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AUDIT OF
A.I.D.'s COMPLIANCE WITH SPECIAL
REQUIREMENTS FOR CONSULTING SERVICES

Audit Report No. 87-05
August 31, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

August 31, 1987

MEMORANDUM FOR M/SER/OP, Terrence J. McMahon
FROM: RIG/A/W, *Mervin F. Boyer Jr.*
SUBJECT: Audit of A.I.D.'s Compliance With Special
Requirements for Consulting Services

This report presents the results of an audit of A.I.D.'s compliance with special requirements for consulting services. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

In a memorandum issued in May 1977, the President directed heads of agencies to ensure that consulting service arrangements of their organizations were both appropriate and necessary. In order to comply with this directive, it was imperative for Federal agencies to correctly identify and report such services.

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 the Federal agencies.

Subsequent to issuance of the OMB Circular, Congress enacted Public Law 96-304 in July 1980, which was superseded by Public Law 97-258 on September 13, 1982. Both laws required Federal agencies to report annually to the Congress on financial estimates of proposed consulting services and justification for these services. In addition, the Inspector General of each agency was required to report to Congress an evaluation of the agency's progress in instituting effective management controls and improving the accuracy and completeness of the data on consulting service contracts provided to the Federal Procurement Data Center (FPDC).

OMB Circular A-120 defines consulting services as those services of a purely advisory nature relating to agency administration and program management functions. The services are normally provided by persons or organizations having knowledge and skills not

generally available within the agency. Examples include: (i) evaluation of agency administration and management, such as, organizational structures, management methods and management information systems; (ii) evaluation of agency program management such as program plans, assistance strategies and program impact.

The A.I.D. Office of Procurement (SER/OP) is responsible for establishing the management controls and reporting on the use of consulting services. For fiscal year ended September 30, 1986, A.I.D.'s contract data base reporting system showed 136 consultant service contract actions totaling approximately \$7.4 million. According to SER/OP officials, these contract actions consisted of new awards as well as amendments to existing contracts.

In accordance with the requirements of Public Law 97-258, the A.I.D. Office of the Inspector General (OIG) has conducted four audits of A.I.D.'s management controls over consulting services and its reporting of such data to the FPDC from 1982 through 1986. The last audit report, issued on March 18, 1986, made two recommendations which were closed by the OIG because of corrective actions planned or implemented by management. However, the current audit shows that A.I.D. has continued to experience problems in correctly classifying consulting service contracts.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Washington, made a compliance audit to determine whether: (i) A.I.D. had established effective management controls over consulting services; (ii) reports submitted to the FPDC were complete and accurate; and (iii) A.I.D. included the required information on consulting services in its annual Congressional Presentation.

The audit was conducted in Washington, D.C. from March 23, through July 10, 1987. The work included: (i) reviewing the 136 consulting service contracts as recorded in A.I.D.'s data base reporting system during fiscal year 1986 for proper classifications; (ii) reviewing management controls over a randomly selected sample of 27 consulting contracts totalling \$1.5 million; (iii) interviewing officials in the Office of Procurement (SER/OP), Office of Information Resources Management (IRM), Office of Legislative Affairs (LEG), and the FPDC; and (iv) reviewing the data reported by A.I.D. during fiscal year 1986 to the FPDC and in its annual Congressional Presentation. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

A.I.D. had established a system of management controls over the use and reporting of consulting service contracts, which are in

accordance with the OMB A-120 Circular. However, contracting officials misclassified approximately 28 percent, or 39 out of the 136 consulting service contracts recorded by A.I.D. during the fiscal year 1986. Consequently, A.I.D. overstated its use of consulting services. A.I.D.'s reports to the FPDC on procurement actions which included consulting service contracts contained invalid data resulting from coding errors and incorrect Dun and Bradstreet numbers. SER/OP officials informed us that extensive changes to A.I.D.'s computer programs, which are designed to correct such errors, would be implemented by July 1988. A.I.D. had included the required financial information on consulting services for fiscal year 1986 in its annual budget presentation to the Congress.

The report therefore recommends that A.I.D. closely monitor all consulting service contract data sheets to identify and correct misclassifications of contracts as consulting services.

Improved Monitoring of Contract Agreement Data Sheets Are Needed to Identify and Correct Improper Classifications of Consulting Service Contracts.

A.I.D. Handbook 14, as well as written instructions issued by the Office of Procurement have established guidelines for identifying consulting service contracts. These procedures also provide adequate management controls over such services. However, A.I.D. contract officials misclassified several consulting service contracts because of the subjective nature of the identification process. Consequently, A.I.D. overstated its use of consulting services by approximately 28 percent for the fiscal year 1986.

Discussion - A.I.D.'s policies and procedures on consulting services are incorporated in its procurement regulations (Handbook 14) which are in accordance with OMB A-120 guidelines. However, A.I.D. contract officials have incorrectly classified consulting service contracts during the period under review. For fiscal year 1986, A.I.D.'s contract data base reporting system recorded 136 consulting services contract actions totaling approximately \$7.4 million. A review of these contracts showed that 39 contracts totaling \$3.9 million, or approximately 28 percent, were incorrectly classified as consulting services. (See Exhibit 1) Examples of the misclassifications are provided below.

Description of Services

1. Contractor shall assist A.I.D.'s Office of Financial Management with collection of disbursement information.

2. Contractor shall assist in preparing instruction to guide Latin American A.I.D. Missions in the preparation of annual action plans.
3. Contractor shall design a follow-on to an existing A.I.D. project.
4. Contractor shall assist in preparing a draft project paper for an A.I.D. project.

In the above examples, the services to be performed by the contractors appear to be those which would ordinarily be done by A.I.D. personnel. Therefore, they do not fall within the category of consulting services as defined by OMB A-120 guidelines. The key consideration is to determine the predominant task.

A.I.D. contracting officials interviewed concurred with this determination. They responded that although they considered A.I.D.'s guidelines on identifying consulting services to be adequate, the subjective nature of the classification process contributed to the misclassification of the above contracts. When in doubt, contract negotiators were inclined to classify such contracts as consulting services.

We recognize that the nature of the services provided by the contractors could at times be subject to varying interpretations by A.I.D. contracting officials. However, we believe that improper classifications could be considerably reduced by periodically monitoring the contract agreement data sheets and identifying contracts that are misclassified as consulting services.

Recommendation No. 1

We recommend that the A.I.D. Office of Procurement:

- a. review at least on a quarterly basis all contract agreement data sheets that are classified as consulting services;
- b. identify those that are wrongly classified and assign them to their correct categories; and
- c. enter the corrected data into A.I.D.'s Contract-On-Line-Reporting System database, and notify the appropriate contract officer who had misclassified the contracts.

In November 1986, SER/OP issued detailed instructions to its contracting personnel, which included guidelines for identifying and properly classifying consulting service contracts. SER/OP officials stated they had also held training sessions in February 1987 to assist contract negotiators in correctly identifying consulting service contracts. SER/OP also pointed out that in

several instances, contract officials classified contracts as consulting services because no A.I.D. employees were available to perform the designated tasks, although the scope of the work did not fall into the category of a consulting service.

We believe that A.I.D.'s written instructions and training sessions, while not affecting the fiscal year 1986 period under review, will in the long run reduce the number of incorrect classifications. However, the potential of misclassification based on subjective factors still exists, and, in the interim, we believe a periodic review of A.I.D.'s contract agreement data sheets is an effective management tool to identify and correct judgemental errors and thus improve the accuracy of A.I.D.'s reporting system.

Other Pertinent Matters

A. The Federal Procurement Data Center (FPDC) is a part of the General Services Administration and operates an automated data system of Federal government procurement information. The FPDC master file contains detailed information on goods and services including consulting services procured by over 60 Federal agencies. It publishes quarterly reports summarizing the procurement actions reported by the Federal agencies. Among the users of the FPDC reports are corporations, members of Congress and executive branch officials.

A.I.D. is required to report to the FPDC all procurement actions processed during each quarter. During fiscal year 1986, approximately 6.5 percent of A.I.D.'s procurement actions reported by FPDC constituted consultant services. A review of the FPDC quarterly reports for the fiscal year 1986 showed that a significant portion of the data submitted by A.I.D. was in error. The error rates ranged from 12.5 to 98.6 percent of the total dollars reported for fiscal year 1986. According to FPDC officials, A.I.D.'s erroneous data was largely because of incorrect Dun and Bradstreet (D&B) numbers and coding inaccuracies. A.I.D. officials in SER/OP and IRM concurred. They stated that obtaining D&B numbers was difficult as well as time consuming because: (i) A.I.D. did not have updated D&B files; (ii) overseas contractors did not always have D&B numbers; and (iii) Dun and Bradstreet, Inc. was slow in responding to A.I.D.'s requests for information. Furthermore, the coding inaccuracies were caused by deficiencies in the computer programs that extracted the information from A.I.D.'s database files. SER/OP officials informed us that extensive changes to A.I.D.'s computer programs would be implemented by July, 1988, which are designed to correct the programming deficiencies that resulted in A.I.D.'s incorrect data submissions to FPDC.

A.I.D.'s incorrect reporting of procurement information to FPDC has diminished the significance of A.I.D.'s data to users of the FPDC reports. As noted above, A.I.D. is in the process of taking

the required corrective action to improve the accuracy of its reports. Therefore, we have not made a formal recommendation.

B. A.I.D. is required by Public Law 97-258 to include in its annual Congressional Presentation financial data on consulting services and a statement justifying the use of such services. The prior audit report issued by the IG in March 1986, reported that A.I.D. had not complied with this requirement from 1983 through 1985. As a result, the A.I.D. Office of Legislative Affairs took corrective action and included the required information on consulting services for fiscal year 1986 in its annual budget presentation to the Congress.

EXHIBIT 1

Summary of Contracts Misclassified as
Consulting Services - Fiscal Year 1986

	<u>Number</u>	<u>Value</u>
Contracts Recorded by A.I.D. as Consulting Services	<u>136</u>	\$ <u>7,411,725</u>
Contracts Misclassified	<u>39</u>	\$ <u>3,948,092</u>
Percent Misclassified	<u>28.6</u>	<u>53.2</u>

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