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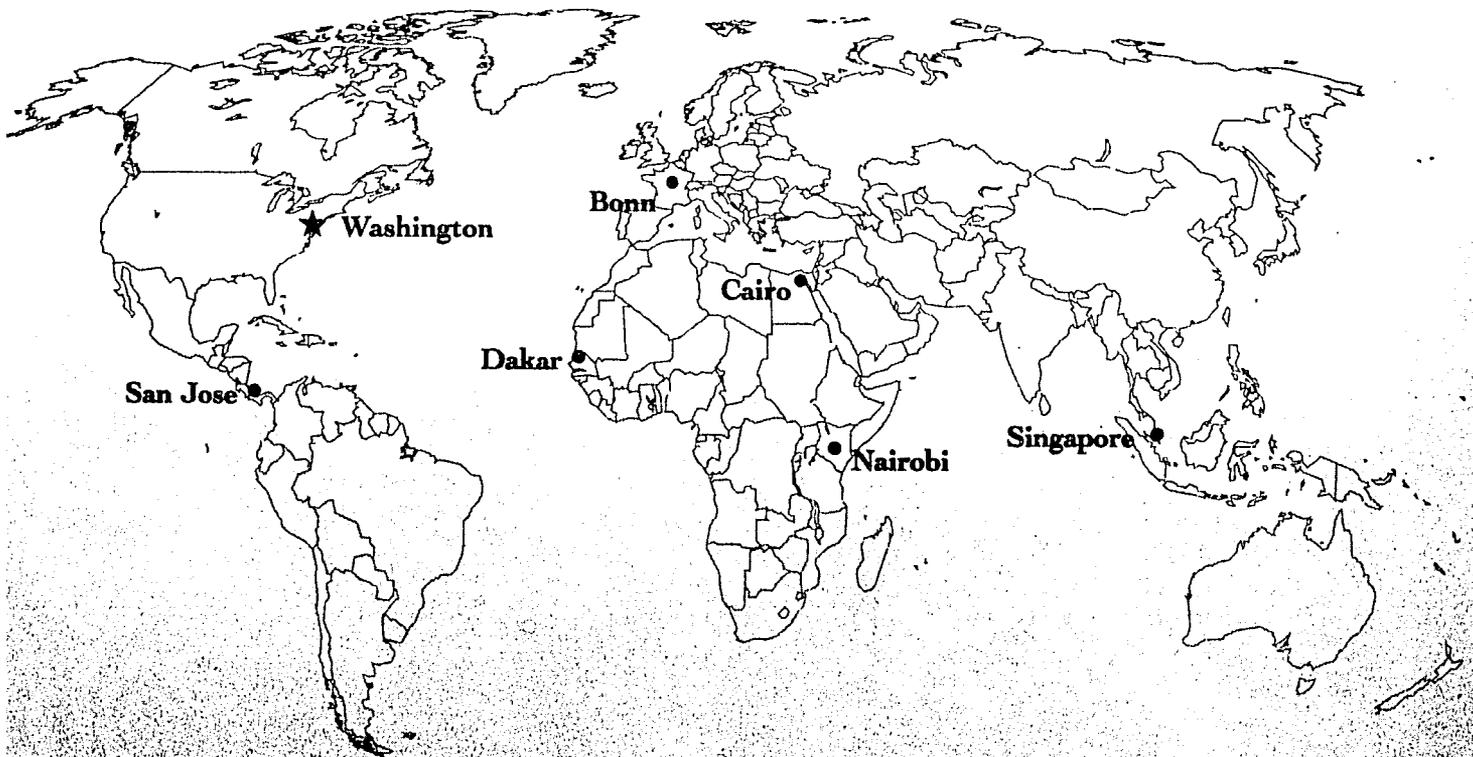
Regional Inspector General for Audit  
Dakar

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**Audit of USAID/Regional Economic Development  
Services Office for West and Central Africa's  
Contractor Staffing and Salary Awards**

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Audit Report No. 7-624-95-004  
February 13, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**Regional Inspector General for Audit  
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UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

February 14, 1995

## MEMORANDUM

FOR: Willard Pearson, Director, REDSO/WCA  
FROM: *Thomas B. Anklewich*  
Thomas B. Anklewich, RIG/A/Dakar  
SUBJECT: Audit of USAID/Regional Economic Development Services  
Office for West and Central Africa's Contractor Staffing Salary  
Awards

Attached is the final report of the subject audit. We have considered your comments to our draft report in preparing the final audit report and incorporated the entire text as an appendix therein. This final report contains one recommendation that is unresolved based on your comments. Please notify our office within 30 days of the status of Mission actions taken to close this recommendation.

I appreciate the courtesies and cooperation extended to our audit team. I look forward to working with you further on this report.

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### Summary of Audit Findings

This audit is part of a worldwide, coordinated effort by the Office of the Inspector General. For the most part, USAID's Regional Economic Development Services Office for West and Central Africa (REDSO/WCA) took the actions necessary to ensure that the technical assistance persons proposed by bidding contractors were in fact provided to the intended projects and that these persons were paid the appropriate salaries. The one area for improvement we found was in REDSO/WCA's documentation to support the Contracting Officers' decisions. We believe that REDSO/WCA Contracting Officers need to specifically document, in their Price Negotiation

Memoranda, their assessment as to the allowability and reasonableness of the salaries of key personnel for technical assistance contracts.

During the audit, we also found that REDSO/WCA Contracting Officers did not always monitor annual increases in the salaries of key personnel covered by technical assistance contracts to ensure that they did not exceed 5 percent without the prior approval of the Contracting Officer. After the audit work, we learned that this 5 percent limit may be obviated by (1) the Agency's move toward performance-based contracting, and (2) REDSO/WCA's intention to eliminate the standard contract clause limiting annual salary increases. Therefore, we are not making a recommendation.

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## **Background**

This audit was planned in response to concerns expressed by Congress, USAID management officials, and Inspector General staff that:

- ◆ Contractors may use "bait and switch" techniques when proposing personnel for USAID contracts. In other words, the contractors may win contract awards based, in part, on the experience and education of the personnel they propose to employ, and then substitute other personnel with lesser qualifications.
- ◆ Contractor personnel may be paid salaries in excess of what their salary histories, education, and experience would justify.

Previous audits have shown that the above concerns are warranted. The Inspector General's Fiscal Year 1994 Audit Plan assigned responsibility for the coordination of this worldwide audit to the Regional Inspector General Office in Cairo, Egypt, with participation by the Regional Inspector General in Dakar.

The audit focused on REDSO/WCA because its Regional Contracting Office has the highest concentration of contracts in our region. Its office provided contracting services for ten USAID missions in West and Central Africa during the audit period. There was a total of 26 technical assistance contracts managed by REDSO/WCA during fiscal years 1991 through 1993. We sorted those contracts by dollar amount and judgmentally selected for review 15 high-dollar contracts worth over \$50 million. From these contracts we identified 64 key individuals upon whom to concentrate our audit work.

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## **Audit Objectives**

The Office of the Regional Inspector General for Audit, Dakar audited REDSO/WCA's systems and procedures for managing contractor staffing and salary awards. The audit was designed to answer the following two objectives:

- ◆ Did REDSO/WCA ensure that technical services contractors provided the same personnel as specified in their proposals, or provided substitutes of comparable quality?
- ◆ Did REDSO/WCA ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?

The auditors tested whether REDSO/WCA followed applicable policies and procedures regarding (1) changes in "key personnel", (2) the establishment of starting salaries which were markedly higher than the employee's recent salary history, and (3) the approval of annual salary increases greater than 5 percent. When problems were found, the auditors identified their cause and made recommendations to correct the cause and/or the problem.

Appendix I describes the audit's scope and methodology.

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## **Audit Findings**

### **Did REDSO/WCA ensure that technical services contractors provided the same personnel as specified in their proposals, or provided substitutes of comparable quality?**

The audit revealed that REDSO/WCA, did ensure that technical services contractors provided the same personnel included in their proposals, or provided substitutes of comparable experience and education in accordance with Agency policy, as outlined below.

The audit found that REDSO/WCA Contracting Officers followed regulations<sup>1</sup> while administering the 15 contracts we reviewed. These contracts listed 64 key individuals, 49 of whom were currently employed by the Agency. The remaining 15 individuals were "reserve" personnel<sup>2</sup> who were never employed. Of the 49 key persons employed, 48 were originally proposed and one was substituted. In this instance, the contractor properly requested approval from the USAID Contracting Officer. USAID officials determined that the substitute was qualified and they approved this substitution.

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**Did REDSO/WCA ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?**

REDSO/WCA generally ensured that salaries of key personnel were justified by the employees' position, salary history, education, and experience. However, the Regional Contracting Officers at REDSO/WCA did not always have documentation to support their decisions concerning salary approvals for key contract personnel. Specifically, the contract files did not contain documentation supporting approvals for

- ◆ initial negotiated salaries that were higher than the person's previous salary, and
- ◆ annual salary increases greater than the standard contract five-percent ceiling.

We are also concerned that the educational and professional background of key personnel is not sufficiently verified. REDSO/WCA Contracting Officers required contract bidders to submit biographical information on their proposed key personnel, in conformity with USAID procurement regulations. Salary decisions for key personnel are based on this

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<sup>1</sup> USAID Acquisition Regulations, Section 752.7001 and USAID Handbook 11, Chapter 1, include a provision on key personnel which requires the Agency's consent before key personnel are reassigned, terminated, or replaced.

<sup>2</sup> Contract bidders include reserve key personnel to ensure that qualified persons would be available if and when the bidder won the contract. USAID's bidding and selection process for technical assistance contracts typically takes many months. It is frequently difficult for bidding contractors to find qualified individuals for key positions who are able to commit themselves 6 to 12 months prior to a contract award. Therefore, bidders will sometimes propose reserve persons with comparable qualifications to ensure that they can meet the terms of the contract.

information. However, the contracting officers did not systematically check the accuracy of the background information provided. Instead, they relied solely on the certifications provided by the bidding contractor and the key personnel themselves. They contend that these signed certifications provide sufficient verification.

We believe more can be done. Our concerns are based on the fact that previous audits have shown contract personnel *are* often paid in excess of what their salary histories, experience or educational qualifications would normally command.

### **Contracting Officers Need To Document Base Salary Approvals for Key Personnel In Their Price Negotiation Memoranda**

Paragraph 15.808 of the Federal Acquisition Regulations<sup>3</sup> requires each major cost element to be addressed in the Contracting Officer's Price Negotiation Memorandum<sup>4</sup>. In USAID technical assistance contracts, salaries are a major, if not the **largest** cost element. Contracting Officers have had a long-standing requirement to verify that salaries of key personnel do not exceed a regulatory ceiling (formerly Foreign Service level one, and, as of July 7, 1994, Executive Service level six). Additionally, there has been a special restriction in USAID contracts regarding salary levels. This standard contract clause, which was in each of the contracts we reviewed, stipulated that the contractor could not increase salaries (initial, base salaries) without the approval of the Contracting Officer. Specifically, this USAID internal control requirement states that, "...any individual salary or wage will not exceed the employee's current salary or wage or the highest rate of annual salary or wage received during any full year of the immediately preceding three years."

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<sup>3</sup> Federal Acquisition Regulation (FAR) section 15.808, Price Negotiation Memorandum, requires "A summary of the contractor's proposal, the field pricing report recommendations and the reasons for any pertinent variances from the field pricing report recommendations. Where the determination of price reasonableness is based on cost analysis, the summary shall address the amount of each major cost element (i) proposed by the contractor, (ii) recommended by the field or other pricing assistance report (if any), (iii) contained in the Governments' negotiation objective and considered negotiated as part of the price."

<sup>4</sup> The Contracting Officer is required to explain and document the negotiation with the contractor of all cost elements finally agreed upon.

Contrary to these requirements, REDSO/WCA Contracting Officers did not document the review and approval of salaries which exceeded those previously paid to newly-hired key contractor personnel. Our review of the salaries awarded to 49 key personnel revealed that 8 negotiated salaries were greater than the individuals' previous salaries — increases ranging from 6 to 398 percent. Our review of the related negotiation memoranda found no mention of the salaries having been reviewed and considered allowable, allocable, and reasonable.

REDSO/WCA Contracting Officers told us that they had assessed the initial salaries awarded to key personnel and determined that those salaries were reasonable and commensurate with the positions' responsibilities. However, these officers also stated that they did not record their assessments of the salaries in the negotiation memoranda because they did not think it necessary to do so.

We believe that the requirement is clear. Further, providing a rationale for salary award decisions constitutes good business practice, provides an historical record of cost determination, and establishes a precedent for future negotiations. Without this record, there is no documentary justification for the higher salaries awarded.

**Recommendation No. 1: We recommend that the REDSO/WCA Regional Contracting Office document, in the Price Negotiation Memoranda, the review and approval of the base salaries for key personnel listed in the Technical Service Contracts. A statement as simple as, "We have reviewed the proposed salaries of the key personnel and have determined them to be allowable, allocable and reasonable," would suffice.**

### **Management Comments and Our Evaluation**

REDSO/WCA did not agree with our original recommendation. Mission officials felt (1) that the Federal Acquisition Regulations (FAR) did not require Contracting Officers to document their approvals of contractor salaries, and (2) that recent trends in USAID contracting procedures to embrace performance-based contracting will obviate the need for salary approvals. REDSO/WCA officials stated that, when read together, the first page of Part 15 in the FAR (which directs Contracting Officers to obtain the best value for the Government), overrides the specific implementation paragraphs such as the one we cited on price negotiation memoranda.

We believe that the introductory section cited by REDSO/WCA is necessarily general. The meat of the regulations lies in the sections after the introduction. FAR section 15.808 specifically requires that a price negotiation memorandum shall be prepared after price negotiations and that the memorandum will include a discussion of the principal elements of the price negotiation. **In the case of USAID technical assistance contracts, salaries of key personnel are the principal element of the contract.** Thus, we believe there is a requirement for REDSO/WCA Contracting Officers to document approval of the salaries for key personnel.

We recognized that our draft recommendation may not have been clear, so we modified it to be more specific by suggesting simple documentation that REDSO/WCA Contracting Officers could employ.

Concerning their second point, REDSO/WCA Contracting Officers told us during discussions *after* they had sent their official Mission comments, that as part of their efforts to implement Agency-directed performance-based contracting, they plan on eliminating the conventional contract clause that requires approval of all base salary increases. They also pointed out that in Contract Information Bulletin 94-14, the USAID Procurement Executive stated an intention to eliminate all requirements for the review and approval of contractors' salaries.

Therefore, this recommendation is unresolved until (1) USAID takes the actions sufficient to supersede the FAR 15.808 requirement, or (2) REDSO/WCA provides a response to the modified recommendation above.

### **Some Contract Files Needed Documentation of Approvals for Annual Salary Increases**

REDSO/WCA's standard provisions for technical service contracts state that:

With respect to employees performing work overseas under this contract, one annual salary increase of not more than 5 percent of the employee's base salary may, subject to the Contractor's established policy and practice, be granted after the employee's completion of each twelve month period of satisfactory services under the contract. Reimbursable annual salary increases of any kind exceeding these limitations or exceeding the maximum salary of FS-1 may be granted only

with the advance written approval of the Contracting Officer.  
[Emphasis added.]

Each contract we reviewed showed that the contractor was required to request prior approval in writing from the Contracting Officer when the salaries of key personnel were to be increased by more than 5 percent. However, the contractors were not required to report the actual salaries of these key individuals during the course of the contract. They only had to request lump-sum reimbursement for the salaries of the key personnel. So, the actual salary increases for any individual were not evident, making it difficult for the Contracting Officer to monitor the annual increases.

Our analysis of the annual salary increases to the key personnel that took place during the audit period revealed that **nine** increases, relating to 7 key personnel of 49 tested, were above the five-percent cap. These increases ranged from 5.4 percent to 32 percent. In all of these cases, the contractors granted raises without prior approval from the Contracting Officer. As a result, the Agency cannot be assured that those salary costs were reasonable and within the terms of the contract.

We believed that REDSO/WCA needed to strengthen its monitoring of annual salary increases for key personnel. As such, without additional information, it would be difficult for REDSO/WCA Contracting Officers to know what salary changes their contractors had made. To help resolve the problem, RIG/A/Dakar auditors worked with REDSO/WCA managers to find a way to obtain this additional information. The auditors suggested that a simple addition to future contracts that required the contractor to notify the Contracting Officer about any salary increases for key personnel would help the Contracting Officer to identify any problems in this area. REDSO/WCA officials concurred and we made a recommendation to that effect in the draft report.

However, in their official comments to our draft report, REDSO/WCA officials disagreed with the recommendation to have contractors report on annual salary increases for key personnel, even though they had agreed previously during the audit work. After our audit work, USAID and REDSO/WCA began to implement the principles of performance-based contracting as recommended by Vice President Gore's National Performance Review which emphasized monitoring results versus inputs. Accordingly, REDSO/WCA officials told us during discussions after they sent their official comments, that they plan to eliminate the standard contract clause which limits annual salary increases for key personnel to 5 percent or less.

Since there is no FAR or USAID Acquisition Regulations (AIDAR) requirement to limit annual salary increases, and since REDSO/WCA is planning to eliminate its own internal requirement, we are not making a recommendation at this time. However, we will verify, during future audit work at REDSO/WCA, that the Regional Contracting Office has implemented its planned action to eliminate the standard contract clause which limits annual salary increases for key personnel.

### **Contracting Officers Do Not Verify Background Information For Key Personnel**

Agency regulations<sup>5</sup> require all USAID contractors to furnish the Contracting Officer with biographical information<sup>6</sup> on any employee designated as a "key person". The proposed employee must sign the form, certifying that the information provided is true and correct. The form contains a warning, (required by the Privacy Act of 1974), that employers and educational institutions listed may be contacted for verification of the information provided. The contractor is also required to sign the reverse side of the form indicating that the salary proposed for the individual meets the salary standards prescribed in the contract, and/or that any salary increase proposed meets the contractor's customary policy and practice for periodic salary increases.

Further, in a June 1993 memorandum, USAID/Washington's Office of Procurement Policy and Evaluations (FA/PPE) notified Contracting Officers that one Regional Contracting Officer had discovered several situations in which proposed employees had misrepresented their earnings or educational backgrounds. As a result, Contracting Officers were reminded to do some simple checking on individuals' qualifications and past salary histories.

We found no evidence that REDSO/WCA had routinely attempted to verify the credentials of employees proposed by technical services contractors as suggested by USAID/FA/PPE. Contracting Officers explained that they did not have the resources available. They also pointed out that bidding contractors and the proposed key individuals routinely certify the accuracy of the information provided.

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<sup>5</sup> Acquisition Regulation 752.7001

<sup>6</sup> On AID Form 1420-17, "Contractor Employee Biographical Data Sheet".

The audit staff was able to verify the bio-data sheet information by telephoning and faxing the immediate past employers and the educational institutions listed by all key personnel, including substitutes, who worked on the contracts reviewed. We limited our inquiries to U.S.-based organizations and institutions. The audit team found that most educational institutions verified attendance and/or degrees over the telephone. However, not all of the employers were willing to confirm salaries without authorization from the individual.

The results of our survey showed that contractors generally submitted accurate educational information for key personnel. However, for salary history the picture was not as clear. Only 17 of the 33 previous employers contacted responded. Three among these 17 responses showed salary rates lower than were submitted on the bio-data sheets. This fact along with the low response rate from previous employers suggested a potential weakness. There is no assurance that salary histories used as the basis for negotiations are accurate. This weakness could be eliminated if contracting officers performed periodic, simple checks on the qualifications of proposed key employees, as suggested by USAID/FA/PPE.

Because this matter may have implications Agency-wide, we are not making a recommendation at this time. However, this matter may be addressed in the worldwide capping report on contractor staffing and salary awards.

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# SCOPE AND METHODOLOGY

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## Scope

We audited REDSO/WCA's management of contractor staffing and salary awards in accordance with generally accepted government auditing standards. We conducted the audit from July 18, 1994 through September 30, 1994 at REDSO/WCA, Mali, and Ghana. We reviewed the contract files at these Missions covering those contracts let during the audit period beginning 10/01/90 and ending 9/30/93.

We obtained computer-generated lists from REDSO/WCA's Contract Information System (CIMS), as well as the manually prepared contract list. These indicated that the Mission let a total of 32 contracts. We reviewed these lists with the REDSO Contracting Officer who identified the technical assistance contracts. We selected these contracts as our universe. We did not verify the overall reliability of this data; however, we did verify the accuracy of account balances and related data for those contracts selected for in-depth examination. We sorted those contracts by dollar amount and judgmentally selected 16 high dollar contracts to review. The selected contracts have a total value of over \$50 million. One contract was closed so we actually reviewed 15 contracts. We then checked all the available contract files and obtained copies of pertinent documentation concerning key individuals.

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

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## **Methodology**

### **Audit Objective One**

To accomplish this objective, we reviewed the Missions' contract files and obtained the bio-data files concerning key individuals. We compared the names of key individuals listed in the contract to those names listed in the Best and Final Offer. When different names were noted we reviewed the contract files to obtain documentation relating to the Contracting Officer's approval of replacements.

### **Audit Objective Two**

To accomplish this objective, we used the same key personnel described above. We first compared salaries approved by REDSO/WCA with the employees' position, salary history, education, and experience to see if the salaries were justified. We reviewed the negotiation memoranda prepared by REDSO/WCA Contracting Officers to determine the reasons for any large increases over the employees' previous salaries. We also reviewed the biographical data sheets submitted by the employees to see if they were complete. Finally, we contacted schools and previous employers to verify information provided by key personnel on their biographical data sheets or resumes.

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## MISSION COMMENTS

DEC 21 1994



United States Agency for International Development

## memorandum

DATE: December 21, 1994

TO: Daniel Gowen, Acting RIG/A/DAKAR

FROM: Thomas Fallon, Acting Director RBD/OWCA

SUBJECT: Audit of USAID/Regional Economic Development Services Office for West and Central Africa's Contractor Staffing Salary Awards

We appreciate the opportunity to comment on the subject audit report and wanted to thank your staff for their courteous and thoughtful review. We do have several questions and comments on the recommendations. We feel these recommendations should be re-examined before the audit report is issued.

The draft audit report interprets certain key FAR provisions differently than we, and we believe that its interpretation is in error when it states (at the top of page 5) "If the contracting officer believes a negotiated salary increase is justified, the Federal Acquisition Regulations requires each major cost element to be addressed in the Price Negotiation Memorandum." We believe that the quoted section of the FAR must be read not as the draft audit would have it, as an absolute mandate to "review and approve" "salaries which exceeded those previously awarded to newly-hired contractor personnel". Rather, this FAR section should be read together with other FAR provisions, such as FAR 15.802(d), which says that "The Contracting Officer's objective is to negotiate a contract of a type and with a price providing the contractor the greatest incentive for efficient and economical performance. The negotiation of a contract type and a price are related and should be considered together with the issues of risk and uncertainty to the contractor and the Government. Therefore, the Contracting Officer should not become preoccupied with any single element and should balance the contract type, cost, and profit or fee

negotiated to achieve a total result and price fair and reasonable to both the Government and the contractor." (emphasis added)

In point of fact, the typical contract negotiation does not normally provide an opportunity for specific agreement on individual salaries, even if the FAR permitted such emphasis on this single element of cost. The process is substantially as follows: The prospective contractor, whether in a competitive or non-competitive environment, submits an offer. This offer is analyzed by the Contracting Officer. As provided in FAR 15.8, this analysis may be characterized as either a price analysis, or a cost analysis; it may involve a request for a technical analysis, or for field pricing support, or for a combination of these. In USAID, it is uncommon to request or receive field pricing support, though such support is common in other Federal agencies.

After analysis of the proposal, the contracting officer may conduct either written or oral negotiations, but in the competitive negotiation environment such negotiations do not lead to a "handshake" on the price and other factors. Rather, they lead to a solicitation of Best and Final Offers (BAFO) from all of the firms in the "competitive range". These BAFOs are then compared and award is made on the basis of best value. In most USAID procurements, the best value determination is heavily weighted toward the technical strength of the proposal, with cost being a relatively minor consideration. It is next to impossible, in this environment, to reach specific, negotiated agreement, on the salaries of individual project staff, and not considered to be in the best interest of the Government to attempt to do so.

The draft recommendations appear to be based on a different perception of this process. Page 5 of the draft report contains the statement that "salary decisions for key personnel are based on this (BIODATA) information." In fact, Biographical Data sheets are used as a guide in determining the reasonableness of salaries proposed, but it is wholly outside the authority of Contracting Officers to make "salary decisions". The FAR mandate is that the Contracting Officer determine that the proposal, taken as a whole, is fair and reasonable. If so, then the contractor's proposal is accepted and a contract is awarded. Salaries are but a part of the total price and are hardly ever individually set. Indeed, many procurement professionals consider that to insist on agreement on specific elements of cost is to unduly and inappropriately interfere in the contractor's management of the project and is very much at odds with the Federal Government's emphasis on performance based contracting.

In this light, there are several problems with the first recommendation which reads:

"Recommendation No. 1: We recommend that the Director of USAID/REDSO/WCA require the contracting officers to document the rationale for approval of salary increases to key individuals in the Price Negotiation Memoranda."

The background refers to a "special USAID contract requirement" and quotes part of a Section H clause. It is important to realize that this clause is not required by either the FAR or the AIDAR. It is frequently used by USAID Contracting Officers, however, as a matter of business judgement. A portion of the clause not quoted in the draft report is significant to this discussion: "Salaries and wages may not exceed the Contractor's established policy and practice, including the Contractor's established pay scale for equivalent classifications of employees, which will be certified to by the Contractor...." The clause goes on to require Contracting Officer approval for individual salaries or wages that exceed the employee's current salary or wage or the employee's recent wage history.

The question is whether this provision, together with FAR guidance on documentation in the Price Negotiation Memorandum (15.808), places an obligation on Contracting Officers, whether or not they choose to place this provision in their contracts, to agree to individual salaries, either at time of original award or subsequently. The draft report quotes the pertinent part of FAR 15.808 in note 2 on page 5. This part simply requires that, when price reasonableness is based on cost analysis, the "summary" address the proposal, field pricing report recommendations and pertinent variances therefrom, with mention of the amount of each major cost element considered negotiated as part of the price. Nowhere does the FAR require or even encourage detailed negotiation of an agreement on individual salaries. As for the provision, its focus is on the obligations of the contractor, not the Contracting Officer. Contracting Officers may choose to enforce those obligations, or not, depending upon their perception of the Government's interests. At the present time, the direction of USAID procurement is definitely away from incorporating and enforcing such provisions in our contracts.

In this context, Recommendation No. 1 is really neither relevant nor appropriate in most procurements. Contracting Officers may or may not be aware at time of award (when the Price Negotiation Memorandum is prepared) of what specific salaries the contractor will eventually pay its staff. Indeed, hiring decisions are normally made after award and salary negotiated as part of that post-award process. But even where such matters are known before award, there is no regulatory basis for requiring Contracting Officer documentation of "the rationale for approval of salary increases" for individual contractor employees in the Price

## Negotiation Memorandum.

Further, our experience in USAID teaches us that it is very common for contractor personnel to receive higher pay for their overseas USAID-funded work than for previous work in other settings. Duties often change, working conditions are generally much more difficult, and special (and sometimes rare) combinations of skills are often required that make recruitment extremely difficult. We neither want nor need to interpret our contract provisions in ways that make it harder for our contractors to find the best qualified people available to do our work and get them into the field as efficiently as possible. Contractors may or may not know what all of those constraints are going to be at the time of proposal preparation and contract negotiation.

Finally, such prior approval of salaries could actually be counterproductive in cases where the contractor could have negotiated a lower salary than that "agreed to by USAID" but chose not to attempt to do so in light of the Government's prior acceptance of the higher rate.

This is not to suggest that there is no room for improvement in the documentation of the cost analysis performed in competitive procurements and of the discussions that surrounded individual elements of cost in all acquisitions. That is part of the process of learning and improvement in documentation that we hope will always characterize our performance at REDSO/WCA. We believe that we are making progress on that front and that our documentation compares favorably with that in most Federal contracting activities.

"Recommendation No. 2: We recommend that the Director of USAID/REDSO/WCA require the contracting officers to include a clause in future technical assistance contracts requiring the contractor to provide a periodic (annually or when salaries are increased) listing of key personnel showing their previous salaries, current salaries, the difference between the two, and a computation of the percentage increase."

The discussion leading to the second recommendation, and that recommendation itself, similarly misapprehend the procurement process, the contract provisions, and the authority of either the REDSO/WCA Director or the REDSO/WCA/OP Regional Contracting Officers.

We acknowledge that there is a widespread belief in USAID that contractor personnel salaries should not be permitted to increase at an annual rate of more than 5 percent. There are sound arguments both for and against this proposition and the provisions

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cited by the draft report are clearly based on the sometime prevalence of the restrictive view. Are these FAR or AIDAR-required clauses? Absolutely not. Are they good public policy? That may be fairly debated. Should they be in our contracts? That is an individual Contracting Officer decision, as is the question of whether and how to enforce them.

One of the choices on enforcement that are not available to either the REDSO/WCA Director or the REDSO/WCA/OP Regional Contracting Officers, however, is the solution contained in Recommendation No. 2. This solution is prohibited by the Federal Reports Act, the Paperwork Reduction Act, and the OMB regulations at 5 CFR that implement those Federal laws. The draft recommendation would have the Director of REDSO/WCA direct the Regional Contracting Officers to illegally increase the reporting burden imposed on their contractors with a record keeping and reporting requirement of general applicability that has not been approved by OMB. While we might agree with the RIG auditors that such a report would be desirable and useful in monitoring contractor salaries, we have no authority to require it and, for the reasons set forth below, probably would not choose this course of action at this time in any event.

First, such a change in reporting requirements for USAID contractors must come from USAID procurement policy headquarters, with appropriate OMB authorization. Second, such a requirement should not be imposed regionally, rather than world wide, if it is, in fact, a desirable addition to contractor reporting burden. Third, the current trend in USAID acquisition, as reflected in the "Acquisition and Assistance Business Area Analysis Report", dated May 1994, at page 26, is away from this whole approach to contract administration. "It is recommended that these administrative elements (salary approvals) be evaluated and eliminated when possible." The old approach is characterized as a procurement inhibitor and part of an old system in need of reform. In fact, such requirements are generally considered to impede the Agency's ability to join other Federal agencies in the Government-wide movement toward performance based contracting, where results are measured, not inputs.

This final point bears on the final observation (without recommendation) that "Contracting Officers Do Not Verify Background Information For Key Personnel." If USAID is getting out of the business of salary approvals, as we believe it should, there is no practical value to such verification, or, indeed, to much of the current submission of Biographical Data Sheets. At best, these sheets are simply part of the contractor's Certified Current Cost or Pricing Data, submitted in accordance with the Truth In Negotiation Act, when applicable. They are useful for purposes of

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cost analysis and pricing documentation, but their precision is no more crucial to the pricing decision than any other pricing information. It is through audit that their accuracy is assessed, and the remedy for deliberate inaccuracy is a price reduction for defective cost or pricing data submission. It would be a major waste of Contracting personnel time to systematically verify the accuracy of these submissions, even if that were possible in every case.

Given the difficulties with the recommendations detailed above and given the fact that the USAID reinvention exercise will lead to substantive changes in this area, we feel that both recommendations have been overtaken by events and should not be issued. If it is felt that the report must be issued, REDSO/WCA requests that both recommendations be issued as resolved and closed. We hope that these comments are useful in the decision process on final issuance of this draft report and thank RIG Dakar for the opportunity to offer them.

②