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AUDIT OF AID'S COMPLIANCE WITH SPECIAL REQUIREMENTS FOR CONSULTING SERVICES

Audit Report No. 86-03

March 18, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Office of the
Assistant Inspector General
for Audit

March 18, 1986

MEMORANDUM FOR AA/M, R. T. Rollis, Jr.

FROM: AIG/A, James B. Durnil

SUBJECT: Audit Report No. 86-03
Audit of AID's Compliance with Special Requirements for Consulting Services

Attached is your copy of the subject report. The audit was made to evaluate AID's compliance with: (1) the Office of Management and Budget guidelines on consulting services as stated in Circular A-120; and (2) reporting requirements on consulting services established by Public Law 97-258.

Although AID has established management controls over consulting services as directed by the Office of Management and Budget, these controls were not fully effective. Approximately fifty percent of the consulting service contracts reported by AID during fiscal year 1985 were misclassified. Also, AID had not submitted the information on consulting services in its annual budget justifications to the Congress, as required by Public Law 97-258.

To correct the above problems, the report contains two recommendations. AID should (i) provide more definitive guidelines to assist contract officials in correctly classifying consulting service contracts and periodically review their implementation; and (ii) establish procedures for reporting the required financial information on consulting services together with its annual budget justification to the Congress.

The draft audit report was discussed with officials of the Office of Acquisition and Assistance Management and the Office of Legislative Affairs. They concurred with the two recommendations. I appreciate the courtesies and cooperation extended to my staff during the audit.

Recommendation No. 1 in the audit report is addressed to the Office of Acquisition and Assistance Management. Please advise this office within 30 days of the actions taken or planned to clear the recommendation.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Office of the
Assistant Inspector General
for Audit

March 18, 1986

MEMORANDUM FOR LEG, Kelley C. Kammerer

FROM: AIG/A, James B. Durnil

SUBJECT: Audit Report No. 86-03
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To correct the above problems, the report contains two recommendations. AID should (i) provide more definitive guidelines to assist contract officials in correctly classifying consulting service contracts and periodically review their implementation; and (ii) establish procedures for reporting the required financial information on consulting services together with its annual budget justification to the Congress.

The draft audit report was discussed with officials of the Office of Acquisition and Assistance Management and the Office of Legislative Affairs. They concurred with the two recommendations. I appreciate the courtesies and cooperation extended to my staff during the audit.

Recommendation No. 2 in the audit report is addressed to the Office of Legislative Affairs. Please advise this office within 30 days of the actions taken or planned to clear the recommendation.

EXECUTIVE SUMMARY

In a Circular issued in April 1980, the Office of Management and Budget required Federal departments and agencies to establish controls over the use of consulting service contracts. In September 1982, Congress enacted Public Law 97-258 requiring government agencies to include in their annual budget justifications to the Congress financial data on consulting services. This legislation also required the Inspector General of each agency to report annually to the Congress on the agency's management controls over consulting services.

During fiscal year 1985, AID reported 1,245 contract actions totalling $151.4 million. Consulting services constituted 290 of these contract actions and $7.8 million of the total funds.

The audit objectives were to evaluate AID's compliance with the Office of Management and Budget guidelines and Public Law 97-258.

AID had established policies and procedures which are in accordance with Office of Management and Budget guidelines. However, AID needs to provide more definitive instructions and establish procedures to ensure satisfactory implementation.

Since 1980, the Office of the Inspector General has conducted three reviews on AID's use and reporting of consulting services. These prior audits reported that contracting officials experienced problems in correctly identifying consulting service contracts. The current audit showed that these problems had not been corrected. In fiscal year 1985, AID overstated its use of consulting services by approximately fifty percent.

AID did not provide the required financial information on consulting services in its annual Congressional Presentations for fiscal years 1983 through 1985, as directed by Public Law 97-258. Failure to comply with a legislative requirement could expose the agency to bad publicity and adverse reaction from the Congress.

Errors in data processing resulted in AID submitting incomplete contract information to the Federal Procurement Data Center, the control point for U.S. Government contracting actions. AID officials stated that appropriate changes to the computer program had been made to ensure complete reporting.

Improvements in management controls and reporting of consulting service contracts are needed to fully comply with Office of Management and Budget guidelines and Public Law 97-258. AID policies and procedures require clarification, revision and continuous management attention to ensure complete compliance.

AID officials concurred with our findings and recommendations. Corrective actions were either in process or implementation plans were made by management to resolve the problems.

Office of the Inspector General

AUDIT OF
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AUDIT OF
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PART I - INTRODUCTION

A. Background

On April 14, 1980, the Office of Management and Budget (OMB) issued a circular (A-120) establishing permanent guidelines for the federal government in determining and controlling the use of consulting services. The circular prescribed a system of management controls and data reporting requirements to be followed by government agencies.

After the Circular was issued, Congress enacted Public Law 96-304 on July 8, 1980. Section 307 of the law required U.S. government agencies to submit annually to the Congress financial estimates of proposed consulting services and justification for these services. In addition, the Inspector General of each agency, beginning with fiscal year 1981, was required to submit to Congress an evaluation of the agency's progress to institute effective management controls and improve the accuracy and completeness of the data provided to the Federal Procurement Data Center (FPDC) on consulting services. On September 13, 1982, Congress enacted the Money and Finance Act (Public Law 97-258) superseding Public Law 96-304. Section 1114 of this Act established the same requirements on consulting services as the previous legislation.

The Office of the Inspector General (OIG) conducted audits on AID's use and reporting of consulting services during 1982, 1983 and 1984. The first audit report, issued in May 1982, made eight recommendations, all of which were closed by the OIG because of corrective action taken by AID management. The two later audits made no formal recommendations but reported deficiencies in AID's classifying and reporting of consulting service contracts.

For the fiscal year ended September 30, 1985, AID reported 1,245 contract actions totalling $151.4 million, of which consulting service contracts accounted for 290 and $7.8 million.

Audit Objectives and Scope

The audit objective was to evaluate AID's compliance with OMB Circular A-120 of April, 1980 and Public Law 97-258 of September, 1982.

The specific objectives were to:

-- determine the effectiveness of AID's management controls over the use of consulting services;

-- assess the accuracy and completeness of the information on consulting service contracts AID reported to the Federal Procurement Data Center;

-- ascertain whether AID submitted the required information on consulting services in its annual Congressional Presentation.

The audit was conducted in Washington, D.C., from October 1 through December 20, 1985, and covered consulting service contracts reported by AID during fiscal year 1985. Our work included: (i) reviewing a sample of 25 contracts totalling $1.5 million; (ii) interviewing officials in the Office of Acquisition and Assistance Management (SER/AAM), Office of Information Resources Management (SER/IRM), Office of Legislative Affairs (LEG), and the Federal Procurement Data Center (FPDC); (iii) reviewing the data reported by AID during fiscal year 1985 to the Federal Procurement Data Center and in the annual Congressional Presentation; and (iv) following up prior audit reports issued by the Office of the Inspector General on consulting services. The audit was made in accordance with generally accepted government audit standards.

Our findings and recommendation were discussed with AID officials and a draft audit report was submitted for their review. Comments provided by AID officials were considered in preparing this report. A full text of the comments is presented in Appendix I and II.

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PART II - RESULTS OF AUDIT

AID has established a system of management controls over the use and reporting of consulting service contracts which conform to Office of Management and Budget (OMB) guidelines. However, controls were not fully effective because contracting officials experienced problems in properly identifying and correctly classifying consulting service contracts. Consequently, AID overstated its consulting service data by approximately fifty percent.

AID reports to the Federal Procurement Data Center were incomplete and not submitted within the established time frames because of deficiencies in the computer program that generated the reports. AID officials stated that the computer program was revised in December 1985 which corrected the deficiencies.

AID did not submit the financial information on consulting services in its annual Congressional Presentation as required by Public Law 97-258.

AID therefore needs to: (i) provide more definitive guidelines for classification of consulting service contracts and periodically review the reporting of such contracts to ensure proper classification; and (ii) provide the necessary information on consulting services in its annual budget justifications to the Congress.

A. Findings and Recommendations

1. Improved Guidelines Are Needed to Facilitate Proper Identification of Consulting Service Contracts

OMB guidelines on definition and classification of consulting services are incorporated in AID's procurement regulations (Handbook 14). These guidelines established the criteria for identifying consulting service contracts by providing examples of various types of consulting services and stating the rationale for utilizing such services. However, contract officials experienced problems with proper identification and classification of consulting services, because, in their opinion, the guidelines were broad and subject to varying interpretations. The identification problems resulted in AID overstating its consulting service contracts by approximately 50 percent in its fiscal year 1985 reports to the Federal Procurement Data Center.

Recommendation No 1

We recommend that the Office of Acquisition and Assistance Management (SER/AAM):

a. provide contract personnel with more definitive guidelines on identifying consulting services; and

b. establish a procedure to periodically review classification of consulting service contracts to ensure that they are in accordance with the established guidelines.

Discussion

AID policies and procedures on consulting services are stated in AID procurement regulations (Handbook 14), which incorporates the OMB Circular A-120 of April, 1980. In addition, an AID General Notice, issued in October 1982, supplements the OMB Circular within the specific context of AID's operations by providing examples of activities that should or should not be classified as consulting services.

AID regulations define consulting services as those of a purely advisory nature relating to agency administration and program management functions. These services are provided by persons or organizations that possess knowledge and skills not generally available within the agency. Activities classified as consulting services include program evaluations, reorganization plans and feasibility studies. Activities not to be classified as consulting services include project design, services performed for the host country and research and development studies.

However, despite these guidelines, contracting officials did not have a clear understanding of the criteria for identifying consulting service contracts. AID reported 290 consulting contracts totalling $7.8 million for fiscal year 1985. According to officials in the Office of Acquisition and Assistance Management (SER/AAM), consulting service contracts reported by AID are substantially overstated. Based on the results of our audit, we concur. From AID's fiscal year 1985 report of consulting service contracts, a sample of 25 contracts totalling $1.5 million was reviewed. The review showed that 13 contracts or 52 percent were misclassified as consulting services (See Exhibit).

Six contracting officials were interviewed to identify the problems associated with improper classification of consulting service contracts. They stated that AID regulations on consulting services were broad, ambiguous and lacked clarity. Contracts were classified as consulting services on basis of determinations made by contracting officials as to their primary

objectives. Proper classification was therefore a matter of individual judgement. Because of the subjective nature of the identification process, contracts were classified as consulting services if there were any doubts as to the proper classification.

The following two contracts from the sample illustrate the subjectivity involved in determining the primary purpose of the services. Both contracts were classified as consulting services.

	Description of service	Audit Determination
1.	Contractor shall conduct an evaluation and assessment of an AID education project	Consulting Service
2.	Contractor shall prepare a project paper for an AID project.	Not Consulting Service

In each example, the service provided was advisory and AID was the prime beneficiary. However, in the second example, the contractor performed a task which would ordinarily be done by AID personnel. Therefore, it does not fall within the category of a consulting service. The key consideration is to determine the predominant task.

Improper classification of consulting service contracts has resulted in a 50 percent overstatement of AID's use of consulting services. The reports submitted to the Federal Procurement Data Center (FPDC) are inaccurate. In order to improve its classification guidelines and identification of consulting service contracts, AID should periodically update and reissue its written instructions to contract personnel and continue to review the Agency's procedures until satisfactory performance is achieved.

Management Comments

AID officials concurred with the recommendation. The Office of Acquisition and Assistance Management (SER/AAM) will issue revised guidelines to contract officials designed to clarify the types of activities which are to be classified as consulting services. Also, SER/AAM has initiated an ongoing procedure to review each contract data sheet that is encoded as a consulting service to determine correct classification.

Office of Inspector General Comments

Management actions, when completed, should help resolve the problems identified.

2. AID's Annual Congressional Presentation Needs to Include Data on Consulting Services as Required by Public Law 97-258

AID did not comply with Section 1114 (a) of Public Law 97-258 which requires the Agency to include in its annual budget justification to the Congress financial data on consulting services and a description of the need for such services. AID officials were not aware of this requirement and were therefore unable to offer an explanation for its omission from the budget justification. Failure to comply with a legislative requirement could expose the Agency to adverse reaction from the Office of Management and Budget (OMB) and the Congress.

Recommendation No. 2

We recommend that the Office of Legislative Affairs establish procedures to ensure that AID is in compliance with Section 1114(a) of Public Law 97-258 by submitting the required information on consulting services to the Congress together with the annual budget justification for the agency.

Discussion

Section 1114(a) of Public Law 97-258 required that the annual budget justification submitted to the Congress by each government agency should include:

(1) amounts requested for consulting services;
(2) the appropriation accounts from which the amounts are to be paid; and
(3) a description of the need for consulting services, including a list of the major programs requiring those services.

AID's Congressional Presentations for fiscal years 1983 through 1985 did not include the above information. Officials from AID's Office of Legislative Affairs and the Office of Acquisition and Assistance Management stated that they were not aware of this legislative requirement and therefore were unable to offer an explanation as to why the required information on consulting services was not included in AID's annual budget presentation to the Congress. Failure to comply with a legislative requirement could expose the Agency to adverse publicity and criticism from OMB and Congress.

Management Comments

The Office of Legislative Affairs (LEG) concurred with the recommendation. They stated that AID had submitted financial data on consulting services to the Office of Management and Budget (OMB) for fiscal years 1983 and 1984. It was AID's understanding that OMB would report the information to Congress. To ensure compliance with Public Law 97-258, LEG will establish

procedures to submit the required information on consulting services directly to the Congress.

Office of Inspector General Comments

Implementation of the proposed action should result in compliance with the Public Law 97-258 reporting requirements on consulting services.

B. Compliance and Internal Control

Compliance

As described in Finding No. 2, AID did not provide the information on consulting services in its annual Congressional Presentations, as required under Public Law 97-258. Otherwise, nothing came to our attention which would indicate that the agency was not in compliance with applicable laws and regulations.

Internal Control

Although AID had established a system of internal controls over the use of consulting services, they were not fully effective. Deficiencies noted are summarized below.

(i) Federal Procurement Data Center (FPDC) Reporting
Data processing errors resulted in AID submitting inaccurate contract information to FPDC in its fiscal year 1985 quarterly reports. Approximately, 23 percent of the contract actions reported by AID during this period were consulting services. FPDC rejected the entire third quarter data because AID did not include the information required under the Competition in Contracting Act (CICA) which became effective from April 1, 1985. According to SER/AAM officials, the Office of Information Resources Management (SER/IRM) did not incorporate the new CICA information in the computer program that generated the reports, although instructed by SER/AAM. SER/IRM officials attributed this omission to a misunderstanding and stated that the necessary program changes to correct the deficiency had been completed in December, 1985. Because of time constraints, AID was unable to submit a revised third quarter report to FPDC. Also, the fourth quarter report, due on November 30, 1985, was delayed by 45 days.

(ii) Classification of Consulting Service Contracts

As discussed in Finding No. 1, management controls established by AID did not ensure correct classification of consulting services by contract officials. Consequently, the Agency continued to over report its use of such services. (See Exhibit).

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PART III - EXHIBITS AND APPENDICES

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EXHIBIT

AUDIT OF
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FOR CONSULTING SERVICES

Consulting Service Contracts Reported for
Fiscal Year 1985 and Results of Audit Test

Contract Values	Number of Contracts	Total Value	Number of Contracts in Sample	Value of Sample	Contracts Correctly Classified	Contracts Misclassified	Percentage of Contracts Misclassified
$1 - $ 10,000	134	$ 904,169	5	$ 29,746	3	2	40%
10,001 - 100,000	144	5,154,904	14	569,931	6	8	57%
Over 100,000	12	1,758,187	6	866,596	3	3	50%
TOTAL	290	$7,817,260	25	$1,466,273	12	13	52%

AGENCY FOR INTERNATIONAL DEVELOPMENT
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FEB 20 1986

MEMORANDUM

TO: RIG/A/W, Mr. Mervin F. Boyer, Jr.

FROM: M/SER/AAM, Robert Halligan

SUBJECT: Draft Audit Report on AID's Use and Reporting of Consulting Services

We have reviewed the subject draft report and recommendation No. 1 which applies to this organization. We appreciate your noting, in the report, our past efforts to comply with the requirements of both the OMB Circular, Public Law 97-258, and the Federal Acquisition Regulations. Since all other federal agencies are required to follow these same requirements and since OMB has implemented a set of rules that restrict an individual agency's ability to issue implementing and/or clarifying agency procurement regulations, we suspect that the difficulties in interpretation noted in the report are by no means unique to AID.

Nevertheless, we do not disagree with your recommendation No. 1 and have begun its implementation, as follows:

A. Recommendation 1a: In conjunction with M/SER/PPE, a Contract Information Bulletin (CIB) will be prepared and issued to AID procurement offices world-wide. The CIB will provide more definitive guidelines on identifying consulting services and will include representative examples to help clarify the types of contract tasks which are to be classified as consulting services.

B. Recommendation 1b: Our Support Services Branch, AAM/A/SUP, has already implemented a new procedure to review each data sheet received that is coded as a consulting service contract and to question each submission that does not appear to fit the FAR definitions. This will be a continuous process as data sheets are received from both AID/W and the overseas missions and we believe that it will greatly improve the accuracy of our reporting.

We will provide your office with a copy of the CIB when it is published.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C 20523

March 3, 1986

MEMORANDUM TO: RIG/A/W, Mervin F. Boyer, Jr.

FROM : LEG, Kelly C. Kammerer KCK

SUBJECT : Draft Audit Report on AID's Use and Reporting of Consulting Services

In response to your memorandum of February 7, LEG offers the following comments regarding recommendation no. 2 contained in the subject draft audit report concerning the provision of the necessary financial data on consulting services in AID's annual budget presentation to the Congress.

In 1983 and 1984, AID submitted the required funding information on consulting and related services to the Office of Management and Budget (OMB) in accordance with OMB's guidance. (Copies of the two reports are attached.) It was AID's understanding that this information would be compiled and submitted to the Congress by OMB.

Since the definition of consulting services has been drastically changed by OMB since 1982, we are currently discussing with OMB the type of report required, information to be included, and to whom it should be sent. We will provide the necessary information upon receipt of OMB's revised guidance.

AID will establish procedures to ensure that we comply with the reporting requirement to Congress contained in Section 1114(a) of P.L. 97-258. However, we believe that a separate report rather than inclusion of the information in AID's annual congressional presentation document (CPD) is the appropriate mechanism for this purpose. The CPD is reserved by AID for information in support of the Agency's budget request rather than in response to external reporting requirements. The separate reporting procedure is followed for a number of special requirements by the Congress. We suggest, therefore, that recommendation no. 2 be changed to read as follows:

> "We recommend that A.I.D. establish procedures which ensure that the Agency is in compliance with Section 1114(a) of Public Law 97-258 by submitting the required information on consulting services to Congress each year, along with the budget justification for the Agency."

Attachments: as stated

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