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**AUDIT OF USAID/NEPAL'S MANAGEMENT  
OF DIRECT A.I.D. CONTRACTS  
FOR TECHNICAL ASSISTANCE**

**Audit Report No. 5-367-91-07  
September 11, 1991**

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**USAID/Nepal planned and monitored direct A.I.D. technical assistance contracts successfully. However, improvements could still be made in developing work statements, securing bids, complying with contract award requirements, closing out completed contracts, and resolving \$1.5 million in questionable obligations.**

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT  
— Singapore —

U.S. POSTAL ADDRESS:  
American Embassy • Singapore  
FPO San Francisco 96699

INTERNATIONAL ADDRESS:  
111 North Bridge Road  
#17-03 Peninsula Plaza  
Singapore 0617  
Tel: 65-3342766

September 11, 1991

MEMORANDUM FOR:

Kelly Kammerer  
Director, USAID/Nepal

FROM:

  
James Durnil, RIG/A/Singapore

SUBJECT:

Audit of Direct A.I.D. Contracts for Technical Assistance  
in Nepal (Report No. 5-367-91-07)

Enclosed are five copies of our audit report on Direct A.I.D. Contracts for Technical Assistance in Nepal (Report No. 5-367-91-07).

We have reviewed your comments on the draft report and included them as Appendix II to this report. Based on your comments, Recommendation Nos. 2 and 3.1 are closed. Recommendation Nos. 1.1, 1.2, 3.2, and 3.3 are resolved and can be closed when appropriate actions are completed. Recommendation Nos. 4.1, 4.2, 4.3, and 5 are unresolved. Accordingly, please respond to this report within 30 days, indicating any actions planned or already taken to implement these recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.



## EXECUTIVE SUMMARY

As of March 31, 1991, USAID/Nepal was managing 8 active direct technical assistance contracts and 15 others which had expired since October 1, 1988. These contracts cost about \$39.3 million (See page 1).

Between February 20 and May 9, 1991, we audited the A.I.D.'s management of the direct technical assistance contracts in accordance with generally accepted government auditing standards (See Appendix I) and found the following:

- USAID/Nepal followed A.I.D. procedures in planning for technical services except that statements of work were not always properly developed prior to inclusion in a contract (See page 3).
- USAID/Nepal followed A.I.D. procedures to procure technical services in a timely manner but did not follow all of the procedures for selecting winning contractors, securing bids, determining contractor responsibility, and documenting cost analysis (See page 8).
- USAID/Nepal followed A.I.D. procedures for monitoring contractor performance to ensure technical services were provided and used. However, expired contracts were not being closed out properly, resulting in poor controls over \$1.7 million in property and potentially excess funds available for deobligation of \$1.5 million (See page 15).
- USAID/Nepal obligated, spent, and accounted for technical services funds in compliance with A.I.D. policies and procedures and applicable laws and regulations, but greater management control was needed to obtain timely information on disbursements made by others on behalf of the Mission (See page 21).

The report contains five recommendations. It also presents our assessments of internal controls (see page 24) and reports on USAID/Nepal's compliance with applicable laws and regulations (see page 28).

A draft of this report was provided to Mission officials for comment. While not directly responding to all of the recommendations, the Mission generally concurred with the

statements made in the report. For those recommendations responded to, Mission officials either agreed to implement the suggest action or offered acceptable alternative solutions. Mission comments are summarized after each finding and presented in their entirety in Appendix II.

*Office of the Inspector General*

Office of the Inspector General  
September 11, 1991

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## **Table of Contents**

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	<b>Page</b>
<b>EXECUTIVE SUMMARY</b>	<b>i</b>
<b>INTRODUCTION</b>	<b>1</b>
<b>Background</b>	<b>1</b>
<b>Audit objectives</b>	<b>1</b>
<b>REPORT OF AUDIT FINDINGS</b>	<b>3</b>
<b>A. Did USAID/Nepal follow A.I.D. procedures in planning for technical services?</b>	<b>3</b>
<b>PIO/T Statements Of Work Should Be Improved</b>	<b>4</b>
<b>B. Did USAID/Nepal follow A.I.D. procedures to ensure that technical services were procured at a fair price, in a timely manner, and from qualified contractors?</b>	<b>8</b>
<b>Award Process Needs To Be Improved</b>	<b>9</b>
<b>Contracting Requirements Need To Be Fulfilled</b>	<b>11</b>
<b>C. Did USAID/Nepal follow A.I.D. procedures in monitoring contractor performance to ensure that the technical services were provided and used?</b>	<b>15</b>
<b>Contract Close-outs Are Not Usually Being Performed</b>	<b>16</b>
<b>D. Did USAID/Nepal obligate, spend, and account for technical services funds in compliance with A.I.D. policies and procedures and applicable laws and regulations?</b>	<b>21</b>
<b>Advices of Charge Are Not Being Received</b>	<b>21</b>

<b>REPORT ON INTERNAL CONTROLS</b>	<b>24</b>
Conclusions for Audit Objective A	25
Conclusions for Audit Objective B	26
Conclusions for Audit Objective C	26
Conclusions for Audit Objective D	27
<b>REPORT ON COMPLIANCE</b>	<b>28</b>
	<b><u>Appendix</u></b>
<b>SCOPE AND METHODOLOGY</b>	<b>I</b>
<b>MANAGEMENT'S COMMENTS</b>	<b>II</b>
<b>REPORT DISTRIBUTION</b>	<b>III</b>

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# INTRODUCTION

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## Background

As of March 31, 1991, USAID/Nepal was managing 8 active direct technical assistance contracts and 15 others which had expired since October 1, 1988. These contracts cost about \$39.3 million. The estimated costs and the commitments for these contracts are shown in the following schedule.

<u>Contracts</u>	<u>Number</u>	<u>Estimated Costs</u>	<u>Commitments</u>
<u>Over \$100,000</u>			
Active	6	\$17,733,787	\$ 7,135,977
Expired	9	21,324,858	20,026,513
<u>\$100,000 or less</u>			
Active	2	16,181	16,181
Expired	<u>6</u>	<u>240,901</u>	<u>231,510</u>
Total	<u>23</u>	<u>\$39,315,727</u>	<u>\$27,410,181</u>

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## Audit Objectives

Technical assistance costs represent one of the largest expenditure categories controlled by A.I.D. missions. Such large amounts justify periodic audits. Accordingly, the Office of the Regional Inspector General for Audit/Singapore audited USAID/Nepal's management of direct technical services contracts to answer the following audit objectives:

A. Did USAID/Nepal follow A.I.D. procedures in planning for technical services?

- B. Did USAID/Nepal follow A.I.D. procedures to ensure that technical services were procured at a fair price, in a timely manner, and from qualified contractors?**
- C. Did USAID/Nepal follow A.I.D. procedures in monitoring contractor performance to ensure that the technical services were provided and used?**
- D. Did USAID/Nepal obligate, spend, and account for technical services funds in compliance with A.I.D. policies and procedures and applicable laws and regulations?**

In answering these audit objectives, we tested whether USAID/Nepal followed applicable internal control procedures and complied with certain provisions of laws, regulations, and contracts. Our tests were sufficient to provide reasonable—but not absolute—assurance of detecting abuse or illegal acts that could affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Nepal followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine that USAID/Nepal was not following a procedure or not complying with a legal requirement.
- identify the cause and effect of the problems.
- to make recommendations to correct the condition and cause of the problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

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## REPORT OF AUDIT FINDINGS

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### **A. Did USAID/Nepal follow A.I.D. procedures in planning for technical services?**

In our opinion, USAID/Nepal followed A.I.D. procedures in planning for technical services except for the preparation of work statements in the PIO/Ts. Technical service needs were planned and justified as required by A.I.D. Handbook 3, and the types of contractors needed to accomplish the contract goals were properly selected. However, as mentioned, statements of work in the Project Implementation Order/Technical Services (PIO/T) documents were not always properly developed.

As of March 31, 1991, USAID/Nepal was funding six technical service contracts over \$100,000 which were operating under five projects. A review of the planning documents for the five active projects demonstrated that the need for technical services had been assessed. Project papers specified how technical service needs were assessed and justified. The papers also addressed what resources, in time and funding, would be required. Problems were identified and addressed to the project goals, and project goals were related to existing master plans. In addition, correspondence between USAID/Nepal and the host country during the project design showed technical service needs were coordinated with the host country and its implementing agencies to help ensure host country support for the project.

Having decided that technical services should be procured for a project, A.I.D. procedures stipulate that the next action is to determine the most appropriate type of contract for the project. All the contractors had been selected in full and open competition, except for one Title XII contract which gave preference to U.S. universities. After reviewing the decision process used by the Contract Office to determine contractor type, we believe the contractors selected by USAID/Nepal were appropriate for the contracts reviewed. However, as discussed below, the PIO/T statements of work transmitting the requirements for services to the cognizant contracting office did not always provide the information necessary to properly write the statement of work for the contract.

## **PIO/T Statements of Work Should be Improved**

The PIO/Ts did not always provide the required detailed information on the services to be included in the contract and did not provide specific progress indicators or benchmarks as set forth in A.I.D. Handbook 3. This occurred because some project officers did not know how to write effective statements of work, or did not appreciate their importance. Consequently, the contract statements of work did not provide adequate guidance for the work that was to be performed. Without such guidance, contract work may be needlessly delayed or even inadequate.

### **Recommendation No. 1: We recommend that USAID/Nepal:**

- 1.1 establish a training plan to provide necessary training to ensure that project officers have sufficient knowledge to write comprehensive PIO/T statements of work.**
- 1.2 issue a Mission Order requiring PIO/T scopes of work to be properly prepared, including full details of contract objectives and providing necessary benchmarks, prior to being accepted by the contracting officer.**

According to A.I.D. Handbook 3, Supplement A, Chapter II, Part A, the development and preparation of the PIO/T is critical in that it transmits the requirements for goods or services to the cognizant contracting office. The importance of a properly prepared, fully detailed PIO/T cannot be over-emphasized since it constitutes the basic foundation, including the estimated budget, upon which the resultant contract will be built.

The Handbook states that:

- " ... the core of the PIO/T is the statement of work to be performed by the contractor. As the most substantive part of any contract, it constitutes the essence of the agreement between the parties on what is to be done and fundamentally binds the contractor and A.I.D. in their respective obligations. It is the statement of work which describes contract objectives and the steps which must be taken to achieve them.
- " The statement of work must be as precisely defined and as articulate as possible if the contractor is to understand clearly the dimensions and the purposes of the tasks to be performed. A poorly prepared statement of work is self-defeating in that it may result in delays in contracting while clarification is sought... Ultimately, a clear and complete statement of work may assume even added importance if there is a legal or administrative dispute as to the adequacy of the services provided, perhaps affecting a decision as to whether or not the contractor will be paid."

The Handbook also requires that the PIO/T and resultant contract include specific progress indicators or benchmarks which will permit measurements of the contractor's performance against planned expenditures of both time and money. However, the statements of work for three of the six contracts we reviewed did not clearly describe the contract objectives, steps toward achieving the objectives, or specific progress indicators to permit measurement of the contractors' progress.

To illustrate, the work statement for contract #367-0155-C-00-8104-00 (for \$3.8 million) was not comprehensive, nor were there performance requirements stating what must be accomplished and benchmarks stating when. The scope of work states that the contractor will:

" ... provide technical assistance in agriculture, livestock and forestry for field testing appropriate technologies, training GON staff and farmers, organizing and supporting local groups, and preparing periodic and special studies. Support will also be provided for defining and organizing local, district, and zonal training seminars; maintaining a strong project monitoring system; and operating the local currency financial management system."

Except for a training plan, no mention was given as to what exactly was to be accomplished and when. The chief of party for the contractor informed us that the poorly structured work statement had affected the efficiency of his work. The host-government parties often misunderstood the contractual duties, resulting in delays and other difficulties as clarifications were obtained.

In contrast, the work statement for contract #367-0154-C-00-9093-00 (for \$5.3 million) states that the contractor will:

" ... arrange for approximately five exchange scholar/visiting professor programs ... Technical assistance personnel will participate with Institute staff in the teaching, research, and extension work of the Institute. They will assist with the establishment and development of Institute programs and the implementation of the project ... Generally, all advisors will present seminars and short courses at the Pokhara campus ...."

In addition, an attachment to the contract enumerated 38 tasks, their objectives, and specific deliverables the contractor must provide. The chief of party pointed out that some tasks can be completed early in the contract (e.g., Task 2 - Guidelines for Selection of Trainees), some tasks will be done in stages (e.g., Task 19 - Equipment and Commodity Lists), and some tasks will be ongoing throughout the life of the project (e.g., Task 30 - Small Grants). In this contract, the work statement provides key expectations and is supplemented by an attachment that provides details on what the contractor must accomplish and when.

Project officers we interviewed agreed that the statements of work were often poorly written. They attributed this to a lack of proper training and the failure of some project officers to recognize the importance of well-defined work statements. The Mission contracting officer recognized these inadequacies too, but felt he had no control over project officers who were unable or unwilling to submit proper work statements. In his opinion, to return poorly written ones to the project officer would only delay the contracting process.

A.I.D. policies requiring well-defined work statements in PIO/Ts are designed to ensure that A.I.D. will receive the intended services from the contractor within a specified time frame. Failure to enforce these policies increases the risk of poor project results. Well-defined statements of work can be achieved if project officers receive appropriate training and the Mission adopts high standards. In fact, those project officers who were singled out by USAID/Nepal's contracting officer as writing superior PIO/Ts attributed their abilities to contracting training courses they had taken.

The integrity of the contracting process is compromised when inadequate statements of work are accepted. To prevent such compromises, contracting training courses for non-procurement personnel should be offered and required for those project officers who need them. A Mission Order should be issued outlining the requirements for PIO/T statements of work. Also, the contracting officer should not accept statements of work that do not conform to the requirements set forth in A.I.D. Handbook 3, Supplement A, Chapter II, Part A.

### **Management's Comments and Our Evaluation**

Mission officials provided the following comments about this finding:

- " The Mission is in general agreement with the finding that sometimes the SOW transmitted by PIO/Ts to the Contracting Officer are not properly written. However, the Mission does not fully concur with the recommended solutions.
- " The Agency gives training in writing SOWs to USDH Project Officers in Project Implementation Courses. USDH Officers are in turn expected to train their FSN staff and review the SOW prepared by them prior to their submission to the Contracting Officer. Periodically, because of staff turnover and resource constraints such plan doesn't work. Mission will attempt to establish a training plan to correct this deficiency as recommended in recommendation 1.1.
- " The Mission is of the opinion that Recommendation 1.2 is redundant. The requirements of properly preparing PIO/T scopes of work including full details of contract objectives and providing necessary benchmarks are already fully delineated in Handbook 3. Issuing the same material in a Mission Order is not

going to improve the quality of SOW. A memorandum from the Director to the USDH Project Officers requiring them to ensure the 'completeness' of SOWs prior to sending PIO/Ts to the Contracting Officer is a better method of emphasizing this need.

- " The Mission would also like to point out that the draft report does not give recognition to the fact that for the most part the badly written SOW including the example stated on page 5 were written before the Mission had a Contracting Officer. Also, the report fails to give due recognition to the present Contracting Officer's practice of repeatedly returning badly written SOWs to Project Officers. The language on page 5 implies that such SOWs are never returned to the originating offices. This should be corrected."

Based on the Missions' comments, both parts of this recommendation are resolved and will be closed when planned action is completed. Concerning the second part of the recommendation, we believe a Mission Order would provide a better long term solution to the problem. However, a properly written memorandum from the Mission Director which is periodically circulated could be an acceptable alternative. The Mission stated that most badly written statements of work were written before the Mission had a contracting officer. However, project officers not contracting officers are responsible for preparing comprehensive statements of work. Also, since the finding states that only three of six contracts had poor statements of work and since a good statement of work was specifically cited, we do not agree with the Missions' comments in the last paragraph that the statements were never returned.

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**B. Did USAID/Nepal follow A.I.D. procedures to ensure that technical services were procured at a fair price, in a timely manner, and from qualified contractors?**

In our opinion, USAID/Nepal followed A.I.D. procedures to procure technical services in a timely manner but did not follow all of the required procedures which help ensure that services were procured at a fair price and from qualified contractors.

We reviewed six contracts with total estimated costs of \$17.7 million. The selected contracts represent all active technical service contracts as of March 31, 1991 with estimated contract costs above \$100,000. All contracts selected were awarded under competitive negotiation. For the areas and items examined, we found that the Mission:

- established deadlines for the procurement activity.
- selected the appropriate contract type.
- advertised solicitations in the Commerce Business Daily.
- used the technical criteria in the Request for Proposal for technical evaluation of proposals received and objectively ranked each proposal's relative strengths in terms of technical capability.
- conducted reference checks for each technically qualified bidder.
- established the competitive range of bids by determining which of the bidders had a reasonable chance of being selected, and conducted written discussions with these prospective contractors.
- requested best and final offers after the end of written discussions using these offers in the final selection.

The policies and procedures in the A.I.D. Acquisition Regulation (AIDAR) implement and complement the Federal Acquisition Regulations (FAR). A.I.D. policy requires the application of the FAR and/or the supplemental AIDAR, Handbook 14 -- Procurement Regulations. The Mission, however, did not follow A.I.D. procedures for complying with the FAR requirements on how the A.I.D. contracting officer will select the winning contractor. The Mission also did not follow the procedures on providing security for received bids, documenting contractor responsibility and determining cost analysis.

## **Award Process Needs To Be Improved**

Cost factors established in contract solicitations were not fully considered when determining winning contractors and cost evaluations were not always documented. This occurred because personnel were not fully aware of all the requirements of the Federal Acquisition Regulations. These negotiations require that cost factors be included in the original solicitations and be used in final determinations. Also, such determination should be documented. As a result, the selection of winning contractors may have been arbitrary and, in some cases, the Mission was unable to fully justify its award.

**Recommendation No. 2: We recommend that USAID/Nepal consider all cost factors contained in the solicitation when selecting a winning contractor and document the cost evaluations.**

A.I.D. Contract Information Bulletin 90-25 provides the guidelines for evaluating cost proposals when selecting winning contractors. According to FAR 15.605, the factors that will be considered in evaluating proposals should be tailored to each acquisition and only those factors that will have an impact on the source selection should be included in the solicitation. In order to ensure an impartial decision, this regulation requires that the solicitation clearly state the evaluation factors that will be considered in making the source selection, and their relative importance.

The Requests for Proposals examined stated that the reasonableness of the cost proposal would be an evaluation factor in determining the final selection of a contractor. However, for the six contracts reviewed, the solicitation did not identify what cost factors would be considered in evaluating proposals, or identify the relative importance of each factor. The solicitations did not specify whether all categories of costs were going to be considered, whether only some costs were going to be considered, or whether different weights were to be assigned to different categories of costs.

Although the implication was that all costs would be considered, various methods of evaluating cost information and selecting the winning contractor were actually used by the Mission. For two of the six contracts we review, only one prospective contractor was determined to be technically qualified for each of the awards. As such, the proposed costs under these solicitations were not required to be compared. However, for the remaining four, we found that:

- Two contract awards for \$4.8 million and \$3.3 million considered only fringe benefits, indirect costs, fees, home office salaries, and field salaries. They did not consider travel and transportation, commodity procurement, or per diem.

- One contract award for \$3.8 million considered only fringe benefits, indirect costs, fees, home and field office salaries, and subcontractors' allowances. It did not consider travel and transportation, commodity procurement, or per diem.
- One contract award for \$.2 million considered all costs.

The varying methods of source selection as illustrated above permits the contracting officer to have a free hand, in some instances, to choose any winning contractor. For example, we found that RFP #87-11 was awarded for \$3.8 million based on the second method above. A different contractor would have won the contract had the third method been applied instead of the second. As a result, the source selection procedures adopted by USAID/Nepal do not address the objectives of the FAR—to ensure impartiality.

The Requests for Proposals should clearly state all evaluation factors that will be considered in making the source selection. If there are plans to include all cost items, exclude certain items, or place different weights on categories of costs in making a selection, this should be so stated.

Documentation of the award process was also not always maintained. For two of the six awards reviewed, the cost figures used by the contracting officer to determine the successful bidder could not be reconciled with the costs initially submitted by the contractor. This occurred because the contracting officer's calculations, worked out on rough sheets of paper, had been destroyed. Without supporting documentation on the basis and method of source selection, the contracting officer could not support whether the contract had been properly awarded. Such documentation should be prepared and maintained.

### **Management's Comments and Our Evaluation**

Mission officials concurred and provided the following comments about this finding:

- " The Mission agrees with the intent of the recommendation. The Mission under its present Contracting Officer has implemented steps whereby cost factors are now evaluated in accordance with the guidance published in the Contract Information Bulletin No. 90-25.
- " Also, formal notes on cost evaluations are prepared and kept on file. Therefore, we request that Recommendation No. 2 be closed upon the issuance of the audit report."

Based on the actions taken by the Mission and the comments made above, this recommendation will be closed upon issuance of this audit report.

## **Contracting Requirements Need To Be Fulfilled**

USAID/Nepal did not always properly control bid receipt, document contractor responsibility determinations, or perform and document cost analyses. This occurred because procurement personnel were not fully aware of the regulations requiring these actions. As a result, there was not adequate assurance that only timely bids were considered, that bid information was secured, that prospective contractor were responsible, and that selections were most advantageous to the Government.

### **Recommendation No. 3: We recommend that USAID/Nepal:**

- 3.1 establish procedures implementing controls over the receipt and handling of bid proposals to ensure compliance with Federal Acquisition Regulation 15.411.**
- 3.2 include in each contract file a section for the determination of responsibility or non-responsibility in accordance with the requirements of Federal Acquisition Regulation 9.104-1, 9.105-2(b) and 9.106-1(a).**
- 3.3 modify the Contract Negotiator's Checklist to include a requirement for a documented cost analysis or a field pricing report.**

**Controls Over Bids.** According to FAR 15.411, the procedures for the receipt and handling of proposals and quotations in negotiated acquisitions should require:

- proposals and quotations be marked with the date and time of receipt.
- all bids received before the time established for the opening of bids be kept secure and remain unopened in a locked bid box or safe.

Although USAID/Nepal's contracting officer has taken some measures to comply with the above requirements, such as using a locked bid box so that bids can be kept secure, improvements were still needed. For the six active contracts over \$100,000, we found that proposals and quotations reviewed were marked with the date and time of receipt on their envelopes only, which were later thrown away. No register or log book was maintained to show if a bid was timely or late.

We believe the Mission should improve the security of their bid processing by maintaining a log book to record the date and time of receipt of each bid, including late submissions. According to the contracting officer, the Mission had not established the above procedure because the need for it was not recognized. Thus, the Mission could not confirm that only timely bids had been considered for award and that all late bids had been rejected. Without implementing FAR procedures, USAID/Nepal cannot guarantee the integrity of the bidding process.

**Contractor Responsibility.** According to FAR 9.103 (a), "purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only." FAR 9.104-1 states that a contractor must:

- have adequate financial resources to perform the contract, or the ability to obtain such resources.
- be able to comply with the required or proposed delivery or performance schedule.
- have a satisfactory performance record.
- have a satisfactory record of integrity and business ethics.
- have the necessary organization, experience, and accounting and operational controls, or the ability to obtain them.
- have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them.
- be otherwise qualified and eligible to receive award under applicable laws and regulations.

FAR 9.105-2(b) further states that documents and reports supporting a determination of responsibility or non-responsibility must be included in the contract file.

If the information on hand is not sufficient for a determination regarding responsibility, FAR 9.106-1(a) states that a pre-award survey is normally required. However, if the contemplated contract will be for \$25,000 or less, the contracting officer should not request a pre-award survey unless circumstances justify its cost.

For three of the six active contracts over \$100,000, the contracting officer did not address the question of responsibility. For the remaining three, the documentation was insufficient to support the conclusion that the contractor was indeed responsible. For example, under award #367-0155-C-00-8104-00 (for \$3.8 million), contractor responsibility was not addressed at all. For another award (#367-0157-C-00-0250-00 for \$4.8 million), the only documentation addressing the question of responsibility was a memorandum from a project officer stating that the prospective contractor had been working with A.I.D. and with USAID/Nepal for ten years and had produced quality work. No assessment of the contractor's responsibility was made by the contracting officer. The question of adequate finances, and other issues, were not addressed.

The contracting officer stated that he was not aware of the specific requirements contained in FAR 9.104-1, 9.105-2(b) and 9.106-1(a). The Mission needs to ensure that

a prospective contractor's ability to carry out the terms of the contract is thoroughly checked before the contract is awarded. Performing contract duties in the field is a difficult task even for experienced contractors; and hiring non-responsible contractors could result in default, late delivery, or other unsatisfactory performance. Without conducting such checks, the U.S. Government interests are not adequately protected.

**Cost Analysis.** FAR 15.608 requires that cost analyses be performed and documented on all competitive cost proposals submitted by bidders. A field pricing report is required before negotiating any contract or modification proposal in excess of \$500,000 unless information available to the contracting officer is considered adequate to determine the reasonableness of the proposed cost. FAR 15.610 requires written discussions between the contracting officer and the bidder to eliminate any confusion that may exist over the cost proposals.

The objectives to be achieved in a cost analysis include evaluating the reasonableness of the individual cost elements and determining pertinent issues to be negotiated. Subsequent discussions should include:

- deficiencies in the bidders' cost proposals, so that the bidder is given an opportunity to satisfy the Government's requirements.
- uncertainties concerning the terms and conditions of the proposal.
- any suspected mistakes.

There was not adequate documentation to determine if the cost analyses had taken place for all competitive bids. Detailed cost analyses were only performed on the proposals from the winning contractors and only at the end of the negotiation process. For example, RFP 87-11 had three bidders in the competitive range but cost analysis data was only available for the winning contractor. Thus, the Mission could not demonstrate whether all bidders in the competitive range had been given an equal opportunity to meet the U.S. Government's requirements, as stipulated by FAR 15.610.

The contracting officer told us that he reviewed all proposals before starting the written discussions, although these reviews were not documented. He added that for each of the six contracts we reviewed he was able to perform his analysis and, as such, field pricing reports were not requested. However, he stated that he was unaware that cost analyses for all competitive bids must be documented.

USAID/Nepal should take the necessary steps to ensure that cost analyses are properly documented. Without such documentation, the Mission cannot demonstrate that each bidder had been given an equal opportunity to satisfy the Government's requirements, or that the costs analysis process was identifying the contractors most advantageous to the Government. A superior contractor may have been eliminated because of

misunderstandings over provisions of the proposal or mistakes in the bid. Properly documented cost analysis would prevent this from happening.

### **Management's Comments and Our Evaluation**

Mission officials concurred and provided the following comments about this finding:

- " To ensure compliance with FAR 15.411 in the area of controls over the receipt and handling of bid proposals, the Contracting Officer has started maintaining a log book to record the date and time of receipt of each bid. Since the requirement of this part of the recommendation has already been fulfilled, we request Recommendation 3.1 be closed upon the issuance of the report.
- " Mission agrees with Recommendation 3.2 and will henceforth include in each file a section for the assessment of contractor responsibility.
- " Mission agrees with Recommendation 3.3 and will modify the Contract Negotiator's check list to include a documented cost analysis or a field pricing report. However, the Mission would like to point out that the current check list being used by Contracting Officers was published by A.I.D./Washington and any recommendation to change it should be directed to them."

Based on the actions taken by the Mission and comments made above, recommendation 3.1 will be closed upon issuance of this audit report. Recommendations 3.2 and 3.3 are resolved and will close when planned action is completed.

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**C. Did USAID/Nepal follow A.I.D. procedures in monitoring contractor performance to ensure that the technical services were provided and used?**

In our opinion, USAID/Nepal followed A.I.D.'s procedures for monitoring contractor performance to ensure that the appropriate technical services were provided and used. For the contracts reviewed, measurable indicators were established to gauge contract progress, information on contract progress was reported to the Mission, and appropriate follow-up actions on recommendations were taken. However, for completed contracts, non-expendable property was not properly accounted for, excess funds were not decommitted, and close-out audits were not performed in a timely manner.

USAID/Nepal had six active technical assistance contracts over \$100,000 as of March 31, 1991, with an estimated cost of \$17.7 million. We evaluated the Mission's monitoring activities for three of the six contracts, valued at \$9.4 million. The contracts included one U.S. -based private contract for \$3.8 million, one local private contract for \$.3 million, and one Title XII contract for \$5.3 million. Three of the contracts had been active for fewer than 6 months so there was insufficient information for us to fully evaluate the Mission's monitoring efforts.

For the three contracts which had been in effect for over six months, the Mission received information on contract progress through progress reports supplied by the contractors. These reports were corroborated with timely and comprehensive site visits by Mission personnel, who usually visited the work sites at least quarterly. Progress reports addressed the goals that were outlined in the workplans which allowed the Mission to better monitor project progress. Achievements we observed in our field trip reviews at the work sites were consistent with the progress outlined in the progress reports. Mission management reviewed the progress reports and the site visit reports. Also, there was an active project review committee to monitor project performance. The host government was kept posted on project progress by their attendance at project review committee meetings and by project participation. Most projects are implemented through host government agencies.

For those progress reports with recommendations, USAID/Nepal or the appropriate agencies were following up on the recommendations. Project problems and issues requiring action were addressed in the Implementation Status Report, and the host country was advised of problems through the Project Review Committee. When contracts were completed, however, action was not always taken to properly close them out.

## **Contract Close-outs Are Not Usually Being Performed**

Seven of nine expired A.I.D. direct contracts over \$100,000 were not fully closed out as required by A.I.D. regulations because USAID/Nepal had placed the close-out function of contracts low in its priorities. Also, Mission officials were not aware of the specific requirements for non-expendable property. As a result, USAID/Nepal lacked adequate control over \$1.7 million in A.I.D.-funded property, may be able to decommit \$1.5 million in unliquidated commitments, and needs to request timely audits.

### **Recommendation No. 4: We recommend that USAID/Nepal:**

- 4.1 develop and implement procedures to ensure that all contractors submit the required final inventory reports on A.I.D.-financed nonexpendable property in their possession and ensure the proper disposition of the \$1.7 million of property identified in this report.**
- 4.2 decommit or otherwise resolve the \$1.5 million in unliquidated commitments identified in this report.**
- 4.3 take required actions to ensure that audits/desk reviews are requested/performed on completed contracts in a timely manner.**

The FAR Part 4.804 requires that actions be taken to close out completed contracts. Implementing guidance is included in A.I.D. Handbook 14 which cover A.I.D. direct contracts. These procedures are further defined in Contract Information Bulletin 90-12, issued by A.I.D./Washington in June 1990, requiring A.I.D. Missions to establish formal close-out systems. Among other things, the A.I.D. office administering contracts must ensure that (1) non-expendable property in the possession of contractors is accounted for and properly disposed of, (2) excess funds are decommitted, and (3) audits are requested and/or performed to assure the propriety of payments to contractors. As discussed below, we found problems with each of these areas.

As of March 31, 1991, USAID/Nepal was managing 23 direct technical assistance contracts with total estimated costs of \$39.3 million. Fifteen of these contracts had been completed as of March 31, 1991. We selected 9 contracts with total estimated costs of \$21.3 million for our review. These contracts represent all completed contracts above \$100,000.

For the items tested, we found that USAID/Nepal had adequately closed out two contracts. For the other seven contracts reviewed, the close-out action did not fully address either one or more of the following areas:

- accounting and disposition of non-expendable property financed under the contract.

- decommitting excess funds promptly.
- requesting close-out audits or performing desk reviews.

**Government-Funded Property.** A.I.D.'s close-out procedures for A.I.D. direct contracts require the contracting office to certify that contractors account for all non-expendable property in their possession and that proper disposition is made. Disposition could require that the property be returned to the host government or to the U.S. Government for use in other bilateral projects or the contractors keep the property for use in other U.S. Government-funded contracts under bilateral projects with the host government.

Of the nine contracts reviewed, available documentation indicated that five of the contractors were in possession of non-expendable property. In all five cases, the property had not been adequately accounted for or disposed of as required. Because of inadequate records, it was not always possible to segregate non-expendable and expendable properties.

To illustrate this situation, one \$6.9 million contract purchased \$724,038 in commodities. Because the property was just categorized as commodities, it was not possible to distinguish expendable from non-expendable property. However, a review of the inventory lists for the contract shows mostly household goods and office furnishings. Thus, most of the property was non-expendable and required more accountability.

The original cost of all non-expendable and expendable property purchased under these five contracts was approximately \$1.7 million as shown in the following schedule.

**Schedule of Estimated Cost of Property for  
Selected Expired Contracts**

<u>Contract</u>	<u>Completion Date</u>	<u>Total Contract</u>	<u>Property Value</u>
ASB-0149-C-00-5171-00	09/29/90	\$ 6,938,635	\$ 724,038
ASB-0135-C-00-1042-00	10/15/90	6,559,868	447,493
367-0153-C-00-6048-00	05/31/89	3,705,000	334,825
ASB-0148-C-00-5156-00	09/02/90	2,448,493	116,010
767-0153-C-00-9168-00	07/15/90	<u>319,273</u>	<u>46,007</u>
<b>Total</b>		<b><u>\$19,971,269</u></b>	<b><u>\$1,668,373</u></b>

The total amount of non-expendable property purchased under all completed contracts could not be determined because the contractors did not provide, and USAID/Nepal did not request, adequate records of such property. For example, one contract for \$2.4

million purchased \$116,010 in property, but also received property from other sources. The inventory list submitted at the completion of the contract does not indicate which items were purchased with contract funds. Although the five contractors provided USAID/Nepal with final inventory reports, there was no way to determine if these final inventory lists were complete because the Mission does not maintain an inventory system for property purchased by contractors and the inventory list provided by the contractors did not have a dollar value that could be reconciled to the original expenditure for property.

This lack of accounting control with regard to non-expendable property occurred because the project officers and the contracting officer were not aware of the documentation and reporting requirements. Such documentation and reporting is necessary to ensure that all non-expendable property in the contractors' possession is accounted for and disposed of at the completion of the contracts. Accordingly, USAID/Nepal should develop and implement procedures to ensure that all contractors submit the required final inventory reports and ensure the proper disposition of the \$1.7 million property identified in this report.

**Decommittment of Excess Funds.** Of the nine contracts reviewed, funds had been decommitted under only three contracts. For the remaining six contracts, we identified \$1.5 million (see following schedule) which had not been decommitted at the time of the audit. As can be seen in the following schedule, one contract which was completed in May 1989, still had \$324,029 in unliquidated commitments. One of the six contracts had been completed for more than one year, four had been completed more than six months, and one had been completed for about six months as of March 31, 1991.

Schedule of Unliquidated Commitments for  
Selected Expired Contracts

<u>Contract</u>	<u>Completion Date</u>	<u>Total Contract</u>	<u>Unliquidated Commitments</u>
ASB-0149-C-00-5171-00	09/29/90	\$ 6,938,635	\$ 664,375
ASB-0135-C-00-1042-00	10/15/90	6,559,868	297,435
367-0153-C-00-6048-00	05/31/89	3,705,000	324,029
ASB-0148-C-00-5156-00	09/02/90	2,448,493	154,262
367-0146-C-00-5025-00	09/30/90	725,897	52,851
367-0153-C-00-9168-00	07/15/90	<u>319,273</u>	<u>8,342</u>
Total		<u>\$20,697,166</u>	<u>\$1,501,294</u>

A.I.D. Contract Information Bulletin 90-12 specifies contract closeout procedures for cost type contracts wherein the Mission must take action to decommit excess funds. Mission officials must focus immediate attention on the status of A.I.D. commitments when contracts expire. To achieve the most judicious use of Federal funds, any excess

should then be decommitted and reprogrammed to other areas, or used to reduce overall U.S. Government commitment requirements. Accordingly, USAID/Nepal should decommit or otherwise resolve the \$1.5 million in unliquidated commitments identified in this report.

**Final Audits.** A.I.D. Handbook and 14 and the Contract Information Bulletin 90-12 require that A.I.D. direct contracts with cost-reimbursable provisions be audited prior to close-out for compliance with all contract provisions (including whether costs claimed were allowable, allocable, and reasonable). Specifically, Contract Information Bulletin 90-12 prescribes that a final audit be performed of costs incurred under all A.I.D. direct contracts with cost-reimbursable provisions and a total estimated cost in excess of \$500,000.

For contracts having a total estimated cost not in excess of \$500,000, the administering office should perform a desk review to confirm that the amounts claimed as direct costs are acceptable under the contract and the applicable cost principles; the final amounts for indirect costs have been determined; and the amount of the contractor's cumulative claim, less payments made, does not exceed the total amount of funds obligated under the contract. Notwithstanding the audit threshold amount, the contracting officer may request a final audit of costs incurred should such an audit be cost-effective.

Of the nine contracts examined, the A.I.D. contracting officer had taken timely steps to ensure that audits were requested or desk reviews were performed for five contracts totaling about \$17 million. As for the other four contracts, steps taken were not timely.

- The close-out audit for one \$3.7 million contract completed on May 31, 1989, was not requested until June 21, 1990.
- For three contracts totaling about \$.7 million, desk reviews were not initiated until seven to thirteen months after the contract completion dates.

The following schedule identifies the four contracts and their respective costs.

**Schedule of Selected Expired Contracts  
Awaiting Final Closeout Procedures**

<u>Contract</u>	<u>Completion Date</u>	<u>Total Contract</u>	<u>Date Audit Requested</u>	<u>Date Desk Review Performed</u>
367-0153-C-00-6064-00	05/31/89	\$3,705,000	06/21/90	N/A
367-0153-C-00-9168-00	07/15/90	319,273	N/A	02/22/91
367-0149-C-00-8261-00	02/11/90	213,090	N/A	03/13/91
367-0149-C-00-5029-00	02/15/90	<u>144,916</u>	N/A	03/13/91
<b>Total</b>		<b><u>\$4,382,279</u></b>		

According to the contracting officer, audits and desk reviews had not been performed in a timely manner because direct contract close-out was given a low priority by the Mission. Additionally, USAID/Nepal did not maintain a system to track all contracts to ensure that audits/desk reviews were requested and performed. Accordingly, USAID/Nepal should take required actions to close out completed A.I.D. direct contracts as prescribed in Contract Information Bulletin 90-12.

### **Management's Comments and Our Evaluation**

Mission officials provided the following comments about this finding:

" The three part recommendation in this section points to deficiencies towards closing out completed contracts. However, this problem is endemic throughout the agency because of a shortage of staff in Contracting Offices. The pressure to complete new contracting actions on time is so severe on Contracting Officers that contract close-outs are given a low priority. However, the Contracting Officer of USAID/Nepal has done a commendable job of reducing a five-year backlog of contract close-out actions to a manageable proportion. The USAID/Nepal will attempt to address and resolve the issues raised in Recommendation 4.1, 4.2 and 4.3."

Although requested, Mission officials did not specifically comment on the \$1.5 million which could be decommitted. Even though Mission officials agreed to make improvement, they did not describe the specific action that would be taken to implement the recommended actions. Accordingly, all parts of this recommendation remain unresolved.

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**D. Did USAID/Nepal obligate, spend, and account for technical services funds in compliance with A.I.D. policies and procedures and applicable laws and regulations?**

For the items tested, USAID/Nepal obligated, spent, and accounted for technical services funds in compliance with A.I.D. policies and procedures and applicable laws and regulations. However, we believe greater management control was needed over processing advices of charge (AOCs).

USAID/Nepal had six active technical assistance contracts over \$100,000 with a total value of \$17.7 million. The Mission used the A.I.D. direct payment method for five contracts and the advance payments method (letter of credit) for one contract. For these contracts, USAID/Nepal has properly earmarked and committed funds in accordance with prescribed A.I.D. procedures. Data input into the system was valid and funds were recorded to the proper projects and accounts. Valid and binding earmark and commitment documents were used and were signed by authorized officials.

USAID/Nepal maintained a log book to track receipt and payment of invoices. The log book was also used to help ensure the provisions of the Prompt Payment Act were followed. For the vouchers in our sample, invoices were reviewed and approved by the project officers. Invoices were valid, authorized and reasonable in quantities and price. Invoices scheduled for payment on SF-1166 were approved and certified by accounting office officials.

Although the procedures for the acceptance and recording of AOCs was generally adequate, we did find one area which bears closer management evaluation. AOC were not received within a reasonable period of time.

**Advices Of Charge Are Not Being Received**

USAID/Nepal was unable to record certain voucher information for AOC transactions in the commitment liquidation record in a timely manner. This occurred because the Mission did not maintain a list of outstanding AOC documents and periodically follow up to help ensure receipt. As a result, the Mission could not ensure that \$360,000 in AOC transactions were charged to the proper appropriation and allotment.

**Recommendation No. 5: We recommend that the USAID/Nepal issue a Mission Order to prepare and maintain a list of vouchers for which advices of charge are due, and on a quarterly basis, prepare a memorandum to A.I.D./W requesting copies of all outstanding advices of charge.**

The Federal Managers' Financial Integrity Act of 1982 [31 U.S.C. 3512(b)] requires revenues and expenditures applicable to agency operations be recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained. Transactions and other significant events are to be promptly recorded and properly classified. Chapter 4, Section VI of the Controllers Guidebook states, in part, that "A.I.D./W, FM/CAD/FAB is responsible for monitoring and controlling AOCs between Washington and Missions ..." The Office of the Inspector General's "Internal Control Guidance for Auditing A.I.D. Systems" addresses the issue of late AOCs. Further, the guidance suggests that "... this situation should alert the Mission and/or office accounting station to followup with A.I.D./W to determine the cause."

The Agency's AOC system is the system by which disbursements made by A.I.D./Washington or other missions on behalf of USAID/Nepal are recorded in project records. For two of the six contracts reviewed, A.I.D./Washington had made payments. Contractors submitted vouchers to A.I.D./Washington for reimbursement and copies of the vouchers were sent to the project officers.

Under one contract (#367-0154-C-00-9093-00), 11 vouchers were prepared and submitted during calendar year 1990. At the time of our audit (May 1991), the Mission had not received AOCs for three of the vouchers totaling almost \$186,000. The vouchers covered the periods of January, February, and June 1990. For example, the AOC for a January 1990 voucher for \$100,431 was not received.

Under the second contract (#367-0155-C-00-8104-00), ten vouchers were prepared and submitted during calendar year 1990. At the time of our audit (May 1991), the Mission had not received AOCs for three of the vouchers totaling more than \$174,000. The vouchers covered the periods of May, June, and October 1990. For example, the AOC for a May 1990 voucher for \$56,343 was not received.

Documentation to support USAID/Nepal's followup efforts on outstanding AOCs covered a period of almost two years, August 1989 - May 1991, and included the Mission's responses to four different A.I.D./W lists of outstanding AOCs. However, the A.I.D./W-generated lists the Mission reviewed for accuracy did not include AOCs which corresponded with the six vouchers discussed above. In November 1990 and May 1991 the Mission prepared memorandums to A.I.D./W requesting copies of AOCs in order to liquidate old obligations. However, neither list addressed missing AOCs for the six vouchers discussed in this section.

When asked for a list of vouchers for which AOCs had not been received, Mission personnel stated that such a record was not maintained as there is no requirement to do so. A list can be compiled by manually reviewing the payment records for individual contracts for which A.I.D./W or other missions make payments. This, in turn, could be compiled to determine missing AOCs.

Under normal circumstances, the AOC process takes about three months although the time lag can (and does) take longer. The Agency's accrual procedures were designed to bridge this time lag for which disbursement vouchers are not recorded to the commitment liquidation records. USAID/Nepal accountants and project officers work together to develop estimates of accrued disbursement data. The chief accountant admitted that the process is time-consuming but necessary to arrive at a reasonably reliable status of disbursements at the end of each quarter.

While the accrual system is a workable stopgap measure, it should not be used as a substitute for obtaining the documents needed to clear commitment liquidation records for which repeated accruals are made. Until the AOCs are received, the Mission is unable to record the voucher information to the commitment liquidation record in a timely manner. Furthermore, the Mission cannot ensure that the transaction was charged to the proper appropriation and allotment. Therefore, a log for vouchers for which no AOC has been received should be maintained. Quarterly inquiries should be made to Washington requesting those AOCs not yet received.

### **Management's Comments and Our Evaluation**

Mission officials provided the following comments about this finding:

" The auditors have pointed out an area where maintenance of a log for pending AOCs could help in proper quarterly accruals of expenditures. However, this corrective action needs to be taken by the Financial Management Section without issuance of a Mission Order. The recommendation should be worded accordingly."

We cannot determine from the Mission's response exactly what action will be taking in response to the recommendation. Accordingly, until we receive the corrective action plan, we cannot resolve or close this recommendation.

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# REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

## Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives.
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the four audit objectives, and not to provide assurance on the overall internal control structure.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation—and we assessed control risk.

## General Background on Internal Controls

The management of A.I.D., including USAID/Nepal, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable—but not absolute—assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because changes in conditions may require additional procedures, or the effectiveness of the design and operation of policies and procedures may deteriorate.

In doing our audit, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Nepal's ability to ensure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. (Note: USAID/Nepal did not report any of the internal control weaknesses identified below in its 1989 internal control assessment. Future internal control assessments should consider the internal control weaknesses identified in this report.)

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## **Conclusions for Audit Objective A**

Audit objective A relates to the planning of technical services for the six technical assistance contracts in our review. In planning and performing our audit of these contracts, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3. For the purposes of this report, we have classified policies and procedures into the following categories: needs assessment, host country participation, contractor selection process, contract type selection process, and PIO/T development process.

We noted one reportable condition relating to the PIO/T development process:

- The Mission did not follow procedures to ensure that PIO/T statements of work were well defined with specific indicators of progress or benchmarks which will permit measurements of the contractors' progress.

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## **Conclusions for Audit Objective B**

This objective relates to the procurement of technical services under competitive negotiation. In planning and performing our audit of the procurement process, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 14. For the purposes of this report, we classified the relevant procedures into the following categories: Establishing Deadlines for the Procurement Activity, Advertising and Publicity, Receipt of Bids, Technical Evaluation, Reference Checks, Cost Analysis, Determining Competitive Range, Written or Oral Discussions, Submission of Best and Final Offer, Determining Contractor Responsibility, Determining Winning Contractor and the Contract Type Selection Process.

We noted four reportable conditions relating to the procurement of technical services:

- The Mission did not fully follow established procedures in the Federal Acquisition Regulation Parts 15.605(e) and 15.612(d)(2) requiring that a full disclosure of the award criteria be made in the solicitation, and requiring that the reasons for granting an award to a particular contractor be fully documented.
- The Mission did not follow established procedures in the Federal Acquisition Regulation Part 15.411 to ensure that all proposals and quotations received were marked with the date and time of receipt.
- The Mission did not fully follow established procedures in the Contract Negotiator's Checklist to determine if a prospective contractor was responsible in accordance with Parts 9.103; 9.104-1, 9.105-2(b) and 9.106-1.
- The Mission did not fully follow established procedures in the Federal Acquisition Regulation Parts 15.608(a)(1), 15.805-3, and 15.805-5(a)(1) to ensure that cost analyses were done for proposals received.

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## **Conclusions for Audit Objective C**

Audit objective C relates to USAID/Nepal's monitoring of contractor performance. In planning and performing our audit of contract closeouts, we considered applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 14, and Contract Information Bulletin 90-12. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: establishing measurable indicators, monitoring of project activity, following up on recommendations,

accounting for A.I.D.-funded non-expendable property for completed contracts, decommitting excess funds for completed contracts, and requesting and performing final audits (including desk reviews) to ensure propriety of payments to contractors.

We noted one reportable condition relating to the conduct of contract closeouts:

- USAID/Nepal did not establish or fully implement procedures to ensure that all expired A.I.D. direct contracts were properly and promptly closed out.

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## **Conclusions for Audit Objective D**

Objective D concerned the Mission's accounting of A.I.D. funding for technical assistance. In planning and performing our audit of funding for technical assistance, we considered the applicable internal control policies and procedures in A.I.D. Handbooks 1 and 19, and the Controller's Handbook. For the purpose of this report, we classified the relevant policies and procedures into three categories: committing funds, invoicing, and processing advices of charge.

We noted one reportable condition:

- USAID/Nepal did not provide sufficient management control over follow up on delinquent AOCs.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on project funds being audited may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described under all audit objectives are material weaknesses.

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# REPORT ON COMPLIANCE

This section summarizes our conclusions on the auditee's compliance with applicable laws and regulations.

## Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we:

- Assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives).
- Report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We performed tests of USAID/Nepal, contractors, and host-government compliance with certain provisions of Federal laws and regulations, contracts, and grants as they could affect our audit objectives. However, our objective was not to provide an opinion on overall compliance with such provisions.

## General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in status, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, but which may not directly violate laws and regulations.

Compliance with laws, regulations, and contracts applicable to technical assistance is the overall responsibility of USAID/Nepal's management.

### **Conclusions on Compliance**

The results of our tests of compliance disclosed the following significant instances of noncompliance:

- **Audit Objective B - USAID/Nepal did not comply with procurement procedures as to awarding contracts, securing bids, determining contractor responsibility, and documenting cost analysis based on the Federal Acquisition Regulation Parts 15.411; 15.805-3; 9.103; 9.104-1; and 9.105-2(b).**
- **Audit Objective C - USAID/Nepal did not ensure that all expired A.I.D. direct contracts were promptly and properly closed out in accordance with Federal Acquisition Regulation (Part 4.804).**

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Nepal complied, in all significant respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe the USAID/Nepal had not complied, in all significant respects, with those provisions.

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## SCOPE AND METHODOLOGY

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### **Scope**

We audited USAID/Nepal's Management of Direct A.I.D. Contracts for Technical Services in accordance with generally accepted government auditing standards. We conducted the audit from February 20, 1991 through May 9, 1991, and covered the systems and procedures relating to direct-A.I.D. technical service contracts from October 1, 1988 through March 31, 1991. USAID/Nepal had a total of 8 active direct technical assistance contracts with an estimated cost of \$17.7 million and 15 other contracts which had expired since October 1, 1988, with an estimated cost of \$21.6 million. To accomplish our audit objectives, we looked at USAID/Nepal's management of active and expired contracts with estimated costs of more than \$100,000 each. This translated to our reviewing 6 active and 9 expired contracts with total estimated costs of \$39 million. As noted below, we conducted our field work in the offices of USAID/Nepal and at contractor worksites in Pokhara and Rapti.

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### **Methodology**

The methodology for each audit objective follows.

#### **Audit Objective A**

To accomplish audit objective A, we determined whether (1) a need for the technical service had been clearly defined, (2) resource needs (both time and funds) had been established, (3) the host country was involved in the planning, (4) the correct type of contractor had been chosen, and (5) PIO/Ts were properly prepared.

To accomplish the above, we reviewed documents such as project papers, project agreements, and PIO/Ts. We also interviewed Mission officials including project officers and the contracting officer.

**Audit Objective B**

To accomplish objective B, we determined whether (1) deadlines for the procurement process were established, (2) the solicitations were advertised in the Commerce Business Daily, (3) the procedures for the receipt of proposals and the security of the bids were adequate, (4) technical evaluations for proposals received were properly performed, (5) reference checks were performed, (6) cost evaluations were performed using cost analysis, (7) competitive range for all proposals that have a reasonable chance of being selected were established, (8) written or oral discussions were performed for offerors in the competitive range, (9) best and final offers were requested, (10) contracts were awarded to responsible prospective contractors only, (11) proper source selection techniques were used and, (12) the appropriate contract types were selected.

To accomplish this, we obtained a list of all contracts which were active at any time between October 1, 1988 and March 31, 1991. From the 23 contracts, with total estimated costs of \$39.3 million identified by the Mission, we selected a sample of 6 contracts with total estimated costs of \$17.7 million. These contracts represented all direct-A.I.D. technical service contracts with estimated costs above \$100,000 each and which were still active as of March 31, 1991.

We selected a sample of this nature because we wanted to test only significant technical service contracts which were awarded recently so that most aspects of the current operating system of the Mission could be addressed.

From the sample of six contracts selected, we reviewed the official contract files and the proposals submitted by bidders to determine if the 12 procedures listed above had been complied with. We also interviewed the contracting officer.

**Audit Objective C**

To accomplish objective C, we determined whether (1) indicators had been established to provide a gauge for measuring contractor progress, (2) the Mission was receiving information on contract progress through the receipt of progress reports, (3) the information in the reports was corroborated with site visits by Mission personnel, (4) the work performed was consistent with the work plan, (5) actual work performed was consistent with progress and site visit reports, (6) recommendations were being followed up on, (7) non-expendable property was properly accounted for at close out, (8) excess funds were decommitted at closeout, and (9) closeout audits were performed in a timely manner.

To accomplish the above, we reviewed project papers, progress reports, site visit reports, work plans, project evaluations, property inventories, and MACS reports. We interviewed project officers, contractors, host government officials, and aid recipients. Three and four day site visits were made to the three contractors under the two projects to review contract progress.

**Audit Objective D**

To accomplish audit objective D, we determined whether (1) funds were properly obligated and committed, (2) valid and binding documents were used, (3) a log book was used to track receipt and scheduling of invoices, (4) contractor invoices were reviewed and approved and (5) advices of charge were being processed properly.

To accomplish this, we selected a sample of 6 contracts with total estimated costs of \$17.7 million from our universe of 23 contracts with total estimated costs of \$39.3 million. The sample represented all direct- A.I.D. technical assistance contracts with estimated costs above \$100,000 each and which were still active as of March 31, 1991.

We selected this sample to test significant technical assistance contracts, recently awarded, so that aspects of the Mission's current operating system could be addressed.

We examined project agreements, PIO/Ts, contracts, SF 1034, SF 1166, invoice log books, U-101 reports, and advices of charge. We interviewed Mission personnel including the Mission controller, chief accountant, accountants, voucher examiners, and financial analysts.

In reviewing payments processed by the Mission, source documents were available only for local costs. Invoices for one contract were in Nepalese and could not be reviewed. Only duplicate documents were available for vouchers paid by A.I.D./Washington. No supporting documents were available for letter of credit payments. USAID/Nepal had sent all signed copies of SF 1166 to the disbursement office at USAID/India, and, consequently, this segment of the payment procedure could not be tested. For two contracts scheduled for Non-Federal audits, we limited our detailed substantive testing to avoid any duplication of work.

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37



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

APPENDIX II  
PAGE 1 OF 3

August 23, 1991

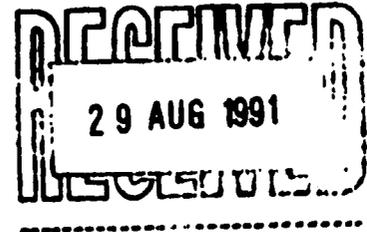
KATHMANDU, NEPAL

MEMORANDUM

TO: James Durnil  
RIG/A/Singapore  
#17-03 Peninsula Plaza  
111, North Bridge Road  
Singapore 0617

FROM: Kelly C. Kammerer, Director *KCC*

SUBJECT: Mission's response to the draft audit report on  
USAID/Nepal's Management of Direct A.I.D.  
Contracts for Technical Assistance



The following is the Mission's response to the four audit objectives addressed in the subject report

1. Planning for Technical Services. Deficiencies in the preparation of the scopes of work (SOW) included in PIO/Ts

The Mission is in general agreement with the finding that sometimes the SOW transmitted by PIO/Ts to the Contracting Officer are not properly written. However, the Mission does not fully concur with the recommended solutions.

The Agency gives training in writing SOWs to USDH Project Officers in Project Implementation Courses. USDH Officers are in turn expected to train their FSN staff and review the SOW prepared by them prior to their submission to the Contracting Officer. Periodically, because of staff turnover and resource constraints such plan doesn't work. Mission will attempt to establish a training plan to correct this deficiency as recommended in recommendation 1.1.

The Mission is of the opinion that Recommendation 1.2 is redundant. The requirements of properly preparing PIO/T scopes of work including full details of contract objectives and providing necessary benchmarks are already fully delineated in Handbook 3. Issuing the same material in a Mission Order is not going to improve the quality of SOW. A memorandum from the Director to the USDH Project Officers requiring them to ensure the 'completeness' of SOWs prior to sending PIO/Ts to the Contracting Officer is a better method of emphasizing this need.

*33*

- 2 -

The Mission would also like to point out that the draft report does not give recognition to the fact that for the most part the badly written SOW including the example stated on page 5 were written before the Mission had a Contracting Officer. Also, the report fails to give due recognition to the present Contracting Officer's practice of repeatedly returning badly written SOWs to Project Officers. The language on page 5 implies that such SOWs are never returned to the originating offices. This should be corrected

2. Technical services procured at fair price, in a timely manner from qualified contractors.

In discussing this area the draft report contends that in the four contracts that were reviewed by the auditors the Mission failed to specify in the solicitation proposal the categories of cost which were going to be considered in the evaluation of those proposals. Also since the source documents of the cost evaluations were not kept on file the justification for those awards could not be fully evaluated.

The Mission agrees with the intent of the recommendation. The Mission under its present Contracting Officer has implemented steps whereby cost factors are now evaluated in accordance with the guidance published in the Contract Information Bulletin No. 90-25.

Also, formal notes on cost evaluations are prepared and kept on file. Therefore, we request that Recommendation No. 2 be closed upon the issuance of the audit report.

3. Fulfillment of contracting requirements

To ensure compliance with FAR 15.411 in the area of controls over the receipt and handling of bid proposals, the Contracting Officer has started maintaining a log book to record the date and time of receipt of each bid. Since the requirement of this part of the recommendation has already been fulfilled, we request Recommendation 3.1 be closed upon the issuance of the report.

Mission agrees with Recommendation 3.2 and will henceforth include in each file a section for the assessment of contractor responsibility.

Mission agrees with Recommendation 3.3 and will modify the Contract Negotiator's check list to include a documented cost analysis or a field pricing report. However, the Mission would like to point out that the current check list being used by Contracting Officers was published by AID/W and any recommendation to change it should be directed to them.

24

- 3 -

### 3. Monitoring Contractor Performance

The three part recommendation in this section points to deficiencies towards closing out completed contracts. However, this problem is endemic throughout the agency because of a shortage of staff in Contracting Offices. The pressure to complete new contracting actions on time is so severe on Contracting Officers that contract close-outs are given a low priority. However, the Contracting Officer of USAID/Nepal has done a commendable job of reducing a five year backlog of contract close-out actions to a manageable proportion. The USAID will attempt to address and resolve the issues raised in Recommendations 4.1, 4.2 and 4.3.

### 4. Obligation, Disbursement and Accounting Funds

The auditors have pointed out an area where maintenance of a log for pending AOCs could help in proper quarterly accruals of expenditures. However, this corrective action needs to be taken by the Financial Management Section without issuance of a Mission Order. The recommendation should be worded accordingly.

Drafted by:FM:HJamshed .

35

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