the Handbook indicates that mission management should take an active role in resolving major implementation problems. The remainder of chapter 11 makes little reference to either mission or project officer roles and responsibilities, or procedures for resolving serious implementation problems. Considering the high degree of decentralization which presently exists over portfolio monitoring, an IG audit report recommended that the Agency establish a clear requirement for problem solving at missions. The report stated that if the Agency monitoring system is to provide uniform control worldwide, the Handbook must clearly delineate the minimum requirements mission monitoring systems must meet. Otherwise, the systems will provide uneven control and important areas might not receive the consideration they deserve at some missions. Based on the IG recommendation, PPC indicated it is in the process of addressing this weakness.

K. PROJECT EVALUATION PROCESS

Section 621A of the Foreign Assistance Act of 1961, as amended, requires the Agency to "establish a management system that includes ...:

- o definition of objectives and programs for United States foreign assistance;
- o development of quantitative indicators of progress toward these objectives;
- o consideration of alternative means for accomplishing such objectives; and
- o adoption of methods for comparing the actual results of programs and projects with those anticipated when they were undertaken ...."

The Agency uses the logical framework as an evaluation tool for complying with these requirements. Thus, in designing projects, Agency guidance, outlined in A.I.D. Handbook 3, Chapter 12, requires that each Project Paper contain a logical framework. This logical framework, commonly referred to as logframe, is a matrix that breaks a project design down into four separate and distinct levels of objectives: inputs, outputs, purpose, and goal. These objectives at each level are expressed in a quantitative form that can be objectively verified according to identified indicators or measures. The logframe for a project thus expresses an hypothesis that if certain inputs and outputs occur, and if certain assumptions hold true, the purpose and goal will be achieved. The logframe also provides the means for Project Officers to manage by objectives as the project is being implemented.

It is important that the auditors recognize that the logframe for any given project includes only one purpose during its authorized life. Any substantive change of the project purpose requires that A.I.D. notify the Congress.

Project evaluations tend to be planned and undertaken for one or several of the following reasons:

- to assess the continuing validity and relevance of a project and to suggest such modifications as may be required to increase the likelihood that the project will achieve its objectives;
- to assess the effects of external and unanticipated actions and/or events on the project;
- to determine, as the project nears the end of its planned implementation period, whether all required actions have been carried out and performance to date is consistent with expectations, and what additional actions are needed to sustain the positive effects of the project; and
- to determine what impact (or change in the environment) has been brought about by or is associated with the project.

Achieving any one of these purposes requires the application of systematic methods for gathering, analyzing, recording and documenting information. Recognizing this, Agency guidance, outlined in the A.I.D. Evaluation Handbook, requires that data gathering requirements be addressed in the Project Paper.

In developing Project Papers, it is not unusual that baseline data must also be collected. Experience indicates that because of time constraints, this gathering of baseline data is often deferred to the implementation phases. When this happens, too frequently the baseline data is not gathered and the project thus lacks benchmarks for evaluating what effect outputs are having in achieving project purpose. This should be considered when reviewing the evaluation reports.

1. <u>Planning Evaluations</u>

Missions and/or offices are required to prepare an Annual Evaluation Plan which provides the schedule of project evaluations and other evaluative studies over a 2-year period.* Although this Annual Evaluation Plan may consist largely of project evaluations, it should also address any sectoral information requirements. The development of this Annual Evaluation Plan is the occasion for a mission and/or office to identify broader questions of concern to senior managers (e.g., questions related to its Action Plan or to program and policy performance relative to strategic objectives) and to prepare for appropriate assessments that address these questions.

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* This Evaluation Plan is developed as part of the Annual Budget Submission.

The Annual Evaluation Plan alerts the geographic bureaus to upcoming evaluations that may be of particular importance to its program and policy responsibilities. Annual Evaluation Plans of missions and/or offices are reviewed and approved by the bureaus and incorporated into the bureau's respective Annual Evaluation Plans which are then reviewed by PPC.

The mission and/or office director has ultimate responsibility for the evaluation of projects. This responsibility is considered to be part of the mission and/or office director's accountability for proper management of U.S. development assistance. In this regard, mission and/or office directors should establish the standards and practices within missions and/or offices for using evaluation as a management tool. They should participate as fully as their schedules permit in the planning and review of evaluations, particularly as these activities relate to the issues and questions to be addressed and the follow-up actions to be taken. Typically, the mission and/or office director delegates responsibility for managing the mission and/or office evaluation system to a U.S. officer designated as the mission Evaluation Officer.

The mission and/or office Evaluation Officer works with other mission and/or office staff in carrying out the following responsibilities:

- Developing the mission's and/or office's evaluation system (if necessary), formalizing the system in a Mission Order, and implementing the procedures of that system;

- Preparing the Mission's Annual Evaluation Plan, incorporating project and program information needs into the plan, integrating the Evaluation Plan into the Mission Action Plan or Annual Budget Submission, and ensuring that sufficient funding is included in the Annual Budget Submission for upcoming evaluations and special studies if their costs exceed the funds budgeted in the projects involved;

- Tracking the scheduling and implementation of evaluations, based on the Annual Evaluation Plan;

- Assisting Project Officers in designing or revising the Information Plans of projects;

- Assisting Project Officers with the writing of the scopes of work for project evaluations and with other aspects of the evaluation process as needed (e.g., team member selection, Team Planning Meetings);

- Ensuring that an A.I.D. Evaluation Summary is completed and submitted to the appropriate A.I.D/Washington Offices for all evaluations;

- Following up on all actions to be taken in response to evaluation recommendations to ensure that they are implemented; and

- Maintaining and circulating within the Mission evaluation findings and lessons learned.

a. **Bureau Evaluation Responsibilities**

The geographic bureaus have the responsibility for backstopping the missions' and/or offices' evaluation activities. These backstopping tasks are the responsibility of the bureau Evaluation Officer, whose administrative and support functions are analogous to those of the mission and/or office Evaluation Officer.

Although specific responsibilities vary according to bureau operations and information requirements, the bureau Evaluation Officer performs such tasks as:

- identifying evaluation-related issues (e.g., use of experience) for A.I.D./Washington review and approval of key programming documents (e.g., CDSS, Action Plans, Project Identification Documents, and Project Papers);

- Providing guidance on monitoring and evaluation to the missions and/or offices and bureau offices;

- Preparing the bureau's Annual Evaluation Plan. This plan describes how bureau-level management issues and concerns will be addressed through the evaluations planned by Missions and/or Offices and through other evaluation studies and assessments to be carried out directly by the Bureau as needed. It may also describe other actions planned by the Bureau to support evaluation as a management tool. The bureau plan incorporates Mission and Office evaluation schedules and is submitted to PPC early in the pertinent fiscal year;

- Working with bureau project and program Offices and Missions and/or offices to incorporate evaluation findings and information systems in the design of new development activities;

- o Monitoring mission and/or office and bureau evaluation performance, tracks scheduling and completion of evaluations, and ensures proper submission of the evaluation report and A.I.D. Evaluation Summary; and

- o Providing guidance and assistance on monitoring and evaluation issues and assists the missions and/or offices in obtaining specialists and evaluators.

b. **PPC Evaluation Responsibilities**

Although the decentralized organization of A.I.D.'s evaluation system corresponds to the management structure and information needs of the Agency, several evaluation-related activities require a central evaluation office. Studies of sectoral or cross-cutting development issues, the summarization and dissemination of experience and lessons learned in these areas, and broadly applicable monitoring and evaluation guidance have utility for the entire Agency. To address these matters, A.I.D. established the Center for Development Information and Evaluation in the Bureau for Program and Policy Coordination (PPC/CDIE). CDIE works with other bureau and mission Evaluation Officers and supports evaluative studies designed to provide practical information to A.I.D. and other development managers. CDIE's specific responsibilities include the following:

- o Synthesizing and disseminating A.I.D.'s development experience and lessons learned to the Agency, host countries, and the development community;

- o Making available documents, reports, evaluations, and other pertinent data on previous A.I.D. projects and programs;

- o Providing the statistical data needed by the Agency and for reports to Congress about A.I.D. program activities;

- o Conducting special studies requested by senior A.I.D. managers, especially the Administrator;

- o Conducting special evaluation studies on the effectiveness and impact of A.I.D. programs and projects to provide useful information for the planning of similar development activities;

- o Ensuring that guidance is issued to missions and bureaus for the preparation and submission of Annual Evaluation

Plans, and recommending consideration of specific cross-cutting issues during evaluation;

- Providing guidance, standards, and technical advice for the Agency's monitoring and evaluation system, drawing from current evaluation methods and techniques, those that are most applicable and effective in meeting A.I.D.'s various information requirements;

- Reviewing evaluation reports, other pertinent programming documents, and evaluation planning and reporting practices and making recommendations as necessary to promote A.I.D.'s use of evaluation as a management tool; and

- Collaborating with bureau and mission Evaluation Officers to assist them in performing their responsibilities as effectively as possible.

2. Conducting the Evaluation

When the decision has been made to conduct an A.I.D. project evaluation, the Project Officer must develop a clear statement of work for the evaluation team. In doing this, the Project Officer, usually in conjunction with the Evaluation Officer, will develop the specific questions to be addressed by the evaluation. These questions depend largely upon the type of project to be evaluated, its stage of implementation, and the issues or problems that need to be resolved. In developing the scope of work, A.I.D. also requires that evaluations examine the following broad concerns that are applicable to virtually any type of assistance:

- Relevance. Are the development constraints the project was initially designed to address major problems that are germane to the current development strategies supported by A.I.D.?

- Effectiveness. Is the project achieving satisfactory progress toward its stated objectives?

- Efficiency. Are the effects of the project being produced at an acceptable cost compared with alternative approaches to accomplishing the same objectives?

- Sustainability. Are the effects of the project likely to become sustainable development impacts--that is, will they continue after A.I.D. funding has stopped?

These issues help focus evaluations on the major concerns. They force evaluators to go beyond mere examination of inputs and outputs and think about the more anticipated effects, what

can be done to improve the overall performance of the activity, and what can be done to ensure that this investment produces enduring benefits. Attention to these issues makes the evaluation process useful in promoting policy dialogue.

An evaluation report is required for interim and final evaluations. In addition to this report, the final product of an A.I.D. evaluation includes a completed A.I.D. Evaluation Summary form (this form replaces the previous Project Evaluation

Summary [PES]). The A.I.D. Evaluation Summary consists of two parts. Part 1 includes a schedule of the actions to be taken on the basis of evaluation results, listing who is responsible for the actions and when they are to be completed. It also includes a short abstract of the evaluation report and data on the cost of the evaluation. Part 2 consists of a more detailed summary of evaluation findings, conclusions, recommendations, and lessons learned; comments by the mission and/or office sponsoring the evaluation; and attachments, including a copy of the evaluation report.

The A.I.D. officer responsible for the evaluation is required to complete the A.I.D Evaluation Summary form. The mission and/or office Evaluation Officer is responsible for ensuring that the A.I.D. Evaluation Summary is completed and submitted. The evaluation team may be assigned the task of completing the abstract and detailed summary portions of the form.

All evaluation reports must be submitted as stipulated in the instructions for the A.I.D. Evaluation Summary and according to geographic bureau requirements. Evaluation documents must be submitted within 60 days of receipt of the "final version" of the evaluation report prepared by contractors or by Agency staff. If the A.I.D. Evaluation Summary form cannot include all host country follow-up actions within 60 days because discussions with the host country are prolonged, the mission and/or Office should submit copies of the final evaluation report and an A.I.D Evaluation Summary that lists preliminary actions to be taken by the A.I.D. Mission or Office.

The mission and/or office that sponsored the evaluation is required to respond to the recommendations for action presented in the evaluation report. This response may be a complete or partial acceptance of a recommendation, a proposed alternative action that accomplishes the same objective, or rejection of a recommendation. The course of action to be followed must be stated in Part 1, and rejection or modification of recommendations must be explained in Part 2 of the A.I.D. Evaluation Summary.

Missions and/or offices sponsoring an evaluation are required to establish a system for following up on the decided course of action in response to evaluation recommendations to ensure that these actions are implemented.

The control objectives of the project evaluation process are to ensure that independent evaluations are planned and scheduled to assess the effectiveness, results and efficiency of progress as required; to ensure the purposes of the evaluations are clearly specified in the scope of work; and to ensure that appropriate corrective action is taken on all recommendations resulting from the evaluations. To achieve the objectives, the following control techniques are used:

- The guidance contained in the A.I.D. Handbook 3, Chapter 12 and the A.I.D. Evaluation Handbook, Supplement to Chapter 12 outlining the procedures for planning and conducting evaluations and the follow-up procedures for evaluation recommendations.

- The requirement that evaluation plans be developed as part of the Annual Budget Submission process.

- The requirement that the geographic bureau and mission and/or office Evaluation Officers see that evaluations are performed as planned.

- The requirement that evaluations not be performed by A.I.D. personnel not associated with the design, implementation and monitoring of the project.

- The requirement that the mission and/or office establish an evaluation recommendation follow-up system.

L. PROJECT ASSISTANCE COMPLETION DATE PROCESS

All project agreements contain time controls based on a Project Assistance Completion Date (PACD). The PACD is defined as the date, agreed upon by the parties in the project agreement, by which the parties estimate that all A.I.D.-financed project assistance will be complete. This will normally mean the data by which all A.I.D.-financed services will have been performed and all goods furnished. Goods will normally be considered to have been "furnished" when they have been put in place in the host country. It should be noted that the PACD defines the length of A.I.D.'s official involvement in financing inputs for the project. It does not mean that A.I.D.'s responsibilities or activities are completed, e.g., monitoring, nor does it have any implications regarding host country actions or responsibilities to complete the project and see that it generates the benefits intended.

The purpose of the PACD is to motivate the parties to complete the project as effectively and expeditiously as possible. By the terminal date, work under all contracts, or all work for which reimbursement will be sought, should have been performed so that only financial actions by the host country or the contractor--such as submitting requests for reimbursement, vouchers or other billings--will remain.

Under the agreement, A.I.D. could decline to finance any input delivered or provided subsequent to the PACD. If A.I.D. desires to finance such inputs after the PACD, it may extend the PACD. Relatively short extensions of the PACD (e.g., 30-60 days for processing specific purchase order invoices) can usually be agreed upon informally between the Project Officer, the accounting station and the host country. If longer extensions of the PACD become necessary, they should be effected by the issuance of a Project Implementation Letter. Mission and/or office directors may approve extensions of the PACD for cumulative period(s) as specified in their delegation of authority from the geographic bureau. Geographic bureau Assistant Administrators may extend the PACD when the cumulative life of project does not exceed a total of ten years from the date of initial project obligation. The Administrator authorizes all extensions when the life of project exceeds the cumulative ten-year period.

The PACD provision in the agreement also contains what is in effect a terminal date for requesting disbursements. This terminal disbursement date is nine months following the PACD. Beyond this time, A.I.D. may decline to accept requests for disbursement, and may initiate deobligation procedures, and deobligate. Passage of the period does not automatically effect deobligation, however, deobligation requires a written notice to the host country in accordance with the Standard Provisions Annex, Section 3.3(c), of the project agreements.

The control objective of the PACD is to motivate the parties to the project agreement to complete the project as expeditiously as possible. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 3, Chapter 6, outlining the procedures of the PACD.**
- **The requirement the PACD can only be extended by authorized officials pursuant to their delegated powers of authority.**
- **The requirement that no commitment documents can be issued after the PACD and that all payments must be made no later than nine months after the PACD.**

M. PROJECT ASSISTANCE COMPLETION REPORT PROCESS

As a project moves into its operations and completion phases, the Project Officer should continue to perform such monitoring duties as site visits, approvals of host country actions, reporting, etcetera. These functions will be performed in much the same manner as before, but the focus will be more on how the project is doing rather than how it is being implemented. Even though the Project Officer's monitoring functions may be reduced when A.I.D.-financed inputs are delivered, A.I.D.'s responsibility for successful project completion should in no way be lessened. A.I.D.'s emphasis should shift to help complete the project and make it work. Managing all of the inputs to produce outputs and then moving into the successful generation and delivery of benefits may be the host country's most marginal capability, especially when a new organizational undertaking is involved. The Project Officer should therefore intensify his/her focus on host government actions to move the project forward into the "operations" and benefit generation phases, while simultaneously "wrapping up" A.I.D. monitoring and administrative activities.

Some monitoring activities will continue into the final stages of project completion. A few of the more important activities are listed below:

- Periodic site visits to observe project operations, focusing on the utilization of inputs, achievement of output targets and generation and delivery of benefits to the intended group(s).

- Preparation or assembly of reports on physical completion of the project, including available evidence of benefit incidence.

- Review host government arrangements to ensure continuing viability of the project, e.g., organizational or personnel incentives to retain and utilize trained participants.

- Check on host government compliance conditions and covenants in the project agreement; including reporting thereon, as necessary.

- Clean up and organization of official project files, separating out those for use in continued monitoring and final evaluation and those which should be retired to storage.

- Preparation of the Project Assistance Completion Report (see A.I.D. Handbook 3, Appendix 14A for details).

A "Project Assistance Completion Report" should be prepared within six months after the PACD. An important element of the Completion Report will be its recommendations for continuing A.I.D. support and monitoring actions. If not already scheduled, the report should also outline any arrangements for and the expected timing of a final project evaluation.

Other important aspects which should be addressed in preparing the Completion Report are as follows:

- Where the project is at that point, including the status of completion of various project elements (e.g., procurement, construction, technical assistance, training);

- A summary of contributions made by the host government, donors and participants (i.e., planned versus actual inputs);

- A brief review of project accomplishments in light of: conditions at the outset (initially planned outputs), the expectations of project design and changes in the project environment and/or design during implementation (including a comparison of revised outputs and actual outputs);

- If possible at that point, an assessment of the extent to which the project has resolved or is resolving the original problem (i.e., progress towards achievement of the initial and, if appropriate, the revised purpose);

- Recommendations for final adjustments in project design, the appropriateness of remaining conditions and covenants and host country requirements;

- Definition of continuing and/or post-project A.I.D. monitoring responsibilities, including the timing and resources involved;

- A review of data collection results and evaluations remaining to be undertaken; and

- A summary of lessons learned from the project that might be relevant to programming, design and implementation of other activities.

The report should be reviewed by appropriate mission and/or office officials and decisions taken on the recommendations made. The report and record of decisions should be retained in the official project files. Distribution of the report beyond the mission and/or office will depend upon the requirement of the responsible geographic bureau.

The control objective of the project assistance completion report is to make arrangements for continuing A.I.D. support and monitoring actions as the project moves into the operational phase. To achieve this objective, the following control techniques is used:

- **The guidance contained in A.I.D. Handbook 3, Chapter 14, for preparing the completion report.**

As part of the phase-out procedures, all contracts should be closed out. In closing out these contracts, the A.I.D./W Office of Procurement would be responsible for the close-out of direct contracts awarded by A.I.D. and the missions and/or offices for host country contracts.

DRAFT

CHAPTER 2
FINANCIAL MANAGEMENT

Financial management embraces those elements of management which deal with budgeting, accounting, financial analyses, cash management, internal control and financial reporting. These elements, which are governed by numerous laws and regulations, are an integral part of the Agency's management system. Auditors must not only have a thorough understanding of these elements but also how they are integrated into the Agency's management system.

Though the following discussion addresses these various elements, it is structured to get auditors thinking about the total system into which the elements fit. The financial management function is thus described in terms of the following processes:

- The budgetary accounting system used by the Agency for implementing the Operating Year Budget (OYB).
- The disbursement process which incorporates the funds control procedures and other accounting practices for ensuring payments are made in accordance with proper obligation and commitment documents and applicable laws and regulations.
- The closing process for summarizing budget execution and financial results and legal and regulatory requirements relating to it.
- The reporting process for reporting financial results to management and to A.I.D./W for preparation of the financial statements.
- The statement preparation process for reporting financial results to OMB, Treasury and other agencies of the Federal government.

It must be understood that this discussion is focused on bilateral project assistance as it relates to the geographic bureaus. A more complete picture of the financial management function should emerge as other forms of assistance are discussed in subsequent parts of this document.

A. BUDGETARY ACCOUNTING SYSTEM

After Congress appropriates funds under the various appropriation accounts, the Agency must notify the Congress within 30 days after passage of the legislation of each country which will receive funds under the legislation and the amount of funds to be provided to that country by appropriation account. This legislative reporting requirement is based on the development of the OYB. The OYB thus indicates for each appropriation account the activities to be funded by each mission and/or office within the geographic bureau, as well as the central bureaus and offices. In other words, the OYB establishes how the funds provided under each appropriation account are to be used. Any significant changes to the OYB must consequently be reported to the Congress.

After Congress appropriates funds and the President signs the legislation, Treasury issues warrants for each appropriation account to the Office of the President. The Agency is then responsible for requesting Treasury to transfer the warrants for each account from the Office of the President to the Agency. Since the appropriation accounts may include funds for other agencies, the Agency will also request the Treasury to allocate the funds provided under the appropriation accounts to the respective agencies. Upon making this allocation and transfer, the Treasury will specify the accounting symbols the Agency should use when drawing funds from the individual appropriation accounts.*

Before the Agency can obligate and draw down funds from the appropriation accounts at Treasury, it must request an apportionment of funds from OMB. Apportionment is the process whereby OMB provides the Agency with the authority to obligate funds up to a specified level for each appropriation account at Treasury. Thus, based on this process, the Development Assistance Functional Program and certain other development assistance appropriation accounts are fully apportioned immediately; economic support funds are apportioned on an activity-by-activity basis; and operating expense funds are apportioned on a quarterly basis.

With the apportionment of funds, the budgetary system for implementing the OYB can be described. The description that follows is based on the Development Assistance Functional Program appropriation account. This budgetary system was designed to comply with Section 3679 of the Revised Statutes,** which requires that the head of each Agency, subject to the approval of the Director of OMB, prescribe by regulation a system of administrative control designed to:

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* In accordance with the Agency's OYB, appropriation accounts are established for the Development Assistance Functional Program, the Development Fund for Africa, the Private Enterprise Revolving Fund, American Schools and Hospitals Abroad, International Disaster Assistance, and so on. Of the various appropriation accounts, the Development Assistance Functional Program is perhaps the most difficult to understand. The reason for this is that Congress appropriates funds for the program by functional account, i.e., so much for the agriculture, rural development and nutrition functional account; so much for the health account; so much for the education account; and so on. Thus, to fulfill Congressional requirements, the Agency must separately control budget execution by functional account. To fulfill both Treasury and OMB requirements, the Agency must also control budget execution in terms of the one appropriation account for the Development Assistance functional program.

** Other applicable laws and regulations include Section 113 of the Supplemental Appropriations Act of 1955; the Congressional Budget Impoundment Act of 1974; and OMB Circular A-34.

- o restrict obligations and expenditures against each appropriation or funds to the amount of apportionments or reapportionments made for each such appropriation or fund; and

- o enable the Agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment.

1. Allotment Ledgers

Upon OMB's full apportionment of the Development Assistance Functional Program appropriation, the Office of Financial Management will open an allotment ledger for each functional account for which funds were appropriated, e.g., agriculture, health, education, child survival, and so on.* Based on the OYB, funds under each functional allotment will in turn be allotted to the Assistant Administrator of each geographic bureau as well as the Assistant Administrators of central bureaus and Directors of Offices. These allotments to the bureaus and offices cannot exceed the funds appropriated under each functional account. Upon receipt of the allotments, the Assistant Administrators are responsible for ensuring that funds allowed to missions and offices do not exceed the amount of each allotment provided to them.

2. Allowance Ledgers

Pursuant to the OYB, the Assistant Administrators will provide an allowance of funds under each of the functional allotments to the missions and offices within their respective bureaus. This is done by preparing a Request for Advice of Allowance of Funds which is then sent to the A.I.D./Washington Office of Financial Management. The Financial Management Office then reviews this request to ensure it conforms with the OYB and that sufficient funds are available in the allotment. After this review and approval, the Office of Financial Management will advise the mission and/or office by cable (and pouch) of the funds allowed as well as the relevant appropriation accounting symbols and the budget plan code. These allowances of funds will then be recorded in an Allowance Ledger Account opened by the Financial Management Office for each functional account. Though the respective Assistant Administrators are responsible for ensuring the Requests for Advice of Allowance of

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* Establishing an allotment for each functional account provides the means of controlling the functional accounts. The total of these functional allotments cannot exceed the appropriation and apportionment amounts. In turn, a share of each functional allotment is allotted to the bureaus and offices based on the OYB allocation.

Funds do not exceed the individual allotments, the Allowance Ledger Accounts maintained by Financial Management for each allotment provide the formal means of control over the allowances made to the missions and/or offices.

Though the ideal is to provide the allowances of funds at the beginning of the fiscal year, the allowance of funds are usually provided by the geographic bureaus over the course of the fiscal year. In providing these allowances, some bureaus may specify the projects for which the allowance of funds are to be used. Other bureaus may leave this decision to the missions and/or offices. When the decision is left to the missions and offices, it must be understood that the allowance of funds will be used in accordance with the OYB. Since Section 502 of the Foreign Assistance Act requires that no more than 15 percent of the funds may be obligated in the last month of the fiscal year, the bureaus must provide the allowances of funds in sufficient time to comply with this legislative requirement. Once funds have been allowed, the bureaus will then track whether the missions and/or offices are obligating the funds in a timely manner. Those allowances not obligated within the fiscal year for which the funds were provided are automatically withdrawn.

3. Budget Allowance Ledgers

Upon receipt of the allowance of funds, the mission and/or office accounting station will open budget allowance ledgers. A separate ledger will be opened for each allowance received under each bureau's functional allotment. As a means of identifying the budget allowances with the allotment under which the funds were provided, the allowances are given budget plan codes. These codes indicate the missions and/or offices receiving the allowances, the functional allotments from which the funds were derived, the appropriation, and so on. Thus, if allowances of funds are provided for funding health and education projects, one budget allowance ledger would be established for health and another budget allowance ledger for education. Any increases or decreases in the allowances for these functional accounts would be reflected in the two ledgers. In other words, additional allowances for health and education projects would not require establishing new ledgers but only increasing the balances in the current year ledgers.*

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* The budget allowance ledger has four columnar headings: Allowances, Obligations, Disbursements, and Unliquidated Obligations. At the end of each month, the activity summarized under each of these columnar headings is reported to the Office of Financial Management for posting to the A.I.D./W ledgers.

Based on the availability of these budget allowances, the mission and/or office can then obligate funds. This obligation would be based on the signing of a project agreement or amendment to the agreement under which funding is provided. The amount of the obligation would be recorded in the obligation column of the appropriate budget allowance ledger. At the same time that the obligation is recorded in the budget allowance ledger, the mission and/or office accounting station will open a project ledger and record the obligation in this ledger as well.

Since the funds are allowed to the mission and/or office director, he or she is responsible for ensuring the funds obligated do not exceed the budget allowances received for each budget plan code or functional account. The formal means of control are the budget allowance ledgers and project ledgers. The accounting station is responsible for ensuring the obligations recorded in the budget allowance ledgers are always in balance with the project ledgers.

Projects may contain two or more elements, e.g., an agricultural element, a health element, and an education element. When this is the case, the geographic bureau will provide funding for these elements from the agriculture, rural development and nutrition account, the health account and the education account. As noted earlier, the funding for this project would be provided by the geographic bureau under three separate budget allowances to the mission. Thus, in obligating funds for the project, each of the three budget allowance ledgers would show as an obligation, the funding provided from each budget allowance ledger account. Three separate project ledgers, one for each budget plan code or functional account, would also be opened to record the obligations in the same amounts as recorded in each of the budget allowance ledgers.

4. Project Ledgers

The project ledger is basically a subsidiary ledger to the budget allowance ledger. The ledger is used for recording the following data:

Obligation
Earmark Reservations
Earmarks
Unencumbered Obligation
Commitment
Expenditures

A project ledger is maintained for each grant project for which funds have been allowed (and for each loan project for which the mission and/or office has management responsibility). And, as

stated, project ledgers are established for each funding source or budget plan code.

A project ledger should be opened upon signing a project agreement or amendment. All obligation transactions should be recorded daily, thereby providing an up-to-date status of any given project. At the end of each month, the obligations recorded in the project ledgers should be reconciled to the respective budget allowance ledgers. Also, at the end of each month, summary data on earmark, commitment and disbursement data should be reconciled from the subsidiary element fund control ledger, earmark control records and commitment liquidation records. In making this entry to the project ledger, a journal voucher should be prepared with the summary figures.

To utilize the funds obligated, commitment documents are prepared. These documents are an integral part of the project accounting system. Since discussion of the various commitment documents is presented on in Chapter 1D, it is not repeated here. A knowledge of those documents is vital to understanding the procedures discussed below.

a. Project Accounting Element Funds Control Ledgers

When the obligation has been recorded in the project ledgers, the accounting office has the option of establishing a project element funds control ledger. When used, a project element funds control ledger would be opened for each line item in the project budget which is incorporated as an annex to the project agreement or amendment, e.g., technical services, commodities, training, construction, and so on. When these project elements are to be funded from two or more budget allowance accounts, element funds control ledgers would be opened for each line item funded by each allowance account. As an example, if $2 million in technical services is to be funded from two budget allowance accounts in the amount of $1 million each, two element funds control ledgers would be opened showing $1 million to be used from each element control ledger for funding technical services.

The purpose of the element funds control ledger(s) is to control earmarking action against project element budget amounts by funding source established in the financial plans of the project agreements. To perform this purpose, the ledgers have four columnar heading:

Obligated (Budget)
Earmark Reservation
Earmark Amount
Unencumbered Budget

To illustrate how these ledgers are used, the example on technical services can be used. When the project agreement is signed, ledgers for each of the line items in the project budget would be opened. In the case of technical services, two ledgers would be opened, since the $2 million for technical services is funded from two separate budget allowance accounts. Somewhat later, the Project Officer informs the accounting office that a PIO/Technical Services is being prepared and that funding in the amount of $2 million for this earmarking document will be shared equally from the two separate allowances accounts. The accounting office then enters $1 million in each ledger under the column "earmark reservation". When the PIO/T is formally processed through the accounting office, $1 million would be entered under the column "earmark amount" on each ledger. The "unencumbered" balance would be zero.

Transactions should be recorded daily to the element funds control ledger, thereby providing an up-to-date fund availability status of any given project element for earmarking. At the end of each month, activity in the element funds control ledger(s) should be reconciled with the respective project ledger(s).

b. Earmark Control Records

An earmark control record should be established for each earmarking document. The purpose of this document is to control commitment activity against the earmarked amount and to serve as a record to control open commitment reservations. To achieve this purpose, the earmark document has four columnar headings:

Earmark Amount
Commitment Reservation
Commitment Amount
Uncommitted Earmark Amount

To demonstrate how this record is used, the earlier example of the funds earmarked for technical services can be used. When the entry is made to the "earmark" columns of the two elements funds control ledgers for technical services, two earmark control records are opened. An entry in each earmark control record under the column "earmark amount" would be posted for $1 million. Later, before the commitment document is processed, the Project Officer would request the accounting office to prevalidate the availability of funds. This would be done by entering $1 million under the "commitment reservation" column of each earmark control record. When the commitment

document is signed, the accounting office would post $1 million under the column "commitment amount" of the two earmark control records. The "commitment reservation" would then be cancelled by entering negative figures of $1 million under the commitment reservation column of the earmark record.

Transactions to the earmark control record should be recorded daily, thereby indicating the up-to-date status of any given earmark. At the end of the month, the earmark control record totals for earmarked amounts are reconciled with the amounts earmarked for each project input in the element funds control ledger.

c. Commitment Liquidation Records

A commitment liquidation record should be opened for each commitment. The purpose of this record is to control disbursements against commitments. To achieve this purpose, the commitment liquidation record has three columnar headings:

Commitment Amount
Disbursement Amount
Unliquidated Commitment

To demonstrate how this record is used, the example of the posting of $1 million for technical services to each earmark control record for the commitment amount can be used. When the commitment of $1 million is posted to each of the two earmark control records, two commitment liquidation records would be opened at the same time. The figure of $1 million would be posted under the column "commitment amount" of each commitment record.

Transactions should be recorded daily to the commitment liquidation record, thereby providing an up-to-date status of any commitment. At the end of each month, the commitments, disbursements, and unliquidated balances of each commitment record would be totaled. These amounts are then entered to a trial balance worksheet which is then used for preparing a journal voucher for posting to the appropriate project and budget allowance ledgers. The commitment liquidation record is thus the last link in the budgetary accounting system that starts with the allotment of funds.

The number of ledgers and records maintained under the project accounting system can be considerable. For example, when a project is incrementally funded, a separate set of ledgers and records must be established for each annual appropriation by funding source or budget plan code. Recognizing the enormous

workload that is involved in maintaining the project accounting system manually, the Office of Financial Management developed a computerized software program referred to as the Mission Accounting Control System (MACS). Most missions and/or offices are currently using this software program. In December 1988, IG/PPO prepared a paper on the MACS. The foregoing discussion thus provides the accounting structure on which the MACS computer software program is based.

The control objective of the budgetary accounting system is to ensure funds appropriated by Congress and apportioned by OMB are used to fund activities authorized in the OYB. To achieve this objective, the following control techniques are used:

- The guidance provided in A.I.D. Handbook 19, chapter 1 and the Controller's Handbook, chapter 13 (the guidance describing this process is incomplete, however).
- The maintenance of ledgers and records and the timely recording of transactions to these ledgers and records as funds are allotted, allowed, obligated, prevalidated, earmarked, committed and disbursed.
- The requirement that allotments, allowances, obligations, prevalidation, earmarks and commitments must be authorized and executed by persons acting within the scope of their authority.
- The separation of duties and responsibilities in authorizing, processing and recording allotments, allowances, obligations, prevalidations, earmarks and commitments.
- Access to resources and records are limited to authorized officials.
- Qualified and continuous supervision is exercised over the budgetary system.

B. DISBURSEMENT PROCESS

The disbursement process is probably one of the most complex aspects of financial management. What makes this process so complex is the multiple payment methods the Agency uses. Under any given project, a variety of payment methods may be used. In some cases, the Office of Financial Management will make the payment and certify the disbursement voucher on behalf of the mission and/or office. In other cases, the mission and/or office will process the disbursement voucher but request the Office of Financial Management to make the payment. The number of disbursement

vouchers processed by the mission and/or office with payment made by the U.S. Disbursing Office servicing that mission and/or office could thus account for less than half of all payments under the project. Adding to this complexity is the advance-liquidation cycle, the implementation of the prompt payment act, the advise of charge procedures and the quarterly accruals for commodities and services constructively received but not paid. Because the payment process is highly vulnerable to illegal acts, it is imperative that auditors have a good working knowledge of the payment methods and disbursement process.

1. Advances and Liquidation of Cash Advances

It is Agency policy to make payment to A.I.D.-financed recipients on the basis of commodities delivered or services performed or to reimburse costs already incurred by the recipient. An exception to this policy is made for non-profit organizations and host government institutions, which are normally funded on an advance of funds basis. In making these advances, it is Treasury policy* that:

- The U.S. Government will not permit the withdrawal of dollars from the account of the U.S. Treasury, for replacement with any program management organization, prior to the need for the

  dollars as determined by the actual immediate funding requirements of the recipient organization to carry out the project.

- International programs which require U.S. funding will be negotiated to provide for dollar outlays as close to the need for current program expenditure as possible.

- The U.S. Government's share of funding required to support a program will be obtained by appropriation and no part of such funding will be derived from interest earned on U.S. contributions. The appropriate U.S. Government department or agency will be responsible for assuring that any interest earned will be promptly deposited to receipt account "1499 Miscellaneous Interest Collections, Not Otherwise Classified."

- Whenever possible, international programs should consider each participating country or international organization's fiscal needs and policy considerations for funding these programs provided the U.S. Government's cash management policies are not compromised.

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* Refer to Chapter 8000, Section 8065.20 of I TFM 6-8000.

- Application of these general policies by negotiation with foreign countries and international organizations will not be compromised by administrative practices of U.S. Government departments or agencies. Existing practices should be altered or revised to achieve these principles of funding policy.

Treasury policies require that, when the Agency negotiates advance arrangements with non-profit and host government entities, the advances be restricted to immediate cash needs. When advances are provided by Treasury letter of credit, two to three days cash needs are considered adequate. When advances are made by Treasury check, cash needs may warrant a longer period but should not be provided for a period which exceeds 30-day requirements. When circumstances warrant a period longer than 30 days, either the assistant administrator of the geographic bureau or the mission and/or office director must justify in writing that implementation will be seriously interrupted or impeded by the 30-day rule. Under Agency policy, the period of the extended advance cannot exceed 90 days, regardless of circumstances. Thus, in negotiating with non-profit and host government entities, Project Officers, in conjunction with the accounting stations, must ensure that advances are restricted to the minimum amount necessary; and that when this minimum amount exceeds 30 days requirements, it must be fully justified in writing by the appropriate level of senior management.

Advances are provided to non-profit and host governments in recognition of the fact that they have limited resources. This means advances are designed to assist the entities in financing the anticipated costs to be incurred under the projects for a specified period of time. Under certain circumstances, cash advances may be made to profit-making organizations for mobilization costs. In these cases, the advances must be authorized by the Assistant Administrator for Management.

In accounting for cash advances, the A.I.D./W Office of Financial Management and each accounting station should establish a cash advance ledger for each appropriation account. Subsidiary ledgers should also be established as a means of controlling the cash advances made to each non-profit and host country entity. When cash advances are made, these ledgers should be debited for the amount of the advance. The organizations should periodically prepare a "no-pay" voucher, indicating how the advance funds were used. These "no-pay" vouchers should be reviewed, certified and posted to the cash advance ledgers as a credit. At the end of each month, the outstanding cash advance balances should be reported to the Office of Financial Management.

It is Treasury's policy that U.S. dollars remain in the Treasury appropriation account until actually required for immediate disbursement to minimize the interest cost on the public debt. To carry out this cash management policy, Treasury requires that Agency officials negotiate financing arrangements to minimize the impact of the advance on the public debt. Among other things, this requires determining the appropriate payment method to use. Two payment methods are used for making advances: the Treasury letter of credit method and the Treasury check method.

The Treasury letter of credit is the preferred method, since advances can be processed in one day. Advances provided under this method should thus be limited two or three days cash requirements, unless there are unusual circumstances which would justify a longer period. Generally speaking, only non-profit organizations qualify for Treasury letter of credit financing. Even then, these organizations must meet the following requirements:

- the Agency expects to have a continuing relationship with the organization for at least one year.
- The amount required for advance financing equals or exceeds $120,000 per year.
- The organization has the ability to maintain procedures that will minimize the time elapsing between the transfer of funds from Treasury and the organization's disbursement of the funds.
- The organization's financial management system must meet Federal standards for fund control and accountability.

The A.I.D./W Office of Financial Management is responsible for processing all advances under Treasury letters of credit. As the processing office for letter of credit advance payments, this office would also review and certify the liquidating invoices. Since many of these advances are for projects financed by missions and/or offices located overseas, Advices of Charge would be prepared by the Financial Management Office and forwarded to the mission and/or office accounting station for recording to the project liquidation control records.

In view of the fact that many of these Treasury letter of credit advances are made on behalf of projects financed by missions and/or offices, it is possible that part of the funds made available to the organizations will be transferred abroad to defray the local currency costs incurred by the organizations' field offices. When these local currency costs exceed more than 50 percent of the grant, the advances should be made by the mission and/or office by the Treasury check method.

Because Treasury letter of credit advances are processed by A.I.D./W, the mission and/or office accounting station will not maintain cash ledgers for these advances. The only way these advances can be identified is by the Advices of Charge received from the Office of Financial Management. When auditing these projects, the auditors should verify that funds being provided to the field offices for local currency costs are not excessive in terms of immediate cash needs.

The other method for making cash advances is by Treasury check. This is the method used overseas. Under this method, it is possible that the processing time for such advances could take up to two weeks, or possibly longer if the mail delivery to and from the U.S. Disbursing Office is slow. Since this may not be an unusual circumstance in overseas locations, this processing time must be factored into the period of the advance. The advance period would thus be determined by the processing time plus immediate cash disbursement needs.

There is a lack of specific Agency guidance in establishing cash requirements. This lack of guidance has no doubt contributed to some missions and/or offices acting as if 30 days cash requirements are warranted without performing any analyses. Auditors should ensure that such advances are warranted by processing time plus immediate cash needs.

Since advances are provided to meet immediate cash disbursement needs, they will be provided on a regular basis throughout the implementation of the project. Making sure adequate, but not excessive, funds are on deposit can only be determined by evaluating cash on deposit against projected expenditures.

a. <u>Liquidating Cash Advances</u>

Liquidating the advances recorded to the cash ledgers is an accounting aspect, since the liquidating invoices can only be prepared by the organizations after expenditures for the period have been recorded and totaled. Upon closing the books, it may then take another two to three weeks for the organization to prepare the "no-pay" invoices and another one to two weeks for the missions and/or offices to review, certify, and record the liquidating invoices as offsetting entries to the advances. There is thus an accounting lag time in preparing and processing "no-pay" liquidating vouchers.

Problems can and do occur in preparing liquidating invoices with the result that the balances in the advance ledgers are not offset. There have been instances, for example, where the host government entities did not have adequate accounting staff to establish the

necessary records. This resulted in the inability of the entities to prepare "no-pay" invoices on a routine basis to liquidate the cash advances. The large outstanding cash advance balances in these cases were due to the inadequacy of the host government entities' accounting practices. There have also been instances where the non-profit and host government entities have submitted liquidating invoices to the Agency but the accounting offices delayed processing the invoices for several weeks and months. This also resulted in large outstanding balances in the cash advance ledgers.

Large outstanding balances recorded in the cash advance ledgers are not indicative of the funds actually on deposit in the recipient organizations' bank accounts. The more likely causes of these large balances are delays in the organizations' submission of liquidating invoices and/or the delay by the Agency's accounting offices to process the liquidating invoices in a timely manner.

b. Interest Earned on Cash Advances

Treasury's policies require that the Agency make every effort to restrict advances to immediate cash disbursement needs. Under ideal circumstances, these advances should not exceed a few days cash requirements. However, since this is often not possible in overseas locations, advances are given for longer periods of time. In view of this, the missions and/or offices should ensure the advance funds are deposited by the recipient organizations in separate interest-bearing accounts at commercial banks. The interest earned on these deposits should then be monitored to ensure they are reported and returned to the Agency for deposit to the appropriate Treasury receipts account.

The control objective of the cash advance-liquidation process is to ensure funds advanced to non-profit organizations and host country entities do not exceed immediate cash needs and are liquidated in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, chapter 1B and the Controllers Handbook, Chapter 16.**
- **The maintenance of cash ledgers and subsidiary ledgers and the timely recording of transactions to these ledgers as funds are advanced and liquidated.**
- **The requirement that cash advances be authorized and executed by persons acting within their scope of delegated authority.**

- **The separation of duties and responsibilities in authorizing, processing and recording cash advances and the liquidation of advances.**

- **The limitation of access to records by authorized officials.**

- **The provision of qualified and continuous supervision over the cash advance and liquidation process.**

2. **Prompt Payment**

The Agency uses several payment methods in the procurement of commodities and services. Of these methods, the two indicated below entail Agency processing of contractor and suppliers' invoices for payment:

- Direct payments by A.I.D. against presentation of invoices and other documents.

- A.I.D. direct letter of commitment to contractors or suppliers under which A.I.D. makes direct payments to contractors and suppliers.

In contracting for commodities and services under these two methods, Project Officers and contracting officials are responsible for ensuring that the payment terms, specifying when payments are due, are contained in the contracts, purchase orders and other commitment documents. The inclusion of these payment terms in all contracts is a requirement of OMB Circular A-125, which applies to contracts with any organization outside the Federal government.

OMB Circular A-125, which provides implementing guidance on the Prompt Payment Act of 1982, requires that the Agency must make every effort to process payments of U.S. Government commitments in a timely manner. In a timely manner means payments should be made neither early nor late. To comply with this requirement, the guidance states that the Agency's payment system must be designed to provide for scheduling the issuing of checks as close as administratively possible to, but no later than the due date, as specified in the contract, invoice or agreement. When the paying office is in the U.S. and no due date is specified, the due date will be considered to be on the 30th day from receipt of the invoice, or acceptance of the commodities or services, whichever is later. When the payment office is located abroad and no due date is specified, the due date will be considered to be on the 45th day from receipt of the invoice.

As a general rule, payments should not be made on invoices prior to acceptance of the commodities and services unless specifically provided by the contracts or other agreements executed pursuant to

law. Under certain circumstances, presentation of ocean bills of lading, rather than arrival and acceptance of goods at the foreign destination, may be considered as receipt of goods when an executed Form AID-282 (Supplier's Certificate) or Form AID-1450-4 (Supplier's Certificate for Project Commodities) and, as appropriate, a freight forwarder's Letter of Undertaking are provided.

The Agency requires that all accounting offices maintain a logbook to track the movement and scheduling of invoices for payment. This logbook, which is computerized in most locations, should contain the following elements:

- Date Received
- Contractor Name
- Purchase Order/Contract Number
- Invoice Number
- Invoice Amount
- Discount Due Date (if any)
- Date Sent to Project Officer for Approval
- Name of Implementing/Approving Office
- Date Returned from Project Officer
- Voucher Examiner's Initial
- Schedule Number
- Schedule Date
- Remarks including amount of interest penalty and the cause(s) for late payment, explanation(s) why discounts not taken, etc.

Under Agency procedures, all incoming invoices are routed to the accounting office where the invoices are date stamped. The invoices are then logged in the appropriate columns of the logbook. After the appropriate entries have been made in the logbook, the invoices are forwarded to the applicable Project Officers who are responsible for administratively approving the invoices for payment. Upon making this administrative approval, the Project Officers return the invoices to the accounting office. The accounting office will then review the invoices after which they are approved for payment and assigned voucher numbers. A notation is made in the logbook when

the vouchered invoices are scheduled to be paid. Periodic review of the logbook is necessary to ensure payments are made as scheduled.

Vouchers can be paid either through the U.S. Disbursing Office (USDO) servicing the mission and/or office or through A.I.D./W by electronic funds transfer. When payments are made through the USDO, the accounting station must ensure a sufficient number of days is allowed for mail delivery and USDO processing time in scheduling the payment. When payments are to be made by electronic funds transfer, payments can be scheduled one or two days before payment is due. The Office of Financial Management requires that only payments in excess of $5,000 be made by electronic fund transfer.

a. Cash Discounts

Though cash discounts are not commonly used in overseas transactions, all missions and/or offices must incorporate procedures which will automatically take advantage of discounts as a matter of routine. Such discounts will only be taken when the discount terms applied in the formula below yield an effective annual interest rate equivalent to, or greater than the percentage rate based on the current value of funds to the Treasury. Mission and/or office paying stations will base the computation of the discount period on the date of receipt of an invoice which is authorized for payment unless otherwise provided in the contract or invoice as to how the discount period is to be determined. All discounted payments should be scheduled for check issuance on the last day of the discount period. However, payments should not be made to achieve discounts unless the related goods or services have been received except as specifically provided by contractor or other agreements executed pursuant to law.

Following is the conversion formula to convert sales discount terms to an effective annual interest rate which will be used as a comparison against the percentage rate based on the current value of funds to the Treasury:

Conversion Formula

$$\frac{\text{Discount \%}}{\text{100\% - Discount \%}} \times \frac{\text{Days in Year}}{\text{Number of Days in Payment Period} - \text{Number of Days in Discount Period}} = \text{Effective Annual Interest Rate}$$

Example for Application of Conversion Formula

Discount Terms: 1/2% (.005) in 10 days, Net 30 days.

$$\frac{.005}{1.00 - .005} \times \frac{360}{30 - 10} = .09 \text{ or } 9\%$$

Based on this example, if the percentage rate based on the current value of funds to the Treasury is 9 percent, the offered discount should be taken.

b. Late Payment

The Accounting Office must make every effort to ensure that payments are made in a timely manner. Payments not made on or before the payment due date are considered late payments. Such late payments, if not paid within 15 days after the payment due date (3 days for meat or meat food products and 5 days for perishable agricultural commodities), will be subject to interest penalties pursuant to contracts issued on or after October 1, 1982. Interest penalties will be paid automatically without request from the commercial firms from the next day after the payment due date to the date payments are made.

The calculation of the interest penalty will be based on the current value of funds to the Treasury and the number of late days. Thus, if the number of late days is 20 and the current value of funds to the Treasury is 9 percent, the late interest penalty is calculated as follows for an invoice of $1,000:

$$\frac{20}{360} \times 9\% \times \$1{,}000 = \text{Late Interest Penalty}$$

$$.0555 \times .09 \times \$1{,}000 = \$5.00$$

Interest penalty provisions are not required when payment is delayed because of a disagreement between the Agency and a business concern over the amount of the payment or other issues concerning compliance with the terms of the contract. Nor are interest penalties required when payments are made solely for financing purposes, examples being grants, cooperative agreements and host country contracts.

c. Reporting

OMB Circular A-125 requires that each Federal agency will report to OMB, within 60 days after each fiscal year, the following information:

- Number of interest penalties paid.
- Amount of interest penalties paid.
- Relative frequency, on a percentage basis, of interest penalty payments to the total number of payments.
- Number, total amount, and relative frequency, on a percentage basis, of payments made 5 days or more before the due date, except where cash discounts were taken.
- Reasons that interest penalties were incurred.
- An analysis of the progress made from previous years in improving the timeliness of payments.

To implement this reporting requirement, each accounting office processing payments should review its logbooks periodically, but not less than weekly, to ensure that invoices are being processed in a timely manner. This review should provide assurance that offered cash discounts are taken and such invoices are paid on the last day of the discount period, or any cash discount not taken is explained in the "Remarks" column of the logbook.

Each office processing payments must transmit a report at the end of each month to the Office of Financial Management, indicating the reasons for any interest penalties that were incurred.

The information for this report can be taken from the "Remarks" column of the logbook maintained by the paying office. For overseas offices, the original and one copy of this report should be attached to the U-101 report. One negative report covering all other budget allowances from each accounting

station is required for inclusion in the package of the monthly U-101 reports. In addition, a year-end cumulative report summarizing all interest payments made during the fiscal year under each budget allowance is required for attachment to the respective U-101 report.

At the end of each fiscal year, the Office of Financial Management will prepare an Agency-wide annual report to OMB in accordance with the format cited above.

The control objective of the prompt payment process is to ensure payments are made in compliance with the Prompt Payment Act of 1982 and OMB implementing guidance provided in Circular A-125. To achieve this objective, the following control techniques are used:

- The guidance provided in A.I.D. Handbook 19, Chapter 1B and the Controller's Handbook, Chapter 6.
- The maintenance of logbooks to track the movement and scheduling of invoices for payment.
- The separation of duties and responsibilities for approving, receiving and certifying invoices for payment.
- Qualified and continuous supervision over the prompt payment process.

3. Voucher Approval, Review and Certification Process

When vouchers* are received by the mission and/or office accounting station, they should be date stamped and the pertinent information noted in the appropriate columns of the voucher control logbook. The voucher should then be forwarded immediately to the Project Officer for administrative approval. The Agency's prompt payment procedure requires the Project Officer to return the invoice to the accounting office within five business days. If the Project Officer finds an apparent error or impropriety in the invoice, it should be so noted and immediately forwarded to the accounting office so the invoice can be reviewed in and the contractor notified within 15 days or earlier.

The Project Officer's administrative approval is an important control within the payment process. This is due to the fact that Project Officers represent A.I.D.'s interest during all phases of project operations and are concerned with ensuring the prudent and effective utilization of A.I.D. resources. It logically follows that the involvement of the Project Officer in the payment process strengthens A.I.D.'s management system. This involvement provides an opportunity for the Project Officer to verify the contractors' billings and grantees' reports and to evaluate the levels of effort

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* In the broadest sense, a voucher is any request for payment which is presented on either a standard form approved by the Comptroller General (CG) or in a different form if it has been specifically authorized by the Comptroller General. A voucher provides the Agency with an itemized statement from the claimant of purchases made or services rendered under the terms of an obligation document. Information furnished on a voucher should be in sufficient detail and supported by appropriate invoices, certifications, and other documentation to permit the accurate and timely liquidation of a given obligation.

For most transactions, standard forms (i.e., SF-1034, SF-1012, SF-1113, SF-1171, SF-455, etc.) are used as the basic vouchering documents. However, in administrative-type transactions other than those involving charges for transportation services, the CG has approved use of a vendor's invoice, bill, or statement of account in lieu of the voucher form, provided the document contains all the information required to be shown on the voucher with respect to itemization of the purchase or service. The invoice, bill, or statement of account becomes the voucher and the term "voucher" refers to a detailed bill submitted in acceptable form.

reported against actual performance. Thus, in this sense, the Project Officer's administrative approval is the basis for the certification of expenditures.

As a general rule, Project Officers must administratively approve all vouchers except the following:

o **Bank Letter of Commitment Payments**

When mission and/or office transactions are paid under Bank Letters of Commitment, A.I.D. will review and certify the vouchers. In these cases, the missions and/or offices are notified of the disbursement by Advice of Charge. Project Officers must approve those paid invoices for services. No administrative approval is required for commodities, since the bill of lading is accepted as receipt.

o **Direct Letter of Commitment Payments**

When payments are made for commodities under direct Letters of Commitment, no Project Officer approval is necessary, since the bill of lading is accepted as receipt.

The Office of Financial Management in A.I.D./W and the mission and/or office accounting stations in the field are responsible for establishing and maintaining voucher examination units. In maintaining these units, there must be sufficient separation of duties and responsibilities among the individuals charged with the obligating, examining, and certifying functions to provide for appropriate levels of review in order to protect the interests of the United States.

The voucher examiner is responsible for the proper review of bills submitted to A.I.D. for payment. Although final responsibility for certifying a voucher for payment rests with the Certifying Officer, the voucher examiner's review must be of a quality and depth sufficient to afford ample protection to the Certifying Officer in discharging his or her responsibility.

Vouchers for program-type activities are unique to A.I.D. and result from A.I.D.'s position as a financer of approved program and projects of a host government under the terms of an agreement. Although A.I.D. pays or reimburses vouchers rendered for the cost of commodities or services procured in connection with such activities, the procurement is for the benefit of the cooperating country rather than for the benefit of A.I.D. The administrative audit of vouchers is thus governed by A.I.D. legislation, regulations, internal procedures, and the terms and conditions of the obligating or commitment documents.

Though there are differences in the review of individual vouchers, certain review steps are common to all. These include:

- The obligation was properly incurred as evidenced by an authorizing document issued by a designated official.
- Funds are available for the expenditure as evidenced by a copy of the obligating document or by other appropriate documentation.
- The appropriation to be charged is available for and applicable to the services rendered or materials procured.
- Computations, extensions, etc., are mathematically correct and all information required by the various portions of the voucher form have been supplied.
- Certifications and statements required by law, regulations and terms of the implementing document are made and signed.
- The amount and items claimed are in agreement with the basic documents authorizing the claim.
- The materials or services for which the voucher is submitted were actually delivered or performed as directed. In the case of program-type vouchers, evidence of delivery is afforded through the copies of Bills of Lading, receipted invoices, Supplier's Certificates, or other required documents as specified in the implementing document, which evidence passage of title from the supplier. In any case, when payment is based on evidence of delivery to the carrier, rather than receipt by the consignee, a sound receiving system is required to verify subsequent receipt of the commodity and to assure appropriate action in the event of short shipment or damage.
- The voucher does not represent a duplicate claim previously submitted and paid.
- The payee is the proper person to receive payment.

Upon completion of the review, the voucher examiner enters on the voucher the appropriation symbols and budget plan codes applicable to the transaction. Unless the payment is against a commitment established by another office, the voucher examiner also enters the amount of the commitment to be liquidated and, if the voucher completes the transaction, the amount of the

original commitment to be decommitted. After stamping the due date on the vouchers, they are forwarded to the Certifying Officer for review.

Since the Certifying Officer's Act (31 U.S.C. 82c and 82f) holds authorized Certifying Officers individually and personally responsible for their acts with respect to the certification of vouchers for payment, it is essential that they review all vouchers. In making this review, they must ensure the validity and correctness of the facts stated in the vouchers. They must also have complete and current knowledge of all payments involved with the commitment documents. Upon completion of this review, the Certifying Officer will then authorize the voucher for payment. This authorization may be made by certifying the invoice, though it is important to recognize that this certification of the voucher is not the certification for payment. After authorizing the voucher for payment, the Certifying Officer forwards the voucher to the scheduling clerk.

In scheduling the vouchers for payment, the scheduling clerk uses "Form SF-1166, Voucher and Schedule of Payments." Because this schedule is the only document used by the U.S. Disbursing Office for issuing checks, it is imperative that the schedules be executed with completeness and clarity to ensure accurate identification of the payee, voucher number, appropriation summary and any other information presented to define the disbursement action.

Separate schedules by groups of basic vouchers are prepared for U.S. dollar and for local currency payments. When a basic voucher requires payment in both U.S. dollars and local currency (e.g., split vouchers), the basic voucher is scheduled with the applicable U.S. dollar group, and a separate schedule is prepared for the local currency payment and cross-referenced to the basic voucher. When amounts of two or more basic vouchers are due by payee, such amounts may be combined and listed as a single payment on the schedule. The individual voucher number for each basic voucher is shown in the voucher number column of the schedule in the usual manner.

The scheduling check then forwards the completed SF-1166 with the original vouchers to the Certifying Officer. The Certifying Officer then certifies the SF-1166.

Depending upon local conditions, mission and/or office accounting stations should submit the certified SF-1166s to the respective Disbursing Office in sufficient time so the checks can be issued by the Disbursing Officer on the expected payment due dates.

The original and one copy of the schedule are submitted to the Disbursing Office. The Disbursing Office places the appropriate payment information on both the original and copy of the schedule and retains the original in the Disbursing Office as support for the Statement of Accountability. The copy, which is returned to the office from which it was received, serves as support for the Statement of Transactions.

The control objective of the administrative approval, review and certification process is to ensure payments are made in accordance with the related commitment documents and applicable laws and regulations and the commodities and services have in fact been received and/or rendered. To achieve this objective, the following control techniques are used:

- The guidance provided in A.I.D. Handbook 19, Chapter 3, and the Controller's Handbook, Chapter 5.
- The requirement that vouchers for payment be authorized, reviewed and certified by persons acting within their scope of delegated authority.
- The separation of duties and responsibilities in authorizing, reviewing, scheduling and certifying vouchers for payment.

4. Advice of Charge Process

Under the Agency's various payment methods, it is not uncommon for the A.I.D./W Office of Financial Management to make payments on behalf of missions and/or offices. Less frequently, missions and/or offices may make payment on behalf of A.I.D./W.* Payments may also be made by one mission and/or office on behalf of another. When payments are made by one location on behalf of another location where the project's records are maintained, the paying office must be authorized to do so. Without such authorization, there would be no control over disbursements. This authorization thus serves as a control to ensure the paying location charges the transaction to the other location's proper appropriation, allotment and commitment document.

The means by which the location maintaining the records informs the paying location depends on the method of payment. Some examples are provided below.

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* Most payments made by missions on behalf of A.I.D./W concern loan agreements.

- When advances are to be made by A.I.D./W to non-profit organizations, the missions and/or offices funding the projects will provide the A.I.D./W office with the necessary commitment documents, accounting symbols and the amount of funding available for advances. These funding arrangements are negotiated between the funding missions and the non-profit organizations. To control the advances, the A.I.D./W paying office must establish records for each non-profit organization to ensure it does not exceed the level of funding made available by the mission and/or office for funding the advances.

- When the mission/and or office requests the A.I.D./W paying office to pay a contractor by electronic funds transfer, the mission and/or office accounting station will cable all the pertinent details which are usually included on the Treasury Form 1166 as well as the number of the contractor's bank account. This cable thus provides the authorization for the payment.

- When the missions and/or offices procure commodities through Procurement Services Agents, they will request the A.I.D./W Office of Financial Management to open a bank letter of commitment in favor of the Service Agent's bank. When the Service Agent's bank pays the supplier, it requests reimbursement from A.I.D./W under the Letter of Commitment. The A.I.D./W paying office then reimburses the Service Agent's bank and charges the letter of commitment funded by the mission and/or office. The letter of commitment thus provides the authorization for these payment.

- When the mission and/or office buys into a Bureau for Science and Technology (S&T) contract, it prepares a PIO/T and sends it to S&T. S&T then negotiates a task order with the contractor on behalf of the mission. The original copy of the task order is sent to the mission and/or office accounting station to establish the commitment and a duplicate is retained in A.I.D./W. The contractor's invoices under this task order are sent to S&T and paid by the A.I.D./W paying office. In this case the task order is the authorization for A.I.D./W making the payment.

These examples indicate that the authorizations for having A.I.D./W make the payment can take many forms. Over the course of a year these payments can run into thousands of transactions involving hundreds of millions of dollars. The A.I.D./W Office of Financial Management thus has the responsibility to ensure these paid transactions are routed to the appropriate funding missions and/or offices for recording the disbursement against the applicable Commitment Liquidation Records.

To control these and other transactions, the Office of Financial Management has established a computerized system to handle Advices of Charge. This system consists of three intra-Agency in-transit accounts:

- Advices of Charge - A.I.D./W to Mission
- Advices of Charge - Mission to A.I.D./W
- Advices of Charge - Mission to Mission

a. A.I.D./W to Mission Advices of Charge

After the payment is made, the voucher and any other supporting documentation is sent to the Financial Management Office group responsible for maintaining the computerized system. In the case of cash advances, the liquidating voucher is the transaction document. An Advice of Charge number is assigned to each transaction which is then charged to the A.I.D./W to Mission in-transit account. At the end of each month, a computerized listing of all Advices of Charge for each mission or office is run. This listing indicates the Advices of Charge numbers and the amount of the paid transactions. Attached to this listing are copies of all paid transactions documents. This listing and the attachments are then sent to the respective missions and/or offices.

Upon receipt of the listing and vouchers, the mission and/or office then records the Advices of Charges to the respective Commitment Liquidation records. After closing the books at the end of the month, the mission/and or office reports its acceptance of the Advices of Charge in the U-101 Report which is sent to the Office of Financial Management. The A.I.D./W group responsible for Advices of Charge records each accepted Advice of Charge into the A.I.D./W to Mission in-transit account as a credit. Since the recording of the credit offsets the previously recorded debit or charge, the transaction is thereby cleared from the in-transit account.

It should generally take about 90 days to clear Advice of Charge transactions. Because of the volume of payments made by A.I.D./W, it may sometimes take much longer. A recent case in point was the liquidating vouchers for advances. Because of lack of staffing, the group processing these vouchers in A.I.D./W was not able to keep up with the volume. Because these vouchers were not processed for six months or more, they were not recorded in the Advice of Charge System. This meant that for those commodities and services which had been constructively received but not recorded as paid, the missions

and/or offices had to accrue these charges in the project records as accounts payables. Several months accruals under a project may thus be indicative of an Advice of Charge processing problem in A.I.D./W, though it could also be due to the non-profit organization net providing the needed liquidation vouchers. Whatever the case, this situation should alert the mission and/or office accounting station to follow-up with A.I.D./W to determine the cause.

b. **Mission to A.I.D./W Advices of Charge**

When missions and/or offices make payments on behalf of A.I.D./W, these payments are to be recorded as charges in separate allowance ledgers entitled "Net Expenditures (or Collections) for other Missions." After closing the books at the end of the month, Advice of Charges are prepared and reported in the missions and/or offices U-101 Reports as "Disbursements Made This Month Chargeable to Other Missions." The U-101 Report is then sent to the Financial Management Office with the attached Advices of Charge.

Upon receipt of the U-101, the Advice of Charge group records the Advices of Charge listed in the U-101s to the in-transit account "Mission to A.I.D./W." The Advices of Charge are then sent to the respective divisions within Financial Management handling the accounting records for the projects. When these divisions record the Advices of Charge to the appropriate Commitment Liquidation Records, they then credit the "Mission to A.I.D." in-transit account. These entries then clear the transaction. At the end of the month, a listing of the items in this account is sent to the missions and/or offices for crediting A.I.D./W's acceptance of the Advices of Charges to the appropriate ledgers. These credits clear the transactions from the missions and/or offices records.

c. **Mission to Mission Advices of Charge**

When one mission pays a transaction on behalf of another, the payment is entered in a separate ledger reflecting the appropriation and budget allowance to be charged. An Advice of Charge is prepared by the paying mission and sent to the funding mission. At the end of the month, this Advice of Charge is reported in the paying mission's Report U-101.

Upon receipt, the funding mission and/or office would record the payment transaction to the appropriate Commitment Liquidation Record. At the end of the month, the funding mission and/or office would record acceptance of the Advice of Charge in the Report U-101.

In A.I.D./W the Advice of Charge group would record the Advice of Charge reported in the Report U-101 of the paying mission and/or office as a charge to the in-transit account "Mission to Mission". The group would also record the Advice of Charge shown in the paying mission's and/or Office's Report U-101 as a credit to the in-transit account "Mission to Mission". Since these two entries cancel each other, the transaction in the account would be cleared. A copy of this report would be sent to the paying mission at the end of the month to clear the transaction from its records.

d. Errors in Advices of Charge

Because of the volume of Advices of Charge, there may be occasions when the incorrect appropriation is charged. Or occasionally as does happen, the Advice of Charge is forwarded to the wrong mission and/or office. In these cases, the following action is to be taken:

- If the Advice of Charge is assigned to the mission and/or office, the Advice of Charge will be accepted immediately upon receipt and reported on line D of the Report U-101 under the appropriation cited on the Advice of Charge cover sheet.

- If the appropriation cited on the Advice of Charge cover sheet is incorrect and the Advice of Charge belongs to the mission, the mission must record the Advice of Charge and then prepare an SF 1097 to effect the correction of the error. The Advice of Charge must be reported on the Report U-101 for the appropriation cited on the Advice of Charge sheet.

- If the Advice of Charge does not belong to the receiving mission, the Advice of Charge will be recorded and accepted (shown on line D of the Report U-101) by the receiving mission. A new Advice of Charge cover sheet will be prepared assigning a new mission Advice of Charge number for that portion of the Advice of Charge to be retransmitted. The mission must annotate on the Advice of Charge cover sheet, in the remarks space under the receiving office's block, the original Advice of Charge number, date issued, and the reason for retransmitting the Advice of Charge. The mission must record and report the new Advice of Charge number and amount on Line C of the current Report U-101.

- Transmit the Advice of Charge under the same appropriation to the proper Mission in the first available airpouch. If the proper Mission cannot be determined, the receiving Mission transmits the Advice of Charge back to the paying Mission using the Advice of Charge number.

To avoid these situations, mission and/or office accounting stations are encouraged to include a requirement in all obligation documents to have basic required fiscal data shown on all vouchers, invoices, and other documentation submitted to the paying office. The proper identifying fiscal data should be indicated at the time of revalidating an obligation document. If this type of information is required on all payment documents, identification problems could be reduced and there would be minimum correspondence concerning disputed items.

The control objective of the Advice of Charge process is to ensure payments made by one location and funded by another location within the Agency are properly authorized, made in accordance with the commitment documents and applicable regulations and charged to the commitment liquidation records of the appropriate projects. To achieve these objectives, the following control techniques are used:

- The guidance provided in Controller's Handbook, Chapter 4, though data is incomplete.
- The maintenance of Advice of Charge in-transit accounts and a related procedural system to control all intra-Agency transactions.
- The separation of duties and responsibilities in authorizing, processing and recording Advices of Charge.
- Access to records are limited to authorized officials.
- Qualified and continuous supervision is exercised over Advice of Charge system.

5. Bills for Collection

The administrative approval, review and certification process is designed to ensure that the amounts claimed for payment are consistent with the commitment documents and comply with the provisions of applicable laws and regulations. It thus follows that those costs which are inconsistent with the provisions of the commitment documents and applicable laws and regulations should be excluded from the payment vouchers and discussed with the

contractors, suppliers, grantees and host government entities. However, the effectiveness of this review process, is constrained by the limited detail provided in the vouchers. Following are some examples:

- Non-profit organizations are only required to submit a summary of costs incurred by budget line items.
- Commercial contractors will often submit a summary of costs by budget line item as well, unless provision for more detail is required by the contract.
- Host government entities usually submit a summary of costs by budget line unless instructed otherwise by the Agency.
- Suppliers of commodities are paid on the basis of shipping documents and thus before the commodities arrive in country.

When sufficient details are not provided, the only effective control to ensure vouchered costs are consistent with the provisions of the commitment documents as well as applicable laws and regulations is a financial compliance audit of the contractors', grantees' and host governments' books and records. These financial audits often result in recommendations disallowing costs.

In the case of A.I.D. direct-funded contractors and grantees, the organizations are first advised of the disallowances through exit conferences with auditors. This is followed up by letters from the contracting officers to the organizations for rebuttal or other commentary. After these comments are considered by the contracting officers, determinations are made to sustain or not sustain the recommendations. When not sustained, Memoranda of Negotiations are prepared justifying the actions. When sustained, the contracting officers notify the missions and/or offices that Bills for Collection should be prepared and issued to the organizations.

In the case of host country contracts financed by the Agency, the host country entities are responsible for negotiating with the contractors. Usually, in these cases, the missions and/or offices will accept responsibility for acting on the recommendations. When the recommendations are upheld by the missions and/or offices, Bills for Collection should be issued to the contractors.

In the case of host government expenditures financed by the Agency, the missions and/or offices are responsible for acting on disallowed costs. Usually, in following through on these recommendations, the missions and/or offices will first try to resolve the recommendations through discussions with the host government

entities. If those discussions do not result in corrective actions, the missions and/or offices are responsible for issuing Bills for Collections to the host government entities.

Financial compliance audits are not the only basis on which Bills for Collection are issued. Bills for Collections can also be issued when such conditions as the following are found by auditors, payment officers and other Agency officials:

- Transportation by vessel under flag of country not authorized under the implementing document or by vessel of the recipient country.
- Vessels chartered without prior approval of M/SER/COM/TR.
- Violation of requirement that at least 50 percent of A.I.D.-financed shipment be shipped on U.S. flag vessels.
- Violations of the statutory or administrative pricing requirements for A.I.D.-financed commodities and related services.
- Failure of suppliers to allow a trade discount to which the importer was entitled, e.g., a discount based on quantity or prompt payment.
- Short shipments, losses in transit of uninsured shipment, shrinkage in weight of items sold on a delivered weight basis.
- Commodities delivered of lower quality than specified, or analysis reveals specifications of procurement authorization were not met.
- Damages incurred during transit of uninsured shipments.
- Losses or damage payments under marine insurance coverage.

Missions and/or offices are responsible for preparing and issuing Bills for Collection as soon as the basis for the refund claim has been sustained by the responsible officials. The Bill for Collection must indicate the date the refund is due. If the Bill is not paid by the due date, a demand letter is issued to advise the contractor and/or grantee that the debt is delinquent and a late payment charge must be included in the payment. When the debt is delinquent for 30 days, a second demand letter is issued. When the debt is 60 days past due, a third demand letter is issued to advise that a penalty charge is being added to the late payment.

a. **Debt Collection Act of 1982**

Pursuant to the Debt Collection Act of 1982, the following definitions apply to interest, late payment and penalty charges:

- Interest Charge - interest is to be charged on claims for refund of overpayments from the date of overpayment by A.I.D. through the date of the Bill for Collection. Interest shall be charged by A.I.D. at the rate established by Treasury in accordance with the Internal Revenue Code, 26 U.S.C. 6621(b).

- Late Payment Charge - charge is from date of Bill for Collection through date of refund if not paid on or before due date. The rate is equal to average investment rates for the Treasury tax and loan accounts for the 12-month period end on September 30 of each year rounded to the nearest whole percentum. The rate is commonly known as the percentage rate of Treasury current values of funds.

- Penalty Charge - charge is in addition to the late payment charge from the 91st day after due date through date of refund or failure to pay any portion of a debt more than 90 days past due. A fixed rate of six percent per annum is used.

The Debt Collection Act requires that the missions and/or offices make every effort to obtain refunds in a timely manner. When these efforts prove to be futile, the Federal Claims Collection Act of 1966 gives the Agency the authority to compromise, suspend or terminate collection action on any claim not in excess of $20,000 exclusive of interest, late payment charge and penalty charge. This applies to claims against suppliers, contractors, A.I.D. employees and private voluntary agencies. Claims not in excess of $500 may be terminated with approval of the mission and/or office director. Claims in excess of $500 are forwarded to the A.I.D./W Office of Financial Management for termination approval.

Claims arising from illegal acts must be submitted to the Office of General Counsel for refund to the Department of Justice. Other exceptions include amounts due in payment of principal and interest on A.I.D. loans for which collection and compromise authority is provided in Section 635(g)(2) of the Foreign Assistance Act of 1961 (FAA), as amended; claims arising as a result of A.I.D. investment guaranty operations for which settlement and arbitration authority is provided in Section 635(i) of the FAA; claims against foreign governments and intergovernmental organizations; and claims where the

A.I.D. Administrator or his designee determines that a different course of action is required to achieve the purpose of the FAA or other acts administered by A.I.D. A.I.D. does not have authority to compromise a claim that arises out of an exception made by the General Accounting Office (GAO).

Claims against foreign governments and intergovernmental organizations are outside the purview of the FAA and A.I.D. Regulation 13. However, receivables for amounts due from foreign governments and intergovernmental organizations are established in accordance with the same controls as prescribed for private debtors. The disposition of such claims which are not paid is determined on an ad hoc basis.

In accounting for Bills for Collection, the missions and/or offices should establish an accounts receivable ledger for each appropriation and budget plan code to which the billing relates. The Bills for Collection should then be recorded in the appropriate ledger as a charge or debit. Supporting files, including the basis for the billing, should be established and maintained until collected.

When payment is made by check under the Bill for Collection, the amount is recorded as a credit to the appropriate ledger. The check for the refund is then immediately transmitted to the Cashier's Office for deposit. The deposit would be made as charge to the appropriate appropriation account.

When the refund is made by administrative offset to a current voucher, the current voucher is reduced and the appropriate ledger is credited. The net effect on the appropriation account is the same whether the refund is made by administrative offset or by check.

b. **Reporting Bills for Collection to A.I.D./W**

The accounts maintained by the missions and/or offices are subsidiary to the general accounts receivable ledgers maintained by the Office of Financial Management. To facilitate the recording of the transactions from the missions and/or offices ledgers to the general ledgers, A.I.D./W has devised the U-141 Report.

The U-141 Report is submitted monthly to A.I.D./W. The report contains a description of each Bill for Collection or other billing document issued and of each collection received (or other disposition action). Information contained in the report is used for input into the A.I.D./W Financial Accounting Control System, which produces accounting data for Agency-wide control of all billing and collection transactions.

At the end of each quarter, A.I.D./W furnishes to each mission and/or office a detailed listing of the accounts receivable reported by the mission and/or office. This listing contains the outstanding balances at the close of the prior year and individual transaction in the current year as reported by the mission and/or office. Missions and/or offices should reconcile the listing with balances in its accounts receivable records and the suspense file to assure that the A.I.D./W listing and the mission and/or offices records are in agreement. The Missions and/or offices should have documentation to substantiate each outstanding item shown on the listing. If they do not agree, corrective action must be taken and any adjustments required should be reported on the next U-141 report clearly marked "Adjustments of Accounts Receivable Detail Listing as of date." If they do agree, the following statement shall be noted on the next U-141 report: "The listing of outstanding accounts receivable has been reconciled and is in agreement with U.S.A.I.D.'s records as of date."

A detailed listing of A.I.D./W-initiated host country and participant billings outstanding as of the end of the prior year and updated for current-year activity is transmitted to the missions and/or offices. The missions and/or offices reconcile this listing with A.I.D./W records on non-mission initiated billings. Reports of variations are submitted to A.I.D./W as an attachment to the subsequent U-141 report. If no difference are noted, A.I.D./W should be so advised.

The control objective of the Bill for Collection process is to ensure that contractors, grantees and host government entities, who are billed for disallowed costs, refund such costs to the Agency in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 7, and the Controller's Handbook, Chapter 6.**
- **The separation of duties and responsibilities for identifying, recording, reporting and setting claims arising from disallowed and other costs.**
- **The maintenance of books and records to track the billing and collection of disallowed costs.**
- **Qualified and continuous supervision over the Bill for Collection process.**

6. Voucher Recording

A commitment liquidation record must be established for each commitment document. If a particular commitment document, such as a technical assistance contract is funded by more than one funding source, i.e. budget plan code, a separate record must be established for each portion so that disbursements are attributed to the appropriate funding sources. This means that vouchers which are charged to multi-source funded commitment documents should be allocated to the commitment liquidation records based on the percentage of funding provided from each funding source.

When vouchers have been scheduled and certified on the SF 1166, they should be promptly recorded to the commitment liquidation records. In scheduling these payments at month end, the accounting offices should ensure sufficient time is allotted for the U.S. Disbursing Office to process the checks. This will avoid the need for complex reconciliations with Treasury.

Advices of Charge which are chargeable to commitment liquidation records should also be promptly recorded upon acceptance.

Recording vouchers to commitment liquidation records is a straight-forward process. Vouchers are matched up with the appropriate commitment liquidation records and entries are then recorded to the appropriate column. Disbursements are recorded as positive figures in the disbursement column; and refunds and other downward adjustments are recorded in brackets as negative figures in the disbursement column. When vouchers represent the final costs of the commitments, any unliquidated balances should be decommitted at the time the final postings are recorded.

The control objective of the voucher recording process is to ensure that vouchers are promptly and properly recorded to appropriate commitment liquidation records. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Controller's Handbook, Chapter 13.**
- **The maintenance of commitment liquidation records and the requirement transactions are properly recorded to these records.**
- **The separation of duties and responsibilities regarding the administratively approval, review and certification of vouchers for payment and the recording of the vouchers to the records.**
- **Access to records are limited to authorized officials.**

C. CLOSING PROCESS

To monitor the financial progress of the appropriations, the Agency closes its books and records on a monthly basis. These monthly closings summarize the financial results for the month as well as the accumulated results. These results are then transmitted to A.I.D./W for posting to the appropriate ledgers and subsequent preparation of financial reports and statements.

Accruals, reconciliation of payments to the U.S. Disbursing Office and Section 1311 Reviews are also important aspects of the closing process. The procedural aspects of these activities are discussed below as well.

1. Preparation of Trial Balance Sheet

The closing procedures are straight-forward. However, unlike the top down transfer of obligational authority, the closing process for reporting financial transactions starts from the bottom up with the commitment liquidation records. At the end of each month, the data in the commitment liquidation records are totalled and recorded to the commitments in the earmark records; the earmarks and earmark reservations in the earmark records are totalled and reconciled to the element funds control ledgers. This reconciliation is necessary to ensure that consistency and data integrity exist in the project accounting system.

Starting with the commitment liquidation records, the footed totals for commitments, disbursements and unliquidated amounts are entered on a trial balance worksheet. A separate work sheet should be prepared for each funding source or budget plan code and structured to accumulate cumulative data by project on commitment, disbursements and unliquidated amounts. Using the same method, trial balance work sheets would also be developed for obtaining cumulative data on earmark reservations. After cumulative summary totals for earmarks, earmark reservations, commitments, disbursements and unliquidated commitments have been obtained and reconciled, the prior month's totals would be subtracted from the cumulated totals through the end of the current month. The effect of this subtraction results in current month activity which is used to prepare journal vouchers on current month activity for each project by budget plan code. The data in these journal vouchers are then recorded to appropriate project ledgers. Journal vouchers are also prepared and recorded to the budget allowance ledgers. With these journal voucher entries to the project and budget allowance ledgers, the financial data for the month has been determined.

The control objective of the trial balance is to ensure that all accounts are in balance as a result of the monthly closing of records. To achieve this objective, the following control techniques are used:

- The guidance provided in the Controller's Handbook, Chapter 13.
- The requirement that all records are in balance and any differences are reconciled.

2. Accrual Procedures

Accrued expenditures represent costs incurred during a given period for commodities received and services rendered. Expenditures accrue regardless of when cash payments are made, or whether vouchers have been rendered. Commodities are generally considered to be received when shipped by suppliers as indicated by bills of lading, since title passes to the Agency at that time. Services are received when they are rendered.

Under the Agency's various payment systems, there can be a substantial time lag from the date commodities are shipped and services rendered until invoices are received, processed for payment and recorded in the records as disbursements. This is particularly the case when A.I.D./W makes the payments and transmits the vouchers to the missions and/or offices by Advices of Charge. Under normal circumstances this Advice of Charge process involves about three months time lag. When this process is not functioning efficiently, the time lag can be much longer. The accrual procedures are designed to bridge this time lag.

Pursuant to the guidance cited in OMB Circular A-34, the missions and/or offices should develop reasonably reliable estimates for those commodities and services constructively received as of the end of the reporting period and for which disbursements vouchers were not recorded to the commitment liquidation records. This accrued disbursement data added to the actual disbursements would then reflect a reasonably reliable status of disbursements at the end of the reporting period.

Accruals are developed for reporting purposes on a quarterly basis. Responsibility for developing accrued disbursement data rests with the missions and/or offices. Within the missions and/or offices the accounting station, the Project Officer and others directly involved in project implementation are specifically responsible for securing the necessary source data and developing the accrued expenditures for each accounting period. While the accounting station is responsible for maintaining project accounting records and submitting the required financial reports to A.I.D./W, the development of reliable disbursements - one measure of project performance - is a management team responsibility shared by the accounting station and the Project Officers. Worksheets supporting the development of accrued disbursement data should be maintained by the accounting stations.

Since accruals represent constructive receipt of commodities and services not paid for, they represent a liability to the Agency. Thus, in an accounting sense, when accruals are reported to A.I.D./W, the Agency will record them in its financial statements as accounts payable. At the end of each reporting period, the accruals are recorded to the commitment documents. At the beginning of the following month, these accruals are reversed.

The Agency places considerable importance on the status of the unexpended pipeline. Developing reasonably reliable accruals for each commitment document is important for developing the status of the unexpended pipeline. Without the inclusion of this accrued disbursement data, project disbursements could be considerably understated. The reliability of the pipeline status reports thus depends on developing reasonably reliable accrued disbursement data for each of the project's commitment documents.

Accruals are also of importance to auditors as well. Not only is the auditor concerned with the reasonable reliability of the accruals developed, but also with the time lag covered by the accruals. Accruals covering several months' disbursements may be indicative of serious problems in the Advice of Charge process; the host government entities lack of adequate accounting systems to report on disbursements; or some other problem which may require review.

The control objective of the accrual process is to ensure that the costs of those commodities and services constructively received but not paid for are recorded to the Agency's accounts. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Controller's Handbook, Chapter 13.**
- **The requirement that accruals be documented by worksheets.**

3. **Reconciliation of Disbursements**

When the Treasury transfers the warrants to the Agency for the various appropriation accounts, these warrants constitute the authority for the Agency to draw-down funds made available under the accounts. In making these draw-downs, the Agency will instruct the Treasury to make payment to suppliers, contractors and others through one of several payment methods. These methods include Treasury letters of credit, checks, electronic funds transfers and interagency transfers.

The payments made by Treasury under each appropriation account must agree with the authorized advances, disbursements and transfers recorded in the Agency's records. Thus, as a means of maintaining

control over funds and ensuring that all payments are properly recorded, the Agency must reconcile its records to the applicable Treasury appropriation accounts on a monthly basis.* Under the Agency's decentralized organizational structure this requires that each Agency paying location reconcile its records to the Disbursing Office servicing that accounting station or office.

In overseas locations, draw-downs are made by check through a Regional U.S. Disbursing Office servicing the mission and/or office. At the end of each month, the Disbursing Office will provide the mission and/or office with a Statement of Transactions (Form SF-1121). This statement provides a detailed listing of all draw-downs as well as deposits (collections) made under the individual appropriation accounts. Upon receipt of this Statement of Transactions, the mission and/or office must reconcile its disbursement records for the appropriation to the Disbursing Office statement. Any differences must be accounted for and adjustments made.

To ensure that this monthly reconciliation is performed, the Office of Financial Management requires each mission and/or office to include the required reconciliation in the Report U-101. A separate Report U-101 is prepared for each Treasury appropriation account. Thus, in the case of the Agency's development assistance functional program appropriation, one Report U-101 would be prepared. But in preparing this report, the disbursements (as well as the budget allowances and obligations) would be shown by budget plan code or funding source, e.g. Agriculture, Rural Development and Nutrition; Health; Education; Selected Development; and so on. The total monthly disbursement vouchers recorded to the commitment liquidation records for these accounts under the appropriation would then need to be adjusted to the actual payments made by the Disbursing office.

During the course of any given month, the missions and/or offices will process a variety of vouchers for payment. These vouchers will include advances which are not recorded to the commitment liquidation records but to the advance ledgers. Advices of Charges for payments made by A.I.D./W which are recorded to the commitment liquidation records as disbursements. Not infrequently, the missions and/or offices will also process payments on behalf of A.I.D. Though these payments appear on the Disbursing Offices' Statements of Transactions, they are not recorded to the missions and/or offices records as disbursements. Because of these and

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* These requirements are contained in Treasury Manual 1 TFM 2-3100.

other types of payment transactions, the Disbursing Offices' Statements of Transactions should be reconciled with the voucher disbursements recorded to commitment liquidation and other records involved. Following is an illustration of how this reconciliation is made to current monthly disbursements of $380,620:

Budget Allowance		Obligations		Disbursements	
Budget Plan Code	Amount	Current Month	Cumulative	Current Month	Cumulative
Health	5,378,000	700,323	2,841,562	378,283	890,855
Education	865,000	833,180	843,225	2,337	4,273
	6,243,000	1,533,503	3,684,787	380,620	895,128

Add:	Net Advances	This Month	Cumulative
1.	Travel	1,100	8,500
2.	Quarters	-	1,850
3.	Contractors	-	-
4.	Other (Specify)	-	-

Add: Disbursements Made this Month Chargeable to Other Offices

AOC Number	Amount Charged	
641-698-017	675	A.I.D./W
641-000-018	625	A.I.D./W

Less: Disbursements Made by Other Offices Chargeable to this Mission

AOC Number	Charges Accepted	
000-641-009	235,400	A.I.D./W
521-641-003	2,500	Brazil
493-641-001	110	Thailand

Less: Miscellaneous Items Processed by this Mission

1. 150 Appropriation Reimbursement (Collection)

Net Disbursements Per Mission Records as Adjusted

145,860

Reconciling Items

1. 1,000 Not recorded by USDO in February
2. (2,000) Not recorded by Mission in February

Net Disbursements Per Disbursing Office Accounts

144,860

The A.I.D./W Office of Financial Management is also responsible for reconciling all draw-downs against the various appropriation accounts with the Treasury. In the case of A.I.D./W, the procedures are somewhat different than those of the missions and/or offices. One of these differences is that the Office of Financial Management must prepare the Statement of Transaction (Form SF-224) directly from its accounts promptly at the end of the month and forward it to Treasury; and secondly, in preparing this report, it reports only summary figures for draw-downs and collections by appropriation account. Treasury then compares these balances to its records. When the comparison results in differences, Treasury will send the Agency a Statement of Differences (Form TFS 6652). The Agency is then responsible for reconciling these differences to its accounts.

If these differences are not reconciled within six months, Treasury will automatically charge back the unreconciled differences to a budget clearing account. Treasury will maintain this clearing account until the differences are cleared. The Agency must clear the differences by preparing internal journal vouchers to charge or credit the proper appropriations.

When necessary, Treasury may notify the Inspector General concerning unreconciled differences.

The control objective of the reconciliation of disbursements to Treasury records is to ensure the cash balances reflected in Agency appropriation records balance with the Treasury's records. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 9 and the Controller's Handbook, Chapters 4 and 13.**
- **The requirement that the reconciliation be prepared and reported on the Report U-101 where it is reviewed.**
- **Qualified and continuous supervision is exercised over the reconciliation process.**

4. Section 1311 Review Procedures

To satisfy the need for funds control, obligation information must be reported promptly and accurately. Specific criteria governing the recording and reporting of financial transactions as obligations are prescribed in Section 1311 of the Supplemental Appropriation Act, 1955 (formerly 31 U.S.C. 200, now 31 U.S.C. 1501). This law provides that no amount shall be recorded as an obligation unless it meets specified criteria and that statements of obligations furnished to the Congress or to any of its committees shall include only amounts representing valid obligations as so defined.

The documentary evidence requirements for Federal Government obligations is cited below:

(a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of:

(1) a binding agreement between an agency and another person (including an agency) that is:

(A) in writing, in a way and form, and for a purpose authorized by law; and

(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided;

(2) a loan agreement showing the amount and terms of repayment;

(3) an order required by law to be placed with an agency;

(4) an order issued under a law authorizing purchases without advertising:

(A) when necessary because of a public contingency;

(B) for perishable subsistence supplies; or

(C) within specific monetary limits;

(5) a grant or subsidy payable:

(A) from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law;

(B) under an agreement authorized by law; or

(C) under plans approved consistent with and authorized by law;

(6) a liability that may result from pending litigation;

(7) employment or services of persons or expenses of travel under law;

(8) services provided by public utilities; or

(9) other legal liability of the Government against an available appropriation or fund.

(b) A Statement of obligations provided to Congress or a committee or Congress by an agency shall include only those amounts that are obligations consistent with subsection (a) of this section.

At the end of each year the A.I.D. controller certifies for the Agency that the statement of obligations submitted each year to the Office of Management and Budget consists of valid obligations as defined by the foregoing criteria. In making this certification, the A.I.D. controller certification is made on the basis of a special certification by mission and/or office controllers in their year-end Report U-101.

Under bilateral project assistance, funds are obligated by project agreements. But these obligated funds cannot be used without valid and binding commitment documents. Throughout the fiscal year, the mission and/or office accounting station should periodically review the validity of the unliquidated commitments with Project Officers and other officials. Any unliquidated balances not needed to fulfill the liability incurred under the commitment documents should be decommitted. These decommitted balances are then added to the obligations available for further commitment. Thus, in making the certification, the mission and/or office controllers are also attesting to this review of the validity of unliquidated commitments.

The control objective of the Section 1311 Review is to ensure that all funds obligated (and committed) represent valid obligations (and commitments) as defined by law. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 1 and Appendix 1A.**
- **The requirement that the Controllers attest to the validity of obligations based on the performance of periodic reviews.**

D. REPORTING PROCESS

There are generally two levels of financial reporting performed by the mission and/or office accounting stations. The first level of reporting is specifically designed to provide a variety of financial data on project activities to mission and/or office officials for monitoring financial implementation . This reporting includes:

- The Project Ledger Report which provides a historical record of transactions against a particular project and funding source (budget plan code).
- The Project Element Control Record report which provides basically the same financial data as the project ledger report but at the input level.
- The Earmark Control Record Report which provides a historical record of transactions against a particular earmark within a project.
- The Commitment Liquidation Record Report which provides a historical record of individual project funded commitment accounts.
- The Commitment Payment Availability Status Report which serves as a reference for determining fund availability for payment against project funded commitment accounts.
- The Summary Financial management Report which provides an overview of a mission and/or office portfolio of projects in terms of financial implementation.
- The Comprehensive Pipeline Report by project which provides a detailed pipeline listing of a project at the earmark level.
- The 1311 Analysis Reports of Unliquidated Commitments which provide a listing of unliquidated commitments by commitment document.

These and other reports are standard reporting outputs generated by the computerized Mission Accounting Control System (MACS). For a detailed discussion of these and other reporting outputs, auditors should refer to the paper IG/PPO developed on MACS and which was distributed to all audit offices. With the plethora of financial reporting MACS is able to generate, Project Officers should be fully cognizant of the financial status of project activities.

The second level of reporting is designed to provide the needed financial data to the A.I.D./W Office of Financial Management for the entry to the general ledgers and the subsequent preparation of consolidated financial reports. Several reports are used as a vehicle for providing this information to A.I.D./W. Foremost, among these reports, are those discussed below.

1. Report U-101

Each mission and/or office is required to prepare a separate Report U-101 for each appropriation account. When this appropriation contains several different budget plan codes, as in the case with the functional development assistance program, the U-101 should show the financial activity by budget plan code.

The budget allowance ledgers maintained by the mission and/or office for each budget plan code is the source for preparing the U-101. Thus, when the accounting office has reconciled monthly payments under the functional development assistance appropriation with the Disbursing Office, the U-101 can be prepared.

The Report U-101 has 10 line items as indicated in Handbook 19, Chapter 9. Following is the information provided by line item.

- Line A provides the transaction details reflected in the budget allowance ledgers. In A.I.D./W, this data is recorded to the appropriate budgetary general ledgers by journal vouchers.

- Line B provides information on current month and cumulative advances. This data is recorded by A.I.D./W to the general advance ledger by journal vouchers.

- Line C indicates the Advice of Charge payments made during the month which are chargeable to other missions and/or offices, including A.I.D./W. Copies of the Advices of Charge listed on Line C must accompany each U-101 when the payments are made on behalf of A.I.D./W.

In A.I.D./W, the Advice of Charge data on Line C is inputted to the A.I.D./W-maintained in-transit Advice of Charge system. Copies of the Advices of Charge are routed to the appropriate accounting group for recording the disbursements to the projects and clearing them from the in-transit system.

- Line D provides data on Advices of Charge payments made by other missions and/or office, including A.I.D./W, which the mission and/or office accepted and recorded to the appropriate project records. In A.I.D./W this Advice of Charge data is used to clear the in-transit Advice of Charge system for the payments.

- Line E reflects such things as items credited to the appropriation by the U.S. Disbursing Office; U.S. dollar trust funds deposits; appropriation reimbursements collected; and offsets to disbursements which are transferred during a change in accounting stations. It also reflects mission and/or office

transfers of credits for participant training costs which are transferred to the Participant Training Master Disbursing Account.

Under the participant training program, A.I.D./W establishes modified standard costs which are used in developing the cost estimates for participant training in the U.S. These standard cost estimates are included in the PIO/Ps which are sent to the Office of International Training and the Office of Financial Management for arranging and financing the training. The estimates on the PIO/P serve as actual costs and thus become the basis for the transfer of funds to A.I.D. These transfers on line E are treated by the mission as nonexpenditure transfers in its records. Each quarter, the mission and/or office accrues a percentage of the costs indicated on the PIO/P which are then transferred to A.I.D./W. An attachment is required for each accrual to identify the individual PIO/P voucher and the amount of the accrual being transferred to A.I.D./W.

In A.I.D./W, the transfer credits are initially recorded to the participant clearing account. They are then transferred from the participant clearing account to an operating account for the appropriation from which the funds were derived. This operating account is commonly known as the participant training Master Disbursing Account. A.I.D./W will disburse funds from this account without further adjustment of the PIO/P amount to reflect actual costs disbursed. In other words, A.I.D./W does not account for disbursements by PIO/P. The reason is that the modified standard costs are periodically adjusted when A.I.D./W computations indicate actual costs are higher or lower than the standard rate.

- Line F is the net amount of all current month budget allowance disbursements plus or minus Line B, plus Line C, minus Line D and E. This amount represents net disbursements per mission and/or office records as adjusted for the accounting period being reported.

- Line G is a reconciliation with the U.S. Disbursing Office's accounts. Any differences between net disbursements per mission and/or office records and those recorded in the Disbursing Office's account are reported on Line G.

- Line H represents the net disbursements per the Disbursing Office's account.

- Line I provides the accrued expenditures data that is reported quarterly. In A.I.D./W, this data is entered to the general accounts payable ledger by journal voucher.

- o Line J provides annual data of Federal outlays. It requires separate identification of transactions within government, transactions with recipients in the U.S.; and transactions with recipients in foreign countries. This data is reported to OMB in accordance with OMB Circular A-84.

- o At the end of the fiscal year the mission and/or Office Controller must certify the validity of obligations in accordance with Section 1311.

2. Report U-102

The monthly U-102 Report is a telegram advice of cumulative current fiscal-year obligation activity. The report covers all U.S. dollar funds of missions and/or offices for program and operating expense purposes. It provides A.I.D./W with the essential advance data necessary for program reporting to OMB in compliance with the Revenue and Expenditure Control Act of 1968 (P.L. 90-364).

The report is submitted in two parts. Part I reflects, by budget plan code, the budget allowance and obligation data for current fiscal-year budget allowance activity only. Part II reflects, by appropriation code, the cumulative net disbursements for the fiscal year-to-date. This data should be reconciled with the amounts reported in each applicable SF 1221 - Statement of Transactions.

3. Project Accounting Information System

The Projects Accounting Information System, better know by its acronym PAIS, is a subsidiary system to the Agency's formal accounting system. PAIS is a computerized system that contains a data bank on all relevant information pertaining to grant funded projects. (The counterpart system for loan funded projects is the Loan Accounting Information System). Under Agency procedures, spelled out in A.I.D. Handbook 19, Chapter 9, five reports are used by missions and/or offices to provide relevant project data to A.I.D./W for input into the data base. This data is then periodically retrieved from the system in the form of reports which are then used by Agency managers to monitor the financial progress of the projects.

The information provided by the missions and/or offices for input into PAIS is briefly described below.

a. Projected Obligations and Expenditures

The PAIS data base contains the projected obligation and expenditures for each project. This data is designed to provide managers with future year funding information on

projects. The reporting vehicle for providing this input into PAIS is Table II of the Annual Budget Submission (see Part IIA). This data is updated annually with preparation of the new budget submission.

b. Project Agreement Abstract

The PAIS data base contains certain information abstracted from the project agreement. This data, which is reported by cable immediately upon signing a project agreement for a new project, provides the following data:

- Project Number (XXX-XXXX.XX)
- Project Title (As reflected in Project Paper)
- Date Agreement Signed (Start Date)
- Project Assistance Completion Date
- Grant Amount Authorized (Life of Project)
- Loan Amount Authorized (Life of Project)
- Amount of Initial Grant Obligation
- Amount of Initial Loan Obligation
- Appropriation Code of Initial Obligation-Grant and Loan
- Other Authorized Appropriation Code(s)
- Primary Technical Code
- Primary Purpose Code

c. Project Flash Report

The PAIS data base contains information on the current status of obligations. Thus, in order to provide management with the status of current year projected obligations on a monthly basis, reporting offices are required to provide by cable a monthly advice of changes in current year obligations, increases or decreases.

This data is limited to instances when a new project is obligated or when adjustments, increases or decreases, are recorded against current year funds. The information is limited to three items for grant funds - project number, budget

plan code, and cumulative current year obligation; and three items for loan funds-project number, loan number, and cumulative current year obligations.

The Project Flash Report is due in A.I.D./W by the 2nd day of each month. Monthly negative reports are required when applicable.

d. Project Financial Activity Report

The PAIS data base contains an element for financial transaction activity. This data is reported quarterly by cable and provides project accounting information related to activities occurring in the current fiscal year. Non-project activities should not be reported in the cable.

Any project which has not been reported in a Completed (C) status must be listed on the cable even when there is no activity. A project that reaches a Complete (C) status during the fiscal year should be listed on each quarter's cable through and including the cable for September 30.

e. Summary by Allowance: Reconciliation with Allowance Ledger

The Summary by Allowance is used to reconcile grant funded project ledgers by budget plan code to budget allowance ledgers.

This report is to be transmitted with the U-101 reports (Summary budget plan code ledger transactions and reconciliation with Disbursing Officer's accounts) scheduled to arrive in A.I.D./W no later than the 8th day after the close of the quarter. It is limited to A.I.D. grant projects and basically reconciles the budget allowance ledger to the grant funded project ledgers.

The report consists of a one-line entry of certain data elements for each open budget allowance extracted from the budget allowance ledger with pertinent prior year-end closing net accruals subtracted, compared to the same data elements extracted directly from the Project Financial Activity Report cable.

The report must arrive in A.I.D./W no later than the 8th calendar day of the month following the quarter being reported.

The control objectives of the reporting process is to provide financial data to managers for monitoring financial implementation of the Agency's programs and to comply with financial reporting

requirements required by laws and regulations. To achieve this objective, the following control technique is used.

- The guidance provided in A.I.D. Handbook 19 and the Controller's Handbook.

E. STATEMENT PREPARATION PROCESS

Laws and regulations require the Agency to prepare certain financial reports. Two important reports are the monthly Statement on Budget Execution and the annual Statement on Financial Condition. The preparation of these reports reflect the consolidated financial activities of both the missions and/or offices and A.I.D./W.

1. Statement on Budget Execution

Pursuant to OMB Circular A-34, the Agency is required to prepare a monthly report on the budget execution of each appropriation account for OMB monitoring purposes. To prepare this report, the Agency maintains a number of standard general ledgers in accordance with OMB requirements. These ledgers are designed to provide information on the status of the funds made available by appropriation and the status of the use of the funds. Following are the budgetary ledgers maintained by the Agency:

Budgetary Accounts

Funds Availability Accounts - Debit

- 6000 Allocated to A.I.D. - Pr. Yr.
- 6001 Allocated to A.I.D. - Cur. Yr.
- 6100 Reimbursements to Allocations - Pr. Yr.
- 6101 Reimbursements to Allocations Cur. Yr. A.I.D./W
- 6102 Reimbursements to Allocation Cur. Yr. U.S.A.I.D.
- 6110 Trust Fund Avail. Rec. Pr. Yr.
- 6111 Trust Fund Avail. Rec. Cur. Yr. A.I.D./W
- 6112 Trust Fund Avail. Rec. Cur. Yr. U.S.A.I.D.

Funds Availability Accounts - Debit (Cont'd)

- o 6113 Transfer to A.I.D.
- o 6114 Inter Office Transfer

TOTAL AVAILABILITY

Status of Fund Availability Accounts - Credit

- o 6200 Unallotted Funds - Grants
- o 6210 Unallotted Funds - Loans
- o 6250 Unallotted Obligational Authority
- o 6260 Unallowanced Allotments - Grants
- o 6280 Unallowanced Allotments - Loans
- o 6300 Unobligated Allowances - A.I.D./W
- o 6350 Unobligated Allowances - Loans
- o 6400 Unobligated Allowances - U.S.A.I.D.
- o 6500 Unliquidated Obligations - A.I.D./W
- o 6550 Unliquidated Obligations - Loans
- o 6600 Unliquidated Obligations - U.S.A.I.D.
- o 6700 Expended Funds - A.I.D./W
- o 6750 Expended Funds - Loans
- o 6800 Expended Funds - U.S.A.I.D.
- o 6900 Expended Funds - Grants Sept. 30
- o 6950 Expended Funds - Loans Sept. 30

TOTAL - Status of Funds

The monthly Reports U-101, prepared by the missions and/or offices, provide the data which are entered to these ledger accounts. Thus, in the case of the development assistance functional program appropriation, each mission and/or office would prepare a Report U-101 for the transaction activities for this appropriation. Since

this report indicates data by budget plan code, the A.I.D./W Office of Financial Management would use this code to identify and then enter the reported allowances, obligations, disbursements and unliquidated obligations to the respective functional accounts. The totals of the functional accounts for unallotted funds, unallowanced allotments, unobligated allowances, unliquidated obligations, and expended funds would then be entered to the report. It should also be noted that the budget plan code also identifies whether the data is loan or grant funded.

2. Statement on Financial Condition

Section 114 of the Budget and Accounting Procedures Act of 1950 requires the Secretary of the Treasury to prepare annual reports on the financial operations of the U.S. Government. To prepare these reports, the Act provides that each executive Agency must furnish the Secretary of the Treasury such reports and information relating to the agency's financial condition and operation as the Secretary may require. The Secretary's requirements are spelled out in I TFM 2-4100.

The Treasury Manual requires the Agency to prepare and submit timely and reliable financial reports which fully describe the financial results of all programs and activities. The financial transactions supporting the required reports are to be accounted for on an accrual basis. The reports must also be prepared using the U.S. Government Standard General Ledgers (SGL) which is the uniform chart of accounts to be used by Federal agencies. Use of the SGL is consistent with OMB Circular A-127, which requires that financial management data should be recorded and reported in the same manner throughout the Agency using standard definitions and classifications.

Under Treasury reporting requirements, the Agency must prepare a Report on Financial Condition for each appropriation, including prior year appropriations, at the end of each fiscal year. Since these reports are prepared in the form of balance sheets, it contains asset, liability and equity ledger accounts. The number of such accounts are too numerous to cite; however, in preparing the report on the development assistance functional program appropriations, the following ledger accounts are usually used:

Assets (Debit)

Fund balance with Treasury

Advances and Prepayments

Loans Receivable

Other Assets

Liabilities

Accounts Payable

Other Liabilities

Appropriated Fund Equity (Credit)

Unexpended Appropriations

In reporting on the asset account, "Fund Balance with Treasury", the Agency must ensure the balances shown in its appropriation ledgers are reconciled to the Treasury's reported year-end balances for the appropriations. The source of reporting on the asset account "Advances and Prepayments" would be the U-101s. Though no loans are currently made under the development assistance functional program, the outstanding loan balances maintained in prior year appropriation ledgers would be reported in the asset account "Loans Receivable."

In reporting on the liability account "Accounts Payable", the Agency would record the accruals shown on the U-101. The equity account would report unexpended budget authority. Since the in-transit Advices of Charge represent disbursements made but not recorded, these in-transit items would be offset against the equity account "Unexpended Appropriations". The total of the asset accounts less the liability accounts should equal the appropriated fund equity.

Three supporting reports should accompany each Report on Financial Position. These are:

- SF 220-1: Additional Financial Information which provides an analysis of the composition of "Fund balances with Treasury and Cash."

- SF 220-8: Direct and Guaranteed Loans Reported by Agency and Program Due from Public which provides information in support of the Federal Reserve Board's requirements for information related to loans repayable, by program in U.S. dollars and foreign currencies.

- SF 220-9: Report on Accounts and Loans Receivable Due from the Public which provides information in support of OMB's requirements for disclosure of Government-wide receivables from the public.

Other reports the Agency must prepare from the ledgers include:

- SF 221: Report on Operations which reports on sources of funding and program costs. This is a type of source and application of funds statement.

- SF 222: Report on Cash Flow which reconciles the beginning and ending fund balances with Treasury.

- SF 223: Report on Reconciliation which reconciles expenses and cash outlays for the fiscal year.

The control objective of the report preparation process is to ensure the required reports are prepared on a timely basis and in accordance with the applicable laws and regulations. To achieve this objective, the following control technique is used:

- The guidance provided in A.I.D. Handbook 19 and the Controller's Handbook.

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CHAPTER 3

TECHNICAL SERVICES PROCUREMENT UNDER HOST COUNTRY CONTRACTS

This chapter describes A.I.D.'s system for procuring professional and technical services under bilateral assistance projects when the host country is the contracting party. It discusses the processes which make up that system and the control objectives of those processes. It also identifies the control techniques which the Agency uses to provide reasonable assurance that those objectives are met. It is, however, limited to those cases in which the services are provided by contractors located outside of the host country. In most cases, these will be contractors located in the United States.*

Although host country contracting was once encouraged under the presumption that it helped host governments develop institutional expertise, there is no longer a stated Agency preference between direct A.I.D. and host country contracts. Nonetheless, it is a fundamental A.I.D. principle that the countries it assists should implement their own development programs to the greatest possible extent.

The Project Officer must assure that the mission assesses the host government's procurement capabilities before the mission Director determines the propriety of allowing the host country to perform its own contracting. Handbook 3, Appendix 3H defines A.I.D.'s contracting mode policy and provides guidance to the Project Officer making this assessment.

A.I.D. Payment Verification Policy Statement Number 5 requires that Project Papers contain an assessment of host country implementation capabilities whenever a project calls for host country contracting. The assessment must provide a "realistic appraisal" of the host country's ability to:

- o advertise, award and negotiate contracts;
- o monitor contract implementation;
- o examine invoices; and
- o audit contractor records and reports (see the Assistant to the Administrator for Management's December 30, 1983 memorandum to all mission Directors entitled Payment Verification Policy Implementation Guidance).

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* Unless otherwise noted, this Chapter does not apply to contracts for construction, or architectural and engineering (A & E) services. These contracts have several unique characteristics which are discussed in Chapter 5.

In addition, Handbook 3, Supplement B, Appendix B provides a checklist for this purpose. The Project Officer must ensure that a copy of the resulting assessment is retained in the project files (see Handbook 3, Supplement B, Chapter II, Section C). The mission or office Director's decision should be documented in the Project Agreement or a Project Implementation Letter (Handbook 3, Section 8.C.3.c.4.f.).

After the mission or office Director decides that the host country should manage the procurement, the Project Officer must ensure that host government officials understand all relevant A.I.D. contracting policies and requirements. The Project Officer should arrange to hold pre-contract briefings as soon as possible after the mission Director's decision, and should invite relevant mission personnel (Regional Legal Advisor, Contracting Officer, technical officers) to participate. Mission officials must explain the significant rules laid out in Handbook 11 (Country Contracting). The Project Officer must be careful to explain that Handbook 11, Chapter 1, Section 2.0 contains mandated rules for technical services contracting. Section 3.0 of that chapter contains non-mandatory guidance which may be modified, without waiver, based on the circumstances of the particular procurement.

During the briefings, the Project Officer must attempt to reconcile conflicts between A.I.D. and host government contracting rules. The Project Officer should attempt to resolve such differences by persuading the host country to adopt procedures consistent with those of A.I.D. He or she must be sensitive, however, to the fact that host country procedures may be acceptable so long as they satisfy A.I.D.'s objectives. Every effort should be made to follow host country contracting procedures, so long as they are consistent with A.I.D.'s mandatory requirement, are fair, and are likely to assure prudent and proper procurement. The guiding principle is to seek only such changes in the host country's procurement policies and processes as the mission considers essential to meet A.I.D.'s requirements (Handbook 3, Supplement B, Chapter II, Section G). The briefings should be documented in the project files, and the agreed-upon contracting procedures set forth in a Project Implementation Letter.

A. PROCUREMENT PLANNING PROCESS (HANDBOOK 3, APPENDIX 9C)

For many projects, procurement planning may be as important as all other aspects of planning combined. For this reason, A.I.D. project designers must begin planning the procurement and designating procurement responsibilities during the earliest phases of project development.

1. Developing the Procurement Plan (Handbook 3, Appendix 3H, Attachment 1)

The Project Officer and host country officials should begin developing a Procurement Plan while the project is still in its "Project Identification Document" phase (Handbook 3, Chapter 2), i.e., before beginning to develop the Project Paper. This Plan should discuss all phases of technical services procurement including the type and potential source of needed services, the contracting party (host country or A.I.D.), payment methods, scope of work, etcetera. A listing of the type of items to be addressed is found in the Handbook Attachment cited above. The Project Officer ensures that this Procurement Plan is included as a part of the completed Project Paper.

2. Decision To Use The Host Country Contracting Method (Handbook 3, Appendix 3H).

The mission Director is responsible for assuring that project design assigns procurement responsibilities in a manner which best fits the project's particular circumstances and which will result in effective project implementation (Handbook 3, Appendix 3H, Section B.1). He or she should base this decision on information developed by mission technical personnel and Project Officers concerning the host country's procurement capabilities. This information should be included in the Project Paper's "Administrative Analysis" (Handbook 3, Section 3.C.6). The mission Director must also consider information included in the Project Paper's Procurement Plan, and additional factors such as mission personnel resources and host country preferences. These additional factors are listed in Handbook 3, Appendix 3H. By authorizing the project as discussed in Handbook 3, Chapter 5, the mission Director agrees to the procurement method(s) contained in the Project Paper.

3. A.I.D. Approvals (Handbook 11, Chapter 1, Section 2.1)

Although A.I.D. is not a party to a host country contract, it can and generally will retain the right to review and approve various host country documents and procedures throughout a procurement. The mission will generally decide upon the extent of this oversight during the Planning Process, and will base this decision upon the information contained in the "Administrative Analysis".

a. Mandatory Approval - A.I.D. requires a mandatory review at only one point in the procurement. The mission must review and approve (or disapprove) any executed host country technical services contract whenever:

o A.I.D. financing is involved; and

- The total contract amount exceeds $100,000 (Handbook 11, Chapter 1, Section 2.1.1).

b. Discretionary Approval - A.I.D. may retain review and approval rights at various points throughout any host country technical services contract procurement regardless of the contract's value. These rights will be spelled out in a Project Implementation Letter, and can include review of:

- Notices to prospective offerors, such as synopses, prequalification notices, etcetera;
- Lists of prequalified offerors, if any, prior to issuance of Requests for Technical Proposals;
- The draft Statement of Work to be used in the Request for Technical Proposals;
- Complete Requests for Technical Proposals prior to issuance;
- The contractor selection method;
- The selected contractor;
- Termination of negotiations with the highest ranked offeror and initiation of negotiations with the next ranked offeror;
- The final draft contract, prior to its execution; and
- Signed contract documents, before financing, for contracts of less than $100,000 (Handbook 11, Chapter 1, Section 3.2.2).

The control objectives under this process are intended to provide reasonable assurance that technical services procurement needs and methods are addressed prior to project authorization so as to reduce problems inherent in such procurement, and that the host country is capable of effectively managing the procurement. To achieve these objectives, the A.I.D. uses the following control techniques:

- Guidance contained in Handbook 3, concerning development of the project Procurement Plan;
- Guidance contained in Handbook 3, and Supplement B to Handbook 3, concerning analysis of the host country's procurement capabilities; and
- Guidance to mission Directors in authorizing the host country contracting method found in Handbook 3.

B. CONTRACT-TYPE SELECTION PROCESS

The host country and mission will determine, prior to or during the project design process, the type of work which will be performed by technical services contractors. This may range from technical expertise provided by a professional consulting firm, to the specialized services provided by a commodity Procurement Services Agent (PSA). The next decision-making process undertaken by the host country is the choosing of the type of contract to be used.

Although the mission may assist the host country in determining which type of contract is most appropriate for a given procurement, the ultimate decision lies with the host country. The host country uses its own decision-making process in making this determination. Several types of contracts may be used with one notable exception -- in no case will A.I.D. finance a cost-plus-percentage-of-cost contract wherein the contractor's fee increases without limitation as the contract's cost increases (Handbook 11, Chapter 1, Section 2.9). This type of contract provides no incentive for the contractor to economize and, in fact, provides a disincentive since the contractor's profit increases as costs increase.

There are no formal requirements that A.I.D. oversee the contract-type selection process. However, as a practical matter, the Project Officer will generally review contract documents throughout the contracting processes, and will be aware of the type of host country contract undergoing processing through his or her day-to-day relationship with host country personnel.

Three types of contracts are commonly used in procuring professional or technical services: cost reimbursement, fixed price, and time-rate contracts.

1. Cost Reimbursement Contracts (Handbook 11, Chapter 1, Section 3.1.2)

Under this type of contract, the contractor is reimbursed for its expenditures in accordance with an agreed budget, plus overhead costs at an agreed provisional rate. To be reimbursable, the costs must, however, be allocable, allowable, and reasonable, as defined in Handbook 11, Chapter 4, Section 2.0. If the contractor is a "for profit" organization, A.I.D. will also pay it a fixed fee.

A.I.D. attempts to control costs by requiring that the contract contain a budget which the contractor cannot exceed without the host country's advance approval. This budget sets limits on direct costs (e.g., salary, allowances, travel, and commodities), indirect costs (e.g., overhead), and the fixed fee. The contractor is paid on a monthly or quarterly basis by providing billings supported by itemized expense listings.

This type of contract places a great deal of responsibility upon the host country. Its officials must understand and apply A.I.D.-approved cost principles to maintain effective and acceptable control over the contract while avoiding disruptive disputes over billings.

2. Fixed Price Contracts (Handbook 11, Chapter 1, Section 3.1.4)

The Project Officer may advise the host country to use a fixed price contract whenever the scope and duration of the desired services can be defined with reasonable accuracy. Under this contract type, the contractor is paid the amount stated in the contract regardless of its actual costs. The contract amount, in turn, includes all of the contractor's anticipated direct and indirect costs.

Fixed price contracts are relatively easy to administer. Project planning is simplified, since contract costs are precisely known when the contract is signed. However, they do have disadvantages. This type of contract requires detailed preliminary analysis to accurately estimate costs. Consequently, it is most suitable when the work can be precisely defined and the contract period is sufficiently short to minimize the contingencies covered by the contract.

3. Time-Rate Contracts (Handbook 11, Chapter 1, Section 3.1.3)

The Project Officer may advise the host country to use a time-rate contract if the required services can be easily defined, but their duration and timing are uncertain. The time-rate method combines aspects of both cost reimbursement and fixed price contracts. Salary, overhead, and profit are combined into a fixed rate per day, week, or month. Other direct costs, such as travel and allowances, are reimbursed. The host country pays at the fixed rate for the time actually worked plus the cost reimbursement items, up to the maximum amount stated in the contract. Handbook 11, Chapter 1, Section 3.1.3.a contains criteria for establishing the time-rate.

While this type of contract provides certain advantages in its flexibility and ease in payment processing, it must be carefully monitored since it presents several potential disadvantages. Like the unacceptable cost-plus-percentage-of-cost contract, the time-rate contract provides a disincentive to management efficiency. This method encourages the contractor to expend more time in performing its services, thus increasing its profit. Also, unless the contract is carefully drafted, the contractor can substitute lower paid personnel than those proposed during the contract negotiations. Since the time-rate is fixed, the contractor could thus increase its profits by retaining the excess salary for itself. Finally, it is more difficult to determine whether costs

are reasonable under the time-rate method than under any other contract type. Therefore, as a general rule, the host country should use a time-rate contract only when the contract term will be relatively short and conditions generally foreseeable. The longer the contract and the less forseeable the conditions, the greater the preference for a cost reimbursement contract.

The control objective of this process is to give reasonable assurance that the host country selects a contract acceptable to A.I.D. The host country uses its own procedures to select the contract type, but A.I.D. must monitor the process to prevent the host country from selecting an unallowable form of contract. A.I.D. uses the following techniques to control this process:

- Guidance explaining types of contracts and appropriate circumstances for their use found in Handbook 11, Chapter 1, Section 3.1;
- Mandatory rules for A.I.D. review and approval of contracts found in Handbook 11, Chapter 1, Section 2.1.1; and
- Guidance to Project Officers in assisting the host country in making contract-type decisions found in Handbook 3, Supplement B, Chapter IV, Section G.3.

This process is vulnerable in that it is heavily dependent upon host country analytical capabilities to select the appropriate type of contract. The Project Officer must be alert to the possibility that an apparently allowable type of contract is actually an unallowable cost-plus-percentage-of-the-cost agreement.

C. PREQUALIFICATION PROCESS (HANDBOOK 11, CHAPTER 1, SECTION 3.3)

After the host country determines the exact type of required services, type of desired contractor, and type of desired contract, it must next determine whether to prequalify and "shortlist" interested firms. This process begins with a host country decision to prequalify potential contractors and ends with the host country officially notifying the Project Officer of the process' results. As a rule, A.I.D. recommends prequalification for major contracts.

Under the prequalification process, the host country determines, in advance, the best qualified potential contractors which will be asked to submit formal technical proposals. The host country, with the Project Officer's advice, decides whether to prequalify bidders. It bases this decision on the cost to interested firms to prepare technical proposals; the complexity or uniqueness of desired services; the number of

anticipated responses; the desirability of reviewing documents, data, and conditions in the host country; or any other logical reasons(s).

1. **Advertising**

The host country develops a questionnaire to be sent to potential contractors. This questionnaire asks the contractor to present, in outline form, its general and specialized qualifications. These include its experience, job capacity, and financial capacity (Handbook 11, Chapter 1, Section 4.1.2). If the host country anticipates that the prime contract will require subcontracting (e.g., a Procurement Services Agent contract), it may ask that similar information be provided for likely subcontractors.

Although A.I.D. does not require that mission officials review questionnaires before their release, missions often reserve this right and the Project Officer will generally offer to review the sample questionnaire and assist the host government in adapting it to the particular procurement. In most cases, the host country must next advertise the fact that questionnaires are available.* It does this by drawing up a notice for publication in the Department of Commerce's Commerce Business Daily (Handbook 11, Chapter 1, Section 3.3.2). If the host country is hiring a Procurement Services Agent, the notice must also be placed in the A.I.D. Procurement Information Bulletin if the fee is expected to exceed $25,000 (Handbook 1, Supplement B, Section 12.C.3.b[1][b]). The notice should contain:

- A brief description of the project and services involved;
- The name of the specific host country contracting agency which will sign the contract;
- The address(es) at which interested firms may obtain questionnaires;
- The deadline for receipt of prequalification information (see Handbook 11, Chapter 1, Section 3.3.4 for additional information on reasonable time limits for setting deadlines);
- A statement regarding the eligible nationality of the contractor and source of any incidental goods; and

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* Advertising is not required for contracts with an individual, with an estimated value of less that $100,000, for follow-on work, or for which the host country has already received an A.I.D. waiver of competition (Handbook 11, Chapter 1, Section 2.5.2).

- The address to which the completed questionnaires should be sent (Handbook 11, Chapter 1, Section 4.1.1).

The Project Officer should provide the host government with a copy of A.I.D.'s standard advertising notice format found in Handbook 11, Chapter 1, Attachment 1M. The host government completes the notice and submits it to the Project Officer for review and/or transmittal to the Department of Commerce.

The Project Officer may review the notice if this right was reserved in the Project Agreement or Project Implementation Letter. He or she will either forward the notice directly to the Department of Commerce or ask the A.I.D./Washington Offices of Procurement or Small and Disadvantaged Business Utilization (SDB) to do so. The SDB should be notified of the procurement in any case since it must monitor A.I.D. compliance with various legislatively mandated minority and small business requirements (see the description of SDB operation in Chapter 6). Copies of the advertisements should be included in the contract monitoring file.

2. Evaluation

The host country distributes the questionnaires to any interested firm and to any other firm it wishes to solicit. It then receives and evaluates the completed questionnaires. Although A.I.D. does not insist upon any particular evaluation procedure, it does recommend that the host country develop its "shortlist" of best qualified firms by convening a review panel which uses objective review criteria in making its choices. This procedure is discussed below under the review of technical proposals (see also Handbook 11, Chapter 1, Section 3.3.5).

The Project Officer may review the selection if this right was reserved in the Project Agreement or Project Implementation Letter. Under certain circumstances, e.g., if the host country is inexperienced in this procedure, or the services to be purchased are highly technical or complex, the Project Officer may independently evaluate the completed questionnaires. In this case, the Project Officer, or the mission's Project Committee, uses the same evaluation criteria adopted by the host country and attempts to reconcile the differences. The results of such meetings should be documented in the project or contract files.

The resulting "shortlist" should contain at least three qualified firms. The host country notifies those firms not chosen for the "shortlist" and also submits an official memorandum to the Project Officer explaining the basis for the shortlisting. This memorandum should be kept in the Project Officer's contract monitoring file (Handbook 3, Supplement B, Chapter 4, Section F).

This process is not mandatory for technical services procurement. Where it is used, its control objective is to increase the efficiency of the later contractor selection process by eliminating only those prospective bidders which are unqualified or less qualified to provide particular services.

It saves marginally qualified firms the time and expense of preparing proposals, and the host country the time and expense of evaluating such proposals. A.I.D. uses the following techniques to control this process:

- Guidance on host country prequalification procedures found in Handbook 11, Chapter 1, Section 3.3;
- Guidance on recommended A.I.D. approvals found in Handbook 11, Chapter 1, Section 3.2; and
- Project Officer guidance for overseeing the prequalification process found in Handbook 3, Supplement B, Chapter IV, Section F.

This process is vulnerable in that it is highly dependent upon the Project Officer to ensure that the host country does not use the prequalification process to help direct awards to preferred, but less qualified, contractors. The host country might attempt to accomplish this by including such contractors on its "shortlist" or by failing to include certain contractors on the "shortlist."

D. CONTRACTOR SELECTION PROCESS (HANDBOOK 11, CHAPTER 1, SECTION 3.4)

As a general rule, A.I.D. requires that host countries follow competitive procedures when procuring A.I.D.-financed services (Handbook 11, Chapter 1, Section 2.4). The host country awards the contract through a negotiation rather than a formal bidding procedure, and must select prospective contractors with whom to negotiate solely on the basis of the contractors' professional qualifications. Price is not a factor when selecting contractors with whom to negotiate, although it is a matter for discussion during negotiation (Handbook 11, Chapter 1, Section 2.2).

1. Preparation of the Request for Technical Proposals (Handbook 11, Chapter 1, Section 3.4.1)

The first step in the contractor competitive selection process is the preparation of the Request for Technical Proposals (RFTP). This is a primary control point in this process. Although A.I.D. regulations do not require that missions take part in preparing RFTPs, missions generally reserve this right and/or the right to review the RFTP before issuance, in the Project Agreement or a Project Implementation Letter. The RTFP contains information vital

to any prospective contractor in formulating its proposal. A listing of the type of information in the RTFP is found in Handbook 11, Chapter 1, Section 4.2.1. Of particular importance, the RFTP must contain an explanation of the host country contract award criteria and a statement of work explaining the nature and extent of the desired services.

The RFTP should explain that a primary selection criterion will be a firm's previous experience in providing the desired services under comparable conditions. Previous experience with A.I.D. or host country contracts, in and of itself, is not an appropriate selection factor (Handbook 11, Chapter 1, Section 3.4.1.1).

The core of the RFTP is the statement of work. It must contain sufficient information to enable prospective contractors to clearly understand the dimension and purposes of the tasks to be performed. It should explain the responsibilities of the parties, the resources to be provided, payment procedures, and any other information needed to enable potential contractors to submit responsive proposals. It must be thoughtfully and carefully developed by personnel familiar with the project itself and those experienced in contracting. This generally means host country officials who will be managing the project and the mission's Project and Contracting Officers. Of particular note to auditors, the statement of work should include specific progress indicators or benchmarks to measure the contractor's progress against expenditures of both time and money (Handbook 3, Supplement B, Chapter IV, Section G.2). Although there is no mandated style for the statement of work, Handbook 11, Chapter 1, Attachment 1N provides guidance for the preparation of this part of the RFTP.

2. Advertising (Handbook 11, Chapter 1, Section 3.4.2)

The host country sends RFTP's to all firms which were "shortlisted" during the Prequalification Process (Handbook 11, Chapter 1, Section 3.4.3). If the host country did not use the Prequalification Procedure, and if the contract is not to be with an individual or less than $100,000, it must advertise the fact that RFTP's are available upon request. It does this by asking the Project Officer to submit a notice to the U.S. Department of Commerce for publication in the Commerce Business Daily. This procedure is discussed above under the Prequalification Process. If the host country is hiring a Procurement Services Agent, and the fee is expected to exceed $25,000, the notice must also appear in A.I.D.'s Procurement Information Bulletin (Handbook 1, Supplement B, Section 12.C.3.[1][b]). When the host country is seeking services from firms outside of the United States, it notifies prospective contractors "... in a manner consistent with local law and practice." The host country then sends copies of the RFTP to all firms asking for it, and to any other firms it wishes to solicit.

3. **Receipt and Analysis of Technical Proposals** (Handbook 11, Chapter 1, Section 3.4.4)

The host country records the receipt of each proposal. It then begins its analysis as soon as possible after the due date specified in the RFTP. Proposals received after the due date but prior to completion of the analysis may be analyzed at the host country's discretion if this was allowed by the RFTP.

The host country evaluates the proposals using the criteria specified in the RFTP. The Project Officer should strongly recommend that the host country use a selection panel composed of experienced, senior-level personnel and outside specialists, if required, when evaluating and ranking proposals. He or she should also recommend that the review panel develop an analysis chart showing the evaluation criteria, and assigning a weight to each criterion or group of criteria specified in the RFTP. Each proposal is then analyzed and given a numerical rating. Handbook 11, Chapter 1, Attachment 1D provides an example of an evaluation chart. This method allows for a logical analysis while also helping the Project Officer understand the basis for the host country's selection.

Missions generally reserve the right to review and approve the contractor selection method and procedure. In practice, the Project Officer usually becomes closely involved in this part of the selection process. In addition to advising the host country concerning review methodology, the Project Officer can also provide additional business data on U.S. firms, and can check the firms' past performance of A.I.D. contracts. The data may be available at the mission, or obtainable by contacting the Bureau for Program and Policy Coordination's Center for Development Information and Evaluation in Washington, D.C. The Center's Development Information Division (PPC/CDIE/DI) can obtain information from numerous computerized business data bases.

As in the prequalification process, the Project Officer may decide to use the RFTP evaluation criteria to perform a parallel evaluation of the proposals. While the host country should explain any significant variations in the evaluation, it is not necessary that A.I.D. agree with its ranking of proposals, if it followed agreed-upon selection procedures and the highly ranked proposals show that the firms can provide the desired services (Handbook 3, Supplement B, Chapter IV, Section H; Handbook 11, Chapter 1, Section 3.4.5).

4. **Designation of Highest Ranked Contractor** (Handbook 11, Chapter 1, Section 3.4.5)

The host country documents its final selection by producing a memorandum which explains the evaluation criteria, lists the firms

which submitted proposals, ranks the proposals, and identifies acceptable proposals by rank order. The Project Officer ensures that a copy of his memorandum is placed in the contract files.

Although not required by A.I.D. regulations, the mission will almost invariably reserve the right to approve the highest ranked contractor before the host country begins negotiations. The Project Officer, at this point, must ensure that the highest ranked contractor is eligible to receive A.I.D. funding. To be eligible, the contractor must meet A.I.D.'s nationality and source rules. The nationality rules are explained in Handbook 11, Chapter 1, Section 2.6.4 (see also discussion of the Commodity Procurement Specification Process in Chapter 6).

In addition to reviewing compliance with the nationality and source rules, the Project Officer must ensure that the highest ranking contractor is not ineligible because the firm, its affiliates, or subsidiaries:

- Has been or might be placed in a position where its judgment may be biased, or has achieved an unfair competitive advantage;
- Will be both providing engineering services and providing either commodities or performing construction services on the same project (this does not apply to so-called "turn-key" projects as defined in Handbook 11, Chapter 2, Section 3.1.2);
- Appears on any list of suspended, debarred, or ineligible bidders used by A.I.D.; or
- Has failed to certify that it is complying with equal employment opportunity obligations under Executive Order 11246, as amended, and regulations or orders issued thereunder (Handbook 11, Chapter 1, Section 2.7; Handbook 1, Supplement B, Chapter 6).

Contractor selection ends with the host country notifying firms which will not receive any further consideration, as well as alternate firms with which negotiations may be conducted if the host country cannot come to terms with the highest ranked contractor (Handbook 11, Chapter 1, Section 3.4.6). Procedures for handling protests by any of these offerors are found in Handbook 11, Chapter 1, Section 3.4.7.

5. **Contractor Selection under Noncompetitive Procedures** (Handbook 11, Chapter 1, Section 2.4)

A.I.D. may allow the host country to forego competitive procedures and procure technical services by negotiating with a single source under certain conditions. The host country must demonstrate to the mission Director's or A.I.D. Administrator's satisfaction that:

- An emergency exists and competition would entail unacceptable project delay;

- Special design or operational needs require services available from only one source;

- A single firm is uniquely qualified to provide the service because of its special experience, facilities, or personnel; or

- The contractor will provide "follow-on" work (see Handbook 11, Chapter 1, Section 2.4.1.2).

Alternatively, A.I.D. may agree to noncompetitive procedures if Agency officials decide that competitive procedures would result in "... the impairment of the objectives of the United States foreign assistance program or would not be in the best interest of the United States" (Handbook 11, Chapter 1, Section 2.4.2.a.5.).

To obtain a waiver of competition under any of the above conditions, the host country asks the Project Officer to draft an official request, generally in the form of an action memorandum for the mission Director's signature. Handbook 3, Supplement B, Appendix E illustrates the standard format for this memorandum. Mission Directors can generally approve single source waivers up to $1,000,000 in value. A single source negotiated contract valued above this amount can only be authorized by the A.I.D. Administrator.

Before the mission Director can approve the waiver, it must be submitted to the mission's Noncompetitive Review Board, composed of the mission Director, Regional Legal Advisor (or Deputy Director if the Regional Legal Advisor is unavailable), and a senior project officer unconnected with the procurement. Once approved, the mission Director must promptly cable a summary of the waiver to the Geographic Bureau's Regional Assistant Administrator in Washington, D.C. The summary must identify the project and type of waiver granted (noncompetitive new contract or amendment), the amount of the procurement, the nature of the services being procured, and the reasons(s) for the waiver (Handbook 11, Chapter 1, Section 2.4.2.c). The Geographic Bureaus maintain records of all waivers approved at their missions during each fiscal year.

The control objective of this process is to provide reasonable assurance that the host country follows proper competitive procedures when choosing contractors with whom to negotiate. To achieve this objective, the Agency uses the following control techniques:

- **Contractor selection guidance found in Handbook 11, Chapter 1, Section 3.4;**

- Nationality and source eligibility rules found in Handbook 11, Chapter 1, Section 2.6;
- Additional A.I.D. eligibility rules found in Handbook 11, Chapter 1, Section 2.7;
- Guidance for exercising A.I.D. approval authority found in Handbook 11, Chapter 1, Section 3.2;
- Guidance to Project Officers monitoring and assisting in the contractor selection process found in Handbook 3, Supplement B, Chapter IV; and
- Policy guidance on eligibility of suppliers and contractors found in Handbook 1, Supplement B, Chapter 6.

This process is vulnerable both because it is highly dependent upon the Project Officer to identify possible impropriety in selecting the contractor (e.g., collusion between host country and contractor officials) and because of the complexity of A.I.D.'s eligibility rules.

E. CONTRACT PREPARATION AND AWARD PROCESS (HANDBOOK 11, CHAPTER 1, SECTION 3.5)

This process begins with the host country asking the highest ranked contractor to begin contract negotiations and ends with the execution, and A.I.D. approval, of a binding contract for services between the host country and the contractor. The host country begins the process by asking the highest ranked firm to submit a cost proposal, and by establishing an agreeable time and place for negotiations. Negotiations are normally held in the host country.

1. Preparation of Cost Estimates (Handbook 11, Chapter 1, Section 3.5.2)

The most important host country activity between the time it ranks the proposals and the time it begins negotiations will be the development or refinement of contract cost estimates.

Project Papers generally contain a funding estimate for anticipated technical services contracts. Since this estimate will be months (or years) old at the time of actual negotiations, the host country generally prepares for the negotiations by refining the estimate, using the most recent and detailed data available. If well done, the revised cost estimate will enable the negotiators to focus their talks upon major differences between the estimate and the contractor's proposal.

Although the host country is responsible for refining the estimates, it often asks for Project Officer and mission Accounting Officer assistance. These mission officials should ensure that host country officials are aware of, and understand, A.I.D.'s cost principles found in Handbook 11, Chapter 4. These principles apply to all A.I.D.-financed host country cost reimbursement contracts and may be specifically incorporated by reference into the final contract (Handbook 11, Chapter 4, Section 1.1). The Project Officer should also stress upon host country officials the need to avoid even the appearance of giving any offeror an unfair advantage by releasing any information on the amount of A.I.D. funds available for the contract, or the composition of the cost estimate (Handbook 11, Chapter 1, Section 3.5.2.1).

Developing detailed cost estimates can be time-consuming. However, the host country should not invite the contractor to begin negotiating until both the host country and the Project Officer are satisfied that the estimates provide a reasonable bargaining position. If this preliminary work is done well, the contractor should require only one negotiation session in the host country (Handbook 3, Supplement B, Chapter IV, Section J).

In order to properly advise the host country, the Project Officer must understand both the cost principles and basic elements of the estimates (and later contract). These elements are direct costs, indirect costs and contractor profit.

a. Direct costs - These are any costs which can be solely and specifically identified with a particular activity under the contract (Handbook 11, Chapter 4, Section 3.1). Examples include vacation leave, severance pay, travel and transportation, allowances, supplies, equipment, and insurance (Handbook 11, Chapter 4, Appendix A, Section A.3.0). Salaries, however, will be the most important direct cost as they are both the largest single cost, and the figure generally used when calculating indirect costs. Errors in estimating salary costs will, therefore, result in even larger errors in the final estimate.

   The Project Officer may be particularly helpful in providing the host country with current information on reasonable salaries for different categories of professional staff, especially for U.S.-based contractors (Handbook 11, Chapter 1, Section 3.5.2.2).

b. Indirect costs - Also referred to as overhead and/or general and administrative expenses, indirect costs are for purposes which cannot be attributed to a single specific contract (Handbook 11, Chapter 4, Appendix A, Section A.4.1). These costs are grouped and allocated to all contracts and other works of the contractor. For technical services, firms will generally

technical services, firms will generally use either direct salaries or total direct costs as the basis for calculating their overhead costs (Handbook 11, Chapter 4, Section 4.2). Cost rates are generally initially set at a tentative or "provisional" level, and later finalized by audit or comparable means. Alternatively, the contracting parties may agree during contract negotiation upon payment of a fixed amount in lieu of overhead. In this case provisional rates are not used (Handbook 11, Chapter 4, Section 4.4).

Typical examples of indirect costs include depreciation on buildings and equipment, costs of operating and maintaining facilities, salaries and expenses of executive officers, personnel administration, and accounting services (Handbook 11, Chapter 1, Appendix A, Section A.4.1). Indirect cost information, including bases of distribution and overhead expense rates, is found in Handbook 11, Chapter 4, Section 4.0.

The Project Officer can be particularly helpful in assisting the host country estimate a reasonable overhead rate. He or she may be able to obtain current information on U.S. contractor overhead rates from the A.I.D./Washington Office of Procurement, from the mission Accounting Officer, or from the mission's contracting staff.

The Project Officer should impress upon host country officials that the estimate (and later contract) cannot permit the contractor's indirect costs to be applied at a fixed percentage of salaries, without provision for adjustment. This could result in a form of cost-plus-percentage-of-cost contract, because the indirect costs chargeable to the contract would always increase in proportion to the increases in salary costs. A.I.D. cannot fund any form of cost-plus-percentage-of-cost contract (Handbook 11, Chapter 1, Section 2.9).

c. Profit - The contractor's profit is generally expressed as a fee (Handbook 11, Chapter 1, Section 3.5.2.4). While the fee can be estimated based on recent experience with contractors in the host country, it cannot be analyzed and rationally calculated as can direct and indirect costs. The contractor should be allowed a "reasonable but not exhorbitant" profit.

2. Contract Negotiations (Handbook 11, Chapter 1, Section 3.5.3)

The host country negotiates with the highest ranked firm. Most substantive contract terms are open to negotiation. These include cost estimates, overhead, fee, the statement of work, personnel selection, and contractor logistical support. Certain provision, including various stipulations required by U.S. laws and

regulations, must be included in the contract and are not negotiable. Examples are A.I.D. source, origin and cargo preference requirements; air carrier travel and transportation rules; worker's compensation; contractor's certificates; marking requirements; host country tax exemptions; and equal opportunity obligations. These are discussed in Handbook 11, Chapter 1, Section 2.12 and Handbook 3, Supplement B, Appendix D.

If the negotiations are successful, the host country develops a draft contract acceptable to both it and the contractor. While there is no mandatory format for a host country technical services contract, Handbook 11, Chapter 1, Section 4.3 explains the types of information which should be included in the draft. It also discusses the two general formats most often used, i.e., "one-part" and "two-part" contracts. A sample "one-part" host country technical services contract appears in Handbook 11, Chapter 1, Section 5.0.

If the host country and highest ranked firm cannot agree on an acceptable draft contract, the host country tells the firm's representatives that it considers further negotiations useless and terminates the discussion. A.I.D. may retain the right to approve such termination but this is not mandatory. The host country then invites the next highest ranked offeror to submit a cost proposal and repeats the process (Handbook 11, Chapter 1, Section 3.5.3.3).

3. A.I.D.'s Role in the Negotiations (Handbook 11, Chapter 1, Section 3.5.3.1)

A.I.D. is not a party to the contract. This places the Project Officer in an inherently difficult position. Both the host country and offeror will often look to the Project Officer to provide clarifications of A.I.D. requirements or general information. Unless the Project Officer is cautious in providing assistance, however, A.I.D.'s involvement in the negotiations could mislead the offeror to conclude that A.I.D. is a party to the contract. If this was a reasonable conclusion on the offeror's part, A.I.D., together with the host country, could become liable for damages in the event of a contract dispute, breach, or termination (Handbook 3, Supplement B, Section J).

a. Providing Advice - Although the Project Officer must be cautious, he or she must, nonetheless, be prepared to offer counsel and advice to the negotiating parties in the interest of reaching a fair and reasonable contract that meets project needs. The offeror will often ask the Project Officer to explain local laws, regulations, procedures, and customs. Host country officials often ask for clarification of A.I.D. cost principles and administrative procedures. The Project Officer

should carefully document each instance of intervention in the negotiations and place copies of such documentation in the contract files.

As a general rule, the Project Officer should not directly participate in the face-to-face negotiations. The Agency prefers that Project Officers make themselves available for separate discussions, if necessary, with both parties prior to and during the negotiations (Handbook 3, Supplement B, Chapter IV, Section J). Such discussions should be documented and the documentation placed in the files.

There are instances in which the contracting parties ask the Project Officer or other mission officials (e.g., Accounting Officer, Legal Advisor, technical officers) to attend the negotiation. Both the host country and offeror must request the mission personnel's presence. In this case, the Project Officer must act as an "honest broker", making clear to both parties that he or she is present solely to interpret A.I.D. regulations and policies. Mission officials cannot allow themselves to become entangled in the actual bargaining between the contracting parties or give the impression they are accommodating either party.

b. Reviewing Draft Contracts - A.I.D. generally retains the right to review draft contracts, although such review is not mandatory. If it is required, the host country submits a copy of the draft contract to the Project Officer, together with the following documentation:

- An analysis of the cost or price of the proposed contract;
- The selection memorandum discussed above under the Contractor Selection Process, if not already submitted;
- Biographic data of key personnel; and
- Offeror protests and their disposition (Handbook 11, Chapter 1, Section 3.5.5).

The Project Officer must ensure that copies of all of these documents are retained in the contract files.

The Project Officer, and other mission personnel at the Project Officer's request, review the draft and documentation. The Project Officer must ensure that the contracting procedures complied with A.I.D. requirements, and if not done during the Contractor Selection Process, that the contractor does not appear on either the A.I.D. Consolidated List of Debarred and

Ineligible Awardees (Regulation 8, 22 CFR Part 308) or the General Services Administration's List of Debarred, Suspended and Ineligible Contractors. The mission's Contracting Officer should have current versions of these lists. These and other review criteria are discussed in Handbook 11, Chapter 1, Section 3.5.5.2.

c. Approving Contracts - If the contract is acceptable, the Project Officer prepares a contract approval memorandum for the mission Director's signature. This memorandum states that the contract was negotiated in accordance with agreed upon contracting principles, explains any waivers, certifies price reasonableness, and describes any issues which may have arisen during the contracting process (Handbook 3, Supplement B, Chapter IV, Section M).

After the mission Director signs the memorandum, the Project Officer notifies the host country that the draft is acceptable, the parties sign the contract, and the host country forwards a copy of the signed contract to the Project Officer for A.I.D.'s final approval. This final review is mandatory if the total contract amount exceeds $100,000 (Handbook 11, Chapter 1, Section 2.1.1). A.I.D.'s final approval is documented in a Project Implementation Letter which is A.I.D.'s commitment document under this contracting mode. Finally, the Project Officer must ensure that copies of all these documents are placed in the contract files and are forwarded to any mission or A.I.D./Washington offices which will be involved in contract implementation (e.g., mission Accounting Office).

The control objectives of this process are to give reasonable assurance that the host country contract will provide required technical services at a fair price, that the contract will be expeditiously awarded, and that the contractor is capable of performing according to the contract's terms. To achieve these objectives, the Agency uses the following control techniques:

- **Guidance in host country technical services contract preparation found in Handbook 11, Chapter 1, Section 3.5;**
- **Guidance to Project Officers assisting in the contract preparation and award process found in Handbook 3, Supplement B, Chapter IV, Sections J, K, L, and M;**
- **Provisions for mandatory A.I.D. review of host country technical services contracts valued in excess of $100,000, found in Handbook 11, Chapter 1, Section 2.1.1.**

This process is vulnerable in that it is highly dependent upon the host country to adequately analyze potential costs and develop realistic cost estimates. It is also highly dependent upon the Project Officer to identify possible impropriety or mismanagement during or prior to negotiations (e.g., release of cost estimate data to contractors).

F. PAYMENT PROCESS (HANDBOOK 11, CHAPTER 1, SECTION 3.6)

A.I.D.'s policy is to pay contractors on the basis of services performed, goods delivered, or to cover costs already incurred. The Agency will also provide fund advances under certain circumstances, although this practice is officially discouraged. The overriding consideration should be to choose the payment method which:

- Is best suited to implement the given contract and development project efficiently and effectively; and
- Complies with A.I.D.'s cash management policies set forth in Handbook 19, Appendix 1B (Handbook 1, Supplement B, Section 15A).

The three primary payment* methods are direct reimbursement to the host country, a direct letter of commitment to the contractor, or a letter of commitment to a U.S. bank. The precise method will be spelled out in the contract and should result from discussions between mission, contractor and host country officials before the contract is signed. The Project Officer must understand each method so as to be able to explain them to the contracting parties, thus facilitating contract negotiations.

1. Direct Reimbursement to the Host Country (Handbook 11, Chapter 1, Section 3.6.2; Handbook 1, Supplement B, Section 15.B.1.b.1[1])

Under this payment method, the host country pays the contractor from its own funds and is reimbursed by A.I.D. It should, therefore, only be used when the host country possesses sufficient available capital to initially pay the contractor and then wait for A.I.D. to process repayments.

a. Contractor Documentation - The contractor initiates a payment by forwarding a set of documents to the host country. Although the exact documents will be identified in the contract, they will generally include a:

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* Handbook 19, Appendix 1-B, and Handbook 1 Supplement B, Section 15E, refer to these as "methods of financing".

- Contractor's Invoice (Handbook 11, Chapter 1, Section 3.6.6.2). This is a bill or written request for payment provided by a business concern for property or services rendered. Under a cost reimbursement contract, it itemizes the contractor's costs, which may include, for example, salaries, travel, material, and equipment. Under a fixed price contract, it identifies the sections or paragraphs of the contract containing payment terms. A proper invoice under any type of contract should contain basic information, such as shipping and payment terms, as described in Handbook 19, Appendix 1C, Section 4b. The invoice must indicate that the contractor has already incurred costs for the claimed items.

- Contractor's Certificate and Agreement with the Agency for International Development/Invoice and Contract Abstract (A.I.D. Form 1440-3). This document, a copy of which appears in Handbook 11, Chapter 1, Attachment 1L, must be submitted with each payment request (Handbook 11, Chapter 1, Section 2.12.3). It is very important since it will serve as the basis for any claim A.I.D. may have against the contractor in the event of contract breach or failure to comply with A.I.D. requirements. It also specifies that the contractor must retain all business records and other documents supporting the claim for at least three (3) years. This will allow A.I.D. the opportunity to post-audit the claim to verify the accuracy of the compliance certifications contained on the form.

- Supplier's Certificate for Project Commodities (A.I.D. Form 1450-4). This document is only required if the contractor is asking for reimbursement of commodities purchased under the contract and the total value of the commodity purchase exceeds $2,500. This form, executed by the commodity supplier which may be a subcontractor under the prime contract, is a primary control mechanism in the Agency's commodity procurement system. A copy of this form can be found in Handbook 1, Chapter 3, Attachment 3B (see also the discussion of the Commodity Procurement Management Function Payment Process in Chapter 6).

b. **Host Country Documentation** - The host country reviews these documents to ensure that they are complete and properly prepared, pays the contractor, and seeks reimbursement from the mission. It forwards the contractor's documents to the mission together with appropriate additional documents and certifications specified in the Project Agreement or Project Implementation Letter. These will generally include a:

- "Public Voucher for Purchases and Services Other Than Personal" (SF-1034). A copy of this form can be found in Handbook 11, Chapter 1, Attachment 1K.

- "Borrower/Grantee's Certification for Reimbursement". The certification, as it appears in Handbook 11, Chapter 1, Section 3.6.6.4 must accompany each host country payment request.

- "Certification of Performance for Payments Other Than Final", or "Certification of Performance for Final Payment". One of these certifications, as shown in Handbook 11, Chapter 1, Sections 3.6.6.5 and 3.6.6.6 must accompany each payment request.

c. Project Officer Review/Disallowance Procedure - The Project Officer reviews the documentation and administratively approves the payment. The approval, as shown in Handbook 11, Chapter 1, Section 3.6.6.8.a, is written on the original SF-1034. Criteria for the Project Officer's approval are found in Handbook 19, Appendix 3A, Section 5. In addition, the Project Officer must complete and attach a checklist, which appears in Handbook 3, Supplement B, Attachment 2. This checklist explains the basis for the Project Officer's approval, and is intended to give the mission's authorized certifying officer a firm basis for allowing the payment. (see Payment Verification Policy Implementation Guidance Statement No. 7 found in the Assistant to the Administrator for Management's memorandum of December 30, 1983 to all mission Directors).

During the review process, the Project Officer may discover formal or substantive deficiencies in the documentation. The Project Officer notes formal deficiencies (e.g., lack of a necessary signature) in his or her approval statement and passes the documents to the mission Accounting Office. The Accounting Officer decides whether to seek remedial action. Substantive discrepancies (e.g. charges inconsistent with the facts as the Project Officer knows them) must be elevated to the mission or office Director. The Director, or the Director's designee, determines the proper remedial action and apprises the host country of the disputed claim.

A.I.D. officials should never advise a contractor that the Agency has disallowed, or will disallow, any claim before the host country has been informed of the disallowance and has been given the opportunity to seek remedial action from the contractor. If the host country disagrees with the disallowance, or believes remedial action is unnecessary, and if the mission Director is unable to reach agreement with the host

country, the mission Director should refer the matter to the Assistant Administrator of the appropriate A.I.D./Washington Geographic Bureau (Handbook 19, Appendix 3A, Section 8).

After reviewing the payment documents and approving them as appropriate, the Project Officer retains a copy of the documents for the contract files and sends the original documents to the mission Accounting Office. This must be done within five business days of the document's reception at the mission or office (Handbook 19, Section 3.H.2.f.[1][c]).

d. Accounting Officer Review and Payment Certification - A voucher examiner in the Accounting Office initially reviews (desk audits) the documents. This review is a central control point in the payment process. The examiner:

- Determines whether the voucher is adequately supported by appropriate authorizations, documentation, and certifications;
- Reviews the documents and records to prevent duplicate payments;
- Determines when payments are due to ensure compliance with the Agency's prompt payment procedures found in Handbook 19, Appendix 1C*; and
- Determines whether the proposed disbursement complies with laws, regulations, and contract terms (Controller's Guidebook, Chapter 5, Section III).

The mission Accounting Officer relies, to a great extent, upon the competence and expertise of the mission's voucher examiners to ensure that the payments are allowable and do not violate applicable laws and regulations. In practice, most examiners are local national employees. One of the mission Accounting Officer's most important tasks is ensuring that these examiners are adequately trained and are properly following A.I.D. procedures during their reviews. The Accounting Officer must also ensure that obligating, examining, and certifying functions are adequately separated to protect U.S. interests.

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* Host country contracts, unlike direct A.I.D. contracts, are not subject to the Prompt Payment Act. However, while payments are not subject to the Act's interest penalties, the prompt payment standards apply to host country contracts as a matter of A.I.D. policy (Handbook 19, Appendix 1C, Section 3.C).

Following the desk review, the examiner passes the documents to the mission's authorized certifying officer (ACO). This is a person designated to perform specified certifying duties for vouchers to be submitted to the U.S. Treasury Disbursing Office (USDO) for payment, and/or to issue letters of credit. The ACO will generally be the mission's Accounting Officer or the Accounting Officer's nominee. ACO appointments are explained in the Controller's Guidebook, Chapter 5, Section II.G.

A.I.D. and the U.S. Congress place a great deal of responsibility upon ACOs. The Certifying Officer Act (31 USC 82c and 82f), as amended, holds ACOs individually and personally responsible for their actions with respect to voucher certification and certification of letters of credit. The precise extent of this responsibility, and relief from liability, are explained in the Controller's Guidebook, Chapter 5, Section II.

After the ACO reviews the basic voucher and supporting documents, a voucher examiner or other Accounting Office employee prepares a "Voucher and Schedule of Payments" (SF-1166). This disbursing voucher may list payments authorized under several SF-1034s or other basic vouchering documents. The ACO certifies this document for payment and forwards it to the USDO for the mission's region. The individual basic voucher (SF-1034s) and supporting documents are not forwarded to the USDO but are retained in the Accounting Officer's files.

The USDO sends a monthly "Statement of Transaction" to the mission Accounting Office, listing payments made at mission request during that month. The Accounting Office reconciles the mission's records and the USDO's statement, and, eventually, forwards the basic voucher (SF-1034) and supporting documents to the A.I.D./Washington Office of Financial Management, Central Accounting Division (PFM/FM/CAD) for storage (Controller's Guidebook, Chapter 5, Section II.G).

The actual transfer of funds to the host country may be made either by U.S. Treasury check or by electronic transfer as discussed in the Controller's Guidebook, Chapter 19, Section IX.

The direct reimbursement payment method increases the host country's role in managing its contract. It should be used only when the host country possesses the managerial and financial capability to operate under this procedure. The Agency prefers direct reimbursement since, under this method, the mission has the opportunity to review the important transaction documents before funds are released.

2. Direct Letters of Commitment to a Contractor (Handbook 11, Chapter 1, Section 3.6.3; Handbook 1, Supplement B, Section 15B.1.b[2])

The Direct Letter of Commitment (D L/COM) is an agreement between A.I.D. and a contractor hired under an A.I.D.-financed host country contract. A.I.D. agrees to directly pay the contractor for its services upon presentation of certain specified documents.

a. Request for a D L/COM - After discussions with the Project Officer, the host country submits a written request to the mission to issue the D L/COM to the contractor. Based on this request, the language in the Project Agreement, Project Implementation Letters, and awarded contract, the mission or office Accounting Officer issues the D L/COM. The mission Accounting Officer must ensure that any D L/COM he or she issues:

- Designates the mission as the paying office;
- Contains language restricting assignment of the D L/COM only to a bank, as collateral against a loan;
- Contains a provision allowing A.I.D. to "set-off", or reduce, future claims under the document in satisfaction of outstanding bills for collection; and
- Explains A.I.D. payment documentation requirements (Controller's Guidebook, Chapter 19, Sections VI through XII).

An example of a D L/COM standard format can be found in the Controller's Guidebook, Chapter 19, Section XIII.

b. Initiation of Payment - The contractor initiates a payment by forwarding the required documents to the mission. The specific documents will be identified in the D L/COM and are generally the same as those required from the contractor under the host country reimbursement method. In this case, however, the contractor, rather than the host country, completes and forwards the "Public Voucher for Purchases and Services Other Than Personal" (SF-1034). The Project Officer and Accounting Office follow the same review, administrative approval, certification, and reconciliation procedure discussed under host country reimbursement.

The mission Accounting Officer may choose any of five methods for actually transferring U.S. dollars to the contractor. He or she may ask the applicable Regional Finance Center to issue and mail a U.S. Treasury check directly to the contractor or to the contractor's bank, or telegraphically request that the A.I.D./Washington Office of Financial Management arrange for the

U.S. Treasury in Washington to make such a transfer. As a fifth option, the Accounting Officer may ask the Office of Financial Management to arrange for a Treasury/Washington Electronic Fund Transfer directly to the contractor's bank (Controller's Guidebook, Chapter 19, Section IX).

c. Assignment of D L/COM - Contractors generally prefer the D L/COM payment method. Payments are usually prompter and more reliable than under host country reimbursement. In addition, the Assignment of Claims Act (31 U.S.C. 3727; 41 U.S.C. 15) allows the contractor to assign the D L/COM to a bank as collateral for credit, enabling the contractor to increase its working capital. The bank must forward the contractor's letter of assignment and its own letter of acceptance to the Office of Financial Management in Washington, which in turn notifies the mission Accounting Officer. From that point, the contractor will send its required documents to the bank. The bank completes and includes a Form SF-1034 and forwards the entire set of documents to the mission Accounting Officer for each payment. A.I.D. in turn, obligates itself to make payments only to the assignee bank (Controller's Guidebook, Chapter 19, Section X).

3. Letters of Commitment to a U.S. Bank (Handbook 11, Chapter 1, Section 3.6.4; Handbook 1, Supplement B, Section 15.1b[3])

The Bank of Letter of Commitment (L/COM) is an agreement between A.I.D. and a U.S. bank under which A.I.D. authorizes the bank to make payments to a contractor or supplier for eligible services and commodities. A.I.D. reimburses the bank for payments made in accordance with the conditions outlined in the L/COM.

Although A.I.D. may pay for certain services under an L/COM, this payment method is normally restricted to commodity purchases. As described in Chapter 6, this method does not allow A.I.D. to confirm that the contractor has performed satisfactorily prior to payment. Therefore, a mission must provide specific justifications whenever it proposes using an L/COM to finance project services (Payment Verification Policy Statement No. 4 found in the Assistant to the Administrator for Management's memorandum of December 30, 1983, to all mission Directors, entitled Payment Verification Policy Implementation Guidance).

4. Advance Payments (Handbook 11, Chapter 1, Section 3.6.5; Handbook 1, Supplement B, Section 15B.1.c[6])

Advances are payments to a contractor prior to, or in anticipation of, future performance. They are not based on actual performance or incurred costs, and are, therefore, not a preferred payment method with two exceptions--payments to non-profit organizations which do not charge a fee and construction contract mobilization payments.

a. Non-Profit Organizations Which Do Not Charge a Fee - Contractors which are non-profit organizations, such as educational institutions, and do not charge a fee are authorized to receive advances as a standard payment method. To be eligible, however, the organization must demonstrate that it has a financial management system capable of adequately controlling and accounting for U.S. Government funds. Unless a U.S. government or other acceptable audit determines that the system is adequate, the contractor must operate on a cost reimbursement basis (Handbook 11, Chapter 1, Section 3.6.5.2.a).

b. Mobilization Payments - These advances are payments to a construction contractor (or a supplier of specially constructed equipment) to assist in meeting extraordinary start-up costs. The Agency considers such payments advantageous since they enable a larger number of firms to compete for a contract and reduce contract costs. The A.I.D. official who approves the contract solicitation must decide whether mobilization costs should be advanced. If allowed, the solicitation must clearly state that a mobilization advance is available. The Project Officer must then place a copy of the determination in the project files (Handbook 1, Supplement B, Section 15 B.1.c.[5]; Handbook 3, Supplement B, Appendix F, Section C.5).

The Agency generally provides the mobilization advance in a single lump sum payment. The U.S. Treasury has agreed with this departure from normal cash management procedures so long as the bidding process is truly competitive, and A.I.D. receives the benefits of reduced contract costs (Controller's Guidebook, Chapter 16, Section III.D.5.b).

c. Non-Profit Contractors Which Charge a Fee, and "For Profit" Contractors - Non-profit contractors which charge a fee, and profit-making contractors, can also receive advance payments under limited conditions. However, this is not a preferred payment method. Such advances can only be approved by the mission Director or by the A.I.D. Regional Assistant Administrator in Washington, D.C. with A.I.D./Washington Accounting Officer concurrence if the advance exceeds 10 percent of the contract's value, or $1 million (Handbook 11, Chapter 1, Section 3.6.5.4).

In order for a "for fee" or "for profit" contractor to receive an advance:

- The authorizing official must state, in writing, that A.I.D. will benefit from this payment method;

- The determination must be advertised in the Request for Technical Proposals;

- The contractor must post an adequate bond or guaranty; and

- The contractor must demonstrate that it has an adequate accounting system (Handbook 11, Chapter 1, Section 3.6.5.2.c).

In addition, in order to qualify for advances, the contractor must submit to the mission or to A.I.D./Washington its plans for the use and timing of the advances. Further, the contractor must report to A.I.D. regularly on the use of those advances. The reports must demonstrate that:

- The advances are being maintained in amounts commensurate with "immediate disbursing needs";

- Excess balances are promptly returned to A.I.D.; and

- Interest earned on advances of A.I.D. funds has been remitted to A.I.D. (TFM 6-2000; STATE 273219).

The amount of the advance payment to any contractor, whether in dollars or local currency, must be based on an analysis of the contractor's working capital requirements. The analysis should consider the contract reimbursement cycle, and availability of the contractor's own working capital. The mission Accounting Officer will generally attempt to limit the advance to the amount needed for a 30-day period. The advance period may be extended up to 90 days upon the approving official's written determination that the extended period is essential for effective contract implementation (Handbook 11, Chapter 1, Section 3.6.5.3).

The contractor requests an advance by submitting a basic voucher, such as an SF-1034, to the mission Accounting Officer. A mission voucher examiner reviews the request, ensuring that the contract allows the advance payment procedure and that the amount requested complies with the 30-day rule discussed above. The payment is made by U.S. Treasury check.

The contractor then submits periodic SF-1034s to the mission substantiating the use of the advance monies and/or justifying additional or "replenishing" advances. Where the voucher merely liquidates all or a portion of a previous advance, it is labeled "NO-PAY".

A mission voucher examiner reviews the submitted documents to determine whether:

- A "NO-PAY" voucher is simply liquidating an initial advance or if another advance is in order under the terms of the contract;

- Amounts claimed under the "NO-PAY" voucher agree with mission account balances; and

- A voucher dealing with advance monies but not labeled "NO-PAY" is correctly claiming items allowed under the contract and the amount of the requested replenishment meets the 30-day rule (Controller's Guidebook, Chapter 5, Section III.F.5).

The voucher examiner adjusts the mission's Accounts Receivable file to reflect the transaction and schedules the transaction on a certified disbursement voucher (Voucher and Schedule of Payments) headed "No Check Vouchers". The Accounting Office sends this schedule to A.I.D./Washington for retention. If the transaction requires some action by the USDO other than issuing a check, the information from the SF-1034 is placed on the disbursement schedule for payable vouchers with the notation "No check to be drawn" and the schedule is sent to the applicable USDO (Controller's Guidebook, Chapter 5, Section III.G.3).

The control objective of this process is to provide reasonable assurance that A.I.D.-financed payments under host country technical services contracts comply with the Agency's cash management procedures (including the Prompt Payment Act [31 U.S.C. 3901, et seq.]), while also giving reasonable assurance that A.I.D. does not pay for services which the project does not receive, or which are not acceptably performed (See Handbook 19, Appendices 1B and 1C). To achieve this objective, A.I.D. uses the following control techniques:

- Guidance for host country technical services contract payments provided in Handbook 11, Chapter 1, Section 3.6;

- Policy pronouncements on payment methods found in Handbook 1, Supplement B, Section 15.B;

- Voucher examination guidance found in the Controller's Guidebook, Chapter 5;

- Agency cash management procedures found in Handbook 19, Appendix 1B; and

- Agency host country contract payment procedures found in Handbook 19, Chapter 3.

This process is vulnerable since payments are based upon documentation received by the host country and mission, but many contractor records and documents are retained in the contractor's U.S. offices. As a practical matter, A.I.D. rarely reviews those records. This is an area of

particular vulnerability when the technical services contractor procures commodities under its contract, since most records concerning the choice of subcontractors and actual commodity purchases will be retained by the contractor.

The process is also vulnerable in that it is highly dependent upon the technical expertise and competence of mission voucher examiners. Mission management must devote adequate resources to training and supervising these personnel, and to ensuring that duties are segregated to reduce the possibility of improper diversion of funds.

G. HOST COUNTRY CONTRACT ADMINISTRATION AND MONITORING PROCESS

The host country has the primary responsibility for ensuring that the contractor performs according to its contract terms. Mission officials also have certain responsibilities for contract administration. These may include receiving and approving payment documents; reviewing and approving subcontracts, change orders, or amendments; and waiving marking, source, and origin requirements. The nature and extent of these responsibilities will be spelled out in the contract.

The Project Officer has primary responsibility for monitoring contract implementation, ensuring that the contractor's performance is evaluated, and closing-out A.I.D.'s relationship with the contractor. Although A.I.D. is not a party to the contract, the Agency must use every reasonable safeguard to ensure that public funds are expended according to statutory and administrative requirements, and that services and commodities are delivered and used properly. Effective monitoring and evaluation also allow the mission to anticipate and help resolve contract implementation problems before they become major crises.

1. Contract Monitoring

Monitoring a host country contract is the set of procedures whereby a designated A.I.D. Project Officer observes and reports upon the activities and performance of the host country and contractor personnel during contract implementation. Monitoring commences with the signing of the technical services contract and terminates with the contract's closure. The Project Officer documents the procedure by maintaining a contract monitoring file for each host country contract. This file, which supplements the mission's official project file, should have been established during the contract-type selection process and should contain:

- An analysis of the host country's procurement capabilities;
- The project procurement plan;

- The contract monitoring plan;
- A copy of the Project Agreement;
- Project Implementation Letters relating to contracting and procurement;
- Financial, progress, shipping and other reports;
- Relevant memoranda, letters, cables, etcetera; and
- A copy of the host country contract, its amendments, changes, and related correspondence (Handbook 3, Supplement B, Chapter VII, Section Q).

It is extremely important that this file be current and properly maintained. It serves as a basic management tool as well as an "institutional memory" for mission personnel and evaluators who may not have been familiar with the contract from its inception.

The Project Officer develops a monitoring schedule or checklist for measuring compliance with the contract's terms. Although there is no uniform monitoring schedule or standard checklist format, the schedule should be keyed to specific major events and requirements of the contract. These include arrival of key personnel, provision of logistical support for the contractors, disbursement schedules, procurement and installation of equipment, submission of contractor reports, proposed site visits, and joint host country/contractor/mission progress reviews. Handbook 3, Supplement B, Appendix H contains a contract monitoring task list summarizing the Project Officer's and host country's monitoring responsibilities. The Project Officer can use this list, and the project implementation and progress monitoring checklist found in Handbook 3, Appendix 11A, when developing the contract monitoring system.

Project Officers sometimes record and transmit the results of their contract monitoring efforts through status reports to the mission Director. These reports are generally provided upon the mission Director's request or under guidance set forth in a Mission Order.* Drawing upon contractor and host country reports, site visits, and independent analyses, the Project Officer attempts, through status reports, to provide mission management with "a frank and objective

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* A Mission Order contains mission-specific procedural guidelines. Complete sets can generally be found in a mission's Executive and/or Program Office.

assessment of the contract's current status", as well as a discussion of actual and potential problem areas. Handbook 3, Supplement B, Appendix G provides a sample format for these reports. Copies of all status reports should be retained in the contract or project files.

While the contract files and monitoring checklist provide a structured approach to monitoring, the Project Officer can use a variety of monitoring tool or techniques to oversee contractor operations. These include: periodic meetings and discussions with contractor and host country personnel, analysis of contractor reports, site visits, and reviews of payment documentation (which was discussed above under the Payment Process).

a. Meetings and Discussions - Periodic meetings between the Project Officer and contractor personnel are an effective monitoring technique. The Project Officer must be cautious in dealing with the contractor, however, since A.I.D. is not a party to the contract. Contract status review meetings with contractor personnel should be keyed to planned completion of major events or activities under the contract. Host country representatives should attend these meetings.

   Project Officers must emphasize that they are available to assist contractors with matters such as payment processing and interpretation of A.I.D. regulations, while refraining from adversely affecting relations between the contractor and host country. This is an inherently difficult role and requires tact and patience by the Project Officer.

   The Project Officer must document such discussions in summary memoranda, copies of which are provided to the mission Director, if warranted, and also placed in the contract file (see Handbook 3, Supplement B, Chapter II, Sections B, C, D and E).

b. Contractor Reports - The Project Agreement, Project Implementation Letters, and host country contract should describe the type, content, and recipients of contractor reports. The Project Officer should ensure that he or she receives copies of all contractor status reports, and copies of any other reports (e.g., financial, shipping) which the contractor submits to the host country.

   Contractor reports are an important monitoring tool. The Project Officer should review each report for adequacy and responsiveness, particularly for their discussions of progress toward planned targets and identification of actual or potential problem areas. The Project Officer should bring any

deficiencies in these reports to the contractor's and host country's attention and document these discussions by memoranda to the contractor and mission Director. Copies of such memoranda should be placed in contract or project files (Handbook 3, Supplement B, Chapter VII, Section M).

c. Site Visits and Inspections - For most contracts, site visits can be the Project Officer's most effective oversight tool. As stated in Handbook 3, Supplement B, Chapter VII, Section N, "[T]here is simply no substitute for personal observation of the work site to enable the Project Officer to obtain first-hand impressions of the contractor's progress and to identify incipient problems which may adversely affect the contractor's performance unless remedied".

The frequency of site visits will vary with contract complexity and urgency of problems, availability of travel funds, and demands on the Project Officer's time. As a general rule, the Project Officer should schedule site visits to coincide with inspections by host country officials and should notify the contractor of an upcoming visit. The Project Officer should plan the visit to effectively use the limited time available for this task and should document the results of the inspection immediately upon completion of the visit. Handbook 3, Appendix 11C contains guidance for preparing site inspection reports and a sample report format. Certain missions have also issued Orders providing more detailed instructions for conducting and documenting inspections. Copies of site visit reports should be placed in the contract files.

2. Monitoring Incidental Commodity Procurement

Most host country technical services contracts will contain a budget line item requiring the contractor to purchase commodities, which are defined in Handbook 1, Supplement B, as "any material, article, supply, goods, or equipment." Such commodities will generally be either incidental to the project or required to enable the technical services contractor to fulfill its primary responsibilities (e.g., laboratory equipment).* For some missions, such procurements may provide a substantial percentage or even a majority of all commodities purchased for their bilateral projects.

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* A Procurement Services Agent, while also a technical services contractor, is hired for the exclusive purpose of managing a procurement.

The host country awards and manages the technical services contract but generally allows the contractor considerable flexibility in acquiring the needed commodities. This is particularly true when the contractor is operating under a fixed-price contract.

a. Commodity Procurement Under a Fixed-Price Contract (Handbook 11, Chapter 1, Section 4.3.24.b.2) - The standard A.I.D. procurement rules and guidance for commodity purchases under host country contracts, found in Handbook 11, Chapter 3, do not apply to commodity procurements by contractors when the cost of the commodities is included within a fixed price prime contract. Under such circumstances, the applicable procurement requirements must be included in the prime contract pursuant to either Handbook 11, Chapter 1, if acquiring technical services, or Chapter 2, if acquiring construction services (Handbook 11, Chapter 3, Section 1.1.c.1).

   Under a fixed-price contract, the contractor procures the commodities according to its own procedures. However, A.I.D. insists that certain requirements be included in the prime contract. These are:

   - Nationality and source requirements as set forth in Handbook 11, Chapter 3, Section 2.13.2;
   - Marking requirements as set forth in Handbook 11, Chapter 3, Section 2.13.5; and
   - Vesting of Title and Diversion Rights as set forth in Handbook 11, Chapter 3, Section 2.13.9.

b. Commodity Procurement Under a Cost-Reimbursement Contract (Handbook 11, Chapter 1, Section 4.3.24.b.1) - Under cost-reimbursement prime contracts, where the amount which A.I.D., through the host country, pays for the commodities is the actual cost of the items, the contractor is normally required to act in accordance with Handbook 11, Chapter 3. In most cases, that chapter will be incorporated into the prime contract by reference. The mission Director may, however, waive the application of that chapter in its entirety if:

   - The procurement will be merely incidental to the contractor's primary work; and
   - The purchase is of relatively low total value (Handbook 11, Chapter 3, Section 1.1.c.3).

If a mission Director waives the requirement to use Handbook 11, Chapter 3 in its entirety, the Project Officer must ensure that certain provisions are included in the prime contract. They are:

- Nationality and source requirements, as discussed in Handbook 11, Chapter 3, Section 2.13.2;

- Requirements that commodity suppliers provide executed copies of A.I.D. Form 1450-4: "Supplier's Certificate and Agreement with A.I.D. for Project Commodities/Invoice and Contract Abstract", as discussed in Handbook 11, Chapter 3, Section 2.13.4;

- Marking requirements, as discussed in Handbook 11, Chapter 3, Section 2.13.5; and

- Vesting of Title and Diversion Rights, as discussed in Handbook 11, Chapter 3, Section 2.13.9.

c. A.I.D.'s Role in Monitoring Commodity Procurements (Handbook 3, Supplement B, Chapter VII, Section F) - The host country has primary responsibility for monitoring the contractor's activity to ensure it is complying with the terms of its contract. It is the Project Officer's responsibility to ensure that the contract contains all required provisions and to verify that the contractor is following those provisions.

To the extent necessary, the Project Officer should assist the host country in developing a procurement schedule, reporting mechanisms, and a monitoring checklist for these purposes. This checklist, which should also be used in modified form by the Project Officer when performing his or her monitoring duties, should include all details relevant to each procurement transaction. These may consist of information on shipping and inland transportation to the work site, inspection and testing, documentation, etcetera. Handbook 3, Chapter 11, Appendix 11E contains further guidance for establishing a monitoring system which may be adapted to commodity procurement and utilization.

Both host country officials and the Project Officer will face a particular problem when attempting to monitor contractor conformance with A.I.D.'s nationality and source requirements. In most cases, the commodities will be purchased from suppliers under subcontracts. The subcontracting documentation will generally be kept in the prime contractor's U.S. offices. A.I.D. rarely reviews these documents. The Project Officer must, therefore, generally rely on certifications, shipping documents, and on-site inspections when monitoring compliance with these rules.

3. **Evaluation**

A.I.D. defines evaluation as "the general process, and specific activities, undertaken to analyze and assess the performance and results of projects, programs, policies, and/or procedures" (Handbook 3, Section 12.B.1). The Project Officer and mission Evaluation Officer* must ensure that projects are evaluated in compliance with Handbook 3, Chapter 12 requirements. As explained in that chapter, evaluations may occur at various points during a project's lifetime.

As part of their evaluation responsibilities, Project Officers prepare, or help to prepare, an "A.I.D. Evaluation Summary" form which replaced the "Project Evaluation Summaries" as the Agency's preferred evaluation reporting instrument (Supplement of Handbook 3, Chapter 12, Section 3.7.2). Since contract implementation and contractor performance can have a substantial effect upon project implementation, these summaries must include some discussion of each contract's relevance to, and effect upon, the project's goals and objectives. As the contract monitor, the Project Officer is the logical official to assess contractor performance for incorporation into the summary (Handbook 3, Supplement B, Chapter VII, Section Y).

4. Contract Termination and Close-Out

When a host country technical services contract ends, the contract must be "closed out" in an orderly fashion, as stated in the contract. In general, closing-out a host country contract will involve reviewing the contractor's final voucher, paying remaining valid claimed costs, and ensuring that the contract file contains all the documentation, such as releases, certifications, and audit findings called for by the contract.

Most host country contracts end at the termination date stated in the contract. In this case, the Project Officer must ensure that final payment to the contractor is withheld until the contractor provides evidence that it has met all of its contractual obligations, and all required certifications, including acceptance of the work by the host country, have been executed (Handbook 11, Chapter 1, Section 3.6.6.6; Handbook 11, Chapter 1, Section 4.3.14). The Project Officer must also ensure that copies of all such documents are placed in the contract file (Handbook 3, Supplement B, Chapter VII, Section X).

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* Most mission Directors designate a member of the mission's Program or technical staff to assume the subsidiary role of Evaluation Officer.

Standard host country contract provisions enable either the host country or the contractor to bring a contract to a close before the stated termination date under certain conditions.

a. Termination by the Host Country for Default (Handbook 11, Chapter 1, Section 4.3.33) - The host country may terminate the contract for default if the contractor fails to fulfill the contract's terms.

b. Termination by the Host Country for Convenience (Handbook 11, Chapter 1, Section 4.3.34) - The host country may terminate the contract when desirable, although the contractor has fulfilled the contract's terms, or is prevented from fulfilling them by circumstances beyond its control. Conditions leading to termination for convenience might include project cancellation or a "force majeure" event (see Handbook 11, Chapter 1, Section 4.3.31). As with termination for default, the contract will explain the contractor's rights and obligations upon receiving a termination notice.

c. Termination by the Contractor for Nonpayment (Handbook 11, Chapter 1, Section 4.3.35) - The contract may give the contractor the right to terminate the contract if its invoices are not processed reasonably promptly, resulting in delayed payments. In practice, such delays often arise because the host country has failed to forward its "Certification of Performance for Payment Other Than Final" to the mission. For this reason, as an alternative to the termination for nonpayment provisions, host country contracts may contain a provision allowing A.I.D. to make such payments after a given period of time following voucher submission to the host country (e.g., 30 days). The host country may prevent the payment by forwarding a "Certification of Nonperformance" of specific items to the mission within that time period (Handbook 11, Chapter 1, Section 3.6.6.5).

Whenever a host country contract is prematurely terminated, the Project Officer must ensure that A.I.D.'s rights are protected, its obligations are satisfied, and the termination procedure complies with the contract's provisions. The Project Officer must also ensure that any termination costs claimed by the contractor are accompanied by:

- A written justification by the contractor supporting in detail the claimed charge; and

- The host country's written concurrence to the contractor's claim; or

- o A certified copy of an arbitration award (Handbook 11, Chapter 1, Section 3.6.6.7).

Following the final payment and insertion of all relevant documents into the contract file, the Project Officer closes the file and retains or transfers the file according to mission procedures.

The control objectives of this process are to provide reasonable assurance that A.I.D.-financed technical services are provided in a timely, effective, and efficient manner; that contractors are adequately evaluated so as to provide a documentary history of their performance; and that the rights and obligations of the host country, contractor, and U.S. Government are adequately considered when contracts end. To achieve this objective, A.I.D. uses the following control techniques:

- o Monitoring guidance for Project Officers found in Handbook 3, Supplement B, Chapter VII;
- o Guidance to Project Officers for conducting site visits and reviewing project and contractor reports provided in Handbook 3, Chapter 11;
- o A.I.D. incidental commodity procurement requirements found in Handbook 11, Chapter 1, Section 4.3.24.b;
- o Guidance for Project Officers monitoring incidental commodity procurement found in Handbook 3, Supplement B, Chapter VII, Section F;
- o Evaluation guidance provided in Handbook 3, Chapter 12, and Handbook 3, Supplement B, Chapter VII, Section Y;
- o Contract termination guidance provided in Handbook 11, Chapter 1, and Handbook 3, Supplement B, Chapter VII, Section X; and
- o Voucher review and processing procedures discussed above under the Payment Process.

The contract administration and monitoring process is vulnerable since it is highly dependent upon Project Officer initiative and resources. The Agency provides its Project Officers with a great deal of flexibility in developing and maintaining contract monitoring systems. There are very few mandatory monitoring requirements, other than administrative approval of payment vouchers, placed on Project Officers. Since the Project Officer has many duties and responsibilities, including, in many cases, multiple projects and contracts in his or her monitoring portfolio, there may be a tendency to rely heavily upon contractor reports, rather than time-consuming site

visits, to oversee contractor operations. Auditors should review these reports as part of any project audit. Past audits have consistently found that contractor status reports do not adequately address progress toward planned targets, and may only peripherally address contract implementation problems. Alternatively, there is an inherent danger that a Project Officer will become so involved in contract implementation that he or she will interfere with the host country's management prerogatives.

Auditors should also review site visit reports and procedures during any project-related audit. Past audits have found that Project Officers, or other mission personnel conducting site visits, do not consistently conduct inspections efficiently and effectively. Many site visits, or at least the reports of such site visits, are superficial, lacking, for instance, an organized attempt to measure contractor progress against targets or benchmarks, or an attempt to test or review contractor receiving and accounting records.

The process is also vulnerable because Project Officers receive very little written guidance for evaluating contractor performance. The A.I.D. Evaluation Summary lists contractors performance as only one of several areas for review during an evaluation. The Project Officer is responsible for preparing written contract status reports as requested by the mission Director (Handbook 3, Supplement B, Chapter VII, Section O). In practice, these reports are rarely produced, since Project Officers have numerous demands on their time and mission Directors are generally satisfied with oral reports of contractor performance.

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CHAPTER 4

TECHNICAL SERVICES PROCUREMENT MANAGEMENT UNDER DIRECT A.I.D. CONTRACT

This chapter discusses A.I.D.'s technical services procurement system for bilateral assistance projects when A.I.D., rather than the host country, is the contracting party. Most of the basic policies and many of the procedures used under this contracting mode are similar to those used under host country contracting. However, whereas host country procurements are governed by the relatively flexible procedures contained in Handbook 11, direct A.I.D. project procurements must follow U.S. Government-wide regulations contained in the Federal Acquisition Regulation (FAR) and companion A.I.D. Acquisition Regulation (AIDAR). These are found in Handbook 14, Volumes 1 (FAR) and 2 (AIDAR).

The mission or office Director's decision to have A.I.D. directly contract for project services will generally be based on a decision by mission personnel either that the host country does not possess the ability to adequately control and account for A.I.D. funds or that relative costs favor direct procurement. Alternatively, the host country may ask the mission to manage the procurement on its behalf. Project designers should have performed this analysis before the Project Agreement was signed, and included this analysis in the Project Paper's procurement plan. A description of this plan and the factors to be considered in its development are found in Handbook 3, Appendix 3H, and are discussed in detail in Chapter 3.

The mission Project Officer and the A.I.D. Contracting Officer (either at the mission or in A.I.D./Washington) assume central roles under direct contracting. The Project Officer will be closely involved in the entire contracting procedure from development of the Project Implementation Order/Technical Services, to monitoring contractor activity and "closing out" the contract. The Contracting Officer is the A.I.D. official who develops, awards, and signs the contract on A.I.D.'s behalf (See CONTRACT INFORMATION BULLETIN 88-7, dated February 11, 1988 for a description of Contracting Officer responsibilities).

A. CONTRACTOR-TYPE SELECTION PROCESS

Following the mission or office Director's decision that A.I.D. should procure technical services for a project, the next decision-making process will generally be determining the type of contractor. Technical services will normally be obtained from professional "for-profit" firms. A.I.D.'s procedures for choosing such contractors are discussed under the Contract Award Process. However, A.I.D. missions can also acquire needed services through personal services contracts, agreements with other U.S. Government Agencies, agreements with schools and universities, contracts with small and/or disadvantaged businesses, and so called "buy-ins" to A.I.D./Washington contracts. These five extraordinary technical services sources are discussed below.

The Project Officer, Contracting Officer, and host country officials will generally reach the contractor-type decision by mutual agreement. The Contracting Officer may also reach this decision as a result of the Contract Award Process. The mission or office Director is ultimately responsible for approving the type of contractor chosen.

1. Personal Services Contracts (FAR 37.104; AIDAR Appendices D and J)

A "personal services contract" (PSC) is a contract which establishes an employee-employer relationship for the performance of services personally by the contractor. U.S. Government Agencies can only award personal services contracts if specifically authorized by statute (FAR 37.104[b]). A.I.D. may hire U.S. citizens, U.S. resident aliens, cooperating country nationals, and third country nationals under personal contracts to provide project services.* However, Section 636(a)(3) of the Foreign Assistance Act (22 U.S.C. 2396[a][3]) limits A.I.D.'s personal services contracting authority solely to services abroad. Other limitations on personal services contracts are listed in Handbook 14, Volume II, Appendix D, Section 4.b.

The Project Officer requests a personal services contractor by drafting a Project Implementation Order/Technical Services (PIO/T). The PIO/T must state, among other things:

- The specific locations where the work will be performed;
- Contract length;
- Desired skills and educational level;
- Basic salary and allowances;
- Host country support (e.g., housing); and
- A justification if the PSC will provide consulting services (AIDAR, Appendix D, Section 5.a.).

The Project Officer passes the PIO/T to the Contracting Officer. Since PSC awards need not follow A.I.D.'s standard competitive procurement procedures, the Contracting Officer prepares and

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* A.I.D. can also fund host country contracts with individuals for project services. The rules and guidances for host country personal services contracts are found in Handbook 11, Chapter 1, Annex A.

advertises solicitations, receives standard Federal Government employment application forms (SF-171s) or comparable documents from potential contractors, and passes the forms to the Project Officer for evaluation. The Project Officer or review panel, with or without the Contracting Officer's assistance, may interview prospective contractors. The Contracting Officer negotiates the contract based on the Project Officer's or panel's evaluation, concentrating upon salary and compensation considerations.

The Contracting Officer must ensure, among other things, that:

- The proposed contract is within his or her delegated authority;
- The proposed scope of work is contractible (i.e., does not present a conflict of interest, or involve a proscribed procedure such as supervision of A.I.D. direct-hire employees); and
- The contract is complete and correct.

A more complete description of the Contracting Officer's duties and responsibilities when contracting for personal services with U.S. citizens or U.S. resident aliens is found in AIDAR, Appendix D, Sections 5, 6, and 7. Sections 10, 11, 12, and 13 of that AIDAR Appendix illustrate a standard personal services contract with U.S. citizens and resident aliens.

Personal services contracts with cooperating country and third country nationals generally follow the same procedures, although biographical documentation forms, methods for determining compensation, and certain other procedures may differ. A complete description of personal services contracting with cooperating and third country nationals is found in Handbook 31, and in AIDAR Appendix J. The standard format for these contracts can be found in Sections 10, 11, 12, 13, 14, and 15 of that AIDAR Appendix.

2. <u>Agreement with Other U.S. Government Agencies</u> (Handbook 12)

A.I.D. may obtain project technical services from other U.S. Government agencies through Participating Agency Service Agreements

(PASA's).* This form of procurement falls under the rules set forth in OMB Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government," and Section 621(a) of the Foreign Assistance Act.

a. Circumstances Justifying PASA Procurement - The OMB Circular precludes the use of services or products of one Federal Agency by another unless:

- There is no satisfactory source available from the private sector; or
- There is a formal program established for managing excess capacity, such as the automated data processing sharing program managed by the General Services Administration; or
- A cost comparison analysis determines that it is more economical to obtain the services (or products) from another Agency than from a private source (Handbook 12, Section 1.B.2.a).

Section 621(a) of the Foreign Assistance Act (22 U.S.C. 2381), however, provides for an exception to the Circular. It provides that:

> "In such fields as education, health, housing or agriculture, the facilities and resources of other Federal agencies shall be utilized when such facilities are particularly or uniquely suitable for technical assistance, are not competitive with private enterprises, and can be made available without interfering unduly with domestic programs."

A.I.D. applies a strict interpretation to the FAA exception. To obtain PASA services, A.I.D. must demonstrate that the particular Federal Agency is "clearly and substantially"

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* Other Federal Agencies also provide technical services to A.I.D. under Resource Support Services Agreements (RSSA's). These are agreements funded through A.I.D/Washington to obtain continuing general support assistance having a broad objective but no specific readily measurable task to be accomplished within a set time period. Since RSSA's are generally Washington-based, they are not included under the Contractor-Type Selection Process. However, the auditor should be aware of their existence. RSSA policy and procedures are included in Handbook 12.

superior to private enterprise on cost or technical grounds (Handbook 12, Section 1.B.2.b).

A.I.D. has signed General Agreements with the U.S. Departments of Agriculture, Commerce, Health and Human Services, Interior, and Labor, and with the General Services Administration. A.I.D. calls these organizations "Participating Agencies" (PA's) since they participate in the A.I.D. Program. Individual PASA's are signed under the authority of these General Agreements. In actual practice, the Departments of Agriculture, Health and Human Services (especially the Centers for Disease Control), and Interior provide most PASA services.

b. Procuring the PASA - The Project Officer begins the PASA procedure by drafting a PIO/T for the mission or office Director's signature. The PIO/T must explain why the proposed Participating Agency is unique or particularly suited to provide the desired services. The mission Director must include a statement that:

> "The proposed agreement is exempt from the provisions of OMB Circular A-76 because (1) it is for the provision of technical assistance, and (2) the facilities and resources of the other Federal Agency are particularly or uniquely suitable for the technical assistance to be provided, and the services are not competitive with private enterprise".

If this statement does not appear, OMB Circular A-76 procedures apply (Handbook 12, Section 1.B.2.c).

The Project Officer forwards the PIO/T to the Office of Procurement (M/SER/OP) in Washington. M/SER/OP negotiates, prepares and issues the PASA. An example of the PASA standard form (A.I.D. Form 2-2) is found in Handbook 12, Attachment A.

The Participating Agency provides both long- and short-term employees from its own employment rolls. The Participating Agency chooses the particular staff members to assign to the A.I.D. project, although missions normally reserve the right to review the PASA's* qualifications prior to arrival in-country. Nominees are also normally approved by the

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* The Participating Agency employee working under a Participating Agency Service Agreement is generally referred to as "a PASA".

backstop officer in A.I.D./Washington (Handbook 12, Section 1.C.). PASA's are generally authorized for one fiscal year and renewed on a yearly basis thereafter for the life of the project (Handbook 2, Section 1.B.4.b). Once in-country, the PASA is treated as an A.I.D. direct-hire employee (Handbook 12, Section 1.C.1).

c. **Monitoring the PASA** - M/SER/OP maintains files on assigned Participating Agency technicians. It is, however, the responsibility of the Participating Agency to keep A.I.D. informed of the location of its employees on duty with A.I.D. The Participating Agency should provide A.I.D. with both quarterly and semiannual reports containing this information. Each A.I.D. Bureau or Office must also send a monthly report to M/SER/OP on the PASA's assigned to its work area (Handbook 12, Section 1.C.5).

The Project Officer monitors the PASA's in-country work and administratively reviews and approves each Participating Agency request for PASA reimbursement (see the discussion of the Payment Process). Payments to the Participating Agency are made, however, by the A.I.D. Office of Financial Management in Washington (Handbook 12, Section 1.B.1.b[2][b]). It is A.I.D.'s policy to charge all PASA costs to program funds (Handbook 12, Section 1.B.3).

Handbook 12 gives detailed guidance on PASA procurement and management. The auditor should take particular note of any subcontracting performed under a PASA. Presumably, PASA's are provided from a Participating Agency's excess capacity. Therefore, subcontracting under the PASA should be rare. Requests for PASA subcontracts must be carefully reviewed by the Project Officer and submitted to M/SER/OP for approval. Generally, a direct A.I.D. contract for the required services is preferable since it enables A.I.D. to retain greater control over the procurement and avoids payment of Participating Agency overhead (Handbook 12, Section 1.B.2.e).

3. **Educational Institution Contracts** (Handbook 1, Supplement B, Section 12.B.2.e; Policy Determination No. 4 found in Handbook 1, Section IV; Handbook 3, Supplement B, Chapter II, Part B, Section 2.B.1; AIDAR 715.613-70, 715.613-71).

Congress has encouraged A.I.D. to use U.S. educational institutions, especially so-called "land-grant" colleges and universities when implementing agricultural and food-related projects.*

a. Title XII and BIFAD - Title XII, Section 296 of the Foreign Assistance Act (22 U.S.C. 2220a) states that:

> "(T)he United States should strengthen the capacities of the United States land-grant and other eligible universities in program related agricultural institutional development and research, ... should improve their participation in the United States Government's international efforts to apply more effective agricultural sciences to the goal of increasing world food production, and in general, should provide increased and longer term support to the application of science to solving food and nutrition problems of the developing countries."

Section 298 of this Act (22 U.S.C. 2220c) established a permanent Board for International Food and Agricultural Development (BIFAD) to help A.I.D. administer Title XII. The President of the United States appoints the seven board members, at least four of whom must be selected from participating universities. A.I.D. in turn, provides BIFAD with a support staff (BIFAD/S) to assist it in developing program and policy recommendations, and in dealing with

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* Title XII procedures actually restrict competition to land and sea-grant universities, other eligible U.S. colleges and universities, international agricultural research centers, and consortia composed predominantly of those types of institutions. Most Title XII activity will involve individual U.S. land-grant colleges and universities (Handbook 3, Supplement B, Chapter II, Part B, Section 2.B.1). It should be noted that the U.S. General Accounting Office (GAO) disagrees with A.I.D.'s reading of Title XII. The GAO has stated that Title XII does not "expressly authorize" any exception to the competitive procurement requirements of the Competition in Contracting Act, therefore A.I.D. should not be restricting competition in its Title XII Program. Further, GAO was concerned that A.I.D. procedures improperly disregard price as an evaluation criterion when awarding contracts under Title XII (GAO/NSIAD-89-38 of April 11, 1989 entitled Issues Concerning U.S. University Participation).

participating universities (see Handbook 17, Chapter 7 for an explanation of BIFAD and BIFAD/S operations).

A mission can request university participation and technical assistance under Title XII by using either of two procedures--the general procedure, or under a collaborative assistance contracting system.

b. Procurement Under the General Procedure - Under the general procedure, a mission evaluation panel must determine that a project can appropriately acquire technical assistance under Title XII. The evaluation panel will generally be headed by a Project Officer. The mission Director certifies that the activity is eligible under Title XII.

The Project Officer then prepares a memorandum for the Contracting Officer. The Memorandum contains selection criteria for evaluation of eligible institutions for use in preparing the source list, determining qualified sources, and selecting the contractor. It also contains a list of eligible institutions considered qualified to perform the proposed activity or to provide technical expertise, a statement of work, estimate of personnel requirements, and any other information the Contracting Officer will need to develop a Request of Technical Proposals (see Contract Award Process). Finally, it also incorporates the mission Director's certification of eligibility. The Project Officer sends the memorandum and a PIO/T to the Contracting Officer (AIDAR 715.613-70[c][2]). The procurement thereafter follows standard Agency procedures (see AIDAR 715.613-70[c][3]). These procedures include synopsizing the proposed contract and advertising its availability in the Department of Commerce's Commerce Business Daily (FAR 5.201). The Contracting Officer forwards copies of the Request of Technical Proposals to each institution on the source list and each institution responding to the advertisement. Any educational institution may submit proposals and compete for the contract. Awards have not been limited to land-grant institutions. Schools not noted for their agricultural departments (e.g., "Ivy League" schools) have received contracts under Title XII.

c. Procurement under the Collaborative Assistance Procedure - A.I.D. developed the collaborative assistance system to increase the joint implementation authority and responsibility of the contractor and the host country. The system was designed to provide long-term, high quality technical

assistance over a project's entire life-span, while minimizing A.I.D. involvement in project design and implementation (AIDAR, Appendix F).

The collaborative assistance concept is fundamentally different, although the contracting procedure is similar to that described above. Under the general procedure, A.I.D. is hiring an educational institution or research organization to provide technical services for an ongoing project. Under the collaborative assistance concept, A.I.D. hires a college or university to assist the host country in developing, implementing and evaluating a project (AIDAR 715.613-71[b][i]).

A collaborative assistance project differs fundamentally from a standard A.I.D. development project in the degree of management and oversight undertaken by the mission. Prime contractors are selected earlier in the project process, have greater responsibilities and duties, and are given much more flexibility in running their operations than under most A.I.D. projects. These contracting implications are discussed in detail in AIDAR, Appendix F, Section 4.d. Nevertheless, its withdrawal from day-to-day involvement in the project does not mean that the mission relinquishes monitoring responsibility. A.I.D.'s continuing oversight responsibility under the collaborative assistance system is discussed in AIDAR, Appendix F, Section 4.e.

Under the collaborative assistance form of procurement, the contract is awarded before the project design is completed. Mission personnel and host country officials initially analyze a problem and identify a potential project.* This preliminary step should result in a clear understanding of host country desires, and an overall plan which includes agreement on specific objectives or outputs, acceptable types of activities, and an initial budget. The Project Officer makes a preliminary finding that the activity is authorized under Title XII and should be classed as collaborative assistance.

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* The mission and host country may use a contractor to help in this formulation, but must then take precautions to ensure that the contractor does not receive preferential treatment during the process awarding the subsequent design/implementation contract (AIDAR, Appendix F, Section 4.C.1).

A mission evaluation panel, headed by a Project or Technical Officer, reviews the proposed project and determines whether the activity should be implemented as a collaborative assistance project. It then prepares selection and evaluation criteria, and a list of eligible and qualified institutions. The panel evaluates the schools on the list to determine the most qualified sources. Attachment B to Policy Determination No. 4 (PD-4) contains criteria for evaluating a school's ability to participate in this type of activity.

In practice, evaluation panel members rely heavily on "word-of-mouth" information or prior experience and general knowledge in identifying qualified institutions. Members are, themselves, likely to have attended schools with agricultural, forestry, or similar programs. Their choices need not be limited to land-grant colleges, or schools generally noted for strong agricultural or similar departments. The panel members can also call upon BIFAD/S and the Office of Research and University Relations in the A.I.D./Washington Bureau for Science and Technology (S&T/RUR) for additional help in identifying qualified institutions (PD-4, Section 6).

The panel chairman prepares a memorandum for the Contracting Officer, asking the latter to prepare a "Request for Expressions of Interest" (REI) from qualified sources. The memorandum also sets forth the mission Director's certification, evaluation criteria, and recommended source list (AIDAR 715.613-71[e][3]).

The Contracting Officer prepares the REI, ensuring that it contains the descriptive and explanatory information described in AIDAR 715.613-71 [3][4]. He or she sends copies of the REI to the sources recommended by the panel, and to any others deemed appropriate. The REI is also synopsized and advertised in the Commerce Business Daily. Guidelines for preparation of the REI are contained in AIDAR Appendix F, Attachment 1.

The Contracting Officer forwards Expressions of Interest to the evaluation panel for review. The panel chairman documents the panel's selection decision in a written recommendation and justification for the Contracting Officer. The Contracting Officer proceeds with the procurement as discussed under the Contract Award Process (AIDAR 715.613-71[e]).

4. **Small Business and Small and Disadvantaged Business Contracts** - (FAR Part 19; AIDAR Part 719)

Congress has encouraged A.I.D. to use small businesses when procuring services and commodities. Section 602 of the Foreign Assistance Act (22 U.S.C. 2352) states that:

> "Insofar as practical and to the maximum extent consistent with the accomplishment of the purposes of this Act, the President shall assist American small businesses to participate equitably in the furnishing of commodities ... and services ... financed with funds made available under this Act ...."

This section goes on to give A.I.D. more detailed instructions for encouraging small business utilization. As a result, A.I.D. has established procedures for various "set-aside" programs designed to encourage small businesses in general, and small and disadvantaged businesses in particular, to participate in A.I.D. procurements.

a. Small Business Set-Aside Program (FAR 19.5) - A "set-aside for small business" is the reserving of a procurement, or a class of procurements (FAR 19.503), exclusively for participation by small business concerns as defined at FAR 19.001. It is A.I.D. policy that this program be implemented by all A.I.D./Washington contracting activities (AIDAR 719.270[d]).

   Project Officers take the initial action in this set-aside program. When formulating or designing programs or projects requiring contracting, the Project Officer should consult with the A.I.D./Washington Office of Small and Disadvantaged Business Utilization (SDB; see Handbook 17, Chapter 9, and AIDAR 719.271-2, for an explanation of this Office's duties and responsibilities) concerning the availability and capabilities of small business firms, to permit making a tentative set-aside determination (AIDAR 719.271-5). The Project Officer may include this tentative determination in the PIO/T.

   The Contracting Officer must ensure that the small business program operates effectively (AIDAR 719.271-3). He or she may unilaterally decide to set-aside a procurement for small businesses (AIDAR 719.271-3[f]). If the Contracting Officer does not provide for a unilateral set-aside, and the proposed contract exceeds $25,000, the Contracting Officer should forward the requisitioning document (i.e., the PIO/T) to the SDB for screening unless:

   - The contract is subject to a class set-aside;
   - He or she certifies in writing that the "public exigency" will not allow for a delay caused by screening;
   - The proposed contract will provide for "collaborative assistance" or for "institution building" by an educational or non-profit institution;

- The proposed contract will involve payment of tuition and fees for participant training at academic institutions; or

- The proposed contract involves procurement of personal services (AIDAR 719.271-6, and 719.217-7).

The Contracting Officer must also prepare a "Small Business/Minority Business Enterprise Procurement Review Form" (A.I.D. Form 1410-14) for submission to the SDB within one (1) day of his or her receipt of the PIO/T. This form will detail the Contracting Officer's recommendations on the procurement's set aside potential. The SDB may concur or disagree with the Contracting Officer's conclusion. Should the Contracting Officer and SDB be unable to reach agreement on setting aside the procurement, the SDB may appeal the Contracting Officer's decision to the head of the contracting activity. This official should render an opinion within three (3) working days (AIDAR 719.271-6[b]).

b. "8[a] Program" - This is a business development program administered by the U.S. Small Business Administration (SBA) to assist small businesses owned by socially and economically disadvantaged individuals. The designation "8[a]" refers to Section 8[a] of the Small Business Act (15 U.S.C. 637[a]), which permits the SBA to contract with any federal agency on a non-competitive basis, to provide goods and services. The Act also requires that SBA subcontract with 8[a] - approved minority and other socially and economically disadvantaged businesses for the actual performance of the contract. It is A.I.D. policy to consider awarding contracts to the SBA for subcontracting to minority firms in appropriate cases (AIDAR 719.270.C.3).

The term "socially and economically disadvantaged," as defined in the Act, in and of itself, bears no relationship to the technical capabilities of the designated firms. Further, while most participants in the 8[a] Program are minority firms, the Program does not exclude non-minorities. Some of the firms doing business with A.I.D. under this Program are not minority-owned.

The 8[a] procedure is essentially similar to the small business set-aside. The Project Officer may designate a procurement as applicable for 8[a] contracting in the draft PIO/T. The Contracting Officer then makes a separate determination in the PIO/T which is sent to the SDB for review. The procedures are discussed in greater detail in AIDAR Part 719. There are two primary differences between the 8[a] and Small Business Set-Aside Programs--under the former, competition is severely restricted or eliminated, and the SBA, not A.I.D., will be contracting with the firm.

c. Small Business Small Purchase Set Asides (FAR 13.105) - This is a special category of set-asides for acquisition of supplies or services with an anticipated value of $25,000 or less and which are subject to small purchase procedures (FAR 19.501[f]). Such purchases are reserved exclusively for small businesses if the purchases are to be made in the United States, its territories and possessions, Puerto Rico, and the Pacific Islands Trust Territories (FAR 13.105; FAR 19.508[a]). In these cases, the Contracting Officer must insert a "Notice of Small Business Set-Aside" in applicable solicitations (whenever written) and contracts (FAR 19.508). Solicitations may be oral, and Contracting Officers are encouraged to ascertain the availability of small business suppliers by telephone or other informal means (FAR 13.105[d][4]).

d. "Gray Amendment" Requirements - Since 1983, Congress has included the "Gray Amendment" in A.I.D. appropriation legislation (see Title XII of Section 101[e] of the Continuing Appropriation for 1988, Public Law 100-202). This legislation states that:

> "... not less than 10 per centum of the aggregate of funds made available for the fiscal year ____ to carry out Chapter 1 of Part I of the Foreign Assistance Act of 1961" (i.e., Development Assistance and Sahel Development Funds) "shall be made available only for activities of economically and socially disadvantaged enterprises ... historically black colleges and universities, colleges and universities having a student body in which more that 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, or who are economically and socially disadvantaged .... For purposes of this proviso, economically and socially disadvantaged individuals shall be deemed to include women."

The Gray Amendment had considerable impact on the Agency's minority and small business contracting policy and procedures. Before 1983, only A.I.D./Washington offices involved in procurement under direct A.I.D. contracts were required to give special consideration and preference to minority-owned firms. Thereafter, missions were also required to take minority and disadvantaged status into consideration when procuring goods and services. Moreover, this legislation also extended that policy to all host country contracts, grants, cooperative agreements, personal services contracts, contracts with procurement services agents; in fact, to virtually all A.I.D.

and A.I.D.-funded agreements for purchases of goods and services (see CONTRACT INFORMATION BULLETIN 84-24).

e. **Responsibilities For Implementing and Monitoring the Small and Small and Disadvantaged Business Programs** - Project Officers, Project Committee members in the mission, Contracting Officers, the Geographic Bureau backstop officer for the project, and the SDB can all become involved in identifying potential minority or small business contracting opportunities. In practice, for mission managed direct contracts, the Project and/or Contracting Officer should discuss the possibility of minority/small business contracting with the backstop officer in the Geographic Bureau. Each Geographic Bureau has a liaison official who can then discuss such possibilities with SDB. SDB maintains the Consultant Registry Information System (ACRIS) which contains information on potential small and minority-owned businesses and monitors Agency compliance with Program requirements. However, mission and Geographic Bureau officials make the initial decision whether or not to use a minority/small business, or to ask the U.S. Small Business Administration to include the contract in its "set-aside" (8[a]) program.

5. **Mission "Buy-Ins" to A.I.D./Washington Technical Services Contracts**

(A.I.D. has not issued Agency-wide regulations for buy-ins. Auditors can locate pertinent information by obtaining the A.I.D./Washington Bureau for Science and Technology's [S&T] Program Guidance Notice No. 87-03 dated May 1, 1987 and by contacting the A.I.D./Washington Office of Procurement's Project Division [M/SER/OP])

A "buy-in" or "ribbon" contract is a contract issued and managed by an A.I.D./Washington Bureau or Office to implement a "central" or "regional" project (i.e., a project which is not in any mission's portfolio). The contract is designed, however, to permit missions, and other Bureaus, to obtain services from the contractor without further competition. Although several A.I.D./Washington Bureaus and Offices (e.g., Bureau for Private Enterprises, Bureau for Food for Peace and Voluntary Assistance, and the Geographic Bureaus) have signed such contracts, the A.I.D./Washington Bureau for Science and Technology (S&T) has taken the lead in developing buy-in contracts.*

a. **"Buy-in" Procedures** - S&T negotiates and signs a contract with a technical services contractor to help support an S&T project (e.g., Oral Rehydration Therapy). These are not

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* As of FY 1989, S&T was managing approximately 430 separate buy-ins to its contracts, valued at about $52 million.

Quantity Contracts (IQCs), but should identify a "level-of-effort" to be provided over a definite period of time and incorporate language allowing for extended contractor performance upon approval of a buy-in request. The S&T Project Officer, located in A.I.D./Washington, notifies mission Project Officers with similar projects in their portfolios that the mission can obtain short-term technical assistance for their projects by buying into the contract. The mission Project Officer forwards a PIO/T to the S&T Project Officer requesting the services.

The S&T Project Officer reviews the PIO/T and supporting documents to determine whether the buy-in is appropriate. The buy-in must be:

- o Within the scope of the original contract;
- o Within the total estimated cost of the original contract; and
- o Consistent with the objectives of the project funding the buy-in.

The S&T Project Officer transmits the results of this analysis, and a determination that there is sufficient obligational authority to complete the buy-in, to the Office of Procurement (SER/OP). S&T guidance recommends that the Project Officer transmit this information to SER/OP in writing, but this is not mandatory.

Within two weeks of receiving the analysis, SER/OP should tell the S&T Project Officer whether:

- o It concurs with the Project Officer's analysis that there is sufficient remaining obligational authority in the contract to accept the buy-in;
- o The buy-in appears appropriate for funding under the contract; and
- o A buy-in amendment can be executed before buy-in costs need to be incurred, giving an estimated target date.

b. **Contract Extension** - Unlike IQCs, buy-ins must normally be expended by the contract's termination date. Although contracts can be extended as the result of the buy-in, this decision can only be made by SER/OP. As a general rule, SER/OP should not extend the contract solely because there is

sufficient unused obligational authority and unused level of person-months left in the contract and the Project Officer wishes to "use up" the contract. An overly optimistic estimate of anticipated buy-ins at the time of contract negotiations alone is usually not an acceptable reason for extending the contract. On the other hand, the need to extend the contract to achieve certain objectives of the contract can be an acceptable reason. Also, a limited extension to accommodate a specific buy-in may be acceptable.

c. Contract Monitoring and Payment - The S&T Project Officer monitors contractor performance and administratively approves payments to the contractor. However, the Project Officer must have some written document or other source of information from the mission relating work completed under the buy-in to expenditures being reported. If the mission wishes to retain voucher review rights, the S&T Project Officer cables the voucher's contents to the mission Project Officer and requests cable authorization to approve the voucher on the mission's behalf. All contract payments are made through the A.I.D./Washington Office of Financial Management (PFM/FM) with missions notified of the payment by Advice-of-Charge.

d. Evolving Nature of "Buy-ins" - The buy-in contracting system is still evolving and lacks Agency-wide guidance and direction. Auditors should be aware of incipient systematic problems which have not yet been entirely corrected. For example:

- PFM/FM had applied a "first-in, first-out" method for deciding which missions to charge for a given contractor payment where multiple missions were participating in a contract. Recent SER/OP instructions to use PIO/Ts to request participation, and instructions to contractors to include project numbers on reimbursement requests were designed to rectify this problem.

- S&T Project Officers administratively approve contractor payments although mission Project Officers are in the best position to evaluate contractor performance. There is as yet no central guidance concerning the amount or type of information which missions should send to the approving official in A.I.D./Washington.

- Mission officials may sometimes deal directly with contractor field personnel on matters which should be referred to the A.I.D./Washington Project Officer. This can create confusion on the part of the contractor, whose primary responsibility is to the A.I.D./Washington Bureau and its project.

- Missions sometimes attempt to have the contract amended to increase its length or funding without adequate reason.

The control objective of this process is to provide reasonable assurance that A.I.D. locates acceptable sources of contract services while complying with a myriad of Congressional directives and instructions to give special consideration to certain groups, classes, or types of contractors. Control techniques include:

- Guidance to A.I.D. Project and Contracting Officers on Personal Services Contracting; Contracting under Title XII of the Foreign Assistance Act; and Contracting with Small, and Small and Disadvantaged Businesses, which is contained in Handbook 14, Volumes 1 and 2;

- A.I.D. policy and procedures when obtaining services from the U.S. Government entities under Participating Agency Service Agreements found in Handbook 12;

- Policy guidance when obtaining services from U.S. universities and colleges found in Handbook 1, Supplement B, and in Policy Determination No. 4;

- Oversight operations of the A.I.D. Office of Small and Small and Disadvantaged Business Utilization, explained in Handbook 17, Chapter 9;

- Instructions to Project Designers and Project Officers developing procurement plans, found in Handbook 3, Chapter 3; and

- Mission- and Bureau-specific guidance to personnel involved in the contracting process (e.g., Bureau for Science and Technology Program Notice No. 87-03).

Choosing the type of contractor to provide technical services is one of the most highly politicized processes in the A.I.D. procurement system. Numerous, often conflicting, Congressional instructions place a heavy burden upon Project Officers, Contracting Officers, and mission Directors who must decide which type of contractor could most effectively assist in implementing their project, while also considering A.I.D.'s contracting policies.

The system for actually choosing among this myriad of "specialized" sources is not itself well defined. Numerous offices and organizations (e.g., SDB, BIFAD) play a role in attempting to ensure that their particular constituencies receive due consideration in the Contract Award Process, or in preliminary considerations which take place before that Process begins. Ultimately, however, the Project Officer, Contracting Officer and mission Director must decide which type of contractor to hire.

The process is vulnerable because there are numerous competing interests. There are also systemic problems, e.g., the SDB does not receive all PIO/Ts, and the choosing of universities to operate collaborative assistance projects can be highly subjective. Auditors should review the mission's written rationale for any contract types discussed above. The rationale should be contained in the mission's project or contract files.

B. CONTRACT-TYPE SELECTION PROCESS

A.I.D. uses several types of contracts when purchasing technical services. The selection process can take place during the contract planning stage, during Invitation for Bids (IFB) formulation, or during negotiations when the Agency uses the competitive negotiation contract award procedure. The Contracting Officer, with the Project Officer's assistance, must ultimately decide which contract-type will be most advantageous to the Agency.

In most cases, the Contracting Officer will choose a fixed-price or a cost reimbursement contract. In no case may A.I.D. enter into any form of contract paying the contractor on the basis of its incurred costs plus a percentage of those costs (Handbook 1, Supplement B, Section 12.B.2.h.4).

1. Fixed Price Contracts (Handbook 1, Supplement B, Section 12.B.2.h.4.a; FAR 16.2)

   There are two types of fixed-price contracts. When the price is firmly fixed in the contract, it cannot be adjusted at some later point to accommodate changes in the contractor's incurred costs (FAR 16.202). If the contract allows for price adjustments, the base or ceiling level price is stated in the contract and adjustments are allowed under defined circumstances (FAR 16.203 and 16.204). A.I.D.'s policy is that the Contracting Officer should use a fixed-price contract when it is possible to specifically define the required services and multiple sources are available to ensure adequate competition. This contract type places the risk of cost escalation upon the contractor, but, in turn, it also requires greater preliminary analysis to define costs, and a fee concomitant with the contractor's risk (Handbook 1, Supplement B, Section 12.B.2.h.1). The FAR allows several variations upon these basic types:

   a. Fixed-Price Contracts With Prospective Price Redeterminations (FAR 16.205) - allow the Contracting Officer to establish a firm fixed price for an initial period of the contract, while

allowing for a redetermination of the price for subsequent periods.

b. Fixed-Price Contracts With Retroactive Price Determination (FAR 16.205) - provide for a fixed ceiling price and retroactive price redetermination within the ceiling after contract completion. This contract type is generally used for acquiring research and development services.

c. Firm-Fixed-Price, Level Of Effort Term Contracts (FAR 16.207) - allow the contractor to provide a specified level of effort over a stated period of time for work that can only be stated in general terms.

2. Cost Reimbursement Contracts (Handbook 1, Supplement B, Section 12.B.h.2.4.b and c; and AIDAR 716.301-3)

This type of contract provides for payment of allowable incurred costs, to the extent prescribed in the contract. It sets a cost reimbursement ceiling which the contractor cannot exceed (except at its own risk) without the Contracting Officer's prior approval.

It is A.I.D.'s policy to use cost-reimbursement contracts when the Contracting Officer is unable to precisely describe or specify the required services to the extent necessary for a fixed-price contract (Handbook 1, Supplement B, Section 12.B.2.h.4.b). This type of contract places less risk upon the contractor, and the fee (if applicable) should reflect this lower risk level.

Cost reimbursement contracts are more labor-intensive to manage than fixed-fee contracts since allowability must be determined for each payment. They also provide very little incentive for the contractor to operate efficiently and minimize contract costs. However, such contracts require less preliminary analysis and are more flexible in meeting changing or unforeseen conditions which are often encountered in the course of project implementation. A.I.D. regulations allow the Contracting Officer to consider two types of reimbursement contracts--cost, and cost-plus-fixed-fee.

a. Cost Contracts (FAR 16.302) - the contractor receives no additional compensation over and above incurred costs. This type is most often used when acquiring services from non-profit organizations such as universities.

b. Cost-Plus-Fixed-Fee Contracts (FAR 16.306) - provide for both reimbursement of incurred costs and payment of a negotiated fee to the contractor. This type is used when obtaining services from profit-making organizations such as consulting firms.

The FAR also allows for variations upon these basic types, including:

- o **Cost-Sharing Contracts** (FAR 16.303) under which the contractor receives no fee and is reimbursed only for an agreed-upon portion of incurred costs. The contractor agrees to absorb a portion of incurred costs in the expectation of compensating benefits. Because questions may arise over the nature of "compensating benefits", A.I.D. encourages the use of cost contracts, rather than cost-sharing contracts, especially when obtaining research and development services from nonprofit organizations. Further, Contracting Officers must obtain A.I.D./Washington Office of Procurement approval before entering into cost-sharing contracts with educational institutions (CONTRACT INFORMATION BULLETIN 89-5).

- o **Cost-Plus-Incentive-Fee Contracts** (FAR 16.304) which are a type of incentive contract discussed in FAR 16.4.

- o **Cost-Plus-Award-Fee Contracts** (FAR 16.305) which are a type of incentive contract discussed in FAR 16.4.

3. **Time and Materials and Labor-Hour Contracts** (Handbook 1, Supplement B, Section 12.B.2.h.4.d; FAR 16.6)

Under a time and materials (TM) contract, A.I.D. procures services or goods on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit. A.I.D. also pays for materials used and supplied by the contractor, at cost (FAR 16.601). The Agency uses this contract type only when the Contracting Officer cannot accurately estimate the extent or duration of the required work or the anticipated costs. The labor-hour type contract is a variation of the TM contract differing only in that the contractor does not supply material (FAR 16.602).

These contracts require very close monitoring since they are open-ended as to the amount of time required, providing the contractor with little or no incentive to control costs. The can be used only:

- o After the Contracting Officer determines, in writing, that no other contract-type is suitable; and

- o If the contract includes a ceiling price (FAR 16.601[c]).

4. **Indefinite Delivery Contracts** (Handbook 1, Supplement B, Section 12.B.2.h.4.e; FAR 16.5; AIDAR 716.5)

The Contracting Officer may use this type of contract when the exact times and/or quantities of future deliveries are not known. Although the FAR provides for three forms of this contract, A.I.D. generally uses only two--requirements contracts and indefinite quantity contracts.

a. Requirements Contracts (FAR 16.503) - This type of contract provides for filling all actual purchase requirements for specific services or supplies during a specified period of time. The Agency initiates deliveries by placing orders with the contractor. Funds are obligated by each delivery order and not by the contract itself. A.I.D. uses this contract when acquiring engineering services for certain construction projects.

b. Indefinite Quantity Contracts (FAR 16.504; AIDAR 716.5; CONTRACT INFORMATION BULLETIN 89-8) - A more common type of indefinite delivery contract is the indefinite quantity contract (IQC). Generally signed and managed by the A.I.D./Washington Office of Procurement, these contracts provide for an indefinite quantity, within stated limits, of specific supplies or services to be furnished within a given period.

A.I.D. has found the IQC to be particularly useful for acquiring short-term technical services, and has combined aspects of the IQC with time and materials payment methods. As with time and materials contracts, A.I.D. acquires services by issuing delivery orders to the contractor specifying payment based on direct labor days at specified fixed daily rates, and payment of certain costs such as travel and transportation (AIDAR 716.501). The IQC itself will require that A.I.D. order, and the contractor furnish, at least a minimum quantity of services. A.I.D. guarantees it will order at least $10,000 in services under an IQC or pay this amount to the contractor upon termination (CONTRACT INFORMATION BULLETIN 87-9).

The Project Officer can obtain short-term technical services under an IQC by consulting a "Functional Report of Current Indefinite Quantity Contracts" issued quarterly by the A.I.D./Washington Office of Procurement. This report identifies current IQCs by subject area, such as Accounting/Financial Management, Auditing, Health, Rural Development, etcetera. (CONTRACT INFORMATION BULLETIN 89-8, Exhibit A). The Project Officer should informally contact several IQC contractors to determine which can best meet the project's technical services requirements. The Project Officer identifies a likely contractor, discusses the contractor's prior performance with the Contracting

Officer, develops a Project Implementation Order/Technical Services (PIO/T) formally asking the Office of Procurement to negotiate a delivery offer, and submits the PIO/T to the Contracting Officer.

The Project Officer must send a detailed memorandum to the Contracting Officer together with the PIO/T. This memorandum must:

- Recommend a specific IQC for issuance of a delivery order;
- Identify the Project Officer who will administratively approve payment vouchers;
- Recommend a service start date;
- Identify by name and functional labor category (e.g., agronomist), the precise individuals which the contractor proposes to perform the services;
- Identify the mission contact point for the services (generally the Project Officer);
- Contain a statement that, to the best of the Project Officer's (or other requesting official's) knowledge, "the required services are not a fragmentation of a known requirement which should be contracted for on a long-term basis";
- Contain another statement that, to the best of the Project Officer's (or other requesting official's) knowledge, "no A.I.D. employee or other individual resource, such as experts and consultants or personal services contractors, are available on a timely basis for the performance of the work";
- Contain a third statement that, to the best of the Project Officer's (or other requesting official's) knowledge, no A.I.D. employee has recommended the use of any individual under a delivery order who was not initially located and identified by the contractor" (CONTRACT INFORMATION BULLETIN 87-9, Section 5).

The Contracting Officer reviews the request to determine if the work is appropriate for issuance of a delivery order and if the work is appropriate for the recommended IQC. To be appropriate, the work must:

- Be for services described in the IQC;
- Generally not exceed 120 calendar days;
- Not be a fragment of a known requirement which should be contracted for on a long-term basis;
- Not exceed the recommended IQC's maximum total ordering limitation; and
- Not contribute to a situation in which the Agency fails to order at least the minimum amount of work stipulated under each IQC within the particular functional service area (CONTRACT INFORMATION BULLETIN 87-9, Section 7).

If the work and IQC are appropriate, the Contracting Officer next asks the contractor to develop and forward a delivery order proposal. After receiving the proposal, the Contracting Officer obtains a delivery order number from the Office of Procurement, then negotiates and executes the delivery order.

The Project Officer monitors the contractor personnel's performance, administratively approves payment vouchers, and notifies the Contracting Officer if the contractor's performance proves unsatisfactory (CONTRACT INFORMATION BULLETIN 87-9, Section 8-16).

5. Purchase Orders (FAR Part 13, AIDAR Part 713)

The Contracting Officer may use purchase orders when procuring non-personal services or supplies not exceeding $25,000. The $25,000 ceiling applies to the cost of goods and services excluding transportation and other accessorial service costs if their destination is outside the United States (AIDAR 713.000). Purchase order procedures and requirements are provided in the FAR as cited above.

The control objective of this process is to give reasonable assurance that A.I.D. uses the form of procurement instrument most advantageous to the United States Government when obtaining technical services (and related goods). To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance to Contracting Officers in choosing and implementing alternative contracting instruments found in FAR Parts 13 and 16 and related AIDAR sections;**
- **A.I.D. policy on contract types and proper circumstances for their use found in Handbook 1, Supplement B, Section 12.B.2.h; and**

- **Guidance to Project Officers explaining alternative contract types found in Handbook 3, Supplement A, Chapter II, Part B, Section 4.**

While the contract-type selection process itself is dependent upon the Contracting Officer's knowledge and experience in choosing the correct type of procurement instrument for a given purchase, it is not a highly complicated process. In many cases, the type of contractor chosen to provide the services will dictate the type of contract to be used (e.g., fixed price or cost reimbursement with fixed-fee for a profit-making firm). Each type of contract, however, has strengths and weaknesses, as noted above. The Contracting and Project Officers must balance the need for speed and flexibility against Congress' instructions that A.I.D. funds be effectively and efficiently utilized.

The Contracting Officer must ensure that the chosen contract type is not changed during the later implementation process without proper approval. This is a particular problem with firm-fixed-price contracts. FAR Part 43 states that contract modifications should be "priced", i.e., should show the change in contract cost, before execution, and should be definitized as quickly as possible. Delays in finalizing modifications can change a firm-fixed-price contract into a cost-plus-fixed-fee contract. This change shifts additional risks onto the Government. Courts have held that, in general, the longer a modification remains undefinitized, the greater the burden of proof on the Government in showing the costs incurred by the contractor are unallowable. The General Accounting Office has held that, as a rule, as long as a contractor can present a reasonable rationale for justifying an incurred cost, the Government must pay. In addition, delaying finalization can lead to disputes over delivery dates, scope of work and other contract terms. The President's Council on Integrity and Efficiency (PCIE) recently found this to be a recurring problem at several Government Agencies, including A.I.D. (See PCIE Report No. AS-PC-9-001, dated October 26, 1988).

C. PROJECT IMPLEMENTATION ORDER/TECHNICAL SERVICES DEVELOPMENT PROCESS (HANDBOOK 3, SUPPLEMENT A, CHAPTER II, PART A, SECTION 4)

A primary control document throughout this contracting mode is the Project Implementation Order/Technical Services (PIO/T), A.I.D. Form 1350-1 (Handbook 3, Supplement A, Appendix C, Attachment A, illustrates a sample PIO/T). It is the document which the Project Officer uses to explain the project's technical services requirements to the Contracting Officer, and which the Contracting Officer will use when formalizing the contract's specifications. Development of this document is one of the Project Officer's most important and difficult tasks. The PIO/T should describe the desired services in its statement of work section, state the estimated cost and duration of the desired services, describe arrangements

for contractor logistical support and provide any other information the Contracting Officer may need to develop the required contract.

1. Statement of Work

The statement of work is the PIO/T's core. It constitutes the essence of the contract and identifies the proposed rights and obligations of the contracting parties. It describes the contract's objectives and the steps to be taken to achieve those objectives. The Project Officer, assisted by technical and contracting personnel at the mission and/or in A.I.D./Washington, should develop the statement of work so as to leave no question as to the parties' intent. The statement of work should clearly state whether the ensuing contract should result in a definite end product, or should require a specific amount of effort directed toward accomplishing a goal.

Clarity and specificity are particularly important when A.I.D./Washington will manage the procurement. In these instances, the lines of communication can be long and drawn out. Resolution of questions arising from inadequate statements of work can be difficult and time consuming under these circumstances. Handbook 3, Supplement A, Appendix C provides guidance for Project Officers preparing PIO/Ts.

2. Mission-Produced PIO/Ts

When the mission is itself managing a procurement, the Project Officer will draft and finalize the PIO/T, passing it on to the mission's Contracting Officer. If a mission does not have a Contracting Officer, another staff member, such as the mission Executive Officer, will act as A.I.D.'s contracting agent.

3. A.I.D./Washington-Produced PIO/Ts

When A.I.D./Washington is managing the procurement on the mission's behalf, the Project Officer will generally draft the PIO/T, and forward it to the backstop officer in the A.I.D./Washington Geographic Bureau overseeing mission operations. The backstop officer processes the PIO/T and forwards it to a Contracting Officer who will, in most cases, be assigned to the A.I.D./Washington Office of Procurement (M/SER/OP). The backstop officer must ensure that any proposed changes in, or amendments to, the draft PIO/T are referred back to the Project Officer for approval.

The control objective of this process is to produce a set of guidelines and specifications which will be sufficiently clear and comprehensive to enable the Contracting Officer to develop and award a satisfactory and effective contract. Control techniques include:

- **Guidance for Project Officers preparing PIO/Ts found in Handbook 3, Supplement A, Chapter II, PArt A, Section 4; and**

- **Guidance to Project Officer's preparing PIO/Ts, especially those PIO/Ts anticipating the use of A.I.D. logistical support in A.I.D./Washington and overseas, found in Handbook 3, Sections 8.C.3.c.5.c and d.**

This process is particularly vulnerable to inefficiencies when the mission drafts a PIO/T for A.I.D./Washington use. Although changes to the PIO/T, and deviations from the PIO/T when developing the contract, should be discussed with mission Project Officers, problems of distance and poor communications often make collaboration difficult. Unless such collaboration takes place, however, there exists a substantial possibility that the PIO/T and resulting contract will not satisfy the mission's technical services requirements.

D. CONTRACT AWARD PROCESS

The technical services contract award process begins with a set of contractor selection procedures and ends with A.I.D. signing a technical services contract or otherwise entering into a legally binding purchasing arrangement. A.I.D.'s policy is to obtain full and open competition to the greatest possible degree. This can be done through either sealed bidding or competitive negotiation procedures.* In practice, most direct A.I.D. procurements are negotiated (Handbook 1, Supplement B, Section 12.B). The A.I.D. Contracting Officer, either at the mission or in A.I.D./Washington manages the award process and signs the resulting contract as A.I.D.'s agent.

1. **Procurement by Sealed Bidding** (Handbook 1, Supplement B, Section 12.B.2.b; FAR Part 14; FAR 6.40[a]; AIDAR 714)

   Sealed bidding is a method of competitive procurement by Invitations for Bids (IFBs) with awards based on the lowest responsive and responsible bids. A.I.D. requires that this method be used when:

   - There is sufficient time to process the solicitation;

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* The Contractor-Type Selection Process discussed above included procedures for awarding contracts to "special" sources. Some of those types involved deviations from normal contracting policy, such as limitations on competition under "8[a]" and "Title XII" procedures. Most direct A.I.D. technical services contracts, however, will involve profit-making firms. This section discusses A.I.D.'s process for awarding such contracts.

- Precise specifications for requirements permit award on the basis of price;
- Discussions with offerors are not necessary;
- More than one bid can be reasonably expected; and
- The estimated dollar value exceeds the small purchase authority (Handbook 3, Supplement B, Chapter II, Part B, Section 2.A.1).

a. **Invitation for Bids** - The sealed bidding procedure begins with the Contracting Officer preparing an IFB based upon the Project Implementation Order/Technical Services submitted by the Project Officer. The IFB must describe the Government's requirements clearly, accurately and completely, while avoiding restrictive specifications or requirements which might unnecessarily limit the number of bidders (FAR 14.101[a]).

The Contracting Officer uses a standard "Solicitation, Offer and Award" form (SF-33 found in FAR 53.301-33) to set forth the IFB. This form enables the Contracting Officer to use the U.S. Government's uniform contract format found in FAR 14.201-1. The SF-33 and incorporated contract provisions must be carefully prepared. Upon its signing by the bidder and the Contracting Officer, this will become the contract.

The Contracting Officer is responsible for ensuring that the IFB contains no discrepancies or ambiguities that could limit competition or result in the receipt of non-responsive bids (FAR 14.202-6). He or she must also ensure that a large number of mandatory terms are included in the IFB and resulting contract. These include a statement providing audit rights to the U.S. Government if the contract is expected to exceed $100,000 (FAR 14.201-7).

b. **Advertising the IFB** - The Contracting Officer, A.I.D. Office of Small and Disadvantaged Business Utilization (SDB) or the Office of Procurement (SER/OP) next asks the U.S. Commerce Department to synopsize the IFB in the Commerce Business Daily (CBD). This is the official publication in which U.S. Government Agencies identify and advertise contract actions and awards. Such Agencies must use the CBD for all contract actions which are expected to exceed $25,000 or $10,000 if there is not a reasonable expectation that at least two offers will be received from responsive and responsible bidders (FAR 5.10[a][1]). For procurements exceeding $25,000, the Contracting Officer should also ask SDB to print a notice of availability of IFBs in the appropriate A.I.D. publication (Handbook 1, Supplement B, Section 12.B.2.b.[2]). The

Contracting Officer must ensure that copies of the IFB are sent to all firms or organizations upon request, and in sufficient time to enable prospective bidders to prepare and submit bids before the time set for public opening.

c. Receipt of Bids - The Contracting Officer receives and records the bids. The procedure for handling late bids is described in FAR 14.304-1. Bids, or bid modifications, received after the bid closing date cannot be considered. However, a late modification of an otherwise successful bid which makes its terms more favorable to the U.S. Government can be considered at any time (FAR 14.304-1[d]).

d. Evaluation and Award - The Contracting Officer publicly opens the bids at the time and place indicated in the IFB and awards the contract to that responsible bidder whose bid, conforming to the IFB, will be most advantageous to the Government. The Contracting Officer can consider only price and price-related factors included in the IFB when making this determination (FAR 14.407-1[a]).*

2. Procurement by Negotiation (Handbook 1, Supplement B, Section 12.B.2.c; FAR Part 15; AIDAR Part 715; FAR 6.401[b])

When the mission Project and Contracting Officers and the mission Director decide that the sealed bidding procedure is inappropriate, the preferred procurement method is through negotiations based on competitive proposals (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2).**

a. Identifying Potential Contractors - The Project Officer begins this procedure by developing a list of potential contractors. He or she can obtain information on such contractors by consulting the mission's Contracting Office and the A.I.D./Washington Offices of Procurement, and Small and Disadvantaged Business Utilization. The latter office

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* A.I.D. can also use a modified "two-step" sealed bidding process when adequate specifications are unavailable. This procedure involves requests for a review of technical proposal prior to submission of sealed price bids and is described in FAR Subpart 14.5.

** Negotiations for Architectural and Engineering Services, and negotiations of Unsolicited Research and Analysis Proposals have several unique features not discussed under this process. The auditor should review Handbook 1, Supplement B, Sections 12.B.2.d, and 12.B.2.f respectively when auditing such contracts.

maintains the A.I.D. Consultant Registry Information System (ACRIS) which contains useful market information. The Project Officer forwards the list to the Contracting Officer, together with a PIO/T and a statement of the qualifications and the areas of expertise necessary to successfully perform the service (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a).

b. Request for Proposals - Using the Project Officer's information, and with the Project Officer's assistance, the Contracting Officer prepares a Request for Proposals (RFP).* A.I.D. uses the same "Solicitation, Offer and Award" form (SF-33) for both the RFP and IFB. The RFP must contain all the information necessary to enable prospective contractors to properly prepare their proposals and will generally follow the uniform contract format found in FAR 15.406-1. The Project Officer assists the Contracting Officer in preparing the RFP by developing its "Statements of Work", and the criteria to be used when evaluating proposals. Statements of Work are discussed in Handbook 3, Supplement A, Appendix C. The evaluation criteria should be tailored to the specific project and contract, and are discussed in Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a. Upon signing by both the bidder and Contracting Officer, the RFP, as modified during negotiations, will become the contract.

c. Advertising the RFP - The Contracting Officer reviews the final RFP to ensure that it complies with the solicitation requirements found in FAR 15.406 and 15.407, advertises the RFP as described above for the advertising of IFBs and ensures that each responding firm and each firm identified by the Project Officer receives a copy of the RFP in a timely manner. The Contracting Officer can amend the solicitation before the closing date for receipt of RFPs by using an "Amendment of Solicitation/Modification of Contract" form (SF-30; found in FAR 53.301-30). Modifications are discussed in FAR 15.410.

d. Reception of RFPs - The Contracting Officer receives the returned proposals and decides whether to approve late proposals or modifications for evaluation based upon the guidelines contained in FAR 15.412. He or she then forwards the proposals to the mission technical evaluation committee for the particular procurement.

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* Where specification identification is particularly difficult, the Contracting Officer may develop a pre-solicitation notice and hold pre-solicitation conferences with potential contractors as described in FAR 15.404.

e. **Technical Committee Evaluation** - The Project Officer normally chairs the technical evaluation committee and chooses its members. In addition to the Project Officer, the committee should include a representative from the mission's Contracting Office, and representatives from other mission offices, as the Project Officer deems appropriate (AIDAR 715.608[a]). The Project Officer can also name host country representatives and other non-A.I.D. personnel if there is a need for specialized expertise during the evaluations (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a). In no case, however, should a mission Director participate in the Committee deliberations (CONTRACT INFORMATION BULLETIN 88-30).

The Project Officer must be careful to avoid even the appearance of conflicts of interest among committee members. If any such appearance arises during the evaluation, or at any time during the process, the Project Officer should notify both the Contracting Officer and Regional Legal Advisor and resolve the conflict before continuing with the process (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a).

The evaluation committee reviews each technical proposal using the criteria included in the RFP. Committee members must not hold discussions with any offeror before or during the evaluation proceedings (AIDAR 715.608[b][2][iii]; see also Handbook 3, Supplement A, Appendix C, Attachment C which discusses improper disclosure of acquisition information, criminal penalties for such disclosure, and procedures for handling Freedom of Information Act requests for disclosure of such information). Committee members should, however, consider the offeror's past performance during the evaluation. The RFP should have required that offerers provide references for similar work performed within the previous three years. The committee should check the references, and may request "candid, accurate, and complete" factual information (not opinions) from A.I.D. Project Officers familiar with the offeror's previous work (CONTRACT INFORMATION BULLETIN 82-15).

Committee members must review the proposals as submitted. If a proposal is not clear or specific on certain points, or if there are apparent omissions, they may seek clarifications through the Contracting Officer, but they may not seek revisions to the proposal. They should, instead, request that any revisions be a matter for later negotiation. They may also obtain additional business data by contacting the Bureau for Program and Policy Coordination's Center for Development Information and Evaluation (PPC/CDIE) in A.I.D./Washington (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a).

The evaluation committee prepares a written listing of all the offers together with the results of the technical evaluation of each proposal (AIDAR 715.608[b][1]). The Project Officer, as chairman, then compiles a technical evaluation report which rates and ranks the proposals and forwards the report, with supporting documents, and its recommendations to the Contracting Officer. The supporting documentation should include:

- Committee member's scoring sheets;
- A narrative of each proposal's strengths and weaknesses;
- The results of business reference checks;
- Any business data provided by PPC/CDIE; and
- A listing of areas for negotiation with qualified and acceptable offerors (Handbook 3, Supplement A, Chapter II, Part B, Section 2.A.2.a).

f. **Contracting Officer Evaluation** - While the technical review committee was evaluating the technical proposals, the Contracting Officer should have been evaluating the proposal's cost and price factors. He or she also reviews the report and support forwarded by the evaluation committee to ensure that they are accurate and complete (AIDAR 715.608[b][1][iii]). The Contracting Officer uses the report to:

- Help determine which offerors are technically responsible and capable of performing the contract;
- Determine which proposals are in an acceptable competitive range;
- Serve as a basis for negotiations with each competitive offeror for the purpose of improving the proposals; and
- Serve as a basis for debriefing unsuccessful bidders (Attachment to CONTRACT INFORMATION BULLETIN 85-17).

Using these two sets of evaluations, the Contracting Officer establishes a competitive range for the offerors and, with the Project Officer's assistance, conducts negotiations with offerors within that range.

g. **Negotiations** (FAR 15.8; Attachment to CONTRACT INFORMATION BULLETIN 83-17) - Only the Contracting Officer can negotiate costs with the offerors. The Project Officer's role in the

discussions must be limited to technical and program matters. The Contracting Officer must be careful to conduct the negotiation in such a way as to preclude any impression that A.I.D. is making a commitment to the award. He or she must also take reasonable precautions to ensure that offerors do not know in advance the amount of money budgeted or available for a contract. Hence, A.I.D. internal documents such as the PIO/Ts, which contain funding information, should never be shown to or discussed with the offerors (Handbook 3, Supplement A, Chapter II, Part B, Section 5).

The Contracting Officer may inform negotiating offerors of deficiencies in their proposals, and allow the offerors to submit "best and final" offers by a specified date. In such cases, the Contracting Officer may resubmit portions of the "best and final" offer to the Technical Review Committee. The Committee chairperson must then notify the Contracting Officer, in writing, of the results of that review and specify any changes in proposal rankings as a result of the review (Attachment to CONTRACT INFORMATION BULLETIN 85-17, Section C).

The Contracting Officer may ask the offeror to submit "cost and pricing data". This data consists of "all facts as of the time of price agreement that prudent buyers and sellers would reasonably expect to affect price negotiations significantly". They are more than historical accounting data; they are all the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations of already incurred costs. A listing of the type of data covered by this definition can be found in FAR 15.801. In general, the Contracting Officer must receive such data before awarding any negotiated contract in excess of $100,000; however, the data is not needed for purchases of $25,000 or less (FAR 15.804-2; see FAR 15.804-3 for exemptions and waivers).

The offeror submits the data on a Standard Form "Contract Pricing Proposal Cover Sheet" (SF-1411; FAR 15.804-6). The Contracting Officer performs price and cost analyses as described in FAR 15.804-2, and 15.805-3, and conducts the negotiation.

At the conclusion of each negotiation, the Contracting Officer prepares a negotiation memorandum. This memorandum should contain, at least:

- An explanation of the purpose of the negotiation;

- A description of the acquisition, including appropriate identifying numbers (e.g., RFP No.);
- The name, position, and organization of each person representing the contractor and the Government in the negotiation;
- The current status of the contractor's purchasing system when material is a significant cost element;
- Results of the Contracting Officer's analysis of cost and pricing data, if applicable;
- The basis for exemption from or waiver of cost and pricing data requirements, if applicable;
- An explanation for requiring cost and pricing data for contracts less than $100,000, if applicable;
- A summary of the contractor's proposal and negotiated elements;
- The most significant facts or considerations controlling the establishment of any pre-negotiation price objective and the negotiated price; and
- The basis for determining the negotiated price or fee (FAR 15.808; see FAR 15.809 for policies and procedures when establishing the profit or fee).

The Contracting Officer places the negotiation memorandum in the official contract file and awards the contract by signing the SF-33, as modified during the negotiations. The award should be made to the responsible offeror which the Contracting Officer considers best able to perform the contract in a manner most advantageous to the Government, price and other factors considered (Attachment to CONTRACT INFORMATION BULLETIN 87-15, Section D).

3. **Small Purchase Procurements** (FAR Part 13; AIDAR Part 713)

The formal competition requirements of the Competition in Contracting Act (41 U.S.C. 253) do not apply to small purchases, i.e., purchases valued at $25,000 or less. For such nonpersonal services procurements, the Contracting Officer uses the procedures found in FAR Part 13. As a matter of policy A.I.D. attempts to reserve such purchases to small, and small and disadvantaged businesses (Handbook 3, Supplement A, Chapter II, Part B, Section 2.B.2; FAR 13.105).

In addition, purchases of $1,000 or less may be made without the Contracting Officer first obtaining competitive quotations if he or she considers the price to be reasonable (FAR 13.106[a]). For purchases between $1,000 and $24,999, the Contracting Officer must solicit quotations from a reasonable number of sources. The Contracting Officer can, however, limit solicitations to one source if he or she determines that only one source is reasonably available (FAR 13.106 [b]).

4. Procurement By Other Than Full and Open Competition (Handbook 1, Supplement B, Section 12.B.2.g; FAR Subpart 6.3)

The Competition In Contracting Act (41 U.S. 253[c]) allows Federal Agencies to purchase goods and services without using formal competitive procedures under certain circumstances.

a. Basis For Not Using Competitive Procedures - The Contracting Officer can forego such procedures if:

- There is only one responsible source and no other services or supplies will satisfy A.I.D. requirements (FAR 6.302-1);
- There is unusual and compelling urgency (FAR 6.302-2);
- The procurement involves either industrial mobilization, or experimental, developmental or research work (FAR 6.302-3);
- Competition is precluded by a treaty, international agreement, or the written directions of a foreign government reimbursing A.I.D. for the cost of the procurement (FAR 6.302-4);
- A statute expressly authorizes or requires that the purchase be made from another Agency or from a specified source (FAR 6.302-5; the Small Business 8[a] set-aside program falls under this exception);
- Competitive procedures would compromise national security (FAR 6.302-6);
- The A.I.D. Administrator determines that use of competitive procedures for a particular procurement would not be in the public interest (FAR 6.302-7); or
- Full and open competition would adversely effect foreign aid, relief, or rehabilitation programs (AIDAR 706.302-70). This authority can be used only if

circumstances are compelling and no section of FAR 6.302 is applicable (CONTRACT INFORMATION BULLETIN 86-11).

b. **Written Justification** - The Contracting Officer must consider as many sources as practicable, including using informal solicitations, to maximize competition as far as possible and provide a written justification for each exceptional procurement (FAR 6.303). The justification must contain sufficient facts and a rationale to justify the procurement, and as a minimum, must:

- Identify the Agency and contracting activity and be labeled "Justification for other than full and open competition";
- Describe the action being approved;
- Identify the particular statutory authority permitting the procurement;
- Demonstrate that the proposed contractor's unique qualifications or the nature of the procurement requires the exception;
- Include the Contracting Officer's determination that anticipated costs to the U.S. Government will be fair and reasonable, including whether the procurement was or will be advertised in the Commerce Business Daily, and, if not, which exception under FAR 4.202 applies;
- Describe the market survey conducted under the requirement of FAR 7.101 and its results, or explain why the survey was not conducted;
- Include a listing of any sources which exhibited an interest, in writing, in the procurement;
- Identify the actions, if any, which A.I.D. may take to remove or overcome any barriers to competition before making any future procurements of the required supplies or services;
- Identify any other facts supporting the use of exceptional procedures; and
- Contain the Contracting Officer's certification that the justification is accurate and complete to the best of his or her knowledge and belief (Handbook 3, Supplement A, Chapter II, Part B, Section 3.A).

> Unless the contract's value is $25,000 or less, or the exception is based on an international agreement or U.S. statute, the mission or office Director, or in some cases Deputy Director, must approve the justification in writing before the Contracting Officer can complete the purchase. If the contract exceeds $10 million, the justification can only be approved by the Associate Assistant Administrator for Management (M/AAA/SER) in A.I.D./Washington (Handbook 3, Supplement A, Chapter II, Part B, Section 3.A).

The control objective for the contract award process is the same under both direct A.I.D. and host country contracting. The process is intended to give reasonable assurance that A.I.D. funds are used efficiently by keeping procurement costs as low as possible while obtaining needed services in a timely manner and in compliance with all laws and regulations. To achieve this objective, the process uses the following control techniques:

- Guidance contained in Handbooks 14 and 15;
- Guidance contained in Handbook 1, Supplement B; and
- Use of the PIO/T to initiate the process.

Vulnerabilities under the direct A.I.D. contract award process are less apparent and severe than under host country contracting. This is a primary reason for using the direct contracting mode. Risks arise, however, with each of the many exceptions from the general rule requiring maximum competition. For example, a recent study by the President's Council on Integrity and Efficiency (PCIE) found that A.I.D. Contracting Officers may not have been performing adequate cost and price analyses prior to contract negotiations (PCIE Report No. AS-PC-9-001, dated October 26, 1988).

E. PAYMENT PROCESS

It is A.I.D.'s policy to pay contractors on the basis of goods delivered, services performed, or to cover already incurred costs (Handbook 1, Supplement B, Section 15.B.1.a). Since strict adherence to this policy would place a severe burden on certain types of contractors, A.I.D. has also developed an order of preference for the types of payment procedures* it will make available to contractors. In order of preference, these are:

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* Handbook 19, Appendix 1-B, and Handbook 1, Supplement B, Section 15E, refer to these as "methods of financing".

- Reimbursement to profit-making organizations which finance contract working capital requirements from their own resources, or arrange to obtain appropriate financing through commercial channels;

- Customary progress payments, or progress payments based on percentage or stage of completion for construction, alteration, or repair contracts;

- Unusual progress payments, and;

- Advances by letter of credit or Treasury check, except for non-profit contractors in which case advances are the preferred funding method (Handbook 1, Supplement B, Section 15.E.1.b; see also FAR 32.106).

1. Direct Reimbursement to the Contractor (Handbook 19, Sections 3G through 3I)

This is the most common payment method. The contractor submits its request for payment, which generally includes payment voucher, invoice(s) and supporting documents, to the A.I.D. Accounting Officer located in the mission or A.I.D./Washington. Both the precise documents and Accounting Office will be stated in the contract. The Project Officer reviews the documents and administratively approves the payment as described in Handbook 19, Appendix 3A, and Handbook 19, Section 3H.

The Project Officer passes the documents to the Accounting Office's Authorized Certifying Officer (ACO). In the case of mission-managed contracts, this will be the mission Controller or his designee. The ACO reviews the voucher and accompanying documents to ensure that they are consistent with the contract and arithmetically accurate. The ACO also reviews billing items which are not generally reviewed by the Project Officer. These include home office costs and miscellaneous personnel costs, such as housing and educational allowances (Handbook 19, Appendix 3A, Section 7).

Each mission Accounting Officer is free to establish local procedures for controlling the voucher review process. However, Agency prompt payment policy and procedures demand that vouchers be date-stamped, and that the mission maintain a logbook to record the process (Handbook 19, Section 3.I.2). The procedures to be followed when A.I.D./Washington manages the contract and pays the contractor are found in Handbook 19, Section 3.I.3.

A.I.D. uses five alternate methods to move the payment from the Treasury into the contractor's hands. These involve either issuance of a U.S. Treasury check, or an electronic fund transfer as described in the Controller's Guidebook, Chapter 19, Section IX.

The contract can be written so that the contract amount will be paid in full at termination. Alternatively, the Contracting Officer can provide that the contractor receive "partial" or "progress" payments in the case of a fixed-price contract, or "interim" payments under a cost reimbursement contract (Handbook 1, Supplement B, Sections 15.E.1.c and d; definitions provided at Handbook 1, Supplement B, Sections 15.E.1.a. 1, 2, and 3).

2. **Advance Payments to the Contractor** (Handbook 1, Supplement B, Section 15.B.1.c.6, 15.C.1.d.1 and 15.E.1.e; Handbook 19, Section 3K; FAR Subpart 32.4; Controller's Guidebook, Chapter 16, Section III.D; AIDAR 732-4)

"Advances" are payments made before delivery of goods and services. U.S. Government policy states that advances are generally the least preferred method of contract payment (FAR 32.402[b]). However, they are the most preferred method when contracting with non-profit educational or research institutions for experimental, research, or development work (FAR 32.403[a]).

a. **Advances To "For Profit" Contractors** - Contracting Officers can authorize advance payments to a profit making contractor only if the Associate Assistant to the Administrator for Management (M/AAA/SER), or his or her designee (see Handbook 1, Supplement B, Section 15.E.1.e) has first made a positive written determination that A.I.D. will benefit through increased competition or lower prices. The M/AAA/SER must make this determination before the Contracting Officer issues solicitations so that all prospective contractors are aware that advance payments are available (Handbook 1, Supplement B, Section 15.E.1.e.1). Unless waived under the provisions of Handbook 1, Supplement B, Section 15.E.4.d., A.I.D. charges interest on such advances at a rate established by the U.S. Treasury (Handbook 1, Supplement B, Section 15.E.1.e.1; FAR 32.407).

b. **Advances To Non-Profit Contractors*** - A.I.D. has extended the Government policy encouraging advances in certain cases to all

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* This section includes policies and procedures for advances under direct contracts, grants and cooperative agreements with non-profit organizations. References to Handbook 1, Supplement B, Section 15.C apply specifically to procurements involving grants and cooperative agreements.

non-profit organizations including U.S. or international private voluntary organizations, U.S. educational and research institutions, and international research organizations (Handbook 1, Supplement B, Sections 15.C.1.a, and 15.E.1.e.2). The Contracting Officer may authorize such advances, after consulting with the mission or office Accounting Officer, without prior M/AAA/SER approval. A.I.D. does not charge interest on advances to non-profit organizations (Handbook 1, Supplement B, Section 15.E.1.e.2). However, the U.S. Treasury requires that A.I.D. monitor these organizations' cash management practices to ensure that advances are limited to their immediate disbursement needs (Handbook 1, Supplement B, Section 15.C.1.a). The Agency also allows for advance payment of certain costs under both personal and non-personal services contracts with individuals. These are discussed in Handbook 1, Supplement B, Section 15.E.1.e.3.

c. Advances Through Letters of Credit-Treasury Financial Communications System (Handbook 1, Supplement B, Section 15.C.1.d.1; Handbook 19, Appendix 1B, Section B.3.d.3) - A.I.D. can use the Letter of Credit-Treasury Financial Communications System (LOC-TFCS) when advancing funds to educational and non-profit organizations, including international organizations and U.S. state and local governments, under contracts, grants and cooperative agreements. It is a preferred method since it, theoretically, minimizes the amount of time during which cash will be held outside the U.S. Treasury (Handbook 3, Supplement A, Chapter II, Part C, Section 2.0). The Contracting Officer must in fact, use this method when:

- The amount required for advance financing equals or exceeds $120,000 per year;
- There will be a continuing relationship with the institution for at least one year;
- The recipient has the ability to maintain procedures that will minimize the time elapsing between the transfer of funds and their disbursement; and
- The recipient's financial management system meets Federal standards for fund control and accountability (Handbook 1, Supplement B, Section 15.C.1.d.1).

Under the LOC-TFCS procedures (see I TFM 6-2500), the Contracting Officer, through the mission or office Accounting Office, asks the A.I.D./Washington Office of Financial

Management to open and administer the LOC. Once opened, the contractor can electronically withdraw funds, when needed, directly from the U.S. Treasury* through the contractor's commercial bank. The organization can withdraw funds sufficient to meet its "immediate disbursing needs", which the U.S. Treasury has defined as cash requirements for three (3) days (STATE 273219). The Office of Financial Management's Program Accounting and Finance Division (PFM/FM/PAFD) monitors the withdrawals to ensure that they are not made more frequently that once per day, or in amounts less than $5,000 or more than $5,000,000 unless stated in the LOC (Handbook 1, Supplement B, Section 15.C.d.1). The use of the letter of credit must be covered by a clause in the contract, grant, or cooperative agreement whereby the recipient organization agrees to:

- Initiate cash drawdowns only when actually needed for disbursements;
- Provide A.I.D. with timely reports of cash disbursements; and
- Assure that secondary recipients such as subcontractors adhere to the same standards (Handbook 19, Appendix 1.B, Section B.3.d.3.e).

The contractor liquidates the advance by submitting a "No Pay" voucher (SF-1034) to the Office of Financial Management. The Project Officer, whether at the mission or in A.I.D./Washington, must administratively approve the voucher before the Agency considers the vouchered amount to be liquidated (Handbook 19, Section 3.K.3). The entire procedure for managing the LOC, including various reporting requirements, basis for suspending and revoking the LOC, and an explanation of the standard forms used throughout the procedure, is found in Handbook 19, Section 3.K.6.

d. **Advances by Treasury Check** (Handbook 1, Supplement B, Section 15.C.1.d.2) - These advances are payments made by Treasury checks to a contractor upon its request before disbursements are made or services rendered by the contractor, or through the use of predetermined payment schedules. The

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* Formerly, withdrawals were made from the Treasury through a Federal Reserve Bank. This is no longer the case, although Handbook 19, Section 3.K.6 dealing with advances continues to refer to this method as the "Federal Reserve Letter of Credit" procedure.

Contracting Officer can authorize such payments when an advance is justified but the contractor cannot meet the requirements for LOC-TFCS transfers (Handbook 1, Supplement B, Section 15.C.1.d.2). Advances by Treasury check are generally to be no more than the recipient's cash requirements for a 30-day period measured from the date of receipt until the advance is expended.

The Contracting Officer and Accounting Officer must ensure that advances are scheduled in such a way that the Treasury check reaches the contractor only immediately prior to the disbursement of funds in accordance with the contractor's regular disbursement cycle (monthly, bi-weekly, etc.). This should minimize the advance's impact on the public debt level (Handbook 19, Section 3.K.5).

The contract will explain the contractor's procedure for requesting advances. These will normally involve submission of a "Public Voucher for Purchases and Services Other Than Personal" (SF-1034; see Handbook 19, Section 3.K.5.d). The contractor liquidates the advance by submitting a standard voucher marked "No Pay" and any other documentation called for in the contract. The Project Officer must administratively approve the voucher before the Agency considers the vouchered amount to be liquidated (Handbook 19, Section 3.K.3). Any adjustments based on the Project Officer's reviews would be made in subsequent payments (Handbook 19, Section 3.K.5.e).

The control objective of this process is to provide reasonable assurance that payments under direct A.I.D. technical services contracts comply with the Agency's cash management procedures found in Handbook 19, Appendix 1-B, and the Prompt Payment Act (31 U.S.C. 3901, et. seq.), while also giving reasonable assurance that A.I.D. does not pay for services which it does not receive. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance for payments under A.I.D. contracts found in Handbook 19, Chapter 3;**
- **Agency payment policy guidance found in Handbook 1, Supplement B, Chapter 15;**
- **Government-wide regulations for contract financing found in FAR Part 32;**
- **Agency guidance to Project Officers for administrative approval of vouchers found in Handbook 19, Appendix 3A;**

- Agency cash management policies and procedures found in Handbook 19, Appendix 1.B and in the Controller's Guidebook, Chapter 16;

- Agency guidance to mission Accounting Officers on voucher review procedures found in the Controller's Guidebook, Chapter 6; and

- Guidance to Project Officers on methods of contract payment, found in Handbook 3, Supplement A, Chapter II, Part C, Section 2.0.

The advance payment procedure, by its nature, involves greater risks for the Agency than does the contractor reimbursement payment method. Advance payments take place before costs are incurred and prior to any administrative review to ensure that the contractor has spent the A.I.D. funds for legitimate and allowable purposes. If improper expenditures are uncovered, rectification may involve reductions of later advances which may, in turn, effect the contractor's ability to provide its services.

The LOC-TFCS system, while reducing the time during which money is held outside the U.S. Treasury, also allows the contractor considerable flexibility in acquiring U.S. Government funds. This, in turn, requires that the Office of Financial Management closely monitor the procedure for every A.I.D. contractor on a daily basis. Adjustments for excessive or unnecessary withdrawals may require days or weeks to implement, during which time the contractor has the use of these funds, and the U.S. Treasury incurs interest charges which are added to the national debt. The direct A.I.D. contract payment process is also subject to many of the voucher review risks discussed in Chapter 3 under the host country payment process.

F. A.I.D. DIRECT CONTRACT ADMINISTRATIVE AND MONITORING PROCESS

This process involves both those actions which A.I.D. personnel must take to fulfill A.I.D.'s responsibilities under the contract and to ensure that the contractor fulfills the terms of its agreement.

The Project and Contracting Officers are closely involved in administering any direct A.I.D. technical services contract under a bilateral assistance project. Either or both will manage or participate in the procedures for paying the contractor, interpreting contract provisions, resolving disagreements and disputes, providing contractor logistical support including any required mobilization funding, and preparing waiver requests. Many of these procedures have already been explained under previously discussed processes. Handbook 3, Supplement A, Chapter II, Part C provides a summary of the Project and Contracting Officers' roles in these areas of contract implementation.

1. **Monitoring**

The Project Officer is responsible for establishing an oversight system to ensure that the contractor either performs satisfactorily or that proper remedial actions are taken if it does not fulfill its contract terms. This system entails monitoring the contractor's work-in-progress and notifying the Contracting Officer and Accounting Office if that work is unacceptable.

a. Contract Files - The contract monitoring process begins with the Project Officer establishing an operational contract file. The Project Officer maintains a separate file for each contract under each project in his or her portfolio. This file should contain copies of the contract, its amendments, relevant memoranda, cable, contractor reports, site visit reports, and any other pertinent documents and records. The Project Officer must also ensure that copies of pertinent contract documents are given to the Contracting Officer for inclusion in the official contract file, kept by that official. The Accounting Office (generally the mission Controller's Office or Office of Financial Management) also keeps files documenting actions prerequisite to, substantiating, and reflecting contract payments. All three files must be kept current, and, taken together, must provide a complete record of the contract's development and implementation (FAR 4.801, 4.802, and 4.803). In effect, this means that the files must fully document each contract process.* FAR 4.803 contains a listing of the types of documents which should be available in each set of files.

The Project Officer should send a copy of any document in the operational file reflecting either significant development accomplishments or major problems of a potentially recurring nature to the A.I.D./Washington Bureau for Program and Policy Coordination's Development Information Division (PPC/CDIE/DI).

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* A recent review by the President's Council on Integrity and Efficiency (PCIE) found that contract files at several Agencies, including A.I.D., did not contain sufficient documentation to reasonable assure that Contracting Officers performed cost and price analyses or negotiated reasonable prices for goods and services purchased by the Government. The PCIE believed that this occurred because of insufficient supervisory oversight and because Contracting Officers were unaware of the FAR requirements, particularly the need to fully document all contract modifications (see PCIE Report No. AS-PC-9-001 dated October 26, 1988).

This will help the Agency develop an "institutional memory" (Handbook 3, Supplement A, Chapter 11, Part C, Section 2.Q).

The Project Officer's three primary monitoring tools are the contractor report, the site visit, and the review of payment (or liquidation) vouchers. Voucher review has already been discussed under other processes.

b. Contractor Reports (Handbook 3, Supplement A, Chapter II, Part C, Section 2.H) - Each contract will specify the type and frequency of reports which the contractor must submit to the Project Officer or other A.I.D. officials (e.g., Accounting Officer). They will almost invariably include periodic (generally monthly) status and/or progress reports.

The Project Officer, Contracting Officer, members of the mission Project Committee and any other pertinent A.I.D. official should review the various reports. They should immediately apprise the Project Officer of any report deficiencies. The Project Officer should then discuss the problem with the contractor. Common problems with many contractor reports include a failure to clearly describe progress toward defined objectives or targets and to candidly discuss implementation problems encountered during the reporting period.

When problems persist or are particularly noteworthy, the Project Officer should record the difficulties in a memorandum to his or her superior, with copies to the Contracting Officer and contractor. The memorandum officially puts the contractor on notice that A.I.D. considers the matter important and expects the contractor to promptly remedy the situation.

There is no standard format for contractor progress reports. If the report satisfies A.I.D.'s and the host country project manager's monitoring needs, it is adequate (see Handbook 3, Section 11.E.2.a).

c. Site Visits (Handbook 3, Supplement A, Chapter II, Part C, Section 2.K; FAR 42.402) - One of the Project Officer's most important and useful monitoring tools is the periodic visit to the contractor's office or work site. There is no substitute for personal observation to enable a Project Officer to gauge work status and identify actual or potential problems.

There are no agency-wide regulations mandating any minimum number of site visits. The frequency of such visits will depend upon several factors, including the size, complexity and

term of the contract; the urgency of unresolved problems; the availability of travel funds; and the Project Officer's workload.

There are no Agency-wide regulations specifying how the Project Officer should organize or perform the site visit, or the particular steps to be taken or tests to be made to gauge contractor performance. However, Handbook 3, Appendix 11C provides general guidance to the Project Officer performing site visits. The Project Officer should be able to adapt these guidelines to the circumstances of a particular contract. At a minimum, the Project Officer should appraise the contractor's performance by comparing actual observations with contractor reports and contract work plans (see Handbook 3, Section 11.E.2.b). Although not required by Agency regulations, simple tests of the contractor's records, such as verifying cash-on-hand and reviewing inventory records, are a useful method of gauging contractor efficiency and adherence to A.I.D. requirements.

Normally, the Project Officer should notify the contractor of the visit before arriving at the site, and should request that contractor and host country representatives take part in the inspection. Host country involvement enhances the contractor's perception of the relevance of its work to the broader objectives of the project, and keeps host country officials informed of the contractor's activity and progress (Handbook 3, Supplement A, Chapter II, Part C, Section 2.K).

The Project Officer should prepare a report of site visit observations as soon as possible after completing the inspection. While there is no mandatory format for such reports, Handbook 3, Supplement A, Appendix E provides a suggested format. The Project Officer should place the report in the operational contract file, and forward copies to his or her immediate superior, the Contracting Officer, the heads of offices responsible for taking action on specific problems or issues identified during the inspection, and, if warranted, to the mission Director, or Assistant Administrator if the contract is managed or funded from A.I.D./Washington.

d. Project Implementation Reports (Handbook 3, Section 11F) - The Project Officer is responsible for preparing and submitting to mission or office management periodic reports detailing project status. Although the Geographic Bureau and mission will define the precise format, content, and frequency of these reports, Handbook 3, Appendix 11D provides guidance for their formulation and submission. These reports should discuss the status of planned technical services (and commodity)

procurements, and contractor performance. The guidance also suggests that the reports be produced and submitted to management at least semiannually (Handbook 3, Appendix 11D, Section F).

2. Monitoring Incidental Commodity Procurement (Handbook 3, Supplement A, Chapter II, Part C, Section E; Handbook 15, Chapter 3, Section 3.C.5)

Many direct A.I.D. technical services contracts will contain a budget line-item requiring the contractor to purchase commodities, which are defined in Handbook 1, Supplement B, as "any material, article, supply, goods, or equipment." Such commodities will generally be either incidental to the project or required to enable the technical services contractor to fulfill its primary responsibilities (e.g., laboratory equipment).* A majority, or even all, of the commodities for some projects will be purchased in this way.

a. Project Implementation Order/Technical Services (Handbook 15, Chapter 3, Section 3.C.5.a) - The Project Implementation Order/Technical Services (PIO/T) is a primary control document explaining the contractor's commodity procurement role. The PIO/T's scope of work should:

- Explain the contractor's procurement responsibilities; and
- Include commodity details and requirements.**

b. Technical Services Contract (Handbook 15, Chapter 3, Section 3.C.5.b) - Commodity procurements under technical services contracts must comply with A.I.D.'s commodity procurement requirements. These requirements are discussed in Chapter 7 and can be found in Handbook 1, Supplement B; Handbook 14, Volumes I (FAR) and II (AIDAR); and Handbook 15.

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* A Procurement Services Agent, while also a technical services contractor, is hired for the exclusive purpose of managing a procurement.

** Alternatively, A.I.D. may issue a subsidiary Project Implementation Order/Commodities (PIO/C) which names the contractor as A.I.D.'s agent and provides detailed commodity specifications and requirements. This method is generally used, however, when A.I.D. is utilizing a Procurement Services Agent (Handbook 15, Chapter 5, Appendix 5A).

The Contracting Officer must ensure that any direct A.I.D. technical services contract provides for all requirements. The Project Officer must ensure that the contractor complies with the requirements as a part of A.I.D.'s monitoring of contract implementation.

The contract must specify A.I.D.'s requirements in such areas as:

- Subcontract review and approval;
- Subcontract methods;
- Subcontract advertising;
- Commodity eligibility and source;
- Transportation source;
- Subcontractor eligibility;
- Cargo preference;
- Language and specifications;
- Prohibition against certain types of subcontracts;
- Mandatory subcontract clauses; and
- Commodity documentation requirements.

As part of his or her monitoring activities, the Project Officer should ensure that the contractor is procuring commodities on schedule and in conformance with its contract. This may be a difficult monitoring task since, in most cases, a substantial amount of relevant data and documentation will be kept in the contractor's U.S. offices. A.I.D. rarely reviews this documentation.

The Project Officer should also monitor and verify the actual arrival and appropriate utilization of these commodities. This task is generally most effectively carried out during site visits and port inspections, which are discussed above and in Chapter 6.

3. **Evaluation** (Handbook 3, Supplement A, Chapter II, Part C, Section 2.U; CONTRACT INFORMATION BULLETIN 85-17).

A.I.D. no longer requires that Project Officers develop periodic contractor performance reports (A.I.D. Form 1420-43). However, the Project Officer must continue to evaluate contractor performance upon request and for inclusion in project evaluations and reviews.

a. Requests from Technical Evaluation Committees (Attachment to CONTRACT INFORMATION BULLETIN 85-17) - Technical Evaluation Committees conducting reference checks can contact relevant Project Officers on an ad hoc basis and ask for information concerning an offeror's past performance. The Project Officer, in turn, should furnish "candid, accurate, and complete factual information". The Project Officer should note contractor deficiencies and any relevant mitigating circumstances. The Attachment to CONTRACT INFORMATION BULLETIN 85-17, Section 4 contains a listing of the type of information generally requested by Evaluation Committees.

b. Project Evaluation (Handbook 3, Chapter 12) - The Project Officer is responsible for project evaluation reporting (Handbook 3, Section 12.G.2). As part of their evaluation duties, Project Officers should produce reports summarizing the results of project evaluations (Supplement to Handbook 3, Chapter 12, Section 3.7.2). Although management will decide the precise format, content, and frequency of these summaries, they should contain a discussion of contracting problems and contractor performance (see Supplement to Handbook 3, Section 3.4).

The control objective of this process is to provide reasonable assurance that services purchased under direct A.I.D. contracts are provided effectively, efficiently, and as called for under the terms of those contracts. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance to Project Officers for monitoring contractor compliance with contract terms found in Handbook 3, Supplement A, Chapter II, Part C;**
- **General guidelines to Project Officers for monitoring project progress found in Handbook 3, Chapter 11;**
- **Guidance to Contracting Officers in evaluating contractor performance found in CONTRACT INFORMATION BULLETIN 85-17;**

- **General guidance for managing procurement of incidental commodities under technical services contracts found in Handbook 15, Chapter 3, Section 3.C.5; and**

- **Guidance for Project Officers monitoring incidental commodity/procurement found in Handbook 3, Supplement A, Chapter II, Part C, Section E.**

This process is vulnerable in that the most effective monitoring tool, on-site inspection, is also the most time-consuming and resource-intensive monitoring technique. Project Officers have many demands on their time and staff resources. The project or contractor work site most in need of inspection is often the most difficult to reach. Missions often lack adequate travel funds to enable Project Officers to visit work sites as often as desirable. In addition, important contractor records and documents may be kept at the contractor's offices in the United States, and thus not be readily available for mission review. Finally, while the Agency has provided some guidance, it has provided few mandatory monitoring rules. The intensity and effectiveness of contractor monitoring, particularly of the frequency and thoroughness of site visits, is highly dependent upon the importance which mission or office management places upon the monitoring process.

G. TERMINATION AND CLOSE-OUT PROCESS

The final technical services contract process will be terminating and closing out the contract. In most cases, both Project and Contracting Officers will be involved in this process.

1. Termination (FAR Part 49; AIDAR Part 749; Handbook 3, Supplement A, Chapter II, Part C, Section W).

   Most direct A.I.D. contracts end at the termination date stated in the contract. However, all A.I.D. contracts should contain provisions for terminating the agreement before the stated date.

   It is extremely important that the Project Officer keep the Contracting Officer informed of any contractor deficiencies. When a Project Officer believes the contractor's performance is so deficient as to warrant an early end to the contract, he or she should document that conclusion and review the situation promptly with both the Contracting Officer and available Legal Advisor. The Contracting Officer, in turn, must work closely with the Project Officer to correct the deficiency through informal means, such as discussions with the contractor. If this fails to solve the problem, the Contracting Officer can issue formal "show cause"

letters, or terminate the contract. It is the Contracting Officer's responsibility to act promptly to correct poor contractor performance (CONTRACT INFORMATION BULLETIN 85-17).

A.I.D. contracts contain provisions for contract termination, in whole or in part, for convenience of the Government, and for default. The applicable rules and procedures will vary with the type of contract, i.e., whether it is a fixed-price, or a cost-reimbursement contract.

a. Termination for Government Convenience (FAR 49.1, 49.2, 49.3) - The Contracting Officer may end a contract whenever he or she determines such action to be in the Government's best interest (see FAR 49.101). The Contracting Officer begins this procedure by issuing a notice of termination to the contractor. The notice should state:

- That the contract is being terminated for convenience;
- The effective termination date;
- The extent of termination (complete or partial);
- Any special instructions; and
- The steps the contractor should take to minimize the effect of the termination on its personnel, if applicable (FAR 49.102; FAR 49.601).

The contractor submits a settlement proposal to the Contracting Officer. The nature and substance of this proposal will differ with the type of contract (see FAR 49.206 for fixed price contracts, FAR 49.303 for cost reimbursement contracts). When possible, the Contracting Officer should negotiate the settlement based on the proposal and resort to unilateral determination or proposal settlement only if agreement is impossible (FAR 49.103; procedures for settlement by determination are found in FAR 49.109-7).

The Contracting Officer must refer each prime contractor settlement proposal of $25,000 or more, and each subcontractor proposal of $50,000 or more to the A.I.D. Inspector General's Office for review and recommendation (FAR 49.107). This rule does not apply if the proposal is limited to a fee adjustment under a cost reimbursement contract (FAR 49.303-2).

After agreeing upon the settlement terms, the Contracting Officer and contractor sign a settlement agreement ("Amendment of Solicitation/Modification of Contract"; SF-30). This agreement covers any set-offs which the Government has against the contractor that may be applied against the terminated contract, and all subcontractor settlement proposals, save those specifically excepted from the agreement (FAR 49.109-1; additional provisions for final settlement of cost

reimbursement contracts can be found in FAR 49.303-4). The Contracting Officer must:

- Reserve in the settlement agreement any rights or demands of the parties which are excepted from the settlement;
- Ensure that the wording of the reservation does not create any rights for the parties beyond those in existence before execution of the settlement agreement;
- Mark each applicable settlement agreement with "This settlement agreement contains a reservation" and retain the contract file until the reservation is removed;
- Ensure that sufficient funds are retained to cover complete settlement of the reserved items; and
- At the appropriate time, prepare a separate settlement of reserved items and include it in a separate settlement agreement (FAR 49.109-2).

At the conclusion of the negotiations, the Contracting Officer prepares a negotiation memorandum containing the principal elements of the settlement. This memorandum should explain:

- The basis for calculating the amount of the settlement;
- Matters involving differences and doubtful questions settled by agreement, and the bases for those agreements; and
- Any other matters that will assist reviewing authorities in understanding the basis for the settlement (FAR 49.110).

Before the settlement can take effect, the Contracting Officer must also submit the proposal or determination, together with certain specified additional information to an A.I.D. Termination Settlement Review Board (FAR 49.111) if:

- The settlement amount is $50,000 or more; or
- The settlement is limited to adjustment of the fee of a cost reimbursement contract or subcontract, and the adjusted fee is $50,000 or more; or
- The head of the contracting activity (i.e., mission or office Director) determines that a review is desirable (AIDAR 747.111-71).

The Board is composed of the Agency Procurement Executive (i.e., the Assistant to the Administrator for Management), Controller, and General Counsel, or their delegates.* No one who has previously received, approved or disapproved, or recommended approval, disapproval, or other action with respect to any substantive element of the settlement can serve on the Board. Board actions in approving or disapproving proposed settlements are made by majority vote (AIDAR 749.111-70).

The Contracting Officer must ensure that copies of all agreements, decisions, memoranda, review, audit reports, and any other relevant documents are placed in the official contract file.

b. Termination for Default of the Contractor (FAR 49.4) - A.I.D. contracts contain provisions enabling the Contracting Officer to totally or partially end a contract before the stated termination date based upon the contractor's actual or anticipated failure to perform its contractual obligations (FAR 49.401; standard termination clauses and provisions for fixed price and reimbursement contracts are found in FAR 52.249-8, and 52.249-6, respectively).

The Contracting Officer begins the termination procedure by issuing, if possible, a written "show cause" notice to the contractor. This notice should:

- Inform the contractor that termination for default is under consideration;
- Call the contractor's attention to the contractual liabilities if the contract is terminated; and
- Request the contractor to show cause why the contract should not be terminated for default.

It may also state that the contractor's failure to provide an explanation may be taken as an admission that no explanation exists. When appropriate, it may also invite the contractor to confer with the Contracting Officer to resolve the problem (FAR 49.402-3[e][1]; a standard format for a "show cause" notice can be found in FAR 49.607). If the contractor is a small business, the Contracting Officer sends a copy of the notice to the Office of Small and Disadvantaged Business

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* Authority cannot be delegated for settlements in excess of $1 million (AIDAR 749.111-7[b]).

Utilization (SDB) in A.I.D./Washington, and the U.S. Small Business Administration. If possible, the Contracting Officer should confer with SDB officials before continuing with the termination procedure (FAR 49.402-3[e][4]).

The Contracting Officer reviews the contractor's response and determines whether to continue with the procedure. Factors which the Contracting Officer should consider in making this decision are listed at FAR 49.402-3(f), and include a consideration of the specific failure of the contractor and the excuses for the failure.

Upon review, the Contracting Officer may decide that the contractor was not in default, that the failure to perform was excusable, or that other circumstances militate against continuation of the default procedures. In such case the Contracting Officer may revise the procedure to a termination at Government convenience (FAR 49.401[b]), or initiate various procedures in lieu of default (FAR 49.402-4).

If the Contracting Officer decides to continue with the termination for default procedure, he or she issues a notice of termination to the contractor. This notice specifies:

- The contract number and date;
- The acts or omissions constituting the default;
- That the contractor's right to proceed under the contract (or a specific part of the contract) is terminated;
- That the services and supplies terminated may be purchased against the contractor's account, and that the contractor will be held liable for any excess costs;
- If the Contracting Officer has determined that the failure to perform is not excusable, that the notice of termination constitutes such decision, and that the contractor has the right to appeal the decision under the contract's "Disputes" clause;
- That the Government reserves all rights and remedies provided by law or under the contract, in addition to charging excess costs; and
- That the notice constitutes a decision that the contractor is in default as specified and that the contractor has the right to appeal under the contract's "Disputes" clause (FAR 49.402-3[g]).

If the Contracting Officer is unable to determine whether the failure to perform is excusable, he or she may still issue the notice of termination, but must also make a written decision on that point "as soon as practicable" after issue of the notice. The Contracting Officer forwards a copy of the decision to the contractor with a notification of the contractor's appeal rights (FAR 49.402-3[k]).

The Contracting Officer documents the procedure by placing a memorandum in the contracting file. This memorandum should explain the reasons for the default action (FAR 49.402-5; additional procedures applicable to terminating cost reimbursement contracts for default can be found in FAR 49.403).

The Contracting Officer must, finally, ensure that the Government provides to the contractor any funds legitimately owed to it under the contract (FAR 49.402-2). He of she must also ensure that the required services are obtained from other sources (FAR 49.405), and that all costs and damages legitimately owed to the Government under the contract are recovered and collected (FAR 49.402-6 and 49.402-7; FAR 49.405; FAR 49.406).

2. Contract Close-out (Handbook 3, Supplement A, Chapter II, Part C, Section W; FAR 4.804; CONTRACT INFORMATION BULLETIN 87-5).

Contract close-out involves those actions taken by several A.I.D. officials, but by the Contracting Officer in particular, confirming that all substantive and administrative actions required by either A.I.D. or the contractor have been taken, that the contractor has been fully paid under the terms of the contract, and that the contract files have been retained or "retired" as required by Government regulations. The A.I.D./Washington Office of Procurement Support Division (M/SER/OP/PS) should coordinate the close-out, prepare quarterly reports on the close-out status of completed contracts, and maintain central files on all expired contracts (Handbook 17, Section 18.G.4.a).

The Contracting Officer or A.I.D./Washington Office of Procurement should begin the close-out procedure on or before 90 days following the completion of work under the contract (Handbook 3, Supplement A, Chapter II, Part C, Section W). The entire procedure should be completed:

- Within six (6) months of the month in which the Contracting Officer receives evidence of physical completion for fixed-price contracts;

- Within 36 months for contracts requiring settlement of indirect cost rates; and

- Within 20 months for all other contracts, except small purchases which can be considered closed when the Contracting Officer receives evidence of receipt of the property or services and final payment (FAR 4.804-1[a]).

The precise close-out procedures will vary with the type of contract, i.e., fixed price or cost reimbursement. They may also vary with the system established by a particular mission or office, since Agency guidelines allow missions to establish formal close-out systems tailored to their particular needs (CONTRACT INFORMATION BULLETIN 87-5).

a. Close-out of Fixed-Price (and Indefinite Quantity) Contracts (Attachment to CONTRACT INFORMATION BULLETIN 87-5, Section I.A) - Although close-out procedures for fixed price contracts are relatively simple, the Contracting Officer must, nonetheless, ensure that the contractor has complied with the specific terms of its contract, or, if it has not, that termination or other appropriate actions have been taken before closing the contract files.

The Contracting Officer initiates the close-out by obtaining a statement from the Accounting Office that the contractor's final voucher has been paid; providing instructions to the contractor for disposing of any residual Government-owned property; and authorizing deobligation of any residual funds.

The Contracting Officer then prepares and signs a contract completion statement. This document must contain:

- The name and address of the contracting office (and contract administration office if the two offices differed, e.g., a contract signed in A.I.D./Washington but administered by a mission);

- The contract number;

- The last modification, call, and/or order number, it applicable;

- The contractor's name and address;

- The dollar amount of excess funds, if any;

- The voucher number and date of final payment;

- A statement that all required contract administration actions have been fully and satisfactorily accomplished;
- The name and signature of the Contracting Officer; and
- The date of execution (FAR 4.804-5[b]; a copy of this form can be found in Attachment D to the Attachment to CONTRACT INFORMATION BULLETIN 87-5).

The Contracting Officer must place a copy of this statement in the official contract file before finally reviewing the file to ensure that it complies with any applicable provisions of FAR 4.804-5(a). The Contracting Officer retires the files to permanent storage as provided in FAR 4.805.

b. Close-out of Cost Reimbursement Contracts (Attachment to CONTRACT INFORMATION BULLETIN 87-5, SECTION I.B) - The Contracting Officer initiates the close-out by obtaining a statement from the Project Officer that the contract has been physically completed (the standard form statement is found in Attachment A to the cited Attachment).

If the contractor has not forwarded its final voucher to the Accounting Office, the Contracting Officer sends a letter to the contractor asking for the voucher. When the contractor submits its final voucher, it must also forward additional information such as confirmation of sub-contract settlements, a listing of any "limited official use" or "classified" material provided under the contract, a final inventory of residual non-expendable property titled to the U.S. Government, and relevant patent reports, etcetera. The Contracting Officer processes this information as described at Sections I.B.3, 4 and 5 of the cited Attachment.

The Contracting Officer must next audit the contract costs, or, if the total estimated contract cost exceeds $500,000, ask the Office of the Inspector General to perform the audit. The Contracting Officer sends the required information, including the contractor's final voucher, to the audit office with a request for final audit. A copy of the request must be sent to the Accounting Office.

If the estimated contract cost is less than $500,000, the Contracting Officer may perform a desk audit to confirm that the amount claimed as direct costs appear acceptable, that the final indirect costs have been determined, and that the amount of the contractor's cumulative claim does not exceed the total fund amount obligated under the contract. Alternatively, the Contracting Officer may request that the contract be audited

any time a final audit would be cost effective (Section 6 of the cited Attachment).

After resolving all disallowed or questioned costs identified in the audit, the Contracting Officer establishes A.I.D.'s final contract price. This will consist of allowable and accepted costs plus the fixed fee, if applicable. The contractor signs a release form (A.I.D. Form 1420-40; see Attachment C to the cited Attachment), or the Contracting Officer initiates a "quick close-out procedure" described at FAR 42.708.

The Contracting Officer forwards the signed release to the Accounting Office with a request to liquidate all payment advances, if any, and to deobligate the difference, if any, between the final contract price and the funds obligated in the contract completion statement described in FAR 4.804-5(b). He or she then places a copy of the release in the contract file, sends a copy to the Office of Procurement in A.I.D./Washington, and retires the file as described at FAR 4.805.

The control objective of this process is to give reasonable assurance that contractual obligations end in an orderly manner, with each party's rights and obligations protected and enforced. To achieve this objective, A.I.D. uses the following control techniques:

- **Contract termination guidance found in FAR Part 49 and AIDAR Part 749; and**
- **Contract Close-out guidance found in FAR 4.804, and CONTRACT INFORMATION BULLETIN 87-5.**

This process is vulnerable in that it is highly dependent upon Project Officers to inform Contracting Officers of implementation problems warranting termination, and upon Contracting Officers to fulfill the various procedures required to properly close-out a contract. Given the high work load levels under which these officials operate, termination, and particularly close-out procedures, are often not priority considerations.

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CHAPTER 5

CONSTRUCTION SERVICES PROCUREMENT MANAGEMENT UNDER HOST COUNTRY CONTRACTS

This chapter describes A.I.D.'s system for procuring construction services under bilateral assistance projects when the host country is the contracting party.* It discusses the processes which make up that system and the control objectives of the processes. It also identifies the control techniques which the Agency uses to provide reasonable assurance that those objectives are met. Unless otherwise indicated, however, it only applies to those contracts which are solicited internationally, even though local firms may be included in the award competition. When construction contracts are solicited solely within the host country, A.I.D. allows the host country greater flexibility in awarding and managing the contract (see Handbook 11, Chapter 2, Section 1.1.b).

A. PROCUREMENT PLANNING PROCESS (Handbook 3, Appendix 9C; Handbook 3, Chapter 2)

For many projects, procurement planning may be as important as all other aspects of planning combined. For this reason, A.I.D. project designers must begin planning the procurement and designating procurement responsibilities during the earliest phases of project development.

As explained in Chapter 3, project designers must analyze a host country's procurement and management capabilities for inclusion in the Project Paper's Administrative Analysis. They must also develop a procurement plan detailing contracting responsibilities, potential sources of construction services, payment methods, etcetera. While the mission Director must decide whether to use either a host country or direct A.I.D. contract to procure commodities and services, he or she will almost invariably decide that the host government, itself, should procure and manage construction services. The Project Officer must then explain A.I.D.'s procurement requirements to host country managers and prepare waiver requests for any anticipated exceptions from those requirements.

1. Mandatory Rules and Discretionary Procedures (Handbook 11, Chapter 2, Section 1)

The Project Officer must explain that A.I.D. places certain mandatory requirements on host countries contracting for A.I.D.-funded construction services. These include certain

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* Host country contracting is the preferred method for procuring bilateral project construction services (Handbook 11, Chapter 2, Section 2.1).

competitive procurement, nationality, source, payment documentation, A.I.D. approval, local tax, identification marking, and related requirements found in Handbook 11, Chapter 2, Section 2.0. A.I.D. may waive some, though not all, of these rules, if necessary.

Handbook 11, Chapter 2, Section 3.0 contains procedural guidance to be applied or modified, as necessary, to meet the circumstances of a particular procurement. Deviations from these guidelines do not require A.I.D. waivers. Mission and host country managers should discuss and agree upon the particular procedures to use during and after the procurement and formalize these decisions in a Project Implementation Letter (Handbook 11, Chapter 2, Section 1.4).

2. A.I.D. Approvals (Handbook 11, Chapter 2, Section 2.2)

Although A.I.D. is not a party to a host country contract, it can and generally will retain the right to review and approve various host country documents and procedures throughout a procurement. The mission will generally decide upon the extent of this oversight during the Planning Process and will base this decision upon the analysis of host country management capabilities produced during that process.

a. Mandatory Approval (Handbook 11, Chapter 2, Sections 2.2.1 and 2.2.2) - A.I.D. requires a mandatory review and approval at only two points in the construction services procurement. Whenever A.I.D. financing is involved and the contract amount exceeds $100,000, A.I.D. must review and approve:

   - The Invitation for Bids (IFB) and any addenda to the IFB; and

   - The executed contract and any amendments to that contract.

b. Discretionary Approval (Handbook 11, Chapter 2, Sections 2.2.3 and 3.4) - A.I.D. may retain review and approval rights at various points throughout the host country construction services procurement regardless of the contract's value. These rights should be spelled out in a Project Implementation Letter and can include review of:

   - Notices to prospective bidders;

   - Lists of prequalified firms, if any, prior to issuance of Invitations for Bids;

   - Complete Invitations for Bids prior to issuance for contracts of less than $100,000; and

- o Contract administration actions such as subcontracts, assignment of rights to receive payments, change orders, etcetera, as permitted in the contract.

3. **Nationality of Contractors** (Handbook 1, Supplement B, Chapter 5; Handbook 11, Chapter 2, Section 2.5)

During the Planning Process, the mission and host country should decide whether to request that A.I.D. nationality rules be waived, thus expanding the range of firms considered for the contract.

It is A.I.D. policy to avoid competition between U.S. entities and entities owned by governments as suppliers of services (Handbook 1, Supplement B, Section 5.A.1.b.5). Further, A.I.D. will finance a construction services contract only if the services are procured from a country or area included in the geographic zone authorized for the contract. The zones are identified by geographic codes, which are explained in Handbook 18, Appendix D, Section III, Attachment A.11. Such codes are included in all A.I.D.-financed contracts, grants, and loans.

a. Policy (Handbook 1, Supplement B, Section 5.A.1.d) - Section 604(g) of the Foreign Assistance Act (22 U.S.C. 2354) states that A.I.D. funds may not be used for "procurement of construction or engineering services from advanced developing countries eligible under the Geographic Code 941 (Selected Free World), which have attained a competitive capability in international markets for construction services or engineering services." A.I.D. has, therefore, excluded certain countries, normally eligible to provide commodities and services under Code 941, from eligibility when financing engineering or construction contracts (see Handbook 11, Chapter 2, Attachment 2A and Department of State telegram 039564 of February 14, 1981). This rule, together with the rule allowing firms located in the host country to be considered for the award (Handbook 1, Supplement B, Section 5.A.1.d.3), can effectively restrict consideration to firms located in the U.S. and the host country. However, the A.I.D. Administrator, Assistant Administrator, or mission Director (see Handbook 1, Supplement B, Section 5.D.10.c), can expand the area of consideration by authorizing a waiver if:

- o There is an emergency requirement for which non-A.I.D. funds are not available and the requirement can be met in time only from suppliers in a country or area not included in the authorized geographic code;

- No suppliers from countries or areas included in the authorized geographic code are able to provide the required services;

- Persuasive political considerations exist for expanding the area of consideration;

- Procurement of locally available services (where the host country is not already eligible) would best promote the objectives of the foreign assistance program; or

- Such other circumstances arise as are determined to be critical to the achievement of project objectives (Handbook 1, Supplement B, Section 5.D.10.a).

b. Privately Owned Commercial Suppliers (Handbook 1, Supplement B, Section 5.D; Handbook 11, Chapter 2, Section 2.5.2.1) - In general, a privately owned construction firm or an individual may receive an A.I.D.-financed construction contract if:

- The contractor is an individual who is a citizen of and whose principal place of business is in a country or area included in the authorized geographic area (generally the U.S., host country, and developing countries which have not attained a "competitive capability in international markets for construction or engineering services") or a non-U.S. citizen lawfully admitted for permanent residence in the U.S. whose principal place of business is in the U.S.; or

- The contractor is a "for-profit" corporation or partnership that is incorporated or legally organized under the laws of an area included in the authorized geographic code, has its principal place of business in an area included in the authorized code and meets A.I.D.'s incorporation and ownership requirements found in Handbook 1, Supplement B, Section 5.D.1.b.; or

- The contractor is a joint venture or unincorporated association consisting entirely of individuals, corporations, partnerships or nonprofit organizations eligible under the above rules or the nonprofit organization rules below.*

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* Certification requirements for firms and organizations are found in Handbook 1, Supplement B, Section 5.D.1.d.

However, if the host country is included in the authorized geographic code and the contract is $5 million or less, even a firm which does not meet this test (i.e., a foreign-owned local firm) may be eligible if A.I.D. determines that the firm is "an integral part of the local economy." The firm meets this requirement if:

- It has done business in the host country on a continuing basis for not less than three years prior to the issuance date of Invitations for Bids or Requests for Proposals; and
- It has a demonstrated capability to undertake the proposed activity; and
- All, or substantially all, of its directors of local operations, senior staff, and operating personnel are resident in the host country; and
- Most of its operating equipment and physical plant are in the host country.

In order to justify this exception to the standard nationality rules, the mission must first ascertain that no U.S. construction company with the required capability is operating in the host country, or, if there is such a company, that it is not interested in bidding for the proposed contract (Handbook 1, Supplement B, Section 5.D.5).

c. Nonprofit Organizations (Handbook 1, Supplement B, Section 5.D.2; Handbook 11, Chapter 2, Section 2.5.2.1.b) - Nonprofit organizations include educational institutions, foundations, and associations. They are eligible for A.I.D.-financed contracts and subcontracts if they have been certified as required by Handbook 1, Supplement B, Section 5.D.1.d, and they:

- Are organized under the laws of an area included in the authorized geographic code; and
- Are controlled and managed by a governing body, a majority of whose members are citizens of areas included in the authorized geographic code; and
- Have their principal facilities and offices in an area included in the authorized geographic code.

d. Government-Owned Organizations (Handbook 1, Supplement B, Section 5.D.3; Handbook 11, Chapter 2, Section 2.5.2.1.c) - Firms operated as commercial companies or other organizations

(including nonprofit organizations other than public educational institutions) which are wholly or partially owned by governments are generally ineligible for A.I.D.-financed contracts. However, A.I.D. can make such organizations eligible by waiving the prohibition as discussed in Handbook 1, Supplement B, Section 5.D.10, and Handbook 11, Chapter 2, Section 2.5.2.4.2.

e. Joint Ventures (Handbook 1, Supplement B, Section 5.D.4; Handbook 11, Chapter 2, Section 2.5.2.1.d) - A "Joint Venture" is a collaboration of two or more firms whose members are jointly and severally liable with respect to a particular contract (Handbook 11, Chapter 2, Section 1.5.10). A joint venture or unincorporated association is eligible only if each of its members is eligible in accordance with Handbook 1, Supplement B, Section 5.D.

f. Ineligible Contractors (Handbook 1, Supplement B, Section 5.D.6; Handbook 11, Chapter 2, Section 2.5.2.3) - Citizens of any area and firms and organizations located in or organized under the laws of any area, which is not included in geographic code 935 (i.e., "Special Free World," constituting any area or country in the "free world," including the host country), are ineligible for A.I.D.-financed contracts. However, non-U.S. citizens lawfully admitted for permanent residence in the U.S. are eligible regardless of citizenship.

4. Nationality of Employees Under A.I.D.-Financed Services Contracts and Subcontracts (Handbook 11, Chapter 2, Section 2.5.3.

The rules for contractor nationality generally do not apply to employees of contractors and subcontractors. However, employees must be citizens of areas included in geographic code 935 ("Special Free World") or, if they are not, have been lawfully admitted for permanent residence in the U.S. to be eligible for A.I.D. remuneration.

A.I.D. has also developed a "key personnel" policy for employee eligibility. If the A.I.D.-financed construction contractor is a U.S. firm, at least 50 percent of the supervisors and other specified key personnel working at the project site must be citizens or permanent legal residents of the U.S. Missions must, therefore, ensure that construction solicitations and contracts for which U.S. firms will be solicited clearly specify what categories of positions are subject to the U.S. citizen and permanent legal resident requirements. If a geographic code 941 ("Selected Free World," i.e., any independent country of the "free world," with certain exceptions which include the host country) firm other than a U.S.

firm, wins the contract, there is no requirement for a U.S. or code 941 presence on the project.*

5. Other Eligibility Requirements (Handbook 11, Chapter 2, Section 2.6)

In addition to the nationality requirements, A.I.D. has also adopted certain eligibility restrictions designed to advance Congressional or other policy initiatives.

a. Dual-Role Contracting (Handbook 11, Chapter 2, Section 2.6.1) - No firm, its affiliates, or subsidiaries may perform both engineering and construction services (or provide commodities) on the same project. However, the A.I.D. official authorized to approve the contract (e.g., mission Director) may approve such an arrangement under "exceptional circumstances." One of the most common such circumstances is the "turn-key" project explained in Handbook 11, Chapter 2, Section 3.1.2.

b. Unfair Competitive Advantage (Handbook 11, Chapter 2, Section 2.6.2) - A firm, including its affiliates and subsidiaries, should not be employed to perform services when, in the judgment of the A.I.D. official authorized to approve the contract (e.g., mission Director), the firm has been, or might be, placed in a position to achieve an unfair competitive advantage.

c. Suspended, Debarred and Ineligible Bidders (Handbook 11, Chapter 2, Section 2.6.3; Handbook 1, Supplement B, Section 6.C) - A firm is ineligible for an A.I.D.-financed contract unless it certifies with its bid that it is not included on A.I.D.'s list of suspended, debarred, or ineligible bidders, as found under A.I.D. Regulation 8 (22 CFR Part 208; Handbook 15, Chapter 12, Appendix 12.A). The A.I.D. Associate Assistant to the Administrator for Management may waive this prohibition.

The U.S. General Services Administration (GSA) also maintains a listing of Debarred, Suspended, and Ineligible Contractors. If the host country wishes to solicit a bid from a contractor which appears on the GSA list but not the A.I.D. list, it must ask the A.I.D. Project Officer to consult with the A.I.D./Washington Office of the General Counsel to determine

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* Mission Directors may authorize written exceptions to this policy if "special circumstances" make compliance impractical.

whether the firm should be placed on A.I.D.'s list and thus be made ineligible. Mission Contracting Officers should have current copies of both lists.

d. Equal Opportunity Requirements (Handbook 11, Chapter 2, Section 2.6.4; Handbook 1, Supplement B, Section 6.D.4) - It is A.I.D. policy that contractors under all A.I.D.-funded host country contracts must not discriminate in the recruitment or employment of personnel in the U.S. because of race, color, sex, religion, or national origin. To implement this policy, A.I.D. requires that any firm incorporated or legally organized in the United States be eligible for an A.I.D.-financed contract only if it certifies in its bid that it is in compliance with its equal opportunity obligations under Executive Order 11246, as amended, and orders issued thereunder. The A.I.D. Administrator alone has authority to waive this requirement.

The control objectives under this process are to provide reasonable assurance that A.I.D. will retain sufficient oversight authority to ensure that contractors awarded host country construction contracts comply with mandatory eligibility requirements and that sufficient consideration and analysis are given to any A.I.D.-approved deviations from these requirements. To achieve these objectives, A.I.D. uses the following control techniques:

- Policy guidance on Agency contractor nationality requirements contained in Handbook 1, Supplement B, Chapter 5;
- Policy guidance on Agency suspension, debarment, and antidiscrimination rules in Handbook 1, Supplement B, Chapter 6;
- Mandatory and discretionary review and approval requirements found in Handbook 11, Chapter 2, Sections 2.2 and 3.4;
- Rules and guidance for contractor nationality requirements found in Handbook 11, Chapter 2, Section 2.5.2; and
- Rules and guidance for contractor requirements other than nationality found in Handbook 11, Chapter 2, Section 2.6.

B. ARCHITECTURAL AND ENGINEERING SERVICES ACQUISITION PROCESS (Handbook 11, Chapter 2, Section 3.1)

The host country will generally use the services of an architectural and engineering (A&E) firm to assist in procuring and overseeing A.I.D.-financed construction services. The hiring of an A&E firm may, therefore, be seen as a preliminary process in the construction services

procurement function. It is an extremely important process, however, since the A&E personnel will not only supervise the actual construction, but will also monitor the construction contractor's daily progress in implementing its contract. The firm thus serves as the host country's and A.I.D.'s "eyes and ears" at the construction site.

1. Hiring the A&E Firm (Handbook 11, Chapter 2, Section 3.1.1.a; Handbook 1, Supplement B, Section 12.B.2.d)

   Although either the host country or A.I.D. may award and manage the A&E contract, the host country will generally perform this action.

   a. Host Country Contract - When the host country is the contracting party, it hires the A&E firm by using the procurement procedures discussed in Chapter 3 and found in Handbook 11, Chapter 1. A.I.D. monitors the procurement by reviewing and approving host country documents and procedures at various points throughout the procurement and relies upon the Project Officer to monitor implementation according to standard A.I.D. procedures (as discussed in Chapter 3).

   b. Direct A.I.D. Contract - If A.I.D. is the contracting party, it manages the procurement and contract implementation as generally described in Chapter 4.

      A.I.D. notifies professional firms of the prospective procurement by publishing a Notice of Proposed Contract for architect and engineering services in the U.S. Department of Commerce's Commerce Business Daily. An A.I.D. evaluation panel then considers the technical qualifications of all firms interested in providing the required services and holds preliminary discussions with the three or more firms which it judges to be most highly qualified. The firms do not submit price or cost information for these discussions.

      The evaluation panel prepares a selection memorandum recommending at least three firms to the head of the procuring activity (e.g., mission Director). The firms are listed in rank order, with an explanation of the basis for the ranking. The panel includes in its memorandum an estimate of the cost to A.I.D. The Contracting Officer will use this information during subsequent negotiations.

      The head of the procuring activity reviews the proposed selection. If approved, the Contracting Officer obtains a new or revised proposal, including cost, and negotiates a contract with the highest ranked firm. If the Contracting Officer and firm cannot reach an agreement, the Contracting Officer halts

the negotiations and calls upon the second ranked firm to negotiate. The procedure continues until the parties reach a satisfactory agreement.

2. Role of the A&E Firm (Handbook 11, Chapter 2, Section 3.1)

Since the Engineer will generally be working under a host country contract, the host country's contracting agency will designate the Engineer's responsibility and authority. These will be set forth in the contract's Statement of Work.

a. Responsibilities (Handbook 11, Chapter 2, Section 3.1.1.b) - The Engineer's specific responsibilities will vary with the nature of the anticipated construction. They may, for example, include:

- Designing the facility to be constructed;
- Preparing the host country's cost estimate and proposed construction schedule (see Handbook 11, Chapter 2, Section 3.2 for an explanation of construction schedule and cost estimate preparation);
- Preparing the prequalification questionnaire and advertisement;
- Analyzing prequalification information;
- Preparing the Invitation for Bids, including the Technical Specifications and Drawings;
- Assisting the host country in analyzing and evaluating bids;
- Supervising the work of the construction contractor;
- Preparing progress reports to the host country; and
- Preparing "as built" drawings.

b. Supervisory Role (Handbook 11, Chapter 2, Section 3.1.1.c) - One of the Engineer's most important tasks will generally involve supervising the ongoing work of the construction contractor. The extent of this authority must be clearly stated in the Invitation for Bids and construction contract to eliminate any misunderstandings among host country, Engineer, construction contractor, and the mission over the Engineer's role.

The Engineer's authority is usually limited by an action's monetary consequences. For example, the Engineer may have the authority to unilaterally issue Change Orders for work involving additional or reduced costs up to stated individual and aggregate amounts. Changes for larger amounts must be approved by the host country. These authorities and limitations should be clearly set forth in the Engineer's contract with the host country. While the Engineer's specific supervisory authority and responsibility will vary with the nature of the anticipated construction, they may, for example, include:

- Generally supervising the construction work to ensure compliance with the Technical Specifications and drawings;
- Coordinating the work of multiple contractors at the work site;
- Conducting tests of materials and workmanship;
- Measuring or verifying the quantity or extent of work performed by the contractors;
- Issuing Change Orders or approving subcontracts;
- Approving drawings prepared by the contractor;
- Issuing payment certifications;
- Assisting the host country during final inspection and acceptance of the completed work; and
- Issuing the certificate of completion.

The control objectives under this process are to provide reasonable assurance that the host country (and A.I.D.) acquire adequate technical expertise to meet the project's engineering and design requirements and to guide, oversee, and report upon the work of the construction contractor. To achieve these objectives, A.I.D. uses the following control techniques:

- **Guidance on the role of the Architectural and Engineering technical services contractor found in Handbook 11, Chapter 2, Section 3.1;**
- **Guidance for Project Officers which defines their relationship with the consulting Engineer and the importance of the Engineer's role found in Handbook 3, Supplement B, Chapter V, Section C;**

- **Rules and guidance for technical services procurement found throughout Handbook 11, Chapter 1; and**

- **Policy guidance for direct A.I.D. procurement of Architectural and Engineering services found in Handbook 1, Supplement B, Section 12.B.2.d.**

C. CONTRACT-TYPE SELECTION PROCESS (Handbook 11, Chapter 2, Section 3.3)

The host country decides which type of contract will be most appropriate for the specific procurement. The mission Project Officer will generally provide advice concerning the types which A.I.D. will and will not finance and the advantages and disadvantages of each acceptable type.

The host country will generally use either a fixed price or a cost reimbursement-plus-fixed-fee contract. In no case will A.I.D. finance a cost-plus-percentage-of-cost contract. Such contracts provide a disincentive to contractor efficiency since the contractor's profit increases without limitation as the contract's cost increases (Handbook 11, Chapter 2, Section 2.8).

1. Fixed-Price Contracts (Handbook 11, Chapter 2, Section 3.3.1)

The host country will generally use a fixed-price contract to obtain construction services. This type of contract has two common variants--lump sum and unit price. A single fixed-price contract will often contain elements of both variants.

a. Lump-Sum Contracts (Handbook 11, Chapter 2, Section 3.3.2) - A lump-sum contract is normally used for buildings, structures, or other facilities when the quantities involved can be accurately determined and variations are expected to be minimal. The contractor may receive either one payment upon contract completion or a series of progress payments based on completion of certain stages or a percentage of the total contract price at fixed times.

b. Unit Price Contracts (Handbook 11, Chapter 2, Section 3.3.3) - A unit price contract is normally used when quantities are variable, such as in earth moving. The contractor is paid for the actual quantities of work accomplished at a unit price. This price is set in the contract for the specific type of work to be performed, e.g., cubic yards of concrete emplaced or earth excavated. The unit price includes direct costs, indirect costs, and contractor profit. The host country will generally choose this type of contract if the required work can be precisely defined but the quantities are expected to vary from design estimates or if provisional items, such as overhaul which may or may not be used, are included in the contract.

2. **Cost Reimbursement Plus Fixed-Fee Contracts** (Handbook 11, Chapter 2, Section 3.3.4)

The mission Project Officer may advise the host country to use a cost reimbursement plus fixed-fee contract when the types of work and quantities cannot be defined with sufficient precision to enable a contractor to estimate its cost with reasonable accuracy. A contract may contain both reimbursement and fixed price elements. For example, major plant remodeling or equipment installation and plant start-up may be paid on a reimbursement basis while building construction is paid according to a fixed price.

Cost reimbursement contracts are, as a rule, less desirable than fixed-cost contracts. Reimbursement contracts are more difficult for the host country and Architectural and Engineering firm to manage. The contract's actual costs are difficult to estimate and the host country bears the cost of all overruns. For that reason, these contracts must be closely monitored to ensure that the contractor is operating efficiently and effectively in fulfilling its obligations. The Project Officer should seek the assistance of the Regional Legal Advisor and mission Engineering staff if the host country contemplates using this type of contract.

The control objective of this process is to give reasonable assurance that the host country selects a contract acceptable to A.I.D. The host country uses its own procedures to select the contract type, but A.I.D. must monitor the process to prevent the host country from selecting an unallowable form of contract. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance in choosing the most applicable type of contract found in Handbook 11, Chapter 2, Section 3.3;**
- **The prohibition of cost-plus-percentage-of-cost contracts found in Handbook 11, Chapter 2, Section 2.8; and**
- **Guidance for Project Officers assisting the host country in this process found in Handbook 3, Supplement B, Chapter V, Section D.**

This process is vulnerable in that it is heavily dependent upon host country analytical capabilities in selecting the appropriate type of contract. The Project Officer must be alert to the possibility that an apparently allowable type of contract may actually be an unallowable cost-plus-percentage-of-cost agreement.

D. PREQUALIFICATION PROCESS (Handbook 11, Chapter 2, Section 3.5; Handbook 3, Supplement B, Chapter V, Section F.1)

After the host country determines what construction services are required and the type of contract that is most appropriate, it next prequalifies interested firms. The host country must use this process unless it obtains a written waiver from the A.I.D. mission or office Director allowing it to immediately begin developing and distributing Invitations for Bids, the next process (Handbook 11, Chapter 2, Section 3.5.1).

During this process, the host country will predetermine the responsibility* of prospective bidders. This predetermination can lower the risk of serious problems which may arise if a low bid must be rejected because the bidder was unqualified to perform the required work. Moreover, prequalification saves less qualified or unqualified firms the time and expense of preparing bids and the cost of visiting the construction site. It also saves the host country the time and expense of evaluating such bids.

1. Advertising the Notice of Availability (Handbook 11, Chapter 2, Section 3.5.2; Handbook 3, Supplement B, Chapter V, Section F.1.a)

If the estimated cost of the contract is $500,000 or more, the host country must advertise the fact that prequalification questionnaires are available upon request. The host country does this by asking the mission Project Officer to contact the A.I.D./Washington Offices of Small and Disadvantaged Business Utilization (SDB) or Procurement (O/PRO) to place a notice of availability in the U.S. Department of Commerce's Commerce Business Daily (CBD). The host country and consultant Engineer should develop the notice using the standard format found in Handbook 11, Chapter 2, Attachment 2.B.

The Project Officer will generally cable the notice to A.I.D./Washington so it will arrive at least 60 days before the final date at which completed questionnaires may be submitted to the host country. It is the Project Officer's responsibility to take appropriate measures to ensure that questionnaires are promptly available to perspective bidders. The Project Officer may review and approve the notice if this right was reserved in the Project Agreement or a Project Implementation Letter.

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* A "responsible bidder" is one which has the technical expertise, management capability, workload capacity, and resources to perform the required work (Handbook 11, Chapter 2, Section 3.5.1).

If the estimated contract cost is less than $500,000, the host country may advertise the notice in the CBD, but this is not mandatory. If the host country does not advertise in the CBD, it must, nonetheless, place suitable advertising in appropriate local, regional, or international publications in accordance with local practice.

a. **Content of the Notice of Availability** (Handbook 11, Chapter 2, Section 3.5.2) - The Commerce Business Daily notice of availability should contain:

- A brief description of the project, the services involved and expected construction schedule;
- The name of the host country Contracting Agency;
- The address(es) at which interested firms may obtain prequalification questionnaires;
- The deadline for receipt of prequalification information, which should never be less than 30 days from the date of publication (Handbook 11, Chapter 2, Section 3.5.4);
- A statement of how late prequalification information will be handled;
- A statement regarding the eligible nationality of the contractor and the source of any incidental goods;
- The approximate dates of availability of Invitations for Bids and bid opening; and
- A statement that A.I.D. will, or is expected to, finance the project.

b. **Waiver of Advertising of Notice of Availability** (Handbook 11, Chapter 2, Section 2.4.2; Handbook 3, Supplement B, Chapter V, Section F.1.a) - The A.I.D./Washington Regional Assistant Administrator for the mission's Geographic Bureau may waive the Commerce Business Daily advertising requirement. This may be done to avoid a serious delay in project implementation, provided that efforts are made to secure bids from a reasonable number of potential contractors. A waiver of this type is meant for an emergency situation and not to compensate for inadequate project planning which failed to allow adequate time to meet the advertising requirement.

2. **Developing and Distributing the Questionnaire** (Handbook 3, Supplement B, Chapter V, Sections F.1.b and F.1.c)

The host country and Architectural and Engineering consultant are responsible for preparing the questionnaire. The Project Officer should provide the host country and Engineer with a copy of A.I.D.'s standard Prequalification Questionnaire for Construction Contracts found in Handbook 11, Chapter 2, Attachment 2C. This form asks the potential bidders to provide an outline of their general and specialized qualifications, such as applicable experience, reputation, job capacity, etcetera. The host country may use this or any form which elicits similar information, if acceptable to A.I.D.

If a joint venture is seeking prequalification, each joint venturer must provide the required information. Each member firm must meet the nationality and other eligibility rules described under the Planning Process. However, the joint venture should be treated as a unit when determining technical and other qualifications. If subcontracting is contemplated by any firm or joint venture, the host country may ask for pertinent information concerning major subcontractors.

The host country sends a copy of the questionnaire to all interested firms responding to the Notice of Availability, as well as other firms which it desires to solicit.

3. **Evaluating the Questionnaire Responses** (Handbook 11, Chapter 2, Section 3.5.5; Handbook 3, Supplement B, Chapter V, Section F.1.c)

The consulting Engineer is normally responsible for developing the formula to be used in evaluating the prequalification questionnaire responses as well as for the actual evaluation process. The host country Contracting Agency, with the Engineer's assistance, evaluates the information based on this formula.

As part of its evaluation, the host country should contact a sufficient number of the business references listed by each firm in order to assess the firm's experience and capabilities.

The Project Officer can be particularly helpful in checking the performance records of firms claiming A.I.D. experience. He or she may obtain additional information concerning U.S. firms from A.I.D.'s centralized reference services. The Center for Development Information and Evaluation's Development Information Division, located within the A.I.D./Washington Bureau for Program and Policy Coordination (PPC/CDIE/DI), can retrieve business data from numerous computerized data bases such as Dunn and Bradstreet, and Standard

and Poor's. The Project Officer should generally contact the A.I.D./Washington backstop officer within the mission's Geographic Bureau for help in identifying the appropriate bases to search.

The host country informs each firm submitting a questionnaire whether or not it has been deemed qualified for the project. Notification should be made in a timely manner. Qualified firms are sent an Invitation for Bids or told how to obtain one. Handbook 11, Chapter 2, Attachments 2D and 2E provide examples of such notifications.

The Project Officer may review the prequalification evaluations and results if this right was reserved in the Project Agreement or a Project Implementation Letter. The Project Officer must be particularly alert to ensure that no information concerning specific procurement requirements is released to any potential bidders before the questionnaires are issued. He or she must also be alert to the release of any substantive information to potential bidders before, during, or after the questionnaire evaluation procedure which would give the recipients an unfair competitive advantage during contract bidding (Handbook 11, Chapter 2, Section 3.5.6).

The control objectives of this process are to give reasonable assurance that the later Contract Award Process proceeds expeditiously and efficiently by eliminating only those prospective bidders who are unqualified or less qualified to provide needed construction services. It saves unqualified or marginally qualified firms the time and expense of preparing proposals and the host country time and expense of evaluating such proposals. To achieve these objectives, A.I.D. uses the following control techniques:

- **Prequalification procedural guidance found in Handbook 11, Chapter 2, Section 3.5; and**
- **Guidance for Project Officers monitoring the Prequalification Process found in Handbook 3, Supplement B, Chapter V, Section F.1.**

This process is vulnerable in that it is highly dependent upon the Architectural and Engineering consultant to provide an effective evaluative formula and sound advice to host country officials evaluating prequalification data. It is also highly dependent upon the Project Officer to ensure that the host country does not use the process to help direct awards to preferred but less qualified contractors. The host country might attempt to accomplish this by prequalifying or refusing to prequalify certain firms without substantial basis, by attempting to manipulate the evaluative criteria or formula, or by unfairly releasing information to preferred potential contractors. The Project Officer is in a difficult position when attempting to prevent such favoritism since

A.I.D. is not a party to the contract and A.I.D. officials do not play a direct role in the evaluative procedure.

E. **INVITATION FOR BIDS DEVELOPMENT AND DISTRIBUTION PROCESS** (Handbook 11, Chapter 2, Sections 3.6., 3.7, and 4.0; Handbook 3, Supplement B, Chapter V, Sections F.2 through F.6)

The Invitation for Bids (IFB) is the basic construction contracting document. It not only asks firms to compete for the contract, but it also includes the specifications and conditions governing the performance of the required work. When signed by the host country and successful bidder, it becomes the contract. The IFB establishes the criteria against which bidders will be judged. A poorly prepared IFB can lead to protracted discussions between bidders and the host country and delayed project implementation.

The host country, assisted by the consultant Engineer and advised by mission personnel, as necessary, develops the IFB. The Project Officer should provide the host country with a copy of A.I.D.'s sample host country construction IFB found in Handbook 11, Chapter 2, Attachments 2J through 2S.

1. **Content of the IFB** (Handbook 11, Section 4.0; Handbook 3, Supplement B, Chapter V, Section F.4)

The IFB usually includes the following sections:

- o A cover letter inviting bids;
- o Instructions to bidders;
- o Form of Tender;
- o Bill of Quantities;
- o Forms of Bid, Performance and Payment Bonds or Guarantees;
- o Form of Agreement;
- o Conditions of Contract, Parts I and II; and
- o Technical Specifications and Drawings

Each of these sections is explained in detail in Handbook 11, Chapter 2, Sections 4.1 through 4.8.

a. **Mandatory Provisions** (Handbook 11, Chapter 2, Sections 2.11 and 4.7.2.2) - A.I.D. encourages flexibility in accepting contract terms which the host country may develop to fit

particular project circumstances. However, certain provisions must be included in all A.I.D.-financed host country construction contracts. Such contracts must contain terms:

- o Protecting A.I.D. against exposure to legal liability;
- o Stating the eligible nationality of any subcontractors for services and nationality and source for procurement of commodities;
- o Requiring the contractor to submit a "Contractor's Invoice and Contract Abstract" (A.I.D. Form 1440-3) with each payment request;
- o Stating air travel and transportation preference requirements;
- o Providing for workman's compensation insurance (see Handbook 11, Chapter 2, Section 4.7.2.2.e for an explanation of coverage under the Defense Base Act [42 U.S.C. 1651, et seq.]);
- o Requiring that job sites be identified to show that the project is financed by the United States Government (see Handbook 1, Supplement B, Chapter 22 for an explanation of A.I.D.'s "Marking" requirement policy); and
- o Exempting A.I.D. funds from being used to pay any identifiable taxes of the host country or its political subdivisions.

b. Bonds and Guaranties (Handbook 11, Chapter 2, Section 3.6.3) - As a general rule, IFBs will require the contractor to provide various bonds* or guaranties* common in the construction industry. These may include bid, performance, and

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* A bond is an instrument executed by a surety which assures the host country that, in the event the contractor fails to satisfy its obligations, the surety will either assume the contractor's obligations or ensure payment of any losses sustained by the host country to the extent of the bond. A guaranty is generally a letter of credit issued by a banking institution at the contractor's request which provides for payment up to a specified amount to a designated party upon presentation of prescribed documents indicating an unfulfilled obligation on the part of the contractor (Handbook 11, Chapter 2, Sections 3.6.3.1.a and 3.6.3.1.b).

payment bonds or guaranties, which are explained in Handbook 11, Chapter 2, Sections 3.6.3.1.c, 3.6.3.3, and 3.6.3.4.

A.I.D. prefers that contractors use surety bonds rather than bank guaranties unless surety bonding is unavailable or local law requires a guaranty. Bonds are generally less costly to obtain, place the responsibility for completion of the contractual requirements upon the surety, and, unlike guaranties, do not normally encumber the contractor's assets, thus keeping open the contractor's credit lines. This results in reduced costs to the host country by reducing the contractor's performance cost and increasing competition.

The IFB must indicate any required bonds or guarantees, which must, in turn, be issued by acceptable surety companies, insurance companies, or banking institutions. These companies must meet criteria comparable to those established by the U.S. Treasury Department for acceptable sureties on Federal Bonds. Banks issuing guaranties must meet criteria comparable to those established by the U.S. Controller of the Currency for guaranties issued by United States national banks.

If, after contract award, the contract price is increased for any reason by more than 10 percent, A.I.D. may require that the amount of any performance and payment bonds or guaranties be increased in an amount satisfactory to A.I.D. (Handbook 11, Chapter 2, Section 3.6.3.2).

2. **Advertising the IFB** (Handbook 11, Chapter 2, Sections 2.4 and 3.6.5.1)

If prequalification was not used, the host country must advertise the availability of the IFB. The rules and procedures for advertising the IFB are the same as those governing advertising of the availability of prequalification questionnaires. Publication of notices of IFB availability in the U.S. Department of Commerce's Commerce Business Daily is mandatory if the contract is expected to exceed $500,000 and optional in other cases. If the Commerce Business Daily is not used, the host country must advertise the notice in appropriate local, regional, or international journals, newspapers, etcetera. Advertising is not required if the host country has obtained A.I.D.'s permission to negotiate a contract pursuant to the rules set forth in Handbook 11, Chapter 2, Sections 2.3.2 and 2.3.3 (see Contract Award Process).

If advertised in the Commerce Business Daily), the notice should include:

- o A brief description of the project, the services involved, and proposed schedule for implementation;
- o The name of the host country Contracting Agency:
- o The address(es) at which interested firms may obtain IFBs, including any required cost and method of payment for obtaining the IFB;
- o The deadline for receipt of bids;
- o A statement regarding the eligible nationality of the contractor and the source of any incidental goods; and
- o A statement regarding the sources of funding.

3. Establishing Qualification Information (Handbook 11, Chapter 2, Section 3.6.5.2)

When prequalification was not used, the host country must determine a bidder's qualifications after a bid has been received. In such circumstances, the Project Officer should advise the host country to include an evaluation questionnaire with the IFB. An example of such a questionnaire is found in Handbook 11, Chapter 2, Attachment 2C.

The IFB must state the factors which the host country will use in evaluating a bidder's qualifications. The bidder should return the qualification information in a separate envelope. The host country evaluation officials should open these envelopes and review the qualifications prior to bid opening. The reviewers should return, unopened, the bids of unqualified bidders.

4. A.I.D. Review and Approval of the IFB (Handbook 11, Chapter 2, Section 2.2.2; Handbook 3, Supplement B, Chapter V, Section F.4)

A.I.D. considers the IFB to be a primary control mechanism for the entire host country construction contracting system. For that reason, A.I.D. must review and approve, before issuance, any IFB for an A.I.D.-funded host country construction contract exceeding $100,000. A.I.D. will generally also reserve the right to review and approve IFBs for contracts of lesser amounts. A.I.D. must likewise review and approve any amendments or corrections to such IFBS. The mandatory A.I.D. review and approval of a final construction contract may then be based on an analysis of any differences between the approved IFB and the final contract and contractor selected by the host country.

The Project Officer, assisted by the Regional Legal Advisor, mission engineering staff, Contracting Officer and Accounting Office personnel, normally reviews the IFB. The Regional Legal Advisor

should review the entire IFB for any unexpected or unanticipated legal implications it might present. The Accounting Officer (generally the Controller) should review the payment method(s) contained in the IFB, while the engineering staff reviews its scope of services and technical and materials specifications. The Contracting Officer should review the entire IFB for consistency and contractibility.

The Project Office must ensure that the IFB contains all mandatory terms and requirements as well as both the general conditions and conditions of particular application described in Handbook 3, Supplement B, Chapter V, Sections F.4.a and F.4.b. Acceptance may be documented in a Project Implementation Letter drafted by the Project Officer and signed by the mission Director.

5. Distributing the IFB (Handbook 11, Chapter 2, Section 3.7; Handbook 3, Supplement B, Chapter V, Section F.5)

The host country must distribute the IFB to all prequalified firms. If prequalification was not used, it must forward IFBs to all firms requesting a copy, and may issue copies to other firms it wishes to solicit. Normally, the host country will not charge for the IFB; however, if a charge is made, it must not exceed the cost of production and mailing (Handbook 11, Chapter 2, Section 3.7.1).

a. Prebid Conference (Handbook 11, Chapter 2, Section 3.7.2; Handbook 3, Supplement B, Chapter V, Section F.6) - After the initial IFB distribution but before responses are returned, the Project Officer may advise the host country to hold a prebid conference with the prospective bidders. The conference should be held at a time and place convenient to both the host country and prospective bidders. The purpose of the conference is to exchange information with prospective bidders concerning local conditions, answer any questions about bid documents, and provide any other explanations that may be necessary about A.I.D.'s role in the procurement.

While the Architectural and Engineering consultant will generally arrange for and lead the conference, the mission Project Officer and members of the engineering staff will usually attend on A.I.D.'s behalf. The host country communicates any clarification or elaboration of the IFB considered warranted in light of the prebid conference to all potential bidders, including those who may not have attended the conference. Such changes are issued as addenda to the IFB.

b. Addenda to the IFB (Handbook 11, Chapter 2, Section 3.7.3) - The host country amends or corrects a distributed IFB by issuing an addendum. The host country must distribute the

addendum promptly to each IFB recipient. Information given to any prospective bidder concerning the IFB must be promptly furnished to all prospective bidders if the information is related to the preparation of bids or would be prejudicial to any uninformed bidder. Bidders must acknowledge receipt of addenda as part of their bids, and bid closing dates may be extended to afford bidders time to prepare or modify their bids in light of the addenda.

A.I.D. must review and approve addenda to any IFB for a contract expected to exceed $100,000. As a general rule, A.I.D. also reserves the right to review addenda to IFBs expected to result in contracts of lesser value as well (Handbook 11, Chapter 2, Section 2.2.2).

The control objectives of the Invitation for Bids development and distribution process are to give reasonable assurance that Invitations for Bids comply with A.I.D. mandatory content requirements, contain appropriate bonds and guaranties, are advertised, if required, and are distributed to the greatest possible extent to encourage maximum competition for the contract award. To achieve these objectives, the Agency uses the following control techniques:

- Rules for mandatory terms to be included in each A.I.D.-funded construction services Invitation for Bids, found in Handbook 11, Chapter 2, Sections 2.11 and 4.7.2.2;
- Invitation for Bids standard format guidance found in Handbook 11, Chapter 2, Section 4.0;
- Bond and Guaranty guidance found in Handbook 11, Chapter 2, Section 3.6.3;
- General guidance for A.I.D. review and approval of Invitations for Bids found in Handbook 11, Chapter 2, Section 2.2.2; and
- Guidance for Project Officers involved in monitoring the host country's and consultant Engineer's implementation of this process, found in Handbook 3, Supplement B, Chapter V, Sections F.2 through F.6.

This process should be relatively less vulnerable since A.I.D. requires that missions review and approve IFBs before distribution.

F. CONTRACT AWARD PROCESS (Handbook 11, Chapter 2, Section 3.8; Handbook 3, Supplement B, Chapter V, Section F.7)

The host country, with the Architectural and Engineering consultant's assistance, manages the Award Process. Mission officials monitor the

process, provide advice as requested, and generally must review and approve awards. The host country may award the contract through either formal bidding procedures, negotiations with qualified bidders, or, under extraordinary circumstances, by negotiation with a single source.

1. **Formal Competitive Bidding** (Handbook 11, Chapter 2, Section 3.8; Handbook 3, Supplement B, Chapter V, Section F.7)

   Host countries generally follow a formal competitive bidding and evaluation procedure when awarding A.I.D.-financed construction contracts.

   a. Bid Reception (Handbook 11, Chapter 2, Sections 3.8.1, 3.8.2, and 3.6.2; Handbook 3, Supplement B, Chapter V, Section F.7) - The host country should record the receipt of the bids in an orderly manner and safeguard them pending their scheduled public opening.

      In general, late bids, i.e., bids received after the reception deadline specified in the Invitation for Bids (IFB), should be returned to the bidder unopened. Every IFB should contain a statement that the bidder is responsible for ensuring that its bid is received on time. A later bid should not be considered even though it was delayed by circumstances beyond the bidder's control. Late bids should only be considered if the sole cause of their being late was attributable to the host country or its agents (e.g., consultant Engineer).

   b. **Bid Opening and Evaluation** (Handbook 11, Chapter 2, Section 3.8.4; Handbook 3, Supplement B, Chapter V, Section F.7) - The bids are opened and read publicly at the time and place specified in the IFB. At a minimum, the host country officials, or the consultant Engineer, announce each bidder's name and bid price. They then record each bid's IFB number, date, bidder's name, bid amount, presence or absence of a bid bond, and other appropriate data.

      Host country officials and/or the consultant Engineer evaluate the bids. Bids must be "responsive," prices "reasonable," and bidders "responsible" for a bid to be considered eligible for award (Handbook 11, Chapter 2, Section 3.8.4.b).

      A "responsive bid" is one which complies with all terms and conditions of the IFB without material modification. A material modification, in turn, is defined as one which:

      - Affects, in any way, the price, quality, scope, or completion date of construction services; or

- Limits, in any way, the IFB-defined responsibilities, duties, or liabilities of the bidder; or

- Limits, in any way, the IFB-defined rights of the host country contracting agency or A.I.D.

The host country may waive minor bid informalities which do not, in its opinion, constitute material modifications but must be aware, when doing so, that A.I.D. may refuse to finance the contract if it disagrees with this action.

Host country officials should not allow bidders to modify unresponsive bids after opening in order to make them responsive. However, the host country may ask a bidder to clarify a bid as long as no material modification is made (Handbook 11, Chapter 2, Section 3.8.4.b.1).

"Price reasonableness" is determined by comparing the bid price with updated detailed cost estimates which the host country or consultant Engineer should have developed before the Contract Award Process began (Handbook 11, Chapter 2, Section 3.2.1). The bid price itself will generally be composed of U.S. dollar and local currency amounts. The bidder should have converted the local currency amount into U.S. dollars at a predetermined exchange rate given in the IFB, thus arriving at a total U.S. dollar-denominated bid price. If any factor other than price is to be used in evaluating bids, the monetary value of each such factor must be computed according to a formula contained in the IFB. Such adjusted bids are known as "evaluated bids" (Handbook 11, Chapter 2, Section 3.8.4.b.2).

When determining the reasonableness of unit price contract bid prices, the evaluators must be extremely alert to any indication that the bid may be grossly "unbalanced." A bid may be unbalanced if the prices quoted in the bid for items to be constructed early in the contract are unduly high, while prices quoted for later work are unduly low. Contractors paid an amount far in excess of the real value of their work early in a contract have a rapidly decreasing financial interest in completing the project, or, at least, adhering to the construction schedule. Performance bonds and guaranties, while affording some protection against the potential effects of unbalanced bids, are rarely sufficient to entirely compensate for losses resulting from such defects (Handbook 11, Chapter 2, Section 3.8.4.b.2).

A "bidder's responsibility" is generally determined through the Prequalification Process. Any prequalified bidder is, by

definition, "responsible." If the host country did not prequalify bidders, it and the consultant Engineer should determine bidder responsibility based on the qualification information requested in the IFB (Handbook 11, Chapter 2, Section 3.8.4.b.3).

c. Bid Protests (Handbook 11, Chapter 2, Section 3.8.5) - The host country uses its own rules and procedures to settle any bidder protests. Although A.I.D. does not become directly involved in the protest settlement procedure, it does consider whether bid settlements were equitable when reviewing and approving the award. A.I.D. will not reimburse the host country for costs incurred in adjudicating and settling bid protests.

d. Bid Rejection (Handbook 11, Chapter 2, Section 3.8.4.c) - The host country prepares a written statement explaining why it may have deemed any low bids to have been "unresponsive," or, if bidders were not prequalified, the reasons for finding a firm unqualified. The host country may reject all bids if all prices are unreasonably high or there are no responsive bids. A.I.D. may, however, reserve the right to review and approve this decision.

e. Notification of Award and Signing of Contract (Handbook 11, Chapter 2, Sections 3.8.8 and 3.8.9) - After receiving any required A.I.D. approvals of the proposed award, the host country notifies all bidders of the results of their bids. Unsuccessful bidders receive written letters such as that illustrated in Handbook 11, Chapter 2, Attachment 2H (Handbook 11, Chapter 2, Section 3.8.11). The host country informs the successful bidder of its award and proposes a date and place at which to sign the contract. The host country and successful bidder execute the contract by signing an agreement form such as that illustrated in Handbook 11, Chapter 2, Attachment 2Q.

f. A.I.D. Approvals (Handbook 11, Chapter 2, Sections 2.2.1, 3.8.6, and 3.8.7) - The host country will generally seek formal A.I.D. review and approval at two points in this process--when the award is proposed and when the contract is executed.

The mission will review and approve the proposed award if that right was reserved in the Project Agreement or a Project Implementation Letter. A.I.D. generally reserves this right. If A.I.D. is to perform this review, the host country forwards to the Project Officer:

- The final, but as yet unsigned, contract;
- A statement either that the proposed contract is identical to that included in the previously approved IFB or showing how it differs from that shown in the IFB;
- The record of received bids and the written statement explaining bid rejections discussed in Section "d" above, if required;
- A statement that the bid price is reasonable and that the selected bidder is responsible, had submitted the lowest responsive bid, and is otherwise eligible to receive the contract; and
- A record of any bid protests and their dispositions.

The Project Officer and mission Engineer, if available, and other members of the Project Committee, if necessary, review the submitted information. The mission legal and accounting staffs should always review the information. The Project Officer ensures that the information is retained in project or contract files.

If all is in order, the Project Officer prepares a contract approval memorandum for the mission Director's signature. This memorandum explains that the contract was awarded in accordance with agreed-upon contracting principles, explains any waivers, certifies that the contract price was reasonable, and describes what issues, if any, arose during awarding of the contract. The mission Director or his/her designee signs the memorandum and the host country executes the contract.

If the Project Committee cannot recommend approval of the proposed award, the Project Officer so informs the mission Director. With the mission Director's concurrence, the Project Officer informs the host country of the reason(s) for the disapproval and attempts to reach agreement on a mutually acceptable alternative award.

A.I.D. must review the contract once it is executed if it exceeds $100,000 in value. The Agency generally retains the right to review executed contracts of lesser amounts as well. If A.I.D. previously reviewed and approved the proposed award, this review may be a mere formality. If A.I.D. did not review the contract at the award proposal stage, the host country must submit the documents and items described above to A.I.D. for its review, together with the executed contract. Once the

mission Director approves the contract, the Project Officer tells the host country how many copies of the executed contract it should send to the mission (Handbook 11, Chapter 2, Sections 2.10 and 3.8.10).

2. Competitive Negotiation (Handbook 11, Chapter 2, Sections 2.3.2 and 3.9; Handbook 3, Supplement B, Chapter V, Section B.1)

If, after reasonable effort, the host country is unable to complete an award through formal competitive bidding, and further use of those procedures would clearly be unproductive, it may use an alternate "competitive negotiation" procedure. Under this procedure, the host country may negotiate with two or more offerors to determine the most acceptable contractor. Acceptance should be based on contract price and other factors such as quality, delivery time, construction methods, etcetera. The host country must request and receive the A.I.D. Regional Assistant Administrator's approval before beginning a competitive negotiation procedure.

a. Competitive Negotiation vs. Reinitiation of Formal Bidding (Handbook 11, Chapter 2, Section 3.9.b) - Once all bids have been rejected, the host country should analyze the reason(s) why formal competitive bidding was unsuccessful. If the problem can be corrected, e.g., by redefining the scope of work or modifying specifications, the host country should consider issuing a new Invitation for Bids and reinitiating formal competitive procedures. If modifying the IFB is unlikely to result in more responsive bids, or if the host country can benefit from considering suggestions from potential contractors as to possible alternatives for reducing costs or revising specifications, negotiation is probably appropriate.

b. Negotiation (Handbook 11, Chapter 2, Section 3.9.c) - The host country may negotiate with all prequalified firms, only those firms which submitted bids, or two or more firms which submitted the lowest bids, as it deem appropriate. If specifications require considerable revision, it is generally most appropriate to invite all prequalified firms to negotiate.

The host country asks each chosen firm to submit a proposal to use as a basis of negotiations. The host country tells all firms, at the same time, about the basis of negotiation, including the factors it will consider in awarding the contract. All firms are told, in writing, of any substantial changes in requirements or modifications to the scope of work or contract terms. The host country must ensure that:

- o "Technical transfer," i.e., transmittal of technical aspects of one firm's proposal to other firms for incorporation into their proposals, is avoided;
- o No firm receives any indication of a competitor's price; and
- o No firm is advised of its relative standing vis-a-vis its competitors.

c. Contract Award (Handbook 11, Chapter 2, Section 3.9.c) - The host country asks each firm to submit its best and final written offer based on the negotiations by a specified date and time. The host country, assisted by the consultant Engineer, evaluates the final offers based on the previously disclosed criteria and awards the contract. The host country must keep detailed records of this entire procedure. A.I.D. must approve the final contract (Handbook 11, Chapter 2, Section 2.2.1).

3. Complex Project Variant No. 1: Two-Stage Bidding (Handbook 11, Chapter 2, Section 3.6.6.1; Handbook 3, Supplement B, Chapter V, Section F.3)

Where a construction project is so complex that the host country and consultant Engineer are unable to accurately determine a contract's scope of work or technical specifications, the Project Officer may recommend that they use a special two-stage bidding procedure. The host country must request and receive the mission Director's approval before beginning this procedure (Handbook 11, Chapter 2, Section 3.6.6.1.a).

This procedure allows the host country to establish technical requirements through discussions with prospective bidders before prices are submitted. It reduces the possibility that competent potential contractors' bids will not comply with technical specifications because the potential contractors may not understand the project's technical requirements. This may occur when the contract will cover the supply of numerous items of permanent equipment, their installation, and related construction activities.

a. Stage One: Submission of Technical Proposals (Handbook 11, Chapter 2, Sections 3.6.6.1.b and 3.6.6.1.c) - The host country distributes Invitations for Bids to all prequalified firms or all firms responding to the IFB notice if prequalification was not used. The IFB should contain:

- o The best possible description or specifications of the required services and supplies;

- Notification that a two-stage bidding procedure is being used;
- The requirements for the technical proposals, e.g., drawings, data, etcetera, to be submitted;
- A statement that technical proposals shall not include price information;
- The date by which proposals must be submitted;
- A statement that the host country or consultant Engineer may discuss the technical aspects of the proposal with the firm submitting it;
- A statement that the host country reserves the right to issue addenda amending specifications to meet its needs;
- A statement that in the second stage of the procurement, only bids based on technical proposals determined to be acceptable initially or as a result of discussions will be considered for award; and
- A statement that firms will be appropriately notified upon completion of the technical evaluation, whether or not their technical proposals are acceptable.

The host country Contracting Agency and consultant Engineer evaluate the proposals and determine whether each one is acceptable or unacceptable. The host country should make every reasonable effort, including discussions with the submitting firms, to make proposals acceptable. If the host country and consultant Engineer determine that a proposal cannot be made acceptable, they may classify it unacceptable and need not attempt clarifying discussions. They then develop a "shortlist" of responsive bidders based on the acceptable proposals.

b. Stage Two: Submission of "Priced" Bids (Handbook 11, Chapter 2, Section 3.6.6.1.d) - The host country asks each "shortlisted" firm to submit a bid which includes the proposed contract price. Technical specifications will be those contained in the firm's technical proposal as modified during any discussions between the firm, host country, and consultant Engineer. The host country thereupon follows the standard award procedure as discussed above.

4. **Complex Project Variant No. 2: "Turn-key" Contracts** (Handbook 11, Chapter 2, Sections 3.6.6.2 and 3.1.2)

So-called "turn-key" contracts may be used for certain complex construction projects.* This is a contract under which the contractor is responsible for both design and construction of a facility or structure. Under this type of contract, the construction contractor is assigned virtually all responsibility for project implementation. This is a particular advantage if the host country does not have experience or staff to implement the project effectively. However, such contracts have a major disadvantage in that they are usually more expensive than contracting separately for design and construction services (Handbook 11, Chapter 2, Section 3.1.2.a). The actual award of the contract is carried out under any of the sets of procedures discussed above.

a. **Justification for a Turn-key Contract** (Handbook 11, Chapter 2, Section 3.1.2.b) - Although, as a general rule, no firm, its affiliates and subsidiaries can provide both design and construction services for the same project (Handbook 11, Chapter 2, Section 2.6.1), the A.I.D. mission Director can approve an exception from this rule under certain circumstances. For example, processing plants of a proprietary nature such as refineries, fertilizer or other chemical plants often vary in design among suppliers but have comparable ratings or outputs. A turn-key contract may be the most efficient instrument for such construction.

Turn-key contracts may also be used for highly specialized work where the design is so closely related to the construction work that it is impractical to separate them. In the chemical industry, for example, many firms have the capacity to design and construct plants while relatively few firms are primarily engaged in design. Use of turn-key contracts may enhance competition and minimize coordination problems in such cases.

b. **Use of Consultant Engineer** (Handbook 11, Chapter 2, Section 3.1.2.c) - Even under a turn-key project, the Project Officer will generally advise the host country to hire an Architectural and Engineering consultant. The consultant Engineer's role will, however, be limited. He or she will

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* The term "turn-key" arises from housing-trade parlance, since the new owner need only "turn the door key" to take occupancy (Webster's New Universal Unabridged Dictionary, 1983).

generally help the host country with the award process, supervise the contractor's purchasing and construction activities, approve drawings and designs, certify payments to the contractor, and monitor the contractor's daily activities.

5. **Non-competitive Negotiation Procedure** (Handbook 11, Chapter 2, Section 2.3.3; Handbook 3, Supplement B, Chapter V, Section B.2)

A.I.D. policy strongly favors competitive procurement of construction services (Handbook 1, Supplement B, Section 12.C.3.a.2). However, A.I.D. may allow a host country to obtain such services by negotiations with a single source, under extraordinary circumstances. Competitive procurement waivers for either a contract or a contract amendment must be supported by written justifications, copies of which are to be placed in the project or contract files (Handbook 11, Chapter 2, Sections 2.3.3.a and 2.3.3.b).

a. Basis for Allowing Noncompetitive Procurement - (Handbook 11, Chapter 2, Section 2.3.3.a) - A.I.D. allows noncompetitive procurement of construction services only if:

- The host country has a contract with a firm and wishes to utilize the same contractor for additional services outside the original scope of work; and the contractor is still active at the project site, or, for some other reason, is so closely related to the project that utilization of that contractor would effect a substantial saving of time or money; or

- The host country received only one bid in response to an IFB and the bid is not responsive, but the host country wishes to negotiate only with that bidder; or

- Adherence to competitive procedures would result in the impairment of the objectives of the United States foreign assistance program or would not be in the best interests of the United States.

b. **A.I.D. Waiver Approval Authority** - (Handbook 11, Chapter 2, Section 2.3.3.c) - Waiver authority depends upon the contract's or amendment's value, as follows:

- The A.I.D. Administrator alone may approve a waiver exceeding $1,000,000;

- Regional Assistant Administrators in A.I.D./Washington, in consultation with the A.I.D./Washington assistant to the

Administrator for Program and Management Services (M/AAA/SER) may approve waivers up to $1,000,000 in value; and

- Mission Directors may approve waivers up to $1,000,000 if they have received this delegated authority from a Regional Assistant Administrator. The mission Director may only exercise this authority upon the recommendation of the mission's Noncompetitive Review Board. This board is composed of the mission Director, Legal Advisor (or Deputy mission Director if no Legal Advisor is available), and a senior Project Officer unconnected with the procurement. The mission Director must promptly notify the A.I.D./Washington Regional Assistant Administrator of the details of any such waiver. This notification should include a description of the type of waiver (noncompetitive new contract or amendment), the identity of the project, the U.S. dollar amount or equivalent of the procurement, the nature of the required services, and the basis for the waiver (Handbook 11, Chapter 2, Section 2.3.3.c.3).

The control objectives of the contract award process are to give reasonable assurance that the host country contract will provide the required construction services at a fair price, that the contract will be expeditiously awarded, and that the contractor is capable of performing according to the contract's terms. To achieve these objectives, the Agency uses the following control techniques:

- Guidance concerning host country construction services contract award procedures found in Handbook 11, Chapter 2, Section 3.8;

- Guidance for Project Officer's involved in the host country construction services award process found in Handbook 3, Supplement B, Chapter V, Section F;

- Guidance concerning special contracting procedures for complex industrial plants found in Handbook 11, Chapter 2, Section 3.6.6;

- A.I.D. rules for the use of noncompetitive procurement procedures for obtaining construction services found in Handbook 11, Chapter 2, Section 2.3.3;

- A.I.D. contract review and approval requirements found in Handbook 11, Chapter 2, Section 2.2; and

- A.I.D. host country construction services procurement policy found in Handbook 1, Supplement B, Section 12.C.3.a.2.

This process is vulnerable in that it is highly dependent upon the host country's contracting capabilities and staffing resources, as well as the competence and capability of the consulting Engineer. It is also highly dependent upon the Project Officer to identify possible impropriety or mismanagement during or prior to bid evaluations or negotiations (e.g., release of proprietary information to potential contractors).

G. **PAYMENT PROCESS** (Handbook 1, Supplement B, Chapters 15 and 20; Handbook 11, Chapter 2, Section 3.6.4; Handbook 3, Supplement B, Chapter IV, Section K; Handbook 3, Appendices 3I and 3J; Handbook 19, Chapter 3)

A.I.D.'s policy is to pay A.I.D.-financed contractors on the basis of goods delivered, services performed, or to cover costs already incurred (Handbook 1, Supplement B, Section 15.B.1.a). A major exception to this rule involves payments to a contractor or host country under a Fixed Amount Reimbursement procedure, described below and in Handbook 3, Appendix 3J.

The host country chooses the payment method after consultation with mission officials. The method must be clearly described in the Invitation for Bids (Handbook 11, Chapter 2, Section 3.6.4.1.a). The overriding consideration should be to choose the payment method which:

- Is best suited to implement the given contract and construction project efficiently and effectively; and
- Complies with A.I.D.'s cash management policies set forth in Handbook 19, Appendix 1.B (Handbook 1, Supplement B, Section 15.A).

The three primary payment methods* are direct reimbursement to the host country, a direct letter of commitment to the contractor, or a letter of commitment to a U.S. bank.

1. **Direct Reimbursement to the Host Country** (Handbook 1, Supplement B, Section 15.B.1.b.1; Handbook 11, Chapter 2, Section 3.6.4.1.b)

   Under this payment method, the host country pays for contract services and related commodities from its own funds and is reimbursed by A.I.D. It should, therefore, only be used when the host country possesses sufficient available capital to initially pay the contractor and then wait for A.I.D. to process repayments.

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* Handbook 1, Supplement B, Section 15B and Handbook 19, Appendix 1.B refer to these as "methods of financing."

a. **Contractor Documentation** (Handbook 11, Chapter 2, Sections 3.6.4.2.b, 3.6.4.2.c, and 3.6.4.2.d) - The contractor initiates a payment by forwarding a set of documents to the host country. Although the exact documents will be identified in the contract, they will generally include:

- An invoice describing the services performed and identifying the sections or paragraphs in the contract which contain the payment terms;

- Evidence of shipment for any equipment, materials, and commodities purchased under the contract. Evidentiary documents may include relevant bills of lading and copies of A.I.D. Form 1450-4, "Suppliers Certificate and Agreement with the Agency for International Development for Project Commodities/Invoice and Contract Abstract"; and

- An executed A.I.D. Form 1440-3, "Contractor's Certificate and Agreement with the Agency for International Development, Contractor's Invoice and Contract Abstract." This form, found in Handbook 11, Chapter 2, Attachment 2G, is extremely important since it specifies A.I.D.'s legal relationship with the contractor (see also Handbook 11, Chapter 2, Section 2.11.1).

b. **Host Country Documentation** (Handbook 11, Chapter 2, Sections 3.6.4.2.a, 3.6.4.2.e, 3.6.4.2.f, 3.6.4.2.g, and 3.6.4.2.h) - The host country reviews these documents to ensure that they are complete and properly prepared, pays the contractor, and seeks reimbursement from the mission. It forwards the contractor's documents to the mission, together with appropriate additional documents and certifications specified in the Project Agreement or a Project Implementation Letter. These will generally include:

- An executed Standard Form 1034, "Public Voucher for Purchases Other Then Personnel," found in Handbook 11, Attachment 2F;

- A "Borrower/Grantee's Certification for Reimbursement," which states that the host country has not been previously reimbursed for the claimed costs; and

- Either a "Certification of Performance for Payments Other Than Final" or a "Certification of Performance for Final Payment," by the host country or consultant Engineer, stating that the services or commodities for which payment is being requested was satisfactorily performed.

c. **Project Officer Review/Disallowance Procedure** (Handbook 11, Chapter 2, Section 3.6.4.2.i; Handbook 19, Section 3H, and Appendix 3.A; Payment Verification Policy Statement No. 7 found in Handbook 3, Supplement B, Appendix F, Attachment 2) - The Project Officer reviews the documentation and administratively approves the payment. The approval, as shown in Handbook 11, Chapter 1, Section 3.6.6.8.a, is written on the original Standard Form 1034 (Voucher). Criteria for the Project Officer's approval are found in Handbook 19, Appendix 3A, Section 5. In addition, the Project Officer must complete and attach a checklist, which appears in Handbook 3, Supplement B, Appendix F, Attachment 2. This checklist explains the basis for the Project Officer's approval and is intended to give the mission's authorized certifying officer a firm basis for allowing the payment.

During the review process, the Project Officer may discover formal or substantive deficiencies in the documentation. The Project Officer notes formal deficiencies (e.g., lack of a necessary signature) in his or her approval statement and passes the documents to the mission Accounting Office. The Accounting Officer decides whether to seek remedial action. Substantive discrepancies (e.g., charges inconsistent with the facts as the Project Officer knows them) must be elevated to the mission or office Director. The Director, or the Director's designee, determines the proper remedial action and apprises the host country of the disputed claim.

A.I.D. officials should never advise a contractor that the Agency has disallowed, or will disallow, any claim before the host country has been informed of the disallowance and has been given the opportunity to seek remedial action from the contractor. If the host country disagrees with the disallowance, or believes remedial action is unnecessary, and if the mission Director is unable to reach agreement with the host country, the mission Director should refer the matter to the Assistant Administrator of the appropriate A.I.D./Washington Geographic Bureau (Handbook 19, Appendix 3A, Section 8).

After reviewing the payment documents and approving them as appropriate, the Project Officer retains a copy of the documents for the contract files and sends the original documents to the mission Accounting Office. This must be done within five business days of the document's reception at the mission or office (Handbook 19, Section 3.H.2.f.[1][c]).

d. **Accounting Officer Review and Payment Certification** (Handbook 19, Section 3H) - A voucher examiner in the Accounting Office initially reviews (desk audits) the documents. This review is a central control point in the payment process. The examiner:

- o Determines whether the voucher is adequately supported by appropriate authorizations, documentation, and certifications;
- o Reviews the documents and records to prevent duplicate payments;
- o Determines when payments are due to ensure compliance with the Agency's prompt payment procedures found in Handbook 19, Appendix 1C*; and
- o Determines whether the proposed disbursement complies with laws, regulations, and contract terms (Controller's Guidebook, Chapter 5, Section III).

The mission Accounting Officer relies, to a great extent, upon the competence and expertise of the mission's voucher examiners to ensure that the payments are allowable and do not violate applicable laws and regulations. In practice, most examiners are local national employees. One of the mission Accounting Officer's most important tasks is ensuring that these examiners are adequately trained and are properly following A.I.D. procedures during their reviews. The Accounting Officer must also ensure that obligating, examining, and certifying functions are adequately separated to protect U.S. interests.

Following the desk review, the examiner passes the documents to the mission's authorized certifying officer (ACO). This is a person designated to perform specified certifying duties for vouchers to be submitted to the U.S. Treasury Disbursing Office (USDO) for payment, and/or to issue letters of credit. The ACO will generally be the mission's Accounting Officer or the Accounting Officer's nominee. ACO appointments are explained in the Controller's Guidebook, Chapter 5, Section II.G.

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* Host country contracts, unlike direct A.I.D. contracts, are not subject to the Prompt Payment Act. However, while payments are not subject to the Act's interest penalties, the prompt payment standards apply to host country contracts as a matter of A.I.D. policy (Handbook 19, Appendix 1C, Section 3.C).

A.I.D. and the U.S. Congress place a great deal of responsibility upon ACOs. The Certifying Officer Act (31 U.S.C. 82c and 82f), as amended, holds ACOs individually and personally responsible for their actions with respect to voucher certification and certification of letters of credit. The precise extent of this responsibility, and relief from liability, are explained in the Controller's Guidebook, Chapter 5, Section II.

After the ACO reviews the basic voucher and supporting documents, a voucher examiner or other Accounting Office employee prepares a "Voucher and Schedule of Payments" (SF-1166). This disbursing voucher may list payments authorized under several SF-1034s or other basic vouchering documents. The ACO certifies this document for payment and forwards it to the USDO for the mission's region. The individual basic voucher (SF-1034s) and supporting documents are not forwarded to the USDO but are retained in the Accounting Officer's files.

The USDO sends a monthly "Statement of Transaction" to the mission Accounting Office, listing payments made at mission request during that month. The Accounting Office reconciles the mission's records and the USDO's statement, and, eventually, forwards the basic voucher (SF-1034) and supporting documents to the A.I.D./Washington Office of Financial Management, Central Accounting Division (PFM/FM/CAD) for storage (Controller's Guidebook, Chapter 5, Section II.G).

The actual transfer of funds to the host country may be made either by U.S. Treasury check or by electronic transfer as discussed in the Controller's Guidebook, Chapter 19, Section IX.

The direct reimbursement payment method increases the host country's role in managing its contract. It should be used only when the host country possesses the managerial and financial capability to operate under this procedure. The Agency prefers direct reimbursement since, under this method, the mission has the opportunity to review the important transaction documents before funds are released.

2. **Direct Letters of Commitment to a Contractor** (Handbook 11, Chapter 2 Section 3.6.4.1,c; Handbook 1, Supplement B, Section 15B.1.b[2])

The Direct Letter of Commitment (D L/COM) is an agreement between A.I.D. and a contractor hired under an A.I.D.-financed host country contract. A.I.D. agrees to directly pay the contractor for its services upon presentation of certain specified documents.

a. **Request for a D L/COM** (Controller's Guidebook, Chapter 19, Sections VI through XII) - After discussions with the Project Officer, the host country submits a written request to the mission to issue the D L/COM to the contractor. Based on this request, the language in the Project Agreement, Project Implementation Letters, and awarded contract, the mission or office Accounting Officer issues the D L/COM. The mission Accounting Officer must ensure that any D L/COM he or she issues:

- Designates the mission as the paying office;
- Contains language restricting assignment of the D L/COM only to a bank, as collateral against a loan;
- Contains a provision allowing A.I.D. to "set off," or reduce, future claims under the document in satisfaction of outstanding bills for collection; and
- Explains A.I.D. payment documentation requirements.

An example of a D L/COM standard format can be found in the Controller's Guidebook, Chapter 19, Section XIII.

b. **Initiation of Payment** (Controller's Guidebook, Chapter 19, Section IX) - The contractor initiates a payment by forwarding the required documents to the mission. The specific documents will be identified in the D L/COM and are generally the same as those required from the contractor under the host country reimbursement method. In this case, however, the contractor, rather than the host country, completes and forwards the "Public Voucher for Purchases and Services Other Than Personal" (SF-1034). The Project Officer and Accounting Office follow the same review, administrative approval, certification, and reconciliation procedure discussed under host country reimbursement.

The mission Accounting Officer may choose any of five methods for actually transferring U.S. dollars to the contractor. He or she may ask the applicable Regional Finance Center to issue and mail a U.S. Treasury check directly to the contractor or to the contractor's bank, or telegraphically request that the A.I.D./Washington Office of Financial Management arrange for the U.S. Treasury in Washington to make such a transfer. As a fifth option, the Accounting Officer may ask the Office of Financial Management to arrange for a Treasury/Washington Electronic Fund Transfer directly to the contractor's bank.

c. **Assignment of D L/COM** (Controller's Guidebook, Chapter 19, Section X) - Contractors generally prefer the D L/COM payment method. Payments are usually prompter and more reliable than under host country reimbursement. In addition, the Assignment of Claims Act (31 U.S.C. 3727; 41 U.S.C. 15) allows the contractor to assign the D L/COM to a bank as collateral for credit, enabling the contractor to increase its working capital. The bank must forward the contractor's letter of assignment and its own letter of acceptance to the Office of Financial Management in Washington, which in turn notifies the mission Accounting Officer. From that point, the contractor will send its required documents to the bank. The bank completes and includes a Form SF-1034 and forwards the entire set of documents to the mission Accounting Officer for each payment. A.I.D. in turn, obligates itself to make payments only to the assignee bank.

3. **Letters of Commitment to a U.S. Bank** (Handbook 11, Chapter 2, Section 3.6.4.1.d; Handbook 1, Supplement B, Section 15.1b[3])

The Bank Letter of Commitment (L/COM) is an agreement between A.I.D. and a U.S. bank under which A.I.D. authorizes the bank to make payments to a contractor or supplier for eligible services and commodities. A.I.D. reimburses the bank for payments made in accordance with the conditions outlined in the L/COM.

Although A.I.D. may pay for certain services under an L/COM, this payment method is normally restricted to commodity purchases. As described in Chapter 6, this method does not allow A.I.D. to confirm that the contractor has performed satisfactorily prior to payment. Therefore, a mission must provide specific justifications whenever it proposes using an L/COM to finance project services (Payment Verification Policy Statement No. 4 found in the Assistant to the Administrator for Management's memorandum of December 30, 1983, to all mission Directors, entitled Payment Verification Policy Implementation Guidance).

4. **Mobilization Payments** (Handbook 1, Supplement B, Section 15.B.1.c.5; Handbook 11, Chapter 2, Section 3.6.4.1.e)

Mobilization payments are reimbursements (under one of the above-described procedures) provided to a construction contractor or supplier of specially constructed equipment to assist in meeting extraordinary start-up costs. These may, for example, include costs arising from the purchase of specialized equipment or the shipment of such equipment to the construction site. This procedure enables construction contractors to receive reimbursement immediately after incurring expenses rather than having to wait for progress payments, which are not generally made until actual work items are completed.

Mobilization payments are normally included as a construction contract cost line item. The host country should state in its Instruction to Bidders that the mobilization costs shown in their bids should not exceed a stated percentage (generally 10 to 20 percent) of the total bid price. A.I.D. considers mobilization payments to contractors selected in accordance with competitive bidding procedures to be advantageous since they should enhance competition and therefore reduce contract costs.

In addition, A.I.D. may advance mobilization funds to contractors to cover start-up costs (Handbook 1, Supplement B, Section 15.B.1.c.5.b). The U.S. Treasury Department has agreed that mobilization advances may be provided without interest so long as there is true competition in the bidding process and A.I.D. obtains the advantage of reduced contract costs as a consequence of using this method.

The mission Director, or other A.I.D. official who approves the Invitation for Bids, must consider the reasonableness of allowing such payments before publication of the notice of availability of IFBs. He or she must decide, in writing, whether:

- A mobilization payment in the proposed amount is necessary to avoid restricting competition; and
- It may be reasonably assumed that a compensating financial benefit will accrue to both A.I.D. and the host country as a result of using this method.

5. **Fixed Amount Reimbursement** (Handbook 1, Supplement B, Chapter 20; Handbook 3, Appendix 3J)

Fixed Amount Reimbursement (FAR) is a payment method under which the amount of reimbursement is fixed in advance based upon estimates reviewed and approved by A.I.D. The primary and fundamental distinction between this and other methods is that the host country or contractor is reimbursed for outputs rather than inputs. A.I.D. is not concerned, therefore, with the procedure used in acquiring the inputs. It is, instead, concerned about the conformance of the outputs to previously agreed specifications or standards.

a. **A.I.D. Policy** (Handbook 3, Appendix J, Section A; Handbook 1, Supplement B, Section 20.A.3) - It is A.I.D. policy that:

- The FAR method will be used when the project structure and available qualified mission and/or host country personnel meet the criteria set forth in Handbook 3, Appendix 3J, Section C, as discussed below;

- The host country may use its customary procurement practices, subject to the mission Director's review and approval, when utilizing this method; and

- The host country need not follow A.I.D.'s nationality and host country contracting policies set forth in Handbook 1, Supplement B, Chapter 5 and Chapter 12, Section C when using this method.

b. **"Pure" Fixed-Amount Reimbursement Method** (Handbook 3, Appendix 3J, Sections B and C) - Under the most common or "pure" FAR method, A.I.D.'s reimbursement payments are not based on actual costs, but rather upon a reimbursement figure fixed in advance. This figure, in turn, is based upon reasonable cost estimates which A.I.D. reviewed and approved.

The mission reimburses the host country upon physical completion of the project, subproject, or a quantifiable element within the project. The host country must, therefore, have sufficient resources to pay the contractor and await A.I.D. repayment. The mission should ensure that the host country has this capability by thoroughly analyzing its financial standing, resources, and budgetary procedures before approving the use of the FAR method.

The essential aspects of this method are:

- The definition of a project, subproject, or element for application of the FAR method;

- Preparation of cost estimates;

- An agreement, in advance, on the amount of A.I.D.'s contribution; and

- Reimbursement to the host country upon successful completion of the project, subproject, or element.

(1) **Project Definition and Identification** (Handbook 3, Appendix 3J, Section B.2.a and Sections C.1 through C.4) - Host country and A.I.D. officials collaboratively identify a project, subproject, or project elements for which the host country desires U.S. assistance.

Because of the financial burdens which it places on the host country, the FAR method is most appropriate for low cost, short-term projects or projects which can be divided into relatively small segments or elements. This allows

the host country to seek reimbursement as it completes portions of a project. The subprojects or elements should generally be self-sustainable units, useful and desirable in their own right, and completeable within 12 months or less of the onset of work.

The method is particularly suitable for projects under which a large number of physically separate construction activities are to be carried out. It is particularly unsuitable, on the other hand, for projects where disbursements are not related to identifiable goods or services but to other criteria, such as budgetary or administrative performance.

(2) Preparation of Cost Estimates (Handbook 3, Appendix 3J, Section B.2.a) - The host country, generally with A.I.D. assistance, prepares the project cost estimates. It may include an inflation adjustment provision covering the expected time period for project implementation; however, the time period cannot exceed two (2) years. A.I.D. must review and approve the projects' cost estimates and design specifications before the project can proceed.

(3) Determination of A.I.D.'s Contribution (Handbook 3, Appendix 3J, Section B.2.b) - A.I.D. determines the amount of its contribution to the total project and the allocation of its contribution to specific subprojects or elements. The amount of A.I.D.'s contribution to the total project is a controlling factor. If costs unexpectedly increase, the host country pays the added amount; if costs are less than those estimated, the host country retains the excess amount.

(4) Reimbursement to the Host Country (Handbook 3, Appendix 3J, Sections B.3, C.6, and C.7) - The host country proceeds with the project by using its own funds. Mission staff members or consultants monitor the project. They must conduct periodic inspections of construction sites to ensure that the project is proceeding according to plans and specifications. They must also certify that a subproject or element is properly completed before the mission Accounting Office allows a reimbursement.

Since a reimbursement is not based on actual costs, it is extremely important that the inspection be thorough and objective. Since any savings will accrue to the host country, the mission must be careful in ensuring that there is no collusion between construction personnel, host

country officials, and inspectors concerning unapproved cost-reducing deviations from the plans and specifications.

When construction is unacceptable, the mission Accounting Office must not allow the reimbursement. In such cases, it is extremely important that mission officials carefully evaluate the implications of withholding payment, since it may adversely affect A.I.D.'s relationship with the host country. The mission Project Officer must fully apprise host country officials of the risk involved in this method before the mission Director approves its use.

c. Alternative Procedures (Handbook 3, Appendix 3J, Section C)

A.I.D. allows three (3) variations upon the basic FAR method. While each differs in some respect from the "pure" FAR method, it also reduces some of the financial burden placed upon the host country while retaining certain desirable aspects of that method.

(1) Advance Variation (Handbook 3, Appendix 3J, Section D.1) - When the host country does not have sufficient resources to pay construction costs and await reimbursement, A.I.D may advance* funds to the host country for this purpose.

Before approving the advance variation, the mission Project Officer and Accounting Office staff must thoroughly review the host country implementing agency's financial position, budgetary procedure, and advance funding requirements.

The mission advances funds to the host country to allow it to begin construction. When reimbursing the host country for completed subprojects or elements, the mission Accounting Office deducts a portion of the advance until the advance is liquidated with the final reimbursement. All other criteria and procedures are the same as those applicable to the "pure" FAR method.

(2) Periodically Negotiated Escalation Variation (Handbook 3, Appendix 3J, Section D.2) - When inflation is a major problem, A.I.D. may periodically negotiate increases in its FAR contribution. This variation is

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* An "advance" is defined as a transfer of funds before delivery of goods or performance of services.

particularly applicable where A.I.D. is financing a series of small-scale construction projects, such as on-farm irrigation canals, over two or three years. The contribution could be renegotiated after a set period of time or upon completion of a predetermined quantity of construction.

This variation permits A.I.D. and the host country to develop more realistic price estimates, since the period covered by an estimate is kept sufficiently small to limit the effects of inflation. All other criteria and procedures are the same as those applied to the "pure" FAR method.

(3) Percentage of Actual Cost Reimbursement Variation (Handbook 3, Appendix 3J, Section D.3) - Certain types of A.I.D.-financed construction projects do not permit completion of design specifications before costs are estimated and construction begun. For example, a rural works project may contain numerous small, diverse, and scattered subprojects such as feeder roads, bridges, and on-farm irrigation canals. Design specifications and cost estimates for such subprojects are developed during the life of the project as designers and engineers analyze each subproject's particular development requirements.

While such projects do not lend themselves to the "pure" FAR method, it is, nonetheless, often possible to identify design criteria and general construction procedures which will be used throughout the project. Under such conditions, A.I.D. may reimburse the host country for a fixed percentage of actual costs of completed subprojects or elements.

This variation requires that:

- The host country provides A.I.D. with evidence of its actual costs prior to reimbursement;
- The host country certifies that the subprojects or elements have been completed in accordance with design specifications and any other applicable requirements; and
- A.I.D. personnel periodically inspect all or a sample of ongoing and completed construction to verify that the work was acceptable.

This variation has the effect of allowing A.I.D. to absorb a portion of cost increases for any individual subproject or element by reducing the total number of subprojects or elements or by persuading the host country to increase its total project contribution. For example, A.I.D. may agree to finance a fixed percentage of the actual costs of each completed subproject. As a subproject's cost increases, A.I.D. would continue to pay the fixed percentage, leading to an increase in absolute A.I.D. funding for that subproject. Since the amount of money A.I.D. has available for the entire project is fixed, the increased expenditure for individual subprojects results in a decrease in the number of completed subprojects unless the host country increases its contribution or another funding source can be found.

While not as attractive as the "pure" FAR method from A.I.D.'s viewpoint, this variation, nevertheless, has certain advantages over standard cost reimbursement. Under this variation:

- A.I.D.'s overall dollar commitment to a total project does not change;
- A.I.D.'s percentage commitment to a subproject or element does not change; and
- A.I.D. only reimburses the host country if a subproject or element is satisfactorily completed.

The control objective of this process is to provide reasonable assurance that A.I.D.-financed payments under host country construction services contracts comply with A.I.D.'s cash management procedures and requirements (including the Prompt Payment Act [31 U.S.C. 3901, et seq.]), while also giving reasonable assurance that A.I.D does not pay for services which the project does not receive, or which are not acceptably performed (see Handbook 19, Appendices 1B and 1C). To achieve this objective, A.I.D. uses the following control techniques:

- **A.I.D. Payment Policy found in Handbook 1, Supplement B, Chapter 15;**
- **Guidance for Project Officers and other A.I.D. officials involved in host country construction contract payments found in Handbook 11, Chapter 2, Section 3.6.4;**
- **Guidance for Project Officers involved in host country contract payments found in Handbook 3, Supplement B, Chapter IV, Section K, and Appendix F;**

- Guidance for Project Officers and other A.I.D. officials involved in host country contract payments found in Handbook 3, Appendix 3I;
- A.I.D. policy concerning Fixed-Amount Reimbursement methods found in Handbook 1, Supplement B, Chapter 20;
- Guidance for A.I.D. officials involved in the Fixed-Amount Reimbursement method found in Handbook 3, Appendix 3J;
- Voucher examination guidance found in the Controller's Guidebook, Chapter 5;
- A.I.D. cash management procedures found in Handbook 19, Appendix 1B; and
- A.I.D. host country contract payment procedures found in Handbook 19, Chapter 3.

This process is vulnerable in that it is highly dependent upon the technical expertise and competence of mission voucher examiners. Mission management must devote adequate resources to training and supervising these personnel and to ensuring that duties are segregated to reduce the possibility of improper diversion of funds.

It is also vulnerable to weaknesses in a host country's cost estimation capabilities, especially if a Fixed-Amount Reimbursement method is used. Missions must also devote adequate monitoring resources to projects using the Fixed-Amount Reimbursement method to reduce as far as possible the possibility of collusion among contractors, host country officials and inspectors during construction and certification of completed subprojects and project elements.

H. HOST COUNTRY CONTRACT ADMINISTRATION AND MONITORING PROCESS (Handbook 3, Supplement B, Chapter VII; Handbook 3, Chapter 11)

The host country, through the Architectural and Engineering firm's consultant Engineer, has the primary responsibility for ensuring that the contractor performs according to its contract terms. Mission officials also have certain responsibilities for contract administration. These may include approving, reviewing, and certifying payment documents; reviewing and approving subcontracts, change orders, or amendments; and waiving marking, nationality, or other requirements. The nature and extent of these responsibilities will be spelled out in the contract.

The Project Officer has primary responsibility for monitoring contract implementation, ensuring that the contractor's performance is evaluated, and closing out A.I.D.'s relationship with the contractor. Although A.I.D. is not a party to the contract, the Agency must use every

reasonable safeguard to ensure that public funds are expended according to statutory and administrative requirements, and that services and commodities are delivered and used properly. Effective monitoring and evaluation also allow the mission to anticipate and help resolve contract implementation problems before they become major crises.

1. Contract Monitoring (Handbook 3, Supplement B, Chapter VII, Section A)

Monitoring a host country contract is the set of procedures whereby a designated A.I.D. Project Officer observes and reports upon the activities and performance of the host country, consultant Engineer, and contractor personnel during contract implementation. Monitoring commences with the signing of the construction contract and terminates with the contract's closure. The Project Officer documents the procedure by maintaining a contract monitoring file for each host country contract. This file, which supplements the mission's official project file, should have been established during the contract-type selection process and should contain:

- An analysis of the host country's procurement capabilities;
- The project procurement plan;
- The contract monitoring plan;
- A copy of the Project Agreement;
- Project Implementation Letters relating to contracting and procurement;
- Financial, progress, shipping, completion and other reports;
- Relevant memoranda, letters, cables, etcetera; and
- A copy of the host country contract, its amendments, changes, and related correspondence (Handbook 3, Supplement B, Chapter VII, Section Q).

It is extremely important that this file be current and properly maintained. It serves as a basic management tool as well as an "institutional memory" for mission personnel and evaluators who may not have been familiar with the contract from its inception.

The Project Officer develops a monitoring schedule or checklist for measuring compliance with the contract's terms. Although there is no uniform monitoring schedule or standard checklist format, the schedule should be keyed to specific major events and requirements

of the contract. These include arrival of key personnel, provision of logistical support for the contractors, disbursement schedules, procurement and installation of equipment, submission of contractor reports, completion of subprojects or project elements, proposed site visits, and joint host country/contractor/mission progress reviews. Handbook 3, Supplement B, Appendix H contains a contract monitoring task list summarizing the Project Officer's and host country's monitoring responsibilities. The Project Officer can use this list, and the project implementation and progress monitoring checklist found in Handbook 3, Appendix 11A, when developing the contract monitoring system.

Project Officers sometimes record and transmit the results of their contract monitoring efforts through status reports to the mission Director. These reports are generally provided upon the mission Director's request or under guidance set forth in a Mission Order.* Drawing upon contractor, consultant Engineer, and host country reports, site visits, and independent analyses, the Project Officer attempts, through status reports, to provide mission management with "a frank and objective assessment of the contract's current status," as well as a discussion of actual and potential problem areas. Handbook 3, Supplement B, Appendix G provides a sample format for these reports. Copies of all status reports should be retained in the contract or project files.

While the contract files and monitoring checklist provide a structured approach to monitoring, the Project Officer can use a variety of monitoring tool or techniques to oversee contractor operations. These include: periodic meetings and discussions with contractor, consultant and host country personnel; analysis of contractor and Engineer reports; site visits; and reviews of payment documentation (which was discussed above under the Payment Process).

a. Meetings and Discussions (Handbook 3, Supplement B, Chapter VII, Sections B, C, D, and E) - Periodic meetings between the Project Officer, contractor personnel and consultant Engineer are an effective monitoring technique. The Project Officer must be cautious in dealing with the contractor, however, since A.I.D. is not a party to the contract. Contract status review meetings with contractor and

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* A Mission Order contains mission-specific procedural guidelines. Complete sets can generally be found in a mission's Executive and/or Program Office.

consultant personnel should be keyed to planned completion of major events or activities under the contract. Host country representatives should attend these meetings.

Project Officers must emphasize that they are available to assist contractors with matters such as payment processing and interpretation of A.I.D. regulations, while refraining from adversely affecting relations between the contractor and host country. This is an inherently difficult role and requires tact and patience by the Project Officer.

The Project Officer must document such discussions in summary memoranda, copies of which are provided to the mission Director, if warranted, and also placed in the contract file.

b. Contractor Reports (Handbook 3, Supplement B, Chapter VII, Section M) - The Project Agreement, Project Implementation Letters, and host country contract should describe the type, content, and recipients of contractor and consultant Engineer reports. The Project Officer should ensure that he or she receives copies of all status reports, and copies of any other reports (e.g., financial, shipping) which the contractor or Engineer submits to the host country.

Contractor and Engineer reports are important monitoring tools. The Project Officer should review each report for adequacy and responsiveness, particularly for their discussions of progress toward planned targets and identification of actual or potential problem areas. The Project Officer should bring any deficiencies in these reports to the contractor's, Engineer's and host country's attention and document these discussions by memoranda to the contractor and/or Engineer and mission Director. Copies of such memoranda should be placed in contract or project files.

c. Site Visits and Inspections (Handbook 3, Supplement B, Chapter VII, Section N) - For most contracts, site visits can be the Project Officer's most effective oversight tool. As stated in the cited Handbook section, "[T]here is simply no substitute for personal observation of the work site to enable the Project Officer to obtain first-hand impressions of the contractor's progress and to identify incipient problems which may adversely affect the contractor's performance unless remedied."

The frequency of site visits will vary with contract complexity and urgency of problems, availability of travel funds, and demands on the Project Officer's and mission Engineering

staff's time. As a general rule, the Project Officer should schedule site visits to coincide with inspections by host country officials and should notify the contractor and Engineer of an upcoming visit. The Project Officer should plan the visit to effectively use the limited time available for this task and should document the results of the inspection immediately upon completion of the visit. Handbook 3, Appendix 11C contains guidance for preparing site inspection reports and a sample report format. Certain missions have also issued Orders providing more detailed instructions for conducting and documenting inspections. Copies of site visit reports should be placed in the contract files.

2. Evaluation (Handbook 3, Chapter 12)

A.I.D. defines evaluation as "the general process, and specific activities, undertaken to analyze and assess the performance and results of projects, programs, policies, and/or procedures" (Handbook 3, Section 12.B.1). The Project Officer and mission Evaluation Officer* must ensure that projects are evaluated in compliance with Handbook 3, Chapter 12 requirements. As explained in that chapter, evaluations may occur at various points during a project's lifetime.

As part of their evaluation responsibilities, Project Officers prepare, or help to prepare, an "A.I.D. Evaluation Summary" form which replaced the "Project Evaluation Summaries" as the Agency's preferred evaluation reporting instrument (Supplement to Handbook 3, Chapter 12, Section 3.7.2). Since contract implementation and contractor performance can have a substantial effect upon project implementation, these summaries must include some discussion of each

contract's relevance to, and effect upon, the project's goals and objectives. As the contract monitor, the Project Officer is the logical official to assess contractor performance for incorporation into the summary (Handbook 3, Supplement B, Chapter VII, Section Y).

3. Contract Termination and Close Out (Handbook 3, Supplement B, Chapter VII, Section X)

When a host country construction contract ends, the contract must be "closed out" in an orderly fashion, as stated in the contract. In

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* Most mission Directors designate a member of the mission's Program or technical staff to assume the subsidiary role of Evaluation Officer.

general, closing out a host country construction contract will involve reviewing the contractor's final voucher, paying remaining valid claimed costs, and ensuring that the contract file contains all the documentation, such as releases, certifications, and audit findings called for by the contract.

Most host country contracts end at the termination date stated in the contract. In this case, the Project Officer must ensure that final payment to the contractor, or amounts retained from progress payments, are withheld until the contractor provides evidence that it has met all of its contractual obligations, and all required certifications, including acceptance of the work by the host country, have been executed (Handbook 11, Chapter 1, Section 3.6.6.6; Handbook 11, Chapter 1, Section 4.3.14). The Project Officer must also ensure that copies of all such documents are placed in the contract file.

Standard host country construction contract provisions enable either the host country or the contractor to effectively bring a contract to a close before the stated termination date under certain conditions.

a. Host Country Remedy Upon Contractor Default (Handbook 11, Chapter 2, Attachment 2R, Clause 63) - The A.I.D.-approved standard host country contract form allows a host country, under certain circumstances, to "... enter upon the site and the works and expel the contractor therefrom without thereby voiding the contract ... and may (itself) complete the works or may employ any other contractor to complete the works." The conditions allowing such action are spelled out in the contract clause cited above and include:

   - Contractor bankruptcy or asset liquidation;
   - Contractor assignment of the contract without host country consent; and
   - Contractor failure to perform according to the contract's terms. In such case, the consultant Engineer must certify, in writing, to the contractor's default.

   Once the contractor has been "expelled" from the site, the consultant Engineer determines the amount of money reasonably due the contractor for work it did perform and the value of any unused material left at the site. After determining any additional costs incurred by the host country as a result of the default, the consultant Engineer determines the amount due

the host country or the contractor, as the case may be.* The A.I.D. mission generally retains the right to review and approve this entire procedure, but this is not mandatory.

b. **Termination by the Contractor for Default** (Handbook 11, Chapter 2, Attachment 2R, Clause 69) - The A.I.D.-approved standard host country construction contract form allows a contractor to terminate a contract prior to its stated termination date under certain conditions. The contractor may prematurely terminate its contract if the host country:

- Fails to pay, within a set time (usually 30 days), any amount which the consulting Engineer has certified to be due the contractor under the terms of the contract;
- Interferes with, obstructs, or refuses any required approval to the issue of any such certification;
- Becomes bankrupt; or
- Gives formal notice to the contractor that, for unforeseen reasons, due to economic dislocation, it is impossible for it to continue to meet its contractual obligations.

Whenever any host country contract is prematurely terminated, the Project Officer must ensure that A.I.D.'s rights are protected, its obligations are satisfied, and the termination procedure complies with the contract's provisions. The Project Officer must also ensure that any termination costs claimed by the contractor are accompanied by:

- A written justification by the contractor supporting in detail the claimed charge; and
- The host country's written concurrence to the contractor's claim; or
- A certified copy of an arbitration award (Handbook 11, Chapter 1, Section 3.6.6.7).

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* The A.I.D.-approved standard host country construction contract also provides a mechanism for attempting to settle disputes before they reach the "expulsion" stage. These procedures are found in Handbook 11, Chapter 2, Attachment 2R, Clause 67.

Following the final payment and insertion of all relevant documents into the contract file, the Project Officer closes the file and retains or transfers the file according to mission procedures.

The control objectives of this process are to provide reasonable assurance that A.I.D.-financed construction services are provided in a timely, effective, and efficient manner; that contractors are adequately evaluated so as to provide a documentary history of their performance; and that the rights and obligations of the host country, contractor, and U.S. Government are adequately considered when contracts end. To achieve this objective, A.I.D. uses the following control techniques:

- Monitoring guidance for Project Officers found in Handbook 3, Supplement B, Chapter VII;
- Guidance to Project Officers for conducting site visits and reviewing project and contractor reports provided in Handbook 3, Chapter 11;
- Evaluation guidance provided in Handbook 3, Chapter 12, and Handbook 3, Supplement B, Chapter VII, Section Y;
- Standard host country construction contract default and termination provisions found in Handbook 11, Chapter 2, Attachment 2R;
- Guidance for Project Officers involved in host country contract terminations found in Handbook 3, Supplement B, Chapter VII, Section X; and
- Voucher review and processing procedures discussed above under the Payment Process.

The contract administration and monitoring process is vulnerable since it is highly dependent upon Project Officer initiative and resources. The Agency provides its Project Officers with a great deal of flexibility in developing and maintaining contract monitoring systems. There are very few mandatory monitoring requirements, other than administrative approval of payment vouchers, placed on Project Officers. Since the Project Officer has many duties and responsibilities, including, in many cases, multiple projects and contracts in his or her portfolio, there may be a tendency to rely heavily upon contractor reports, rather than time-consuming site visits, to oversee contractor operations. Auditors should review these reports as part of any project audit. Past audits have consistently found that contractor status reports do not adequately address progress toward planned targets, and may only peripherally address contract implementation problems. Alternatively, there is an inherent danger that a Project Officer will become so involved in

contract implementation that he or she will interfere with the host country's management prerogatives.

Auditors should also review site visit reports and procedures during any project-related audit. Past audits have found that Project Officers, or other mission personnel conducting site visits, do not consistently conduct inspections efficiently and effectively. Many site visits, or at least the reports of such site visits, are superficial, lacking, for instance, an organized attempt to measure contractor progress against targets or benchmarks, or an attempt to test or review contractor receiving and accounting records.

The process is also vulnerable because Project Officers receive very little written guidance for evaluating contractor performance. The A.I.D. Evaluation Summary lists contractors performance as only one of several areas for review during an evaluation. The Project Officer is responsible for preparing written contract status reports as requested by the mission Director (Handbook 3, Supplement B, Chapter VII, Section O). In practice, these reports are rarely produced, since Project Officers have numerous demands on their time and mission Directors are generally satisfied with oral reports of contractor performance.

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CHAPTER 6

COMMODITY PROCUREMENT MANAGEMENT UNDER HOST COUNTRY CONTRACTS

As the U.S. Government's primary foreign economic development Agency, A.I.D. is constantly and intimately involved in the purchase of a huge volume of commodities.* The Agency spends over one billion dollars annually on commodity procurement through thousands of different paid transaction documents. These purchases support both development projects and non-project development such as the Commodity Import Program (CIP). About $600 million is spent for project commodities.

This chapter deals solely with commodities purchased to implement bilateral development projects when A.I.D. funds the purchase but the host country is the contracting party.** A.I.D.'s other primary commodity procurement method--direct contracting--is discussed in Chapter 7. Although host country procurement was once encouraged under the presumption that it helped host governments develop institutional expertise, there is no longer a stated Agency preference between A.I.D.-direct and host country contracts.

No aspect of project implementation is more important, nor more prone to problems and frustrations than procurement. A.I.D. regulations place a particularly heavy responsibility upon the Project Officer and other mission and office personnel for determining whether a host country is capable of procuring project commodities. The Project Officer must prepare an "Administrative Analysis" of the host country implementing agency's capabilities during the project development process (Handbook 3, Chapter 3, Appendix G). The analysis includes a review of the host country's procurement system. The mission or office Director uses this analysis and other relevant information (Handbook 1, Supplement B, Section 3A) to determine whether the host country or A.I.D. should manage a given procurement. Other relevant information includes:

- Project design and objectives, including the type of required commodities and any timing constraints;
- Host country preference;
- Host country procurement capability, including contractor selection, contract administration, and audit capability;

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* Handbook 1, Supplement B defines "commodity" as "any material, article, supply, goods, or equipment."

** A.I.D. source, origin, pricing, and other policies required under Section 604(a) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2354), do <u>not</u> apply when commodities are purchased with funds provided for Sub-Saharan African Development Assistance under the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1989, or similar, later legislation (P.L. 100-461 of October 1, 1988; 102 STAT. 2268-6).

- Relative costs;
- Systems and procedures for effective contract support, including contract administration, coordination of services, payments and other administrative and logistical support availability;
- Availability and experience of A.I.D. procurement, legal and program staff to advise and assist the host country or to undertake direct A.I.D. contracting; and
- Effects on establishment of desired institutional or professional relationships (Handbook 3, Appendix 3H, Section B.2.a).

Host countries may contract for commodities in three ways:

- By assigning responsibility to an agency of the (host) government, either the "Implementing" agency or a specialized supply agency;
- By retaining a commercial Purchasing Agency (Procurement Services Agent) in the U.S.; or
- By assigning commodity purchasing responsibility to a contractor retained primarily to supply professional/technical services.

When commodities are purchased by a professional/technical services contractor under a fixed-price contract for services where commodity purchases are merely incidental to the contractor's primary functions, the purchasing function is one element under the prime contract. The prime contract is governed by the rules discussed in Handbook 11, Chapter 1. The prime contractor procures the commodities according to its own established procedures, but must follow A.I.D.'s source/origin rules (Handbook 11, Chapter 1, Section 4.3.24). The contractor is then responsible for maintaining records of awards and commodity inventories, but need not provide details of disbursements to the host country or mission.

In many cases, the host country will hire a particular type of U.S.-based technical services contractor, known as a Procurement Services Agent (PSA) to manage a procurement. The PSA is a person or organization, other than a government agency, that provides commodity services for the host country. Although A.I.D. policy discourages the use of such agents (Handbook 15, Section 4B), they are widely used, since host countries often lack the expertise to manage procurements without assistance. The host country hires the PSA under host country technical services contracting rules found in Handbook 11, Chapter 1. The PSA may write the procurement specifications, prepare and issue Invitations for Bids or Requests for Proposals, review and evaluate resulting bids and offers, place orders, issue contracts, expedite shipments, and/or inspect commodities. In all these activities, the PSA must comply with A.I.D. regulations to the same extent as the host country (Handbook 11, Chapter 3, Section 3.3, and Handbook 15, Chapter 4). The host country must ensure that the PSA follows the rules discussed below. Those

rules should be spelled out in the contract between the host country and the PSA. The following analysis will deal only with host country purchases, either through its own agencies, or through a PSA.

A. SPECIFICATION DEVELOPMENT PROCESS

Commodity specification (which commodities are needed for successful implementation, and where such commodities can be procured in compliance with A.I.D. regulations) will necessarily occur during the commodity procurement planning process, if not earlier. Commodity sources should be considered at this stage since any necessary waivers of A.I.D. procurement requirements should be developed and approved as early as possible to avoid unnecessary implementation delays. For example, if an ineligible commodity that was not included in the project approval document is later determined to be needed for successful project implementation, A.I.D. can properly finance the purchase only if it complies with stringent waiver requirements. The purchase must be approved in writing by the Assistant Administrator or his/her designee, or under waiver criteria set forth in Handbook 1, Supplement B, Sections 4C and 4D.

The Project Officer, assisted by such other mission members as are appropriate (e.g., Contracting Officer, Regional Legal Advisor, technical specialists, Accounting Officer) and advised by the A.I.D./Washington Office of Procurement, if necessary, should try to reach agreement with the host government as early as possible in the project development stage on the types of commodities to be procured, nationality of suppliers, and sources of goods eligible for procurement. Agreement with the host country is reflected in a Project Implementation Letter, which is generally drafted by the Project Officer and approved by the mission Director. The first Project Implementation Letter (called the "Basic PIL") should spell out contracting and purchasing procedures, source/origin rules, and disbursement procedures.

1. Source, Origin, and Componentry Requirements

As a matter of policy, A.I.D. tries to limit commodity procurements to the United States (Code 000), or to the U.S. and the less developed countries of the free world (Code 941). Under certain circumstances, A.I.D. can waive these requirements to allow for the purchase of commodities in the host country (Code 899), or in the developed, as well as less developed countries of the free world (Code 935). All A.I.D. loans, grants, contracts, and other obligating documents must prescribe an "A.I.D. Geographic Code" which identifies eligible sources.

The Agency's source, origin, and componentry rules are complicated and will only be discussed briefly in this chapter. The auditor should be thoroughly familiar with Handbook 15, Chapter 2; Handbook 1, Supplement B, Chapter 5; and Handbook 11, Chapter 3 when reviewing auditee compliance with these regulations.

- o Source - In general, a commodity's source means the country from which it is shipped to the host country, or the host country itself if the commodity is located therein at the time of purchase. A.I.D. will not approve any commodity purchases from a communist bloc country, i.e., a country which does not appear under Geographic Code 935. (A.I.D. geographic codes can be found in Handbook 11, Attachment 3A.)

- o Origin - To be eligible for A.I.D. financing, commodities must also meet an "origin" test. In general, a commodity's origin is the country or area in which a commodity is mined, grown, or produced.

- o Componentry - "Components" are the goods that go directly into the production of a produced commodity. A.I.D. has developed a "50 per cent" rule in applying its componentry test. This is explained in Handbook 1, Supplement B, Section 5.B.c. The A.I.D./Washington Office of Procurement's Technical Support Branch (M/SER/OP/COMS/T) administers the componentry rule and recommends its waiver or modification (Handbook 17, Section 18.G.4.b.2.d).

2. Commodity Eligibility Requirements

As a matter of policy, A.I.D. will only fund commodities which "... make a positive contribution to development ...", and which do not violate guidance set forth in the "Foreign Assistance Act, other pertinent laws, and relevant U.S. policies." To implement this policy, the Agency has identified types of commodities which it will not fund, or will fund only under unusual circumstances or with certain restrictions.

Once again, the Agency's rules and requirements are complicated. The auditor should be thoroughly familiar with Handbook 1, Supplement B, Chapter 4; Handbook 15, Section 2C, Appendix B; and Handbook 11, Chapter 3 when reviewing auditee compliance with the commodity eligibility regulations.

a. Ineligible Commodities - In general, A.I.D. will not fund purchases of commodities which are:

- o Unsafe or ineffective, for example certain pesticides, food products, or pharmaceuticals;

- o Luxury goods;

- o For military use;

- o Surveillance equipment;

- Intended for the purpose of inducing abortions as a method of family planning;
- Intended for weather modification; or
- Intended for support of police and other law enforcement activities.

Commodities intended for abortion purposes or police activities can be procured if authorized by the President (Handbook 1, Supplement B, Sections 4.D.4.d and 4.D.3.d). Weather modification equipment can be financed if approved by the A.I.D. Administrator (Handbook 1, Supplement B, Section 4.D.6.d).

b. Restricted Commodities - While generally eligible for A.I.D. financing, the Agency has placed restrictions on the purchase of certain commodities. These include:

- Agricultural products;
- Motor vehicles;
- Pharmaceuticals;
- Pesticides;
- Rubber compounding chemical and plasticizers;
- Used equipment; and
- Fertilizers.

The restrictions generally take the form of mandatory submission to A.I.D./Washington for review prior to purchase or particular source requirements. Handbook 1, Supplement B, Section 4C; Handbook 15, Chapter 2; and Handbook 11, Chapter 3 explain the various restrictions and relevant waiver procedures.

3. Delivery Service Requirements

As part of the commodity specification process, A.I.D., generally through the Project Officer, must also ensure that the host country is aware of the Agency's delivery service restrictions. Commodities which are otherwise eligible for A.I.D. financing may be made ineligible because of the carrier on which they are shipped or because of conflicts with A.I.D.'s marine insurance policy (see Handbook 1, Supplement B, Section 4E and all of Chapter 7).

Further, application of the Cargo Preference Act of 1954 (46 U.S.C. 1241[b] [1]) places restrictions on A.I.D. financing (see Handbook 1, Supplement B, Chapter 10; and Handbook 15, Chapter 7).

4. Pricing Requirements*

A.I.D. has established criteria for determining price reasonability for commodities purchased under host country contracts. These rules are set forth in the "Supplier's Certificate and Agreement with the Agency for International Development for Project Commodities/Invoice and Contract Abstract" (A.I.D. Form 1450-4), which suppliers must complete and forward with their payment documentation for procurements exceeding $2,500 (Handbook 1, Supplement B, Section 8.A.4).

The supplier certifies that the commodity's price is the lower of:

- The market price prevailing for comparable sales in the source country at the time of purchase; or

- The price generally charged by the seller for comparable sales in the source country at the time of purchase (Handbook 11, Attachment 3B, Section 3; a definition of "comparable sales," and analogous rules for reasonable prices of ocean and air freight charges are also found in this section).

5. Responsibilities for Complying with Requirements

Responsibility for enforcing these requirements is divided among mission officials and A.I.D./Washington Bureaus and Offices, particularly the Office of Procurement (see Handbook 15, Chapter 2). However, the importance of the Project Officer in explaining these rules to his or her host country counterparts cannot be overemphasized. The host country, as contracting party, must be aware of these restrictions to avoid unnecessary delays which could result from A.I.D.-mandated revisions to the procurement contract, and to avoid the danger that A.I.D. will be precluded from funding certain commodity purchases. The Project Officer, through his or her documentation reviews and field site visits, and to the extent possible given the information contained in documents received at the mission, is responsible for ensuring that

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* Although not part of the Specification Development Process *per se*, pricing requirements are discussed in this section since the type of documentary and field site review required to verify compliance with source, origin, and eligibility rules can also be used to verify compliance with the pricing rules.

commodities comply with A.I.D.'s source, origin, eligibility and pricing requirements. Moreover, the Project Officer will, in most cases, review the host country contract prior to award. As part of this review, the Project Officer should ensure that the eligibility requirements appear in the contract.

When the host country uses a Procurement Services Agent, the Project Officer must ensure that the requirements are made a part of this contract. This is usually done by incorporating Handbook 11 Chapter 3 into the contract by reference. However, if the mission Director waives the requirement to use Chapter 3 in its entirety, the Project Officer must ensure that the resultant PSA contract still contains requirements that the commodities comply with all source, origin, and componentry rules (Handbook 11, Chapter 1, Section 4.3.24.b).

The A.I.D./Washington Office of Procurement, Transportation Division (M/SER/OP/TRANS) is responsible for ensuring that A.I.D. complies with the shipping provisions of the Foreign Assistance Act and the Cargo Preference Act. Upon locating the desired commodities, the purchaser can contact M/SER/OP/TRANS for information on available shipping. M/SER/OP/TRANS will research shipping information sources, and use the "Transportation News Ticker" to locate shipping which complies with A.I.D. regulations. M/SER/OP/TRANS forwards the information to the purchaser.

Once the contract for shipping services is signed, the supplier forwards a copy of the ocean bill of lading to M/SER/OP/TRANS. This document identifies the ship ("bottom"), its ownership and registry, commodities transported, and transportation costs. M/SER/OP/TRANS reviews the data to ensure that individual shipments are forwarded in eligible "bottoms". It also reviews the data to ensure that at least 50 percent of commodity tonnage is transported in U.S. "bottoms" and at least 50 percent of shipment revenues accrue to U.S. shippers. The 50 percent requirements are mandated by the Cargo Preference Act and are not waivable.

Should the M/SER/OP/TRANS Bills of Lading analysis reveal that a host country is not meeting its Cargo Preference requirements, that office will notify the geographic bureau, which should then explain to host country officials that an increased percentage of upcoming commodity shipments must be placed on U.S. vessels until the Cargo Preference requirements are met. M/SER/OP/TRANS officials, however, have no means of determining whether they are receiving all relevant Bills of Lading. This is a weak point in the Agency's internal control system for ensuring compliance with the Cargo Preference Act.

The control objectives of this process are to ensure that A.I.D. finances only those purchases which "make a positive contribution to development", and which comply with all applicable U.S. laws and relevant policies. To achieve these objectives, the process uses the following control techniques:

- Guidance contained in Handbooks 15 and 11, and Handbook 1, Supplement B dealing with Agency source, origin, componentry, and eligibility rules;

- Guidance to Agency Project Officers on informing host countries of A.I.D. requirements, found in Handbook 3, Supplement B, Chapter 3, Section C;

- The requirement for formal A.I.D. approval of host country contracts exceeding $100,000, and instructions for considering mission and/or office review requirements for all commodity listings regardless of contract value (Handbook 11, Chapter 3, Section 3.5.2);

- Designation of eligible sources, by geographic code, in all A.I.D. loans, grants, contracts, and other obligating documents;

- Guidance for Project Officer monitoring (Handbook 3, Appendix 11E);

- M/SER/OP/TRANS review of Bills of Lading;

- A.I.D. voucher review procedures (Handbook 19); and

- A.I.D. guidance for performing site visits (Handbook 3, Chapter 11).

In responding to a host of congressional mandates and directives, the A.I.D. commodity specification process has evolved into a maze of rules and requirements. Its very complexity makes the process vulnerable to abuse and compliance errors. Responsibilities are fragmented. The Project Officer should monitor compliance with the requirements, but this is difficult when based upon shipping reports and site visits. It is particularly difficult to ensure compliance with pricing requirements. Although the A.I.D./Washington Office of Procurement at one time performed price reviews of project commodities, it no longer does so and this responsibility has been placed on Project Officers. Office of Procurement managers monitor compliance with shipping requirements but have no way of ascertaining whether they are receiving all relevant documents. As discussed below, U.S. banks monitor compliance with source and origin rules for commodities purchased under bank letters of commitment. Although A.I.D. provides them with information on these

rules and regulations, the banks may have little experience with A.I.D. requirements, and little incentive to thoroughly review transaction documents. Moreover, auditor efforts to test compliance with these rules often prove frustrating, given the lack of information available "in the field", and the Agency's propensity to waive the requirements when compliance questions arise.

B. CONTRACT AWARD PROCESS

The commodity procurement contract award process begins with the implementation of a set of contractor selection procedures and ends with the host country signing a procurement contract or otherwise entering into a legally binding purchasing arrangement. Selection procedures will vary with the degree of competition agreed upon by A.I.D. and the host government. The Project Officer, with the assistance of relevant mission specialists as appropriate, and advice of A.I.D./Washington personnel as necessary, should discuss alternative contracting procedures with the host government as early as possible in the procurement planning process. The degree of competition required and attainable should be included in these discussions. Those discussions should be documented in the Project files.

It is crucial that the Project Officer hold pre-contracting briefing sessions with his or her host country counterparts once A.I.D. has determined that the project will use the host country contracting mode. There is no substitute for adequate pre-contract briefings. In addition to providing a forum for informing host country officials of A.I.D requirements, these briefings also serve to identify potential conflicts between host country and A.I.D. rules and regulations. Conflicts may arise, for instance, in bid evaluation criteria, or cost considerations. The Project Officer should attempt to resolve such differences by persuading the host country officials to adopt procedures consistent with A.I.D. procedures.

Mission officials must remember that the host country is the contracting party. They must make every reasonable effort to follow host country contracting procedures and practices so long as those practices and procedures are not substantively inconsistent with A.I.D.'s mandatory requirements, are fair and defensible, and are likely to assure prudent and proper procurement. The guiding principle should be to seek only such changes in the host country's procurement policies and processes as the mission and/or office considers essential to meet basic A.I.D. requirements. Handbook 11, Chapter 3, Section 2 contains these basic requirements, some of which may be waived with valid cause. Section 3 of that Handbook chapter contains guidance for implementing those rules. Use of procedures other than those contained in Section 3 does not require a waiver.

The Project Officer must ensure that the award process is carried out in compliance with A.I.D. requirements. Pre-award conferences should be documented in the Project Officer's files. The procedures to be followed in selecting suppliers should be set forth in a Project Implementation Letter (PIL), which is the control document defining proper procedures for a given purchase.

1. Contractor Selection

Contracts for the purchase of equipment and materials must be awarded on a competitive basis to the maximum practical extent. This can be accomplished through formal and informal bidding procedures, or, under certain circumstances, through solicitation of a reasonable number of suppliers. Under restricted conditions, the host country may award procurement contracts without following competitive bidding procedures. Many or all of the host country actions discussed below may actually be performed by a Procurement Services Agent. In that case, the selection documentation will probably not be available in the host country but will be retained by the PSA in its U.S. offices.

a. Formal Competitive Bidding (Handbook 11, Chapter 3, Section 3.6)

This is the preferred contractor selection method for A.I.D.-financed purchases of goods and materials. It is normally used when procurements are estimated to be over $100,000 in value. Applicable procedures include advertising the availability of Invitations for Bids (IFBs), issuance of the IFB, public opening of the sealed bids, evaluation of bids, and contract award to the lowest responsive and responsible bidder. Once the host country has begun formal competitive bidding procedures, it must complete those procedures until a contract is awarded or all bids are rejected.

The process begins with the host country informing prospective bidders that a purchase is forthcoming. It does this by asking the Project Officer to cable the text of the advertisement or "notice" to the A.I.D./Washington Office of Small and Disadvantaged Business Utilization, or the Office of Procurement. These Offices review the advertisement to ensure it is complete and arrange to have it published in the Department of Commerce's Commerce Business Daily (CBD) and/or A.I.D.'s Export Opportunities Bulletin. Alternatively, the Project Officer may directly contact the Department of Commerce and place the notice in the CBD. In any case, information copies of the requests should be sent to the Office of Small and Disadvantaged Business Utilization. This Office must monitor A.I.D.-financed procurements to ensure that the Agency

is complying with various Congressionally mandated requirements for contracting with small and/or minority-owned businesses (e.g., 10 percent set-aside requirements of the Gray Amendment [see Chapter 4]). The notice states that IFBs (or prequalification questionnaires, see Handbook 11, Chapter 3, Section 3.6.2) are available upon request. The Project Officer is responsible for ensuring that the notice reaches A.I.D./Washington at least 60 days prior to the IFB's closing date.

The IFB is the basic document and primary A.I.D. control point under formal competitive procurement. It not only asks firms to compete for the contract, it also sets forth commodity specifications and conditions governing incidental services, which were developed during the specification development process. The host country provides copies of the IFB to all firms upon request and to any other firm the host country wishes to solicit. The IFB can be a highly detailed, complex document. Guidance concerning its contents is found in Handbook 11, Chapter 3, Section 4.0.

Two points about the IFB are particularly important. First, upon the signature of both the host government and the successful bidder, the IFB becomes the contract. It must, therefore, be specific in explaining the responsibilities and terms applicable to both parties. Second, A.I.D. considers the IFB to be a primary control point in ensuring that Agency commodity management rules will be followed. The Project Officer, with the assistance of the Regional Legal Advisor, Accounting Officer, and area Contracting Officer, if necessary, should carefully review the IFB <u>before it is issued</u> to determine that it meets A.I.D. <u>contracting standards</u> and procurement rules. A.I.D. must review and approve the IFB before it can be released to prospective bidders.

As it receives sealed bids, the host country should maintain a log showing the name and time of bid reception for each bidder. After opening the bids at the time and place indicated in the IFB, the host country evaluates the bids. The host country has considerable flexibility in evaluating the bids; however, the award must be made only to a "responsible" firm, submitting a "responsive" bid. These terms are explained in Handbook 11, Chapter 3, Section 3.6.7. The host country should prepare a detailed, written statement explaining why any bids were deemed unresponsive or any bidder not responsible.

After choosing the winning bid but prior to signature, the host country must generally send the contract to the Project Officer for A.I.D. review and approval. The Project Agreement or an

early Project Implementation Letter will state whether or not this review step is necessary. If it is necessary, the host country sends the following documents to the Project Officer:

- The unsigned contract, together with a statement that the contract is or is not identical to the contract included in the previously approved IFB;
- The log of bids received, and the detailed explanation of rejected bids discussed above;
- A statement that the selected bidder was "responsible", the bid "responsive", and the cost "reasonable"; and
- Bidder protests, if any, and their dispositions.

The Project Officer, Regional Legal Advisor, Accounting Officer, and relevant technical specialists review the proposed contract. If this group finds the contract acceptable, the Project Officer places the documents in the contract monitoring files and drafts a contract approval memorandum for the mission Director. This acceptance memorandum will, among other things, explain any waivers required under the particular contract and that the award procedures met A.I.D. requirements. A copy of this memorandum is placed in the Project Officer's files.

The Project Officer notifies the host country of A.I.D.'s acceptance, and the proper host country official signs the contract in the "acceptance" block on the IFB. However, the host country does not notify the successful bidder until it again forwards the contract to the Project Officer for final review and approval. If the contract was reviewed earlier, the second review may be a formality. However, it is an important step since it results in issuance of a Project Implementation Letter approving the contract, which, under this procurement mode, constitutes A.I.D.'s commitment document. The Project Officer is responsible for ensuring that copies of all relevant documents are retained in mission files.

b. Informal Competitive Procedures (Handbook 11, Chapter 3, Section 2.2.3)

The mission and/or office Director may decide that formal competitive procedures are inapplicable in certain broadly defined circumstances, listed in the Handbook section cited above. The Director may then allow the procurement to proceed under informal procedures, sometimes called "competitive negotiation". These procedures parallel those followed under formal competitive bidding.

The host country follows the same advertising procedure as noted above for formal competitive bidding. In this case, however, A.I.D.'s Office of Small and Disadvantaged Business Utilization, Office of Procurement, or Project Officer ensures that the Commerce Business Daily and/or A.I.D.'s Export Opportunities Bulletin advertises the fact that a Request for Quotations (RFQ), rather than an IFB, is available upon request (Handbook 11, Chapter 3, Section 3.8.2.1).

The RFQ is the equivalent of the IFB under competitively negotiated procurement. The RFQ is, in many ways, similar to an IFB (see Handbook 11, Chapter 3, Section 4.2). They differ in that, under the RFQ procedure, it is possible to negotiate with the offerors for changes in specifications and terms, and there is no public opening of the quotations. The RFQ is a major control point in this form of procurement. It must be reviewed and approved by the Project Officer and such other mission personnel as the Project Officer deems appropriate before it is released to prospective suppliers.

RFQs are distributed and returned quotations recorded by the host country in much the same manner as IFBs (Handbook 11, Chapter 3, Section 3.8.4.). Openings are not public, however, and prices are not disclosed. The host country evaluates and ranks the proposals based on criteria in the RFQ. The Project Officer may review the evaluation procedure, but this is not mandatory. The host country may negotiate with one or more offerors to achieve the most advantageous contracting terms (Handbook 11, Chapter 3, Section 3.8.6). The Project Officer's role in the negotiations must be circumspect so as not to give a prospective contractor the false impression that A.I.D. is a party to the contract (Handbook 3, Supplement B, Chapter IV, Section J).

The Project Officer may ask the host country to forward a copy of the proposed contract for review and approval prior to signature, if the mission and/or office has reserved this right in the Project Agreement or a Project Implementation Letter. In any event, A.I.D. must review and approve the final signed contract and evidence its approval by a Project Implementation Letter committing funds for the procurement before funding can begin. The Project Officer's role here is similar to his or her role in the IFB approval procedure (Handbook 3, Supplement B, Chapter IV, Section B.5).

c. **Small Value Procurement (Handbook 11, Chapter 3, Section 3.9)**

Host country contracts for equipment and materials not exceeding $100,000 may be informally solicited, negotiated, and

awarded under special procedures noted at the Handbook citation above. Small value procurement differs from informal competitive procurement in that:

- It does not require advertising in the Commerce Business Daily;
- It requires advertising in the A.I.D. Export Opportunities Bulletin only if the procurement exceeds $25,000;
- RFQs are not required, although solicitation of quotations is still required by less formal means, e.g., by canvassing a reasonable number of suppliers; and
- The host country must submit the contract to the mission for review only if required by the Project Agreement or a Project Implementation Letter.

This is obviously the form of competitive procurement over which A.I.D. will have the least control. It is particularly important that the Project Officer had thoroughly reviewed host government procedures during the planning process if this form of procurement is to be used.

Since A.I.D. may not review and approve the contract, it may not have the opportunity to commit funds based on such review as it can under the procedures previously discussed. Therefore, the mission can issue a simultaneous earmarking/commitment Project Implementation Letter, generally at the beginning of the fiscal year, to cover anticipated small value purchases. The Project Officer must be aware of upcoming small value procurements so that sufficient funds can be administratively reserved/committed to cover these procurements.

d. **Non-competitive Procedures (Handbook 11, Chapter 3, Section 2.2.6)**

Under certain very restricted conditions, A.I.D. will allow procurement without competition. The circumstances are set forth in the Handbook location noted above. The host country must receive a waiver for this form of procurement. Approval for "sole-source" negotiations for commodities valued at not more than $1 million can be handled at the mission and/or office. However, this field authority can be exercised only upon the recommendation of the mission's and/or office's Non-competitive Review Board. This Board is made up of the mission and/or office Director, Regional Legal Advisor (or Deputy Mission Director if no Regional Legal Advisor is available), and a senior project officer unconnected with the

particular procurement. Whenever the Board approves such a waiver, the mission and/or office must cable the geographic bureau's Regional Assistant Administrator and explain the reason(s) for the action. Waivers for non-competitive purchase of more than $1 million can only be authorized by the A.I.D. Administrator. Records of all these actions should be contained in the Project Officer's files.

2. Contract-Type Selection

The host country decides whether the commodities will be purchased by using a fixed price contract or a contract calling for cost reimbursement with a fixed fee paid to the contractor. Contracts requiring cost reimbursement with the contractor receiving compensation based on a percentage of reimbursable costs are never allowed (Handbook 1, Supplement B, Section 12.B.2.h.4). Such contracts provide no incentives to contractors to keep reimbursable costs as low as possible and, in fact, provide disincentives since the contractor's fee rises as its costs rise. It is the responsibility of the Project Officer to explain these contracting forms to the host country and to ensure that the host country does not use an unallowable form of contract when purchasing any commodities with A.I.D. funds.

a. Fixed Price Contracts (Handbook 11, Chapter 3, Section 3.4.1)

These contracts are normally used for equipment and material procurements. The supplier is paid the amount stated in the contract either in one payment upon delivery of all the equipment and materials required by the contract or in the form of partial or progress payments prior to contract completion.

b. Cost Reimbursement Plus Fixed Fee Contracts (Handbook 11, Chapter 3, Section 3.4.2)

This type of contract may be used in exceptional cases, e.g., when specifications cannot be defined with sufficient precision to enable a supplier to estimate with reasonable accuracy its costs of fabricating equipment. This type of contract is less desirable from the host country's perspective since it requires more active monitoring, and also places the host country in the position of bearing the risk of cost overruns.

The control objective of the contract award process is to ensure that A.I.D. funds are used in an efficient manner by keeping procurement costs as low as possible while, at the same time, obtaining commodities which will allow for timely and effective project implementation. To achieve this objective, the process uses the following control techniques:

- **Guidance contained in Handbook 11, Chapter 3 on contracting methodology stressing competitive procedures for all commodity procurements;**

- **Guidance contained in Handbook 11, Chapter 3 on contract forms which stress use of fixed price contracting; and**

- **The requirements for formal A.I.D. review of IFBs and RFQs prior to their public release, and host country procurement contracts prior to finalization.**

A vulnerable point in this process appears when a PSA is performing award functions since the PSA's documentation will generally be kept in the U.S., while monitoring responsibilities generally reside "in the field".

C. PAYMENT PROCESS

It is A.I.D.'s policy to pay contractors and suppliers on the basis of goods delivered, services performed, or to cover costs already incurred. The Project Officer should discuss acceptable payment procedures with host country officials as early as possible in the procurement planning process. The method of payment to the supplier for any given procurement will be described in the Invitation for Bids or the Request for Quotations and the resulting contract.

A.I.D. generally pays for commodities purchased under host country contracts by either directly reimbursing the host country for payments it makes to suppliers, by a direct letter of commitment to the supplier of the commodity, or by a letter of commitment to a U.S. bank, which pays the supplier and is, in turn, reimbursed by A.I.D. The basic Project Implementation Letter will describe the specific procedures which the host country will follow under the chosen payment method. The Project Officer should ensure that the mission Accounting Office is involved in developing this section of the Project Implementation Letter since it will be involved both in payments and in establishing letters of commitment. When the host country uses a PSA, the PSA's contract fees must be reimbursed either directly or under a direct letter of commitment. However, in most cases, the actual suppliers will be paid under a bank letter of commitment.

1. Direct Reimbursement to the Host Country (Handbook 11, Chapter 3, Section 3.11.1.2)

Under this form of payment, the host country pays the supplier from its own resources. The host country then submits required documentation to the Project Officer. A.I.D. may demand that the host country forward a completed voucher (SF-1034: "Public Voucher for Purchases and Services Other Than Personal" [see Handbook 11,

Chapter 3, Attachment 3F]), a supplier's certification that it has performed according to the contract terms (A.I.D. Form 1450-4: "Supplier's Certificate and Agreement with A.I.D. for Project Commodities/Invoice and Contract Abstract" [see below]), supplier's invoice, and evidence of shipment prior to disbursing funds (Handbook 11, Chapter 3, Section 3.11.3). The precise documents required for disbursement should be identified in the Project Agreement or Basic Project Implementation Letter. The host country submits the required documents to the mission Accounting Office which records their receipt and passes them on to the Project Officer who reviews them and administratively approves the voucher. The Project Officer forwards the package to the mission Accounting Office. The Accounting Office performs a fiscal review to permit the Office's "Authorized Certifying Officer" (ACO) to certify the payment (Handbook 19, Sections 3H and 3J).

This payment method places a great deal of responsibility upon the host country. It should be used only when the host country possesses the managerial and financial capability to operate under this procedure. This determination, which should be made early in the procurement planning process, is one of the most important responsibilities placed upon the mission in the host country procurement mode. This method gives the Project Officer (and mission Accounting Office) an opportunity to fully review transactions before disbursing funds.

2. Direct Letter of Commitment to Supplier (Handbook 11, Chapter 3, Section 3.11.1.3)

This is a more common payment method than direct reimbursement to the host country. The Direct Letter of Commitment (D L/COM) is an agreement between A.I.D. and a supplier. A.I.D. agrees to directly pay the supplier for eligible commodities (and related services) upon presentation of certain specified documents. After discussions with the Project Officer, the host country submits a written request to A.I.D. to issue the D L/COM. Based on this request, and language in the Project Agreement, Project Implementation Letter, and awarded contract, the mission and/or office Accounting Station issues the D L/COM to the commodity supplier, or PSA, if the host country is using a U.S.-based agent. When the host country is using a PSA, the agent's fee must be paid either through a D/L/COM or under the host country direct reimbursement method discussed above. The commodity suppliers under such an arrangement will generally be paid under the bank L/COM procedure discussed below. The D L/COM is issued only after the Accounting Office has first requested and received a Disbursing Authorization from the A.I.D./Washington Office of Financial Management (PFM/FM) (A.I.D. Controller's Guidebook, Chapter 19, Section VIII).

The supplier forwards the required documents to the mission and/or office upon shipment of the commodities. The specific documents will be spelled out in the D L/COM and are generally similar to those required under the direct reimbursement to the host country payment method. The supplier completes and forwards an SF-1034 as part of its documentation package. It also forwards a completed A.I.D. Form 1450-4: "Suppliers Certificate and Agreement With The Agency for International Development for Project Commodities/Invoice and Contract Abstract". This form is a major control mechanism in the mission's commodity procurement system (see Handbook 11, Chapter 3, Attachment 3B). It shows the supplier's and importer's names and addresses, and provides supplier information which A.I.D. requires to monitor compliance with various Congressionally mandated rules. For example, it will show whether the supplier was a small- and/or women-owned business. The supplier certifies, on this form, that the procurement meets A.I.D.'s price and cost guidelines (as explained on page 2 of the form), and A.I.D.'s source, origin, and componentry requirements. It also certifies that it has forwarded a copy of the relevant Bill(s) of Lading to A.I.D./Washington (M/SER/OP/TRANS).

A.I.D. uses Bills of Lading when monitoring compliance with the shipping requirements of the Foreign Assistance, and Cargo Preference Acts. The supplier need not forward other documents supporting the information and certifications made on the form, but must retain these supporting documents in its own (U.S.) files for at least three years after the date of final payment. A.I.D. may review these documents at any time during this period. As a practical matter, however, A.I.D. rarely reviews these documents, but instead relies upon the certifications contained in the Form 1450-4 as evidence of compliance with A.I.D. regulations.

Since the Project Officer has no independent knowledge of the supplier's performance in shipping the invoiced commodities, he or she is not required to administratively approve the voucher for payment (Handbook 19, Appendix 3A, Section 4). The Project Officer should review the documents to ensure they are complete before forwarding them to the Accounting Office for payment. The mission's and/or office's authorized certifying officer certifies the voucher for payment based solely upon the supporting documents.

The mission and/or office Accounting Officer may choose any of five methods for actually transferring U.S. dollars to the supplier. The Accounting Office may instruct the applicable Regional Finance Center to issue and mail a U.S. Treasury check directly to the supplier or the supplier's bank, or it may telegraphically request that the A.I.D./Washington Office of Financial Management (PFM/FM) arrange for the U.S. Treasury in Washington to issue a check to the supplier or supplier's bank or banks. As a fifth option, the

Accounting Officer may ask The Office of Financial Management in A.I.D./Washington to arrange for a Treasury/Washington Electronic Fund Transfer directly to the supplier's bank (A.I.D. Controller's Guidebook, Chapter 19, Section IX).

Suppliers generally prefer the D L/COM payment method rather than host country reimbursement. Payments are usually prompter and more reliable under this method. In addition, the Assignment of Claims Act (31 U.S.C. 3727; 41 U.S.C. 15) allows the supplier to assign the D L/COM to a bank as collateral for credit, allowing the supplier to increase its working capital. A.I.D. also generally prefers this method since it provides for mission document verification before disbursement. It does, however, increase the mission's administrative burden, and is, therefore, usually restricted to high value commodity purchases which will not generate a large number of documents. If a large number of lower value purchases are anticipated, the mission and host government will generally pay suppliers through a Bank Letter of Commitment.

3. Bank Letter of Commitment (Handbook 11, Chapter 3, Section 3.11.1.4)

The Bank Letter of Commitment (L/COM) is an agreement between A.I.D. and a U.S. bank under which the U.S. bank pays suppliers and is reimbursed by A.I.D. The system uses commercial banks in both the host country and the U.S. This is the preferred payment method when commodity purchases are likely to produce a profusion of invoices and related documentation.

Once the host country agrees to use this payment method, it forwards a written "financing" request or a Project Implementation Order/Commodities (PIO/C; A.I.D. Form 1370-1; see Handbook 15, Appendix 5A, Attachment A) to the Project Officer to implement the method. The request should identify the L/COM amount (including bank charges), name and address of the U.S. bank which will make the payments, name and address of an "approved applicant" which is usually a host country bank, and the L/COM expiration date. If a contract is greater than $50,000, the supplier will usually designate the U.S. bank in its contract, otherwise the host country will designate the U.S. bank. The Project Officer forwards this information to the mission Accounting Officer who asks A.I.D./Washington (PFM/FM/PAFD) to establish the L/COM. The L/COM identifies the documents required from the supplier. These will include, in most cases, a Supplier's Certificate (Form 1450-4).

Once the Office of Financial Management has established the agreement, the "approved applicant", i.e., the host country bank, contacts the U.S. bank and asks the U.S. bank to either issue letters of credit directly to the supplier, or to confirm or approve letters of credit which it (the host country bank) issues. The

letters of credit will, again, identify the required documents. Upon purchase of the commodities, the supplier presents the required documents to the U.S. bank which reviews the documents to ensure they are complete and that the purchases comply with A.I.D.'s source and origin rules, and receives payment. The U.S. bank forwards the documents, with a voucher (SF-1034), to A.I.D. and is reimbursed. The U.S. bank receives a fee for its services in addition to the reimbursement. These bank charges are discussed in Handbook 11, Chapter 3, Section 3.11.1.4.b. A.I.D. also pays interest to the bank for the period between the bank's payment to the suppliers and A.I.D.'s reimbursement to the bank through the U.S. Treasury. This interest period is generally less than one week. The Project Officer does not administratively approve the payment. The authorized certifying officer certifies the payment based upon the documents forwarded by the U.S. bank.

When the host country uses a PSA, the process is slightly different. The mission Accounting Officer forwards a host country financing request, or PIO/C, and a copy of the PSA contract to A.I.D./Washington (PFM/FM/PAFD). A.I.D./Washington issues the L/COM to the U.S. bank designated by the host country in its financing request. Although designated by the host country, this bank is generally chosen according to the PSA's preference. The PSA, rather than a host country bank, is named as the "approved applicant" in the request. The PSA asks the bank to issue letters of credit to individual suppliers. These suppliers are subcontractors under the PSA's prime contract. The suppliers send the required payment documents to the bank. The bank pays the suppliers and forwards the documents, together with a voucher (SF-1034) to A.I.D./Washington, which reimburses the bank.

Bank L/COMs generally allow a PSA to purchase small value items with its own funds, and receive reimbursement from the bank on a monthly basis. Since small value purchases ($2,500 or less) do not require submission of a supplier's certificate (Form 1450-4), the bank pays the PSA on the basis of submitted paid invoices. A.I.D. reimburses the bank in the standard way (Handbook 15, Section 4.E.3.B.).

Although the A.I.D./Washington Office of Procurement (M/SER/OP/COMS/M) conducts post-audits of Bank L/COM purchases for non-project commodities (i.e., purchases under Commodity Import Programs), it does not perform this oversight function for project commodities. Since accounting records for project expenditures are kept at the mission, the A.I.D./Washington Office of Financial Management forwards the bank documentation, together with an Advice of Charge (AOC) to the mission after reimbursing the U.S. bank. The AOC instructs the mission to adjust its accounting records to reflect the expenditure. The auditor should, therefore, be aware that mission accounting records may not accurately reflect

up-to-date project commodity expenditures since there may be a substantial delay between A.I.D./Washington's reimbursements to the U.S. bank and the mission's and/or office's posting of the disbursement to the accounting records.

Since A.I.D./Washington does not post-audit project commodity purchases under bank L/COMs, responsibility for overseeing supplier compliance with A.I.D. cost principals, where applicable, has been delegated to the mission (Handbook 11, Chapter 4; see also paragraph 3 of Form 1450-4). As a practical matter, however, missions have limited post-audit capability. The missions, therefore, rely upon supplier certifications and site visit/end-use checks by their own personnel, as well as Project Officer post-audits, to ensure compliance with these A.I.D. requirements.

4. Advances (Handbook 11, Chapter 3, Section 3.11.2.5)

Advances are payments made to a contractor prior to or in anticipation of future performance under the contract. Such payments must be authorized by the contract. While advances are common under technical services contracts, they are rare under commodity contracts and will normally be encountered only when commodities are purchased as a line item under a technical services contract.

The amount of an advance, whether in dollars or local currency, must be based on an analysis of the contractor's working capital requirements under the contract and must be limited to the contractor's immediate disbursing needs. A.I.D. considers an amount needed to cover disbursements for a maximum of 30 days as generally constituting normal disbursement needs. The time period may be greater or smaller, however, based upon the analysis. The time period may be extended up to 90 days with the mission Director's approval and Accounting Officer's concurrence, but only upon the former's written determination that adherence to the 30-day limit will interrupt or impede contract implementation.

Advance payments may be made as requested or according to an established schedule. The Accounting Office should review each request to determine whether the contractor is maintaining an excessively large unexpended fund balance. The contractor liquidates the advance by submitting to the mission Accounting Office SF-1034 payment vouchers marked "No Pay" together with any required supporting documents. Unallowable costs are deducted from upcoming advance payments.

a. Nonprofit Contractors (Handbook 11, Chapter 3, Section 3.11.2.5.b.1)

Nonprofit contractors, including international research centers and educational institutions, which do not charge of fee, are normally paid under this method. The mission Accounting Officer must concur in using the method, and the contractor must have a financial system which can adequately control and account for A.I.D. funds. This determination must be based on a U.S. Government or other acceptable audit. If the contractor does not have an acceptable financial management system, A.I.D. will use a reimbursement rather than an advance payment method.

b. Profit-Making Contractors (Handbook 11, Chapter 3, Section 3.11.2.5.b.2)

A.I.D. will provide advance payments to profit-making contractors and nonprofit contractors who charge a fee only upon the mission Director's written determination that use of this method will benefit A.I.D. in terms of increased competition and/or lower prices. This determination must be made prior to the issuance of the solicitation so that all prospective contractors or suppliers are made aware of the availability of advance payments. As with all nonprofit contractors, the profit-making contractor must have an acceptable accounting system or it will be paid on a reimbursement basis.

The control objective of this process is to provide reasonable assurance that A.I.D. commodity financing payments under host country contracts comply with the Agency's cash management procedures (including the Prompt Payment Act [31 U.S.C. 3901, et seq.]), while also giving reasonable assurance that A.I.D does not pay for commodities which the project does not receive (See Handbook 19, Appendices 1B and 1C). To achieve this objective, A.I.D. uses the following control techniques:

- Guidance for commodity procurement payments under host country contracts provided in Handbook 11, Chapter 3, Section 3.11;
- Policy pronouncements on payment methods found in Handbook 1, Supplement B, Section 15.B;
- Payment certification controls found in Handbook 19, Section 3.H.3; and
- Post-audit procedures established at the individual mission.

While A.I.D. has established mechanisms for controlling the payment process, that process does contain weaknesses. For example, Project Officers are unable to administratively approve payment vouchers

under letters of commitment procedures, since they cannot know whether the shipper has fulfilled the terms of its contract at the time it requests reimbursement. Other vulnerabilities result from A.I.D.'s emphasis on decentralized management and oversight. For example, post-audit responsibility has fallen to Project Officers who have many other responsibilities and limited access to technical information. The thoroughness of post-audit, and its usefulness as a control technique, will vary with the Project Officer's resources and the importance which mission managers attach to this technique.

D. CONTRACT IMPLEMENTATION AND MONITORING PROCESS

This process encompasses the Project Officer's and other mission and/or office officials' actions in observing and reporting upon host country and supplier compliance with the terms of the procurement contract and commodity-related provisions of other project documents. The process commences as soon as possible after the host country and supplier sign their procurement contract, and continues until the contract terminates.

Various elements of this process overlap with the processes already discussed. For example, Project Officer and/or Accounting Office reviews of payment documentation are part of this process. This section will therefore focus upon monitoring of commodity arrival and disposition.

A.I.D. requires that commodities which it finances reach the project site in a timely manner and in a usable condition, and that they are thereafter used for intended purposes. The Project Agreement will contain a stipulation that any A.I.D.-financed resources will be used for the project until termination and thereafter be used to further the project's objectives (standard loan [grant] provision found in Handbook 3, Appendix 6A-1 [6 A-2], section B.3.a.). Handbook 15, Chapter 10 provides guidance for mission personnel assigned to monitor commodity arrival and disposition.

1. Host Country Responsibilities

The host country is responsible for ensuring that the commodities are expeditiously moved from the port of arrival to the project site and effectively used to implement the project. It must maintain, for a period of at least three (3) years, a system of records documenting the arrival and disposition of A.I.D.-financed commodities. This system must:

- Identify the parties to the transaction and provide other data necessary for end-use investigations;
- Provide evidence to show whether commodities are received in the quantity and condition for which payment was made; and

- Provide a record of adjustments resulting from importers' claims for loss, shortages, or damage to commodities (Handbook 15, Section 10.B.2 [this section also states that all Project Agreements contain the retention of records requirement and a reservation of A.I.D. audit rights]).

2. A.I.D. Responsibilities

The mission is responsible for reviewing project progress reports to verify that A.I.D.-financed commodities are being effectively used in the project--or, if not, are transferred to other projects or otherwise disposed of as approved by the mission (Handbook 15, Section 10.C.1). It is also responsible for maintaining a current description, approved by the Accounting Officer, of the host country's commodity arrival and disposition system, the mission's evaluation of the system, and the monitoring procedures established by the mission (Handbook 15, Section 10.E). In order to evaluate the system and to verify that host country and contractor reports are accurate, Project Officers and Accounting Officers can test the system by performing port and site end-use checks (Handbook 15, Sections 10.D.3 and 10.D.4).

The mission's monitoring system generally uses two primary control techniques--review of host country (and contractor) reports, and on-site inspection by mission personnel. These techniques are discussed in greater depth in Handbook 3, Chapter 11. Missions should have a Mission Order describing the monitoring system.

a. Host Country Reports

The Project Agreement or a Project Implementation Letter will identify the types of periodic reports which the host country must submit to the Project Officer. The mission generally requires that the host country (or a technical services contractor) submit periodic project progress reports which discuss commodity utilization at the project site, transfer of the commodities to other projects, or other forms of disposition. Generally, use at another project or other form of disposition (e.g., sale) must be approved in advance by the mission.

The Project Officer must review these reports as they arrive at the mission. If the reports discuss commodity problems (e.g., inability to move equipment through customs, inability to use equipment because of a lack of maintenance or spare parts), the Project Officer meets with host country officials and

contractor representatives, if appropriate, to review the situation. Such meetings should be documented through a Project Officer's memorandum to the monitoring files. If the problem is serious, the Project Officer should record his or her concern in a memorandum to the host country, with copies to the mission Director and the contractor. Copies of these memoranda should also be retained in the Project Officer's monitoring file.

b. **Site Visits**

When monitoring commodity management, site visits can take two forms--port checks and project site end-use checks. Major commodity management problems can and do arise at the port-of-entry. Slow processing through customs or disappearance of equipment before it reaches a field site can severely affect project implementation. Although the host country is responsible for ensuring that commodities leave the port area for the project site as quickly as possible, experience has shown that frequent mission and/or office personnel inspections of the port's customs warehouses are often essential to get equipment moving and to locate lost goods. Handbook 15, Section 10.D.3. discusses various mission and/or office procedures for performing port checks.

The Project Officer will be more directly involved with monitoring commodity arrival and use at the field site. Project Officers should include commodity end-use tests and tests of arrival and utilization records at the field site as a part of their site visit agenda. Each mission and/or office should include Project Officer guidance for performing end-use reviews of project commodities in an order covering commodity arrival control and end-use monitoring. Handbook 15, Appendix 10A, Attachment B contains detailed procedures for conducting end-use reviews. These procedures include, but are not limited to:

- Testing the project organization's property and accounting records;
- Physical checks of commodities on-site;
- Testing to determine whether claims have been filed for losses and shortages; and
- Checking to ensure that equipment and supplies are properly identified in compliance with A.I.D. "Marking" requirements (Handbook 1, supplement B, Chapter 22).

The Project Officer, or A.I.D. official conducting the site visit, should place a written site visit report in the project files. Although these reports need not follow any standard Agency format, a sample format is provided in Handbook 3, Appendix 11C(1).

The control objective of this process is to provide reasonable assurance that A.I.D.-financed commodities arrive at the project site in a timely manner, and once at the site, are effectively used to implement the project. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance for conducting end-use checks provided in Handbook 15, Chapter 10; and**
- **Guidance to Project Officers for conducting site visits and reviewing project reports provided in Handbook 3, Chapter 11.**

The monitoring system is vulnerable since it is highly dependent upon Project Officer initiative and resources. Since the Project Officer has many duties and limited time, there may be a tendency to rely heavily upon host country and contractor reports, rather than time-consuming site visits to track commodity arrival and utilization. Moreover, the effort devoted to commodity oversight during site visits will vary with the Project Officer's priorities and the importance which mission management assigns to the commodity area.

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CHAPTER 7

COMMODITY PROCUREMENT MANAGEMENT UNDER DIRECT A.I.D. CONTRACTS

This chapter discusses A.I.D.'s commodity* procurement management system for implementing bilateral development projects when A.I.D., rather than the host country, is the contracting party. Most of the basic policies and many of the procedures used under this contracting mode are similar to those used under host country contracting which is discussed in Chapter 6. However, whereas host country commodity procurements are governed by the relatively flexible procedures described in Handbook 11, direct A.I.D. procurements must follow U.S. Government-wide regulations contained in the Federal Acquisition Regulation (FAR), and companion A.I.D. Acquisition Regulation (AIDAR). These are found in Handbook 14, Volumes 1 (FAR) and 2 (AIDAR).**

A.I.D. may procure commodities as an item under technical services contracts, or under direct procurement handled by the mission or, more often, A.I.D./Washington at the mission's request. Nonetheless, it is A.I.D. policy that, even under this contracting mode, host countries should participate in contractor selection to the extent feasible.

Unless A.I.D. is purchasing goods from another U.S. Government agency, most project commodity direct contract purchases will be made either as a line item under a more comprehensive technical services contract or through U.S.-based Procurement Services Agents (PSAs). The PSA is a special form of technical services contractor, as explained in Chapter 6. When providing procurement services, the PSA must follow A.I.D. regulations found in Handbook 15, Chapter 4.

When commodity procurement is a line item under a direct A.I.D. contract for services, the Contracting Officer must ensure that the technical services contract requires that the prime contractor comply with A.I.D.'s procurement policies. The Project Officer will monitor the procurement as part of his or her general oversight responsibilities (see Handbook 3, Supplement A, Chapter II, Part C, Section E). The rest of this chapter will deal with procurements through PSAs and direct A.I.D. commodity procurements which are not incidental line items.

The mission or office Director decides whether A.I.D. will directly procure commodities necessary for project implementation. This will generally be

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* Handbook 1, Supplement B defines "commodity" as "any material, article, supply, goods, or equipment."

** A.I.D.'s source, origin, pricing, and other policies required under Section 604(a) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2354), do <u>not</u> apply when commodities are purchased with funds provided for Sub-Saharan African Development Assistance under the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1989, or similar, later legislation (P.L. 100-461 of October 1, 1988; 102 STAT. 2268-6).

based either on a determination that the host country procurement or accounting systems do not provide adequate internal controls for proper management of A.I.D. funds, or upon the expressed desire of the host country to have A.I.D. manage the procurement. This administrative analysis of host country procurement capabilities is discussed in Handbook 3, Section 3.C.6. General guidelines for performing the analysis are found in Handbook 3, Appendix 3H. The auditor should review this analysis and the Project Paper's procurement plan as discussed in Chapter 6.

A. SPECIFICATION DEVELOPMENT PROCESS

The specification development process (determining which commodities are needed to implement the project and where they will be procured) is basically the same under direct A.I.D. and host country procurement. The Project Officer, mission technical specialists, and host government officials will together decide upon the type and source of required commodities. If the commodities are being procured as a line item under a comprehensive technical services contract, the contractor may perform this function. The mission Director then decides that A.I.D. will procure the commodities (Handbook 1, Supplement, Chapter 4). The desired commodities are specified either on a Project Implementation Order/Commodities (PIO/C) or on a separate listing which will become a part of a PSA contract, if A.I.D. decides to use a procurement agent. A mission begins the procurement by issuing, or asking the Office of Procurement to issue, a PIO/C,* which would include the previously developed specification information.

A.I.D. uses the U.S. Department of Commerce's Schedule B numbers (seven digit codes used for reporting exports from the U.S.) to classify commodities in order to define commodity eligibility and applicability of special provisions, and to record commodity transactions. The Project Officer and mission Accounting Officer will look to these schedule numbers and accompanying item descriptions when reviewing supporting documents submitted by suppliers and PSAs. This applies under both direct A.I.D. and host country purchases (Handbook 15, Section 2.C).

Commodity specification will necessarily occur during the commodity procurement planning process, if not earlier. Commodity sources should be considered at that stage since any necessary waivers of A.I.D. procurement requirements should be developed and approved as early as possible to avoid unnecessary implementation delays.

The Project Officer, assisted by such other mission members as are appropriate (e.g., Contracting Officer, Regional Legal Advisor, technical specialists, Accounting Officer) and advised by the A.I.D./Washington

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* In certain exceptional cases, an Office other than the Office of Procurement may manage the procurement. Contraceptive procurements, for example, are managed through the Bureau for Science and Technology (see Handbook 15, Chapter 6).

Office of Procurement, if necessary, should try to reach agreement with the host government as early as possible in the project development stage on the types of commodities to be procured. Although the host country will not be a party to the resulting procurement contracts, it should, nonetheless, participate as much as possible in this part of the Specification Development Process.

Mission personnel, led by the Project and Contracting Officers, decide upon potential sources, nationality of suppliers, etcetera, and prepare any required waivers for management approval.

1. Source, Origin, and Componentry Requirements

As a matter of policy, A.I.D. tries to limit commodity procurements to the United States (Code 000), or to the U.S. and the less developed countries of the free world (Code 941). Under certain circumstances, A.I.D. can waive these requirements to allow for the purchase of commodities in the host country (Code 899) or in the developed as well as less developed countries of the free world (Code 935). All A.I.D. loans, grants, contracts, and other obligating documents must prescribe an "A.I.D. Geographic Code" which identifies eligible sources.

The Agency's source, origin, and componentry rules are complicated and will only be discussed briefly in this chapter. The auditor should be thoroughly familiar with Handbook 15, Chapter 2; Handbook 1, Supplement B, Chapter 5; and Handbook 11, Chapter 3 when reviewing auditee compliance with these regulations.

- Source - In general, a commodity's source means the country from which it is shipped to the host country, or the host country itself if the commodity is located therein at the time of purchase. A.I.D. will not approve any commodity purchases from a communist bloc country, i.e., a country which does not appear under Geographic Code 935. (A.I.D. geographic codes can be found in Handbook 11, Attachment 3A.)

- Origin - To be eligible for A.I.D. financing, commodities must also meet an "origin" test. In general, a commodity's origin is the country or area in which a commodity is mined, grown, or produced.

- Componentry - "Components" are the goods that go directly into the production of a produced commodity. A.I.D. has developed a "50 percent" rule in applying its componentry test. This is explained in Handbook 1, Supplement B, Section 5.B.1.c. The A.I.D./Washington Office of Procurement's Technical Support

Branch (M/SER/OP/COMS/T) administers the componentry rule and recommends its waiver or modification (Handbook 17, Section 18.G.4.b.2.d).

2. Commodity Eligibility Requirements

As a matter of policy, A.I.D. will only fund commodities which "... make a positive contribution to development ...," and which do not violate guidance set forth in the "Foreign Assistance Act, other pertinent laws, and relevant U.S. policies." To implement this policy, the Agency has identified types of commodities which it will not fund or will only fund under unusual circumstances or with certain restrictions.

Once again, the Agency's rules and requirements are complicated. The auditor should be thoroughly familiar with Handbook 1, Supplement B, Chapter 4; Handbook 15, Section 2C, Appendix B; and Handbook 11, Chapter 3 when reviewing auditee compliance with the commodity eligibility regulations.

a. Ineligible Commodities - In general, A.I.D. will not fund purchases of commodities which are:

- Unsafe or ineffective, for example certain pesticides, food products, or pharmaceuticals;
- Luxury goods;
- For military use;
- Surveillance equipment;
- Intended for the purpose of inducing abortions as a method of family planning;
- Intended for weather modification; or
- Intended for support of police and other law enforcement activities.

Commodities intended for abortion purposes or police activities can be procured if authorized by the President (Handbook 1, Supplement B, Sections 4.D.4.d. and 4.D.3.d.). Weather modification equipment can be financed if approved by the A.I.D. Administrator (Handbook 1, Supplement B, Section 4.D.6.d).

b. **Restricted Commodities** - While generally eligible for A.I.D. financing, the Agency has placed restrictions on the purchase of certain commodities. These include:

- Agricultural products;
- Motor vehicles;
- Pharmaceuticals;
- Pesticides;
- Rubber compounding chemicals and plasticizers;
- Used equipment; and
- Fertilizers.

The restrictions generally take the form of mandatory submission to A.I.D./Washington for review prior to purchase or particular source requirements.

3. **Delivery Service Requirements**

As part of the commodity specification process, the Contracting Officer should also determine whether the needed commodities can be shipped to the host country within the restrictions of A.I.D.'s delivery service requirements. Commodities which are otherwise eligible for A.I.D. purchase may be made ineligible because of the carrier on which they are shipped or because of conflicts with A.I.D.'s marine insurance policy (see Handbook 1, Supplement B, Section 4E and all of Chapter 7; CONTRACT INFORMATION BULLETIN 88-27).

In addition, the Cargo Preference Act of 1954 (46 U.S.C. 1241[b][1]) requires that:

- At least 50 percent of the gross tonnage of all A.I.D.-financed commodities which may be transported on ocean vessels shall be transported on privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates; and
- At least 50 percent of the gross freight revenue generated by all shipments of A.I.D.-financed commodities transported to the cooperating country on dry cargo liners shall be paid to or for the benefit of privately owned U.S.-flag liners to the extent such vessels are available (Handbook 1, Supplement B, Section 10.A.3).

The Cargo Preference requirements are complex, with responsibilities divided between mission and A.I.D./Washington Office of Procurement personnel. Handbook 1, Supplement B, Chapter 10 and Handbook 15, Chapter 7 explains A.I.D.'s procedures for complying with the Act.

4. Pricing Requirements (Handbook 1, Supplement B, Chapter 1)*

The Foreign Assistance Act, Section 604(b) (22 U.S.C. 2354) states that no funds:

> "... shall be used for the purchase in bulk** of any commodity at prices higher than the market price prevailing in the United States at the time of purchase, adjusted for differences in the cost of transportation, quality, and terms of payment."

For direct A.I.D. purchases, it is Agency policy that compliance with the Federal Acquisition Regulation will satisfy the statutory requirement (Handbook 1, Supplement B, Section 17.A.5). While the A.I.D./Washington Office of Procurement reviews compliance with the pricing requirements for non-project commodities, it is left to the Project and Contracting Officers in the field to test for compliance with the requirements for project commodities as they determine is necessary.

The control objectives of the Commodity Specification Development process are to ensure that A.I.D. purchases only those commodities which "make a positive contribution to development," and which comply with all applicable U.S. laws and relevant policies. To achieve these objectives, the process uses the following control techniques:

- **Guidance contained in Handbooks 15 and 1 Supplement B dealing with Agency source, origin, componentry, eligibility and pricing rules;**

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* Although not part of the Specification Development Process per se, pricing requirements are discussed in this section since the type of documentary and field site review required to verify compliance with source, origin, and eligibility rules can also be used to verify compliance with the pricing rules.

** "In bulk" means purchases in large quantities and is not a reference to types of commodities usually sold in bulk, such as grain.

- Designation of eligible sources, by geographic code, for all procurements;
- Office of Procurement Bills of Lading reviews to monitor compliance with the Cargo Preference Act requirements;
- A.I.D. voucher and documentation review procedures found in Handbook 19; and
- Guidance for performing site visits found in Handbook 3.

This process is vulnerable in that the requirements are complicated and extensive. Monitoring of compliance from the field is difficult without initiating extensive and time-consuming post-audit procedures such as the A.I.D./Washington Office of Procurement performs for non-project procurement. Project and Contracting Officers rarely have the time to perform these reviews.

B. PROJECT IMPLEMENTATION ORDER/COMMODITIES DEVELOPMENT PROCESS

A central control document throughout this contracting mode is the Project Implementation Order/Commodities (PIO/C), A.I.D. Form 1370-1 (Handbook 15, Appendix 5A). It is used when either the mission or A.I.D./Washington undertakes to directly purchase project commodities. It can also be used to list commodity specifications and requirements when A.I.D. purchases through PSAs, although listings to PSA contracts may be used in place of the PIO/C.

The PIO/C serves several purposes. It is a purchase request, containing a detailed description of the commodities to be procured. When countersigned by the host country, it serves as an agreement between that country and A.I.D. as to the commodities (and related services) which A.I.D. will procure, e.g., when A.I.D. undertakes purchases from other U.S. Government Agencies on the host country's behalf. It also earmarks funds obligated by the Project Agreement.

1. "Authorized Agent" (Handbook 15, Appendix 5A, Section 1)

The PIO/C must designate an "authorized agent" to perform the procurement. This agent can be a mission, A.I.D./Washington, another U.S. Government Agency, or a PSA. If the PIO/C designates a PSA, however, there must be an underlying contract between A.I.D. and the PSA. The host country may even use the PIO/C form as a convenient method for informing a PSA of specific commodity requirements under a host country contract. When so used, however, the PIO/C does not actually earmark funds. This is done through a Project Implementation Letter (PIL). Once again, the host country

can send the PIO/C to the PSA only if it has already signed a technical services contract establishing the agency relationship.

2. **Limitations and Restrictions** (Handbook 15, Appendix 5A, Section 2)

The PIO/C will not be used for certain direct procurements. It is not used when:

- The commodities are included in a Project Implementation Order/Technical Services (PIO/T);
- The items are books, pamphlets, or other materials available from the U.S. Government Printing Office; or
- The procurement is to be financed with U.S.-owned foreign currency.

There are also restrictions on incidental procurement services, such as export packing, which can appear on the PIO/C. The price of any such incidental service must be stated separately on each PIO/C and may not exceed 25 percent of the commodity price. If the price does exceed 25 percent, the mission or A.I.D./Washington should issue a Project Implementation Order/Technical Services (PIO/T) to cover these costs.

Finally, there must be an executed Project Agreement or project authorization and allowance of funds in effect before any PIO/Cs can be issued to purchase project commodities.

3. **Issuance** (Handbook 15, Appendix 5A, Section 3)

The missions and the A.I.D./Washington Office of Procurement (M/SER/OP/COMS) may issue PIO/Cs. A mission may issue the PIO/C when it, the General Services Administration (GSA), or another mission is the authorized agent designated on the form. When asking A.I.D./Washington to issue a PIO/C on its behalf, the mission will draw up a "worksheet" PIO/C showing all relevant data needed for the purchase, and forward the worksheet to M/SER/OP/COMS. A.I.D./Washington must issue the PIO/C when the commodities:

- Are procured from a U.S. Government Agency other than GSA;
- Are procured by an A.I.D./Washington contractor;
- Consist of agricultural materials or products (e.g., seeds, pesticides, fertilizer);
- Consist of contraceptives or other family planning materials;

- Consist of materials to be provided by GSA for A.I.D.'s malaria eradication program; or

- Are procured from UNICEF (e.g., oral rehydration supplies).

Missions and A.I.D./Washington can amend issued PIO/Cs. Amending rules and requirements are found in Handbook 15, Appendix 5A, Section 4. Separate PIO/Cs must be issued for each project, each designated authorized agent, each allowance of funds, and each procurement of contraceptives. A description of the types of information contained in the PIO/C is found in Handbook 15, Appendix 5A, Section 8.

The control objective of this process is to give reasonable assurance that project commodity requirements are described in sufficient detail and with sufficient clarity to enable Contracting Officers to proceed with the procurement and to ensure that funds are earmarked or reserved in compliance with A.I.D. requirements. To achieve this objective, A.I.D. uses the following control techniques:

- Guidance contained in Handbook 15, Appendix 5A; and

- Guidance contained in Handbook 3, Supplement A, Chapter II, Part C, Section E.

This process is particularly vulnerable when the PIO/C is produced or drafted by a mission but is transferred to A.I.D./Washington for implementation or amendment. Communications between the mission and A.I.D./Washington Contracting Officer can be difficult and time-consuming. In such cases, the PIO/C must be very clear and specific in explaining the procurement to reduce the likelihood of a procurement which does not fill the project's needs or requires an inordinate amount of time.

C. CONTRACT AWARD PROCESS

The commodity procurement contract award process begins with a set of contractor selection procedures and ends with A.I.D. signing a procurement contract or otherwise entering into a legally binding purchasing arrangement. The A.I.D. Contracting Officer, either at the mission or in A.I.D./Washington will manage the award process and sign the resulting contract as A.I.D.'s agent.

A.I.D.'s policy is to obtain full and open competition to the greatest possible degree. This can be done through either sealed bidding or competitive negotiation procedures. In actuality, most direct A.I.D. procurements are negotiated (Handbook 1, Supplement B, Section 12.B). In certain circumstances, A.I.D. may procure commodities without full and open competition. Alternatively, A.I.D. may procure commodities through

other U.S. Government Agencies. Although not an award procedure per se, use of other federal agencies is an important method for obtaining certain types of commodities.

When using a Procurement Services Agent (PSA), a mission or the Office of Procurement should place in its files all the documentation necessary to show how the PSA was hired. The PSA is hired under direct contracting procedures found in Handbook 1, Supplement B, Section 12.B. As under host country contracting, however, the documentation showing the specific procedures which the PSA used in subcontracting with suppliers will generally only be available in the PSA's files.

1. Procurement by Sealed Bidding (Handbook 1, Supplement B, Section 12.B.2.b.; FAR Part 14; FAR 6.401[a]; AIDAR Part 714)

   This award method begins with the Contracting Officer preparing Invitations for Bids (IFBs) based upon the PIO/C submitted by the Project Officer. The IFB is explained in Chapter 6. It should clearly, accurately, and completely describe A.I.D. requirements, yet avoid unnecessarily restrictive specifications or requirements which might unduly limit the number of bidders.

   The Contracting Officer, or the A.I.D. Office of Small and Disadvantaged Business Utilization (SDB) asks the Commerce Department to synopsize the IFB in the Commerce Business Daily. When a procurement is expected to exceed $25,000, the Contracting Officer should ask the SDB to print a notice of availability of IFBs (or Requests for Quotations or prequalification questionnaires, if applicable, see Handbook 1, Supplement B, Section 12.B.2.b.[2]) in the appropriate A.I.D. publication (see Chapter 6). The Contracting Officer ensures that copies of the IFB are sent to each prospective bidder in sufficient time to enable the bidder to submit its bid before the closing date. That date is set forth in the IFB. The Contracting Officer receives the bids, opens and evaluates them, and awards the contract. The Contracting Officer must base the award solely on price, and price-related factors.

   While the Contracting Officer is the focal point of the Award Process, both under sealed bidding and other award procedures discussed below, the Project Officer also plays an important role in the process. The Project Officer assures the preparation and issuance of the PIO/C which both initiates the process and earmarks funds for the subsequent procurement. He or she must ensure that the PIO/C contains all necessary clearances within the mission (e.g., Accounting Officer, Executive Officer) before the Contracting Officer begins the Award process.

2. **Procurement by Negotiation** (Handbook 1, Supplement B, Section 12.B.2.c.; FAR Part 15; AIDAR Part 715; FAR 6.401[b])

A.I.D. may use this award procedure when buying either supplies or services. In actuality, however, it is important in the area of commodity procurement because it is the system A.I.D. generally uses when hiring PSAs. At one time, the Office of Procurement retained several PSAs under indefinite quantity contracts (IQCs). This is no longer the case. Each procurement using a PSA, whether managed by a mission or A.I.D/Washington, now requires a separate technical services contract. Since this award system is generally used when procuring technical services, it is discussed more fully in Chapter 4.

3. Procurement by Purchase Order (Handbook 3, Supplement A, Chapter II, Part C, Section 2.E.3; FAR Part 13)

Missions and A.I.D/Washington may procure supplies by using a purchase order when the value of the goods does not exceed $25,000. These purchases are subject to small business set-asides (see FAR Section 13.105) and require limited competition (see FAR Section 13.501). The Contracting Officer will manage the procurement and ensure that A.I.D.'s Office of Small and Disadvantaged Business Utilization is aware of the purchase.

4. **Procurement Through Other U.S. Government Agencies** (Handbook 15, Chapter 5)

The host country may ask the mission to procure project commodities through another U.S. Government agency. A.I.D. has signed General Agreements with the Departments of Agriculture, Commerce, Health and Human Services, Interior, Defense, Labor, and the General Services Administration (GSA). These Agreements set forth the operating relationships under which A.I.D. can procure commodities (and services) from these agencies (see Handbook 12). In addition, A.I.D. can purchase printed material from the U.S. Government Printing Office (Handbook 15, Section 5.E).

The GSA's Federal Supply Service, in particular, is an important source for certain types of project commodities. A mission can procure items from GSA by submitting a "worksheet" PIO/C and A.I.D. Form 11-94 ("Document Distribution and Shipping Instructions") to the A.I.D./Washington Office of Procurement (M/SER/OP/COMS/T). The Office of Procurement reviews the PIO/C, ensuring that it contains all necessary information and is in the proper format. It then forwards the forms to GSA's "Special Programs Division". The applicable procedures, charges, and services provided by GSA are explained in Handbook 15, Sections 5.B and 5.C. GSA purchases the commodities with its own funds and bills the proper A.I.D.

accounting station, either in A.I.D./Washington or the mission. GSA submits bills to the A.I.D. accounting stations at least twice each month. A.I.D. pays the bills upon receipt of GSA's documents, not upon receipt of the commodities (billing documents are discussed in Handbook 15, Section 5.C.4).

The mission Accounting Officer is responsible for ensuring that the goods are ultimately received. The Accounting Officer should rely upon receiving reports, property records, arrival accounting records, and site visit reports from the Project Officer or other mission staff members to verify receipt. GSA should also send its own standard acknowledgment report to the "ordering activity" (mission, or A.I.D./Washington office), identifying the bill of lading and supply source, among other information.

Although most of A.I.D.'s inter-agency procurements are through GSA, A.I.D. also purchases commodities through other agencies, e.g., pharmaceuticals through the Veterans Administration, and agricultural supplies through the Department of Agriculture. The procedure is essentially the same as when dealing with GSA. The Project Officer submits the "worksheet" PIO/C and accompanying Form 11-94 to the Office of Procurement, which reviews the documents before forwarding them to the purchasing agency. A.I.D. may request that certain FAR requirements be waived (e.g., competitive procurement). However, the purchasing agency makes the final decision on application of the FAR. Further information on payments to other federal agencies, claims and status reporting is available in Handbook 15, Section 5.F.

Inter-agency purchases present several advantages over commercial procurements. Procedural simplicity is a major consideration, i.e., A.I.D. does not have to manage a competitive procurement action. GSA, in particular, has a long history of purchasing for A.I.D., and efficient lines of communication exist between GSA and A.I.D.'s Office of Procurement. GSA's Federal Supply Schedule (Handbook 15, Section 5.B.2.b.) provides a convenient method for developing commodity specifications. Other federal agencies have on-going relationships with suppliers which can expedite purchases (e.g., Veteran's Administration and pharmaceutical manufacturers).

5. **Non-Competitive Procurement** (Handbook 1, Supplement B, Section 12.B.2.g.; FAR Subpart 6.3)

Passage of the 1984 Competition in Contracting Act (41 U.S.C. 253[c]) enabled A.I.D. to purchase goods and services by "other than full and open competition" in certain circumstances. The exceptions are discussed in the Handbook sections cited above. The Contracting Officer must ensure that any contract awarded

non-competitively refers to the specific U.S. Code citation allowing the exception. Further, even when awarding a contract non-competitively, the Contracting Officer must solicit offers from as many potential sources "as is practicable" under the circumstances. The Small Business ("8[a]") Set-Aside Program (15 U.S.C. 637) falls under one of these specified exceptions (see FAR 6.302-5).

6. Responsibility For Complying With Contract Award Requirements

A.I.D. places primary responsibility under this process on four officials--the mission Director, who makes the initial decision to use the direct contracting mode, the Project Officer, who develops the PIO/C, the Regional Legal Advisor, whose role in contracting is described in Handbook 3, Section 8.B.5.f, and the Contracting Officer, who awards the contract and commits A.I.D. to perform under the contract's terms.

The Contracting Officer's role is particularly important in this process. Not only must the Contracting Officer ensure that the award follows the rules set forth in the FAR and AIDAR, he or she must also ensure that any PSA prime contract specifies all applicable A.I.D. requirements. These may include A.I.D. approval of subcontractors, subcontracting methods, subcontract advertising, commodity eligibility and source, transportation source, subcontractor eligibility, cargo preference, language and specifications, prohibition against certain types of subcontracts, mandatory subcontract clauses, and commodity documentation requirements. (See also Handbook 14, Volume II, Chapter 7, Appendix A for role of Contracting Officer in A.I.D. procurement.) The responsibility of the Project Officer in assuring that the Contracting Officer has sufficient information to develop a tenable contract is found in Handbook 14, Volume II, Chapter 7, Appendix A, Section 2.b.

The control objectives for the contract award process are the same under both direct A.I.D. and host country contracting. The process is intended to give reasonable assurance that A.I.D. funds are used efficiently by keeping procurement costs as low as possible while obtaining needed project commodities in a timely manner and in compliance with all laws and regulations. To achieve this objective, the process uses the following control techniques:

- Guidance contained in A.I.D. Handbooks 14 and 15;
- Guidance contained in Handbook 1, Supplement B; and
- Use of the PIO/C to initiate the process.

Vulnerabilities under the direct A.I.D. contract award process are less apparent and severe than under host country contracting. This is a primary reason for using this contracting mode. A vulnerable area does appear, however, when A.I.D. awards a contract to a PSA. A.I.D. includes the FAR requirements for subcontracting in its prime contract with the PSA, and may retain the right to approve subcontracts with suppliers. However, the subcontract award documentation is retained by the PSA. A.I.D. rarely reviews the actual subcontracting procedure to ensure that the PSA has followed its contract terms.

C. PAYMENT PROCESS (Handbook 19, Chapter 3)

Payments for A.I.D.-financed commodities are generally made for goods delivered, services performed, or to cover costs already incurred by the contractor. The contractor submits its request for payment to the A.I.D. paying office (mission Accounting Officer or A.I.D./Washington office) indicated in its contract. The necessary payment documents will be described in the contract, but generally include a payment voucher (SF-1034), invoices, and other supporting documents. The paying office refers the payment request to the Project Officer for administrative review and approval.

The Project Officer reviews the payment voucher and accompanying documents.* If the Project Officer agrees with the validity of the claim, he or she keeps a copy of the documents for the project file and sends the documents to the A.I.D. paying office (generally the mission Accounting Office) within 5 business days. If the Project Officer does not agree with the validity of the claim, he or she notes the problem and forwards the documents to the paying office so that office can notify the contractor of the problem within 15 days (Handbook 19, Section 3.H.2.f.1.). After the Project Officer's administrative approval, the relevant authorized certifying officer, or ACO (generally the mission Accounting Officer), reviews the documents and certifies the voucher for payment by the U.S. Treasury (Handbook 19, Section 3.H.3). Further information on payment procedures under direct A.I.D. contracts paid from field locations and paid by A.I.D./Washington can be found in Handbook 19, Sections 3.I.2, and 3.I.3. The methods A.I.D. uses to transfer funds from the U.S. Treasury to the contractor are described in Chapter 6 under the host country procurement payment process.

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* The Project Officer will not administratively approve vouchers whenever contracts or letters of commitment provide for payment against shipping documents (Handbook 19, Appendix 3A, Sections 4 and 5).

The control objective of this process is to provide reasonable assurance that A.I.D. commodity procurement payments under direct A.I.D. contract comply with the Agency's cash management procedures (including the Prompt Payment Act [31 U.S.C. 3901, et seq]), while also giving reasonable assurance that A.I.D. does not pay for commodities which the project does not receive. To achieve this objective, A.I.D. uses the following control techniques:

- Guidance for payments under direct A.I.D. contracts provided in Handbook 19, Chapter 3;
- Policy guidance for direct A.I.D. procurement contracts contained in Handbook 1, Supplement B, Section 15.E;
- Guidance for Project Officer administrative approval of vouchers found in Handbook 19, Appendix 3A;
- Payment certification controls found in Handbook 19, Section 3.H.3; and
- Post-audit procedures established at the individual mission.

When payments are made upon receipt of shipping documents, the payment process under direct contracting is subject to some of the same vulnerabilities found in the host country contracting payment process. This can occur when A.I.D. uses a PSA or purchases commodities through another U.S. Government agency. The situation is more serious under the PSA scenario since the A.I.D./Washington Office of Procurement does not post-audit project commodity procurements. The Project Officer is responsible for post-auditing these procurements to ensure that they comply with A.I.D. eligibility rules and cost requirements. This is further discussed in Chapter 6. The problem is less serious under inter-agency procurements since the purchasing agency has the responsibility of ensuring that the procurement complies with all applicable A.I.D. regulations and FAR requirements.

D. CONTRACT IMPLEMENTATION AND MONITORING PROCESS (Handbook 15, Chapter 10)

The monitoring responsibilities placed upon the Project Officer, mission Accounting Officer, and host country are essentially the same under both host country and direct A.I.D. procurements once the commodities arrive in the host country. The Project Officer will use the same techniques--project reports and site visits--to monitor commodity arrival and utilization. The mission Accounting Officer's responsibilities, as set forth in Handbook 15, Appendix 10A, Section A, are the same under both procurement modes. A.I.D. Project Agreements specify that the host country must ensure that commodities financed under the agreements are effectively used for the purposes for which the assistance was made

available. Effective use means delivery and use in accordance with project implementation plans. Host country monitoring and record-keeping requirements, found in Handbook 15, Section 10.B.2, and discussed above under host country contracting, remain the same.

The control objective of this process is to provide reasonable assurance that A.I.D.-financed commodities arrive at the project site in a timely manner, and once at the site, are effectively used to implement the project. To achieve this objective, A.I.D. uses the following control techniques:

- Guidance for conducting end-use checks provided in Handbook 15, Chapter 10; and

- Guidance to Project Officers for conducting site visits and reviewing project reports provided in Handbook 3, Chapter 10.

Process vulnerabilities are discussed in Chapter 6 under the host country procurement mode.

E. CONTRACT TERMINATION AND CLOSE-OUT PROCESS

A.I.D. direct contracts should be terminated and closed out under procedures found in FAR Parts 4 and 49 and CONTRACT INFORMATION BULLETIN 87-5. These procedures are discussed in detail in Chapter 4.