

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
REDSO/ESA Regional Contracts Division's
Management Controls Over Advisory and
Assistance Services Contracts

Report No. 3-623-93-05
March 17, 1993



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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 17, 1993

*Regional
Inspector General
for Audit/Nairobi*

MEMORANDUM

TO: REDSO/ESA Chief of Regional Contracts Division, Richard J. Womack

FROM: *for* RIG/A/Nairobi, Everette B. Orr *Joseph Farinella*

SUBJECT: Audit of REDSO/ESA Regional Contracts Division's Management Controls Over Advisory and Assistance Services Contracts

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. Since this report does not contain any recommendations for your action you do not need to provide any response.

This report is part of the congressionally mandated annual audit conducted by the A.I.D./OIG. Our Office of Program and Systems Audits in Washington (IG/A/PSA) will issue a report which will contain the results of the audit work performed in Washington and by RIG/A's. This report contains the results of the audit work performed by RIG/A/Nairobi. The audit was conducted between October 1992 and January 1993.

The audit found that the Contracts Division of the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) did not classify advisory and assistance services contracts in accordance with Section 37.2 of the Federal Acquisition Regulations because the Regional Contracts Division had not received adequate and specific guidance from A.I.D. Washington concerning the classification of advisory and assistance services contracts. The report issued by IG/A/PSA will contain recommendations to correct the problem of inadequate guidance to field offices. Therefore, this report does not contain any recommendations.

I want to thank you for the cooperation and assistance provided to the auditors on this assignment.

Background

Office of Management and Budget (OMB) Circular A-120 prescribes a system of management controls and reporting requirements which A.I.D. must follow. Circular A-120 is binding by nature of its incorporation into the Federal Acquisition Regulations and subsequent implementation via the A.I.D. Acquisition Regulations.

Section 1114 (b) of 31 U.S. Code, Money and Finance, (P.L. 97-258) requires the Inspector General to submit an annual evaluation to the Congress of the Agency's progress on:

- establishing effective management controls over consulting services, now known as advisory and assistance services, and
- improving the accuracy and completeness of the information provided to the Federal Procurement Data System (FPDS) on advisory and assistance services contracts.

In order to meet this requirement, the Inspector General's Office of Program and Systems Audits conducted a review of contracts awarded in Fiscal Year 1992 in Washington. In addition to work performed in Washington, audit work was also performed by our offices in Cairo, Nairobi, Singapore, and Tegucigalpa. This report contains the results of the audit work performed by RIG/A/Nairobi. Our audit covered 31 contracts totalling \$26,546,364 awarded in Fiscal Year 1992 by the Regional Economic and Development Services Office for East and Southern Africa.

Audit Objectives

The following two audit objectives were established by IG/A/PSA and formed the basis for our audit work.

1. Does A.I.D. classify advisory and assistance services contracts in accordance with OMB Circular A-120?
2. Does A.I.D. manage advisory and assistance services in accordance with OMB Circular A-120 provisions which relate uniquely to advisory assistance services?

We performed tests and audit steps as directed by IG/A/PSA to answer the above objectives. The audit report issued by IG/A/PSA will include these two objectives. In order to report on the results of our audit work performed at REDSO/ESA in Nairobi, we revised the first two objectives shown below in order to match the audit objectives more closely to the responsibilities and authority of the Regional Contracts Division.

1. Did the Regional Contracts Division of the Regional Economic Development Services Office for East and Southern Africa classify advisory and assistance services contracts in accordance with Section 37.2 of the Federal Acquisition Regulations?

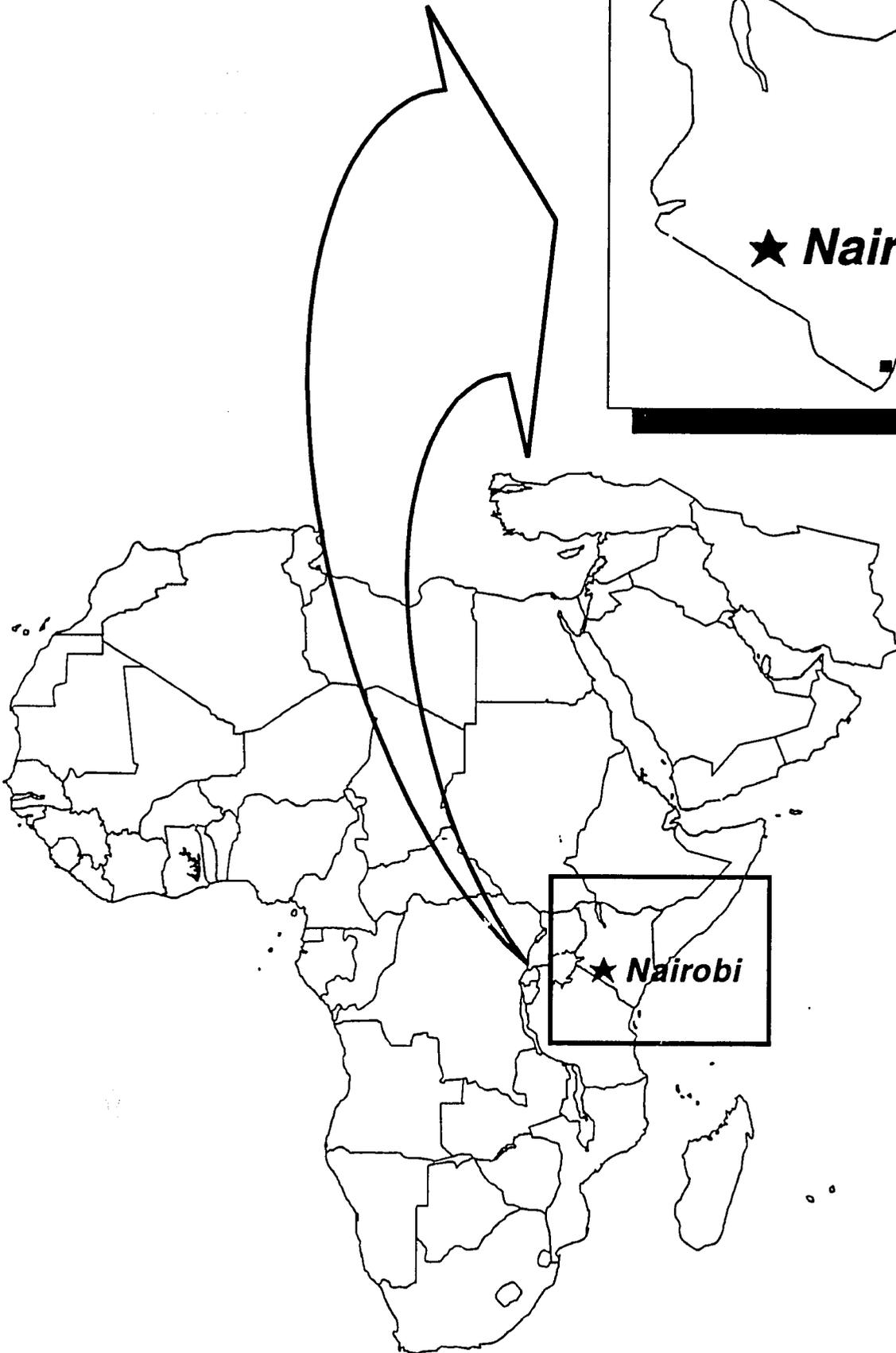
2. Did the Regional Contracts Division of the Regional Economic Development Services Office for East and Southern Africa manage advisory and assistance services in accordance OMB Circular A-120 provisions which relate uniquely to advisory and assistance services?

In answering these audit objectives, we tested whether the Regional Contracts Division (1) followed applicable internal control procedures and (2) complied with certain provisions of regulations and policies. Our tests were designed to provide reasonable assurance that the Regional Contracts Division followed applicable procedures related to each audit objective and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. When we found problem areas, we performed additional work to

- conclusively determine that the Regional Contracts Division was not following a procedure or not complying with a legal requirement,
- identify the cause and effect of the problems, and
- make recommendations to correct the condition and cause of the problems.

A discussion of the scope and methodology for this audit is in Appendix I, and reports on internal controls and on compliance are in Appendix III and IV, respectively.

Kenya



Audit Findings

Did the Contracts Division of the Regional Economic Development Services Office for East and Southern Africa Classify Advisory and Assistance Services Contracts in Accordance with Section 37.2 of the Federal Acquisition Regulations?

The Contracts Division of the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) has not classified advisory and assistance services contracts in accordance with Section 37.2 of the Federal Acquisition Regulations.

Management and Professional Support Services were not Considered Advisory and Assistance Services

Section 37.2 of the Federal Acquisition Regulations (FAR) assigns contracting officers the responsibility for determining whether or not a procurement is for advisory and assistance services. This section of the FAR also provides policy and an explanation of what constitutes an advisory and assistance services contract. Advisory and assistance services means services which support or improve agency policy development, decision making, management, and administration. In general, advisory and assistance services contracts would be applied to work performed by consultants.

In Fiscal Year 1992 none of the contracts awarded by the Regional Contracts Division were classified as advisory and assistance services contracts. Our audit reviewed all 31 contracts awarded in Fiscal Year 1992. Six of these contracts were for commodities which were properly not classified as advisory and assistance services. However, 25 (80%) of these contracts were for personal services and technical assistance and were not classified as advisory and assistance services contracts. In our opinion, these contracts should have been classified as advisory and assistance services because they fall within the definition provided in FAR 37.203(c)(2). The FAR states that management and professional support services -- program management, project monitoring and reporting, data collection, logistics management, budgeting, accounting, auditing, and personnel management -- are included within the meaning of advisory and assistance services. We believe that the 25 contracts in our sample meet the above definition and therefore should have been classified as advisory and assistance services contracts. For example, nine of these contracts were for project officers who are clearly involved in program management and project monitoring and reporting. A.I.D.'s Office of Procurement agreed with our interpretation.

The Regional Contracts Division did not correctly classify the contracts referred to above because it had not received adequate and specific guidance (Contract Information Bulletin 92-6) from A.I.D./Washington. As a result of incorrectly classifying these contracts, the management control system which requires approvals reports and evaluations as required by OMB Circular A-120 is not applied to contracts to which it is applicable. In addition, A.I.D. reports to Congress regarding consulting services are incorrect.

Since the misclassification of advisory and assistance services contracts was due to a lack of adequate and specific guidance from the Washington Office of Procurement, we are not making a recommendation to the Regional Contracts Division to take specific corrective action. Recommendations to A.I.D./Washington, which will be contained in the audit report issued by our Office of Program and Systems Audits in Washington, will address the issues of proper classification providing adequate guidance to field offices.

Management Comments and Our Evaluation

The Chief of the Regional Contracts Division REDSO/ESA reviewed the draft report and offered no objections or corrections. The full text of his response is included in Appendix II.

Did the Contracts Division of the Regional Economic Development Services Office for East and Southern Africa Manage Advisory and Assistance Services in Accordance with OMB Circular A-120 Provisions which Relate Uniquely to Advisory and Assistance Services?

The Contracts Division of the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) did not manage advisory and assistance services in accordance with OMB Circular A-120 provisions which relate uniquely to advisory and assistance services. This problem is discussed below.

Management and Professional Support Services Were not Properly Managed

For Fiscal Year 1992 the Regional Contracts Division did not classify any contracts as advisory and assistance services contracts; accordingly, no actions were taken by the Regional Contracts Division relative to provisions of OMB Circular A-120 which requires reporting and evaluation of contractor performance. However, as noted in our discussion under audit objective no. 1 some contracts issued in Fiscal Year 1992 should have been classified as advisory and assistance services contracts and, therefore, actions required by OMB Circular A-120 were not taken. This issue and related recommendations will be covered in the audit report issued by our Office of Program and Systems Audits in Washington; consequently, we are not making a recommendation at this time to the Regional Contracts Division to take specific corrective action.

Management Comments and Our Evaluation

The Chief of the Regional Contracts Division REDSO/ESA reviewed the draft report and offered no objections or corrections. The full text of his response is included in Appendix II.

**SCOPE AND
METHODOLOGY**

Scope

The office of the Regional Inspector General for Audit in Nairobi audited the Regional Contracts Division of the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) in accordance with generally accepted government auditing standards. We conducted this audit from October 30, 1992 to January 8, 1993. We conducted our field work in the Regional Contracts Division of the REDSO/ESA in Nairobi, Kenya. The RIG/A/Nairobi requested and received written management representations from the Regional Contracts Division that they have provided the OIG with all the information essential to fully answer the audit objectives.

The audit included 31 contracts made in Fiscal Year 1992 which amounted to \$26,546,364; this represents both the audit universe and the audit sample. We reviewed the Contract Information Management System (CIMS) report and the contract files to determine if advisory and assistance services contracts were classified in accordance with Section 37.2 of the Federal Acquisition Regulations (FAR). The reliability of the data in the CIMS report has not been assessed because of the audit's time limitations. In addition, A.I.D. is in the midst of validating the CIMS data base.

In performing the audit we obtained documentary evidence by examining the contract files, testimonial evidence from the Regional Contracts Division, assessed internal controls related to each audit objective, and verified evidence through examination of supporting documentation. Following is a discussion of our methodology for answering each audit objective.

Methodology

The methodology for each audit objective follows:

Audit Objective One

The first audit objective was to determine whether the Regional Contracts Division classified advisory and assistance services contracts in accordance with Section 37.2 of the Federal Acquisition Regulations.

To accomplish this we examined the files for 31 contracts which represents all contracts awarded by the Regional Contracts Division in Fiscal Year 1992. We examined the Contract Information Management System (CIMS) report, the contract files, and discussed the classification with the Chief of the Regional Contracts Division and compared the classification of the Regional Contracts Division with the requirements of Section 37.2 of the FAR.

Audit Objective Two

The second objective was to determine if the Regional Contracts Division managed advisory and assistance services contracts in accordance with OMB Circular A-120.

To accomplish this we examined the contract files for evidence and documentation of required approvals and reports. We also held discussions with the Chief of the Regional Contracts Division.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
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February 10, 1993

Mr. Everette B. Orr
Regional Inspector General
P. O. Box 30261
Nairobi, Kenya

Subject: Draft Report - Audit of REDSO/ESA Regional Contracts
Division's Management Controls over Advisory Assistance
Services Contracts

Dear Mr. Orr:

Thank you for your February 1, 1993 remittance of the above mentioned draft audit report for our comments.

We have reviewed the same and have no objections or corrections to make at this time.

We look forward to receiving your audit and having the opportunity to formally respond.

Sincerely,



Richard J. Womack
Chief, Regional Contracts Division
REDSO/ESA

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**REPORT ON
INTERNAL CONTROLS**

This section provides a summary of our assessment of internal controls for the audit objectives in our audit of REDSO/ESA Regional Contracts Division's management controls over advisory and assistance services contracts.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those applicable to the audit's objectives and not to provide assurance on the auditee's overall internal control structure.

We have classified significant internal control policies and procedures applicable to 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. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on 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. Under this Act and the Office of Management and Budget's (OMB) implementing policies, the management of A.I.D. is responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued Standards for Internal Controls in the Federal Government to be used by agencies in establishing and maintaining such controls.

The objectives of internal controls and procedures for Federal foreign assistance 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 (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

The audit objective relates to the Regional Contracts Division controls over the classification of advisory and assistance services contracts. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in Section 37.2 of the Federal Acquisition Regulations, the Office of Management and Budget (OMB) Circular A-120, and the GAO's Standards For Internal Controls in the Federal Government. For the purpose of this audit we classified policies and procedures into the category of contract classification.

We reviewed the Regional Contracts Division controls relating to applicable aspects of advisory and assistance services contracts classification and our tests showed that controls to properly classify contracts were not applied. While we consider not classifying technical assistance and personal services contracts as advisory and assistance services contracts to be a material internal control weakness, we believe that the weakness is attributable to inadequate guidance from A.I.D./Washington and is more properly reported by IG/A/PSA and corrected by A.I.D./Washington as discussed on page 6.

Conclusions for Audit Objective Two

The audit objective relates to the Regional Contracts Division's controls over the management of advisory and assistance services contracts. In planning and performing our audit, we considered the applicable internal control policies cited in the Office of Management and Budget (OMB) Circular A-120 and the GAO's Standards for Internal Controls in the Federal Government. For the purposes of this audit we classified policies and procedures into the following categories: contract reporting and contractor evaluation.

We reviewed the Regional Contracts Division's internal controls relating to the applicable aspects of advisory and assistance services contract reporting and evaluation and our tests showed that controls for reporting and evaluation were not applied. We have reported this weakness and further work was not considered necessary.

REPORT ON COMPLIANCE

This section provides a summary of our conclusions on REDSO/ESA Regional Contracts Division's compliance with applicable laws and regulations dealing with management controls over advisory and assistance services contracts.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) 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 objective) and (2) 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.

For this audit we tested compliance with Section 37.2 of the Federal Acquisition Regulations and the Office of Management and Budget (OMB) Circular A-120 to the extent that they relate to our audit objectives. However, our objective was not to provide an opinion on overall compliance with those regulations.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following 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 distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and

regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with Section 37.2 of the Federal Acquisition Regulations and the Office of Management and Budget (OMB) Circular A-120 is the overall responsibility of the Chief of the Regional Contracts Division.

Conclusion on Compliance

The results of our tests of compliance showed that the Regional Contracts Division did not comply with Section 37.2 of the Federal Acquisition Regulations by not classifying personal services contracts and technical assistance contracts as advisory and assistance services contracts. Also, the Regional Contracts Division did not comply with OMB Circular A-120 because it did not manage advisory and assistance services contracts in accordance with that circular. The audit report issued by the OIG office in Washington (IG/A/PSA) will address this issue (as discussed on page 6) consequently, our report does not contain any actions for the Regional Contracts Division.

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