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FINAL REPORT

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**STREAMLINING THE PROCUREMENT PROCESS  
AND  
REDUCING ADMINISTRATIVE REQUIREMENTS**

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*Prepared for:*

***THE AID/PVO TASK FORCE***

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## I. EXECUTIVE SUMMARY

This Working Group is charged with making recommendations for streamlining the procurement process and reducing administrative demands in the PVO/A.I.D. relationship. After meetings with members of the PVO community and A.I.D. procurement, project, audit and FHA/PVC staff, we found that the process of registration, negotiation, implementation and audit of PVO programs is rife with redundancies, probably costs more than it saves, does an imperfect job of protecting the government, stifles risk taking and program impact, and generally makes everyone unhappy. To quote the Report of the National Performance Review, "The cure has become indistinguishable from the disease."

The system, which we defined as the stages of registration, proposal/negotiation, implementation, and evaluation/audit, is affected by numerous Statutes, OMB and other government regulations, including A.I.D. Policy Papers and Handbooks. The stages are seen as too sequentially segmented. Each step of the process, from registration to negotiation of agreements, to implementation and to audit, can mean resubmission of financial and technical information. Almost any A.I.D. employee involved at any stage of the process can revisit any financial or technical point, leading to delays and duplication. It is seen as heavily skewed toward "input monitoring", driven by fear of vulnerability to "fraud, waste and abuse", negative Congressional reaction and bad press. Negotiation is not with a person, but with a bureaucratic system. Implementation most frequently requires prior A.I.D. approval for many actions necessary to proceed. Yet the audit system is not seen as perfect in protecting the taxpayer, making it difficult to accept risk earlier in the process. Program impact is subordinate to fear of vulnerability.

We conclude that opportunity to reform the system exists, but that the administration must develop a comprehensive view of the system. Most feel that vulnerability, particularly to waste, can be reduced and that the savings could be redirected to enhance program impact. Established lines of authority have created bureaucratic power centers that will be difficult to change, with potential vulnerability becoming the shibboleth of the advocates of status quo and marginal change. The degree of increased efficiency to be gained will be proportional to the amount of political commitment to change, the degree to which we are willing to take risks, and to the amount of effort the agency is willing to put into change. A.I.D., alone, can't change the system. We are only a part of the much larger federal system. The Congress, OMB and GAO should be important players in any attempt to change the system. The proper balance between efficiency and vulnerability will be difficult to achieve, as maintaining an acceptable level of vulnerability will be the test applied to any proposed changes in the process.

**Streamlining** the process will require more than just implementing the individual recommendations in this report. Taken individually the recommendations will have marginal impact on efficiency in the system. Broader issues of authority and responsibility can have a

much greater impact. Authority to act must be delegated to those who have responsibility for implementation, both to the PVOs and to A.I.D. projects staff. Authority now runs from Section 635(b) of the Foreign Assistance Act through the Administrator, through AA/FA to the contracts staff, with little or no authority in the hands of the line officers in the agency. A system that assigns authority to one party and responsibility to another will not work.

The registration process could be a valuable tool to improve the process, such as in the "determination of responsibility" of a PVO (now done on an obligation-by-obligation basis), thus eliminating the need for multiple submission of documents such as financial statements, "representations and certifications", etc. for every grant negotiation. Much of the financial information required for registration is also required in proposals and in the audit process. The process is seen as discouraging small PVOs from registering. Requirements for registration of client country PVOs is not uniform. The current annual re-registration requirement is seen as burdensome to the PVOs, with slight reporting changes from year-to-year, requiring that PVOs "start from scratch". The form required for re-registration requires information already given to A.I.D., is time consuming, and it forces PVOs to recompute existing financial data to fit the form.

The disconnect between registration and negotiation and audit is costly. In addition to the resulting duplication of paperwork, it hides opportunities to use registration to reduce the number of approvals needed for PVOs to take action, e.g., approving a PVO procurement system, thus negating the need for the PVO to come to A.I.D. for prior approval to buy something. Post-implementation audit could replace prior approval as a more cost-effective way of doing business.

The negotiation process is the most frustrating to the PVOs and to A.I.D. The most common complaint is that there is no way to predict how much time it will take, and that "no one is in charge". From the time a proposal is submitted until there is a technical response can take six months, with another six months until execution of an agreement. Competed grants take less time than unsolicited proposals, because time deadlines exist in the competition process. But even that system is too long and expensive. The fact that the technical review by the project staff and the negotiation by the grant officer are sequential, and not well connected, results in duplication in requests for information, slowing the process.

The PVOs feel there is little distinction between negotiating a "grant" as opposed to a "cooperative agreement", and that the system isn't much different from negotiating a contract. The problems are exacerbated by the A.I.D. desire to negotiate inputs, as a way to address vulnerability, in part because of the difficulty in finding a way to define impact and put a value on it. The current budgeting system, and a lack of discipline in the overall system, results in most requests to negotiate an agreement reaching the grant office in bunches close to the end of the fiscal year.

The mission system, where the grant officer is seen as more a part of an A.I.D. team, is viewed as a preferable model. Movement should be toward a system that pays for impact, and that forces A.I.D. project and contracts office staff to review proposals from the beginning of the process as a team, rather than as different offices with overlapping responsibilities. Many of the requests for documentation and information now present in each negotiation can be centralized as part of the registration process, and verified as part of the audit process.

The **implementation** process is seen as a continuation of A.I.D. performing input monitoring to reduce vulnerability, rather than being concerned with impact. A.I.D. oversight during implementation is extensive, though in audit after audit we are criticized for not being more involved. Prior approval of workplans, schedules and individual actions is the rule, not the exception. Prior approval for travel is seen as particularly bothersome, particularly as the regulations call for "notification" only. A.I.D. project officers continue to require prior "approval", slowing down the process. Even when the PVO has an approved procurement system, prior approval is required for purchase of goods and services. The degree of involvement of A.I.D. in implementation decision-making brings into question whose project it really is.

The addition of incremental funding to the project results in a renegotiation of the project budget. No cost project extensions require "too much paperwork."

**Reporting** requirements are not uniform, seem to be open-ended in what is required, and almost never result in any feed-back to the PVO submitting the report. There are frequent ad-hoc requests for reporting, particularly on inputs. The PVOs feel that A.I.D. doesn't know what is wanted in a report, so the PVO tries to report on everything. With some PVOs having as many as 50 different agreements with A.I.D., each with multiple and differing reporting requirements, the cost to the system is enormous.

The **audit** function, because of the fear of vulnerability, is also input focussed. OMB Circular A-133 is viewed as burdensome, and it is felt that the IG requirements for information are increasing. The audit process is viewed as disconnected from registration and negotiation, with opportunity for savings in time and paperwork lost. The role of contracted audit services was questioned as some audit firms did not seem familiar with A.I.D. requirements, possibly requiring certification of such audit firms. There was a strong sense that a better audit system could replace much of the input monitoring currently being done by the contracts and projects staffs, freeing people in both A.I.D. and the PVOs to focus on impact of the program.

## II. REGISTRATION

### Findings:

1. There is confusion in the PVO community and in A.I.D. on who is required to register. Some feel all must register, and some feel registration is required only for certain programs, e.g., matching grants.
2. The registration process is labor intensive, takes up to six months and discourages smaller PVOs from registering. It was noted that contractors don't have to register to receive A.I.D. funding. Registration is seen as additional to the normal pre-award requirements PVOs would have to go through in any event.
3. Annual re-registration is burdensome, and its value is questioned. Re-registration guidelines change slightly each year, forcing PVOs to "start from scratch". The form used (1550-2) is duplicative, time consuming, and forces PVOs to recompute existing financial statements to fit the form.
4. Exceptions to registration (e.g., contractors subgranting to unregistered PVOs) are inconsistent with the intent of the process.
5. Financial information submitted as part of registration is also requested as part of the negotiation and audit processes.

### Recommendations:

1. The registration process must be used as a central point for receipt of information now being requested by multiple sources within A.I.D.
2. Registration should be used to "determine responsibility" of a PVO, probably on an annual basis, to replace the current transaction-by-transaction system requiring a Grant Officer determination.
3. Registration should be used to have PVOs "represent and certify" for the many standard requirements, (e.g., EEO compliance) now being requested for each transaction.
4. Registration should be used to approve PVO procurement, personnel and other systems to replace the current system of having PVOs get approval for actions during implementation.

### III. NEGOTIATION

#### Findings:

1. **The PVOs feel that, while A.I.D. controls the process, there is no single person in charge of the process in A.I.D. The answer they always get when checking on the status of documents is, "It's in contracts". There is no way to predict when action will be taken. It appears that A.I.D. spend more time negotiating with each other over process than they do with the PVOs over substantive issues.**
2. **There is duplication between the program staff and the contracts staff in information requested. Anybody feels the right to ask any question at any point in the negotiations.**
3. **The specter of vulnerability drives A.I.D. to negotiate inputs at the expense of impact.**
4. **Competed grants seem to take less time or, at least have deadlines. Even at that the OFDA grants take 6 to 8 weeks, the Matching Grants, 10 months and Child Survival grants, up to a year.**
5. **Too frequently program officers try to negotiate what goes into the base for the PVO overhead calculations. Similarly contracts officers frequently try to reduce home office costs, even where the A.I.D. program people want increases.**
6. **Because the contracts office is infrequently involved in the project review process, the PVOs feel they are starting from the beginning again when negotiations begin.**
7. **The PVOs feel that the contracts staff gets too involved in questioning program decisions.**
8. **Bunching of workload at the end of the fiscal year, caused by late budget allocations and poor planning, makes the problem worse.**
9. **There is no distinction between grants and cooperative agreements in working with A.I.D. In fact, PVOs feel there is little distinction between negotiating a contract and a grant. This is primarily because of the focus by A.I.D. on inputs.**
10. **This is the most frustrating segment of the process.**

Recommendations:

- 1. The contracts and program staffs must work together, from the beginning of the process, as a team on each program. The PVOs cite the mission system, where the contracts officer is more a part of a team than seems to be the case in Washington., as a much faster system.**
- 2. If A.I.D. and the PVOs could develop a performance based evaluation and new award system and better post-performance audit capability, the need for input negotiation would be eliminated. A!! agree that this is easier said than done. Difficult and changing circumstances in developing countries makes it difficult to benchmark performance much into the future. A.I.D. staff has a strong aversion to risk of failure, driven by fear of negative audits by the IG and the GAO.**
- 3. Workload in the contracts office could be reduced by delegating some authority to "obligate" A.I.D. to the program staff. Delegating authority lower and wider in the system can be accomplished with training. Many A.I.D. staff have enough experience in negotiating with PVOs to allow this type of "reinventing" to be tried. The bureaucratic response to this will be to fight it, on the basis of vulnerability, but we believe it should be tried.**
- 4. Since overhead rates and the bases to which these rates apply are matters of negotiation between the PVO and A.I.D.'s Overhead and Special Cost Branch, Project and Contracts officers should not attempt to negotiate further relative to these items on individual grant awards.**

## IV. IMPLEMENTATION

### Findings:

- 1. The procurement/audit system drives A.I.D. to monitor inputs, resulting in less than optimum performance.** For example, the Child Survival grants state that the A.I.D. project manager has the right to approve "all areas" of annual work plans; all revisions to workplans; all field visits; all consultants; all who will be trained; and the program manager. The PVOs characterize it as like "having a policeman in every room of the house".
- 2. While grant agreements require only prior notification of travel, A.I.D. staff demands prior approval.** Even the notification requirement is seen by many PVOs as overly bureaucratic, generating thousands of pieces of paper each year.
- 3. While grantee procurement and personnel systems are approved prior to implementation, A.I.D. still insists on approving purchases, hiring/compensation and other PVO actions.** This results in slowing implementation, and is viewed by the PVOs as unnecessary incursion on decision making.
- 4. "No-cost" extensions require too much paper work.**
- 5. Incremental funding actions frequently mean total renegotiation of the grant budget.**
- 6. Individual grants have different reporting requirements. Reporting requirements are duplicative, e.g., requiring a second quarter report at the same time as a semiannual reports.** The PVOs feel A.I.D. requirements are growing in frequency and type. For example the Child Survival grant program requires, in addition to financial reports, quarterly reports (detail on accomplishments quantified and related to cost data, all trip reports of any international travel, and status of financials; a detailed implementation plan (not later than 6 months after start) with critical path indicators; a mid-term evaluation (to review progress, provide financial pipeline analysis, to include curriculum used and a questionnaire); an annual program performance report (showing accomplishments, quantified in relation to cost data); an action plan for the coming year (describing anticipated activities, schedule, locations and individuals to be involved, a by quarter schedule of publications, reports, workshops and seminars); special reports ("disclosure" of problems, delays and adverse conditions and action taken to resolve, favorable developments, need to change budget; environmental impact, if adverse; two quarterly training reports (both as required by Handbook 10 and a separate one with detailed information); summaries of technical and research activities (within 60 days of an activity); and a comprehensive final evaluation report (including everything previously asked for).

- 7. Frequent ad-hoc requests from A.I.D. require excessive time, particularly when A.I.D. is doing internal semiannual reviews.**
- 8. A.I.D. is unclear on what it wants in reports, resulting in PVOs trying to guess what is wanted.**
- 9. A.I.D. almost never responds when reports are submitted.**
- 10. A.I.D. project officers have responsibility for monitoring implementation, but little authority to approve program changes.**  
Even though the grants require prior approval of the A.I.D. project manager for many actions, the project officer has little authority, requiring grant officer approval for any substantive change (particularly when cost is affected).
- 11. FHA/PVC feels it has neither the staff nor the mandate to set or enforce policy on certain aspects of the PVO/AID relationship, e.g, reporting.**

**Recommendations:**

- 1. Much of the transaction-by-transaction approval can be eliminated by approving grantee procurement and other systems during registration. Better reporting and post implementation audit should replace prior approval as the tool to reduce vulnerability.**
- 2. Reporting requirements should be more standardized to get A.I.D. information it needs, and to provide some certainty into the system for the PVOs. It was felt that many reports could be submitted semi-annually or annually rather than quarterly.**
- 3. Delegating authority as well as responsibility to project officers should be explored.** This was seen as key to any attempt to reinvent the process. Project officers were viewed as having responsibility for performance of grantees, but have no authority to make a decision that affects cost or program change. Current authority goes from the Administrator to AA/FA to DAA/FA to "professional grant officers" and to Mission Directors (up to \$100 thousand for cooperative agreements and \$5 million for grants).
- 4. Consider eliminating the requirement for notification of international travel, except when individual Missions deem it necessary for security or similar reasons.**

## V. AUDIT

### Findings:

1. Redundancies exist between the contracts, project and audit staff requests for and review of financial information.
2. The PVOs support the efforts by the President's Council on Integrity and Efficiency to raise the dollar thresholds for requiring audits of subgrantees.
3. A.I.D. imposes standards in addition to those imposed by OMB.
4. The quality of contracted audit firms was questioned, as some are not familiar with A.I.D. requirements.
5. Costly audit discourages U.S. PVOs from working with local organizations.
6. IG desk audits of the PVO OMB A-133 reports are unnecessarily delaying action on revisions in indirect cost rates. By the time A-133 reports are resolved and A.I.D. is ready to finalize overhead rates, many grants have already expired, making recovery of upward adjusted rates impossible. The PVO is of course required to return any over-recovery if rates are adjusted downward.
7. Weaknesses in the current audit system need to be corrected if A.I.D. wants to move from input monitoring to post-implementation review. Too small a percent of programs are audited too infrequently to allow A.I.D. to move quickly to post-implementation monitoring.
8. Immaterial findings in audits too frequently receive the same attention as material findings.
9. Audit requirements make it difficult for small (particularly host country) PVOs to comply. It's very expensive and local firms cannot meet U.S. standards.
10. The IG desk review of all A-133 audits done by accounting firms can be considered as duplication of effort, with little additional safeguards for taxpayers.
11. At present the auditors issue 5 separate reports within the A-133 report, including internal controls of the entity, internal controls of individual programs, one or more on compliance with general requirements, and one or more on compliance with requirements specific to the program.

**12. Non-U.S. PVOs are not covered by the A-133 process. A.I.D. sets the requirements for audit.**

**Recommendations:**

- 1. The audit system and the registration system should be tied more closely together.**
- 2. Separate the indirect cost rate reviews from the IG desk audits of OMB A-133 reports. Kudos to IG for correcting this deficiency in an August 24 memo to the Director, FA/OP.**
- 3. Provide for a certification system for contracted auditors.**
- 4. Increase the reporting threshold for domestic subrecipients from the current \$25 thousand (single program) to \$100 thousand, and \$100 thousand (single entity) to \$250 thousand. This is in line with the recommendations on the Single Audit Act by the President's Council on Integrity and Efficiency.**
- 5. Eliminate the need for "immaterial" findings in A-133 audits.**

## VI. COMMENT ON COMPETITION

The Working Group was asked to comment on how A.I.D. assures meaningful competition by PVOs for scarce resources. Absent some statistical analysis of past and present practices it is difficult to determine how much of the funds going to PVOs is actually competed. Public Law 95-224, Federal Grant and Cooperative Agreement Act, 1977, as interpreted by A.I.D. Handbooks "encourages competition, where deemed appropriate" or "to the maximum extent practicable." Exceptions such as for unsolicited proposals, predominant capability, amendments, and others are widely used.

In the June draft GAO report, Foreign Assistance: Improvements needed in A.I.D.'s Oversight of Grants and Cooperative Agreements, found that 57% of the \$443 million granted by AID/W in 1991 was awarded without competition. (Note that this figure includes grants to educational institutions and other non-profits. No breakdown is available on PVOs). GAO thinks that puts A.I.D. in violation of the rules. A.I.D.'s response was 1) the pool of applicants is too small, 2) "local institutions sometimes cannot handle the administrative demands of the competitive award process", 3) our objective may be to strengthen a weak PVO, "rather than select the best organization available", and 4) non-U.S. PVOs often get small dollar grants which are "less likely to be competed". We don't think it's reasonable to judge whether or not 43% is good or bad, based on the information presented in the report.

The FHA/PVC matching grant program awards (\$50 million dollars per year [figure needs to be confirmed]) is competed by sending requests for applications to all 387 currently registered PVOs.

Others programs, e.g., Child Survival, are also competed. The Working Group did not have time to go to multiple sources for data on all programs, and can't comment on how much or how the competitions are conducted.

The GAO report also found that noncompetitive award justifications were not always prepared and some were superficial.

The "meaningful" competition standard in the Task Force question raises other issues.

The technical part of the competition starts with A.I.D. preparing the project description. The descriptions frequently cite what A.I.D. wants done, and how it wants it done. (You can't get a project approved without extensive "design" by A.I.D.). The result is A.I.D. telling the grantee what and how to do something. Some feel the process merely makes the PVO community into A.I.D.'s "mirror image", rather than allowing them the freedom to do the program the way they'd really like to do it.

There is a strong sentiment that results-based competition could get more impact at less cost. The difficulty in projecting program impact in developing countries, and the constant refrain that A.I.D. is already poorly managing grantees, will make it hard for A.I.D. to stop telling PVOs what and how to do with our money. A system that sets the objective, and asks who can meet or exceed it at the lowest cost is easy when your buying nails, but not so easy in development. The GAO report criticized A.I.D. for not sufficiently including or monitoring indicators in grants.

Also, competition is expensive to the PVO community. They are given short deadlines for submission; they wait; they are asked for data, technical and financial questions; they wait; if selected, they are asked for more data; they wait; and 6 months to a year after they started the process, they get a grant.

Is it meaningful to compete the cooperatives grant program, or that of IESC, or others with whom we have long-standing relationships? Probably not.

Assuring meaningful competition should be further explored. If more competition is called for, the system must be streamlined to accommodate it.

## VII. COMMENT ON SCOPE OF WORK

The scope of work provided the Working Group asked 5 questions, as follows:

**1. To what extent should this Task Force focus on providing broad policy guidance on these issues, which would then serve as an agenda for additional work by other task forces, versus actually getting into the rewriting of Agency regulations and reporting requirements.**

With the deadline for this report there is no way the Task Force could possibly get into rewriting regulations. Broad policy guidance is all that is possible. For follow-on work we don't recommend establishing multiple task forces, as that can lead to a continuation of segmentation of the regulatory framework. The agency should also avoid task forces where those heavily vested in status quo control the agenda and the outcome. If the dictates of the Report of the National Performance Review are to be met, a larger task force, with outside participation, working full-time, could take a long time to rewrite all the regulations.

**2. How (if at all) should we deal with the operational guidelines included in the current policy paper? By rewriting them? Excluding them?**

The current paper (if 9/82 is current) only discusses the problem in terms of "policy framework" and broad objectives" to reduce administrative costs to both A.I.D. and the PVOs, "by simplifying administrative procedures." It states as a "principle" that PVOs be given "ample scope for independence in design." The test for A.I.D. is the "comfort level" of the mission working with the PVO.

It is very weak on operational guidelines, appropriately so. It discusses "operational guidelines" only insofar as it provides definitions for various types of relationships, e.g., the difference between "operational program grants and "institution building grants." For all practical purposes, the agency treats all grants as "specific support", from negotiation through audit, making these distinctions without differences.

The policy paper does state that the PVO administrative relationship with A.I.D. will be simplified. That the number of grants mechanisms will be reduced, and that management will be standardized, with monitoring for consistent application of policy and program. It charges "FVA" with developing and monitoring simplified A.I.D. procedures. FHA stated they had neither the mandate, nor the staff to meet that charge.

While the policy paper should be rewritten, it is Handbooks that are cited as authority (or lack thereof), to act, not the Policy Paper. Everyone agrees Handbook 13 (Grants) needs to be redone.

One of the three recommendations of The 1993 Report of the Advisory Committee on Voluntary Foreign Aid was to put in place a "responsive organizational structure", with:

A central body to establish and monitor uniform policy with respect to the role and function of PVOs;

A structure that imparts a clear focal point of authority and responsibility regarding PVO affairs; and

A mandate within the confines of the federal procurement regulations to tailor operating procedures and the mechanics of grant making to program goals and special of the PVO community.

**3. In allocating scarce resources, how does A.I.D. assure meaningful competition among PVOs?**

See Section VI, COMMENT ON COMPETITION.

**4. U.S. PVOs are virtually unanimously opposed to A-133 audit requirements because of their time consuming nature. They are even more burdensome to local NGOs--in some cases, prohibitively expensive to do. What can A.I.D. do to eliminate this requirement and substitute simpler audit questions?**

No PVO opposes the intent of A-133. Everybody agrees that the government should confirm that the taxpayers dollars are reasonably spent. Every PVO is willing to show someone in the government, or authorized by the government, its accounting records. The problem is too many times, in too many forms, for too many people, at too many stages of the process. They have to prove themselves "responsible", i.e., submit financial and program information, during the six months it takes to register (and every year thereafter) to FHA/PVC, for every new obligation of funds, for as many as 50 differently written A.I.D. grants, again (almost constantly) during implementation, (OMB demands no less than quarterly), and, finally, when the A-133 auditors arrive.

**5. The Task Force asked us to see if the OMB apportionment process for Foreign Disaster Assistance was causing delays.**

Of the 11 apportionments thus far in FY 1993 only one took more than three days. OMB apportions as they do because they "score" the funds at a high expenditure rate. They want to keep it in the treasury as long as possible. Most delays are caused by differences between FA/B, OFDA, and the regional bureaus on whether or not there is enough justification for requesting additional funds. Only when the differences are resolved does A.I.D. request apportionment.