

PD-ABN-680

65401

AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL/EAST ASIA

AUDIT REPORT

UNITED STATES A.I.D. MISSION TO VIETNAM (USAID/VN)

CONTRACT NO. AID 730-3577

BETWEEN ROY JORGENSEN ASSOCIATES, INC. AND

VIETNAM HIGHWAY ADMINISTRATION (VHA)

(PROJECT NO. 730-11-310-408, HIGHWAY ADVISORY ASSISTANCE)

Period covered: May 4, 1973 through January 31, 1974
Audit Report No. 9-730-74-104
Date report issued: May 16, 1974

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PART I - PURPOSE AND SCOPE

We have performed an examination of Contract No. AID 730-3577 between Roy Jorgensen Associates, Inc. of Gaithersburg, Maryland and the Vietnam Highway Administration (VHA). This was our first examination of the contract which is funded under the Highway Advisory Assistance Project (No. 730-11-310-408). Our review covered the period from contract inception on May 4, 1973 through January 31, 1974.

The principal purposes of the examination were to ascertain the propriety of the expenses billed to VHA and the reimbursement payments made by USAID/VN and to determine the contractor's compliance with the terms and conditions of the contract. Other related purposes were to evaluate USAID/VN's management of the contract and its adherence with AID regulations and policies. Our review was made in accordance with generally accepted auditing standards. The examination was performed at the contractor's and VHA offices located in Saigon and Dalat.

The examination included a review of the contractor's progress reports, accounting and personnel records, USAID/VN planning and funding documents, reports and other pertinent documentation. We interviewed the U.S. advisors and VHA officials and evaluated these discussions in the context of contract objectives.

PART II - BACKGROUND

A - ROY JORGENSEN ASSOCIATES, INC. (RJA) - CONTRACT ADMINISTRATION TECHNICAL ADVISORY SERVICES

In a USAID/VN financed study, undertaken by Booz - Allen Applied Research Inc., contract administration was identified as one of VHA's more serious organizational weaknesses. This report underscored VHA's increasing reliance on independent contractors for construction and maintenance work. Hence, because of this reliance, there was an apparent need to strengthen VHA's contract administration. The contract between RJA and VHA therefore specified U.S. advisory assistance to provide the following: (a) develop a contract management capability to administer and implement a large construction program (b) formulate and implement contract administration procedures and (c) develop an up-to-date set of road and bridge specifications.

The contract originally covered a 13 month period at a total price of \$584,909 and VN\$44,211,337. Subsequent amendments have increased these amounts to \$611,363 and VN\$46,048,241. The USAID presently anticipates that an additional year of contract services will be needed.

B - CONTRACT MANAGEMENT

The Director General of VHA is designated Contracting Officer and thus has primary responsibility for administering the contract. Related back-stop functions are provided by the USAID/VN Associate Director for Commercial and Capital Assistance (ADCCA). As donor, USAID/VN acts as trustee and disbursing agent for VHA. In this capacity it retains approval authority for any changes under the contract.

There have been no prior audits of this contract.

PART III - SUMMARY

The contractor's progress has been generally satisfactory. We found that the duties of the Contractor's District Advisors had not been clearly defined. This has had a tendency to influence concentration of field advisor assistance on secondary tasks such as construction work to the detriment of the required work in district management (page 6).

RJA presently has two contracts to assist VHA to upgrade its overall management. These contracts, should be consolidated to minimize administrative duplication (page 8).

Charges of \$915 have been erroneously billed to the contract (page 4).

PART IV

STATEMENT OF FINDINGS

For the Office of the Director, USAID/VN

A - CONTRACT FUNDING

The following schedule summarizes the source and status of contract funds as of January 31, 1974:

<u>PIO/T No.</u> 730-408-3-(31)30216	<u>U.S. Dollars</u>	<u>VN Piasters</u>
Obligated	\$623,000	VN\$55,000,000
Expended	<u>246,159</u>	<u>15,125,519</u>
Unliquidated	<u>\$376,841</u>	<u>VN\$39,874,481</u>

B - CONTRACT EXPENDITURES

During the current audit period contract expenditures totalled \$246,159 and VN\$15,125,519. We took no exception to the contractor's piaster disbursements. Our review of dollar billings, however, disclosed several erroneous charges for absences and mobilization costs totalling \$915. These dollar exceptions were discussed with the contractor who agreed to make the necessary credit adjustment. This adjustment was subsequently made on the March 1974 Billing Voucher.

C - CONTRACT AWARD

Bid proposals for the contract were obtained from eight consulting firms. On the basis of a numerically weighted bidding system RJA was given the highest rating. This system was used to minimize bias. Yet we noted that the USAID/VN Contract Services Division (CSD) took exception to the weight factor given to price, e.g. the use of the weight factor for technical qualification was 60 percent higher than the price factor. In this context the USAID/VN technical division contended that an overemphasis on price could contribute to wasteful results where quality of professional services is the prime consideration. The USAID/VN Associate Director for Financial Management (ADFM) later submitted its recommendations in regard to the RJA cost proposal. These recommendation suggested substantial reductions in the cost proposal. Thus, as a result, the US dollar portion of the contract was reduced by about \$15,000.

We noted that the contractor was subsequently able to negotiate an increase in the local currency portion of the contract equivalent to about \$42,000. The contractor's original price proposal was therefore understated and less competitive than the original weights indicated. This situation would seem to dictate that the net increase in price should have been recomputed into the contractor's weight factor to ensure that its competitive ranking was retained. No evidence was found to indicate this was considered.

D - CONTRACT ACCOMPLISHMENTS

Contract activities include the formulation of specifications and design standards for roads and bridges, formalization of pre-contract procedures, contract administration procedures, construction management, and highway maintenance management. The scope of advisory activity thus span all three Directorates of the VHA - Operations, Engineering, and Administration. The contractor developed an implementation plan which RJA personnel were assigned to execute. This resulted in the assignments cited below:

<u>Activity</u>	<u>No. of Advisors</u>
Contract Specialist	1
Road Specifications and Design	2
Bridge Specifications	2
Contract Administration Procedures	1
Construction Engineer (Districts)	5 <u>1/</u>
Environmental Specialist (Part time)	<u>1</u>
Total	<u><u>12</u></u>

1/ Includes one position for the Engineer in Danang which is not filled at present.

1 - Road and Bridge Specifications and Design

The four advisors assigned to specifications and design standards were recruited under the contract between May and September, 1973. The work performed on this activity has progressed as planned. English versions of road and bridge specifications and the design standards manual are well advanced and completion is expected by May 1974, about one month prior to the contract completion date. The effective use of advisors on this activity is attributed to the concise definition of duties, responsibilities, and targets established in the plan.

2 - Contract Administration Procedures Advisor

A description of the work objectives under this activity was outlined in the contractor's implementation plan. These objectives were not as precise as those stated in Appendix A of the contract. Yet the plan covered the essential tasks to be undertaken by the advisor. These included the preparation of procedures and recommended practices for; bid proposals, bid analysis, selection of bidder, contract award, contract payment, an information reporting system, and the publication of operating procedures. The contractor's plan does not specify the development of a contract format as stated in the contract. It is expected, however, that this format will evolve from the advisor's supplemental duties with his counterpart. Such duties will involve the actual preparation of contracts for USAID/VN funded construction projects and thus provide an assortment of standard contract formats. Later information from the contractor indicates that a format is now in the development stage.

The tasks listed above comprise a significant workload. But the advisor with primary responsibility for this workload was not phased into the contract until January 24, 1974. The contractor stated that the advisor's arrival was delayed to ensure that completion of the work would be phased in with the establishment of a new VHA district office where the advisor will eventually be assigned. He added that the completion date for contract procedures is still expected to be met by June 1974. This presumption, we feel, may be over-optimistic. In addition to the above tasks, the contract states that the advisor should supplement the managerial skills of the VHA counterpart. This will thus entail involvement in day-to-day operations. It is safe to assume that, since the USAID/VN highway program is presently underway, there will be a substantial need for the advisor's time to meet this contractual requirement. This may consequently divert the advisor from the development of contract procedures. Therefore, with only several months to contract completion, we suggest that USAID/VN monitor closely this sub-activity of the contract.

3 - Construction Engineers (Districts)

By August, 1972 all five construction engineers had arrived in Vietnam and were assigned to the five VHA districts in Saigon, Danang, Can Tho, Dalat, and Nha Trang. In November 1973, the advisor from Danang resigned. We were informed by USAID/VN that a replacement has been approved and is expected to be on board by May 1974.

The duties of these advisors have been less than satisfactorily defined. The contract defines their duties as "advisors to VHA field staff in meeting its responsibilities for gathering field data, planning and design as well as field monitoring and supervision of actual

contruction". The contractor's plan elaborates on what the actual duties will constitute. We noted, however, that the specific duties generally covered one-time work items. The contractor thus envisioned the advisors' activity of any continuing nature to involve the monitoring of construction projects. Since the current USAID/VN highway program has not significantly entered the construction phase, such activity has been narrowed to construction projects under another USAID/VN project. This project, Highway Improvement (No. 730-11-310-294), incorporated assistance to the VHA in carrying out its phase of the Central Reconstruction and Development Councils' (CRDC) secondary roads and bridges program. RJA advisors have been involved in preproject feasibility reviews, preconstruction inspections, construction inspections, and project acceptance. We noted that until recently the advisors' had involved themselves in this secondary activity up to as much as 50 percent of their time. Since this work comprises the only on-going duty, it is understandable why advisors have leaned heavily on this activity. The contractor noted this tendency. Hence, in a November 1973 RJA staff meeting, the contractors' Chief of Party cautioned field advisors against extensive involvement in the CRDC program. Yet, as of our review, advisors were not effectively engaged in the primary objectives of the contract.

Our initial viewpoint was that the district advisors' duties should be more carefully defined. The contractor's and USAID/VN's view differ. They contend that the duties must be flexible to meet the various conditions of the 5 districts and the need to be available to the VHA District Engineer at all times for consultation.

In response to our draft report USAID/VN informed us that detailed programs have now been developed as guidelines for use by the district advisors.

4 - Environmental Specialist

Amendment No. 1 dated December 3, 1973 modified the contract to include the part-time services of an environmental specialist (900 hrs). The consultant was to prepare a statement on each district with information on the environmental impact of the projects proposed under the current USAID/VN highway program. As of our examination four of the five districts have been reviewed. Two reports have been completed, and the remainder will be completed well ahead of the contract completion date.

We noted that in at least one case USAID/VN requested and used the services of the specialist for purposes other than contract objectives. Although it is likely that the specialist will complete his work within the time allotted, the premium rate for such services and diversion from contract objectives dictate prudent use of the advisor's time.

E - CONTRACT ADMINISTRATION

The two Roy Jorgensen Associates, Inc. Contracts, No. 3577 and No. 3560 (See Audit Report No. 9-730-74-82) evolved as a result of the Booz - Allen report. With similar purpose, both are to upgrade VHA management. Due to an element of timing, the advisory services were split-off into two contracts. This generates duplication in the administration of the Contracts within the VHA, USAID/VN and the contractor's offices.

In our draft report we suggested the consolidation of these two contracts. USAID/VN stated that contract No. 3577 has just been extended. Therefore the suggested consolidation is to be deferred until completion of the current term of contract No. 3560.

Distribution of Report

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