

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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**Audit of USAID/Dominican Republic's
and the A.I.D. Regional Contracting Office's Controls
Over A.I.D. Procured Technical Assistance Contracts**

**Audit Report No. 1-517-93-010
April 23, 1993**



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April 23, 1993

MEMORANDUM

TO: USAID/Dominican Republic Director, Raymond F. Rifenburg
Thomas P. Golla

FROM: RIG/A/T Acting, Thomas P. Golla

SUBJECT: Audit of USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's Controls Over A.I.D. Procured Technical Assistance Contracts

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's Controls Over A.I.D. Procured Technical Assistance Contracts. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report and included them in their entirety in Appendix II. A summation of your comments has been included in the Executive Summary and after each problem area addressed by the report.

Based upon your written comments, we consider Recommendation Nos. 1.1, 5.1, and 6.1 to be resolved and Recommendation Nos. 1.2, 5.2 and 6.2 to be closed, Recommendation Nos. 2, 3 and 4 remain unresolved pending further information from the Mission regarding the procedures it plans or has established to implement the recommendations. Please respond to this report within 30 days, indicating any actions taken to implement the recommendations.

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

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**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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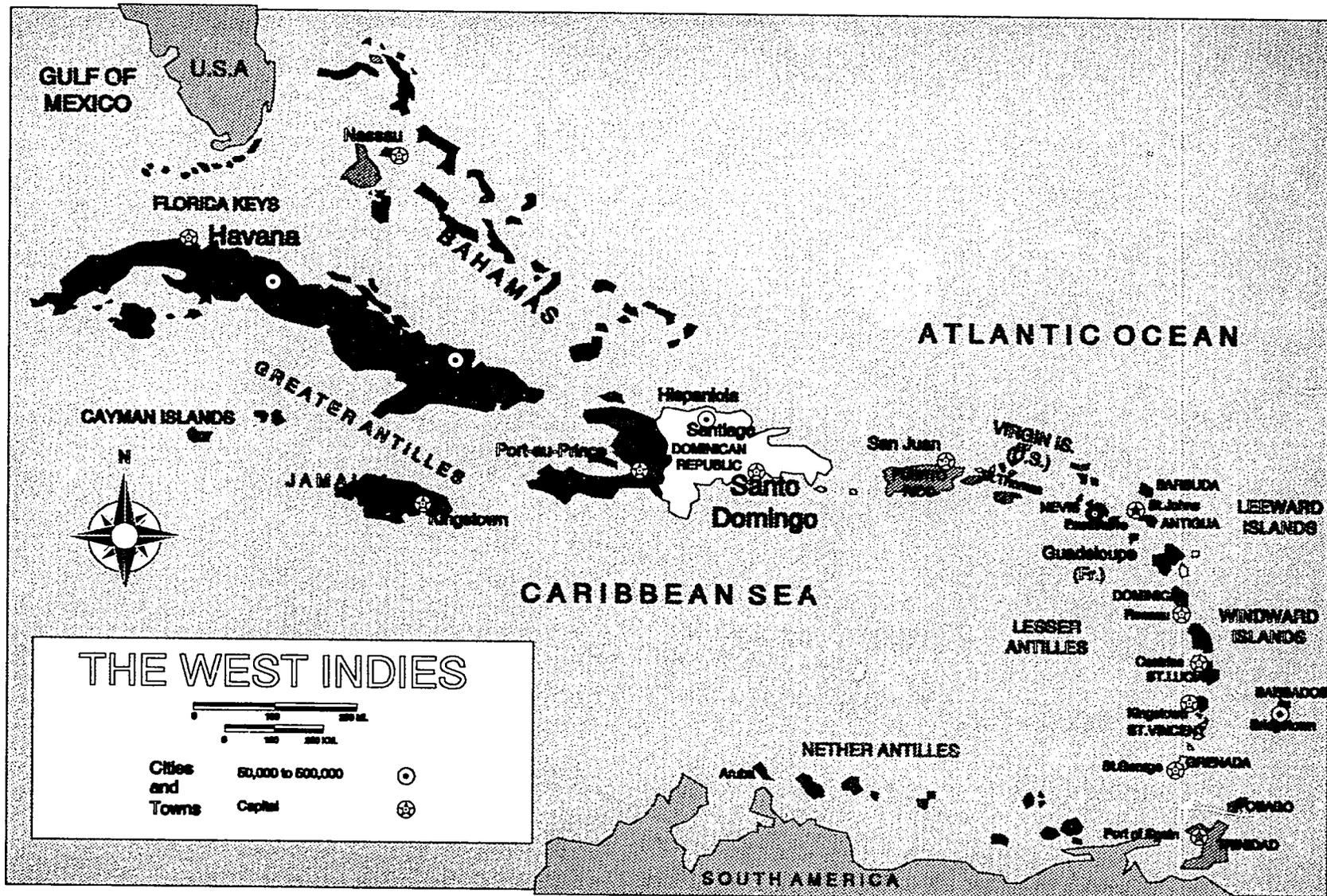


Table of Contents

| | <u>Page</u> |
|--|-------------|
| EXECUTIVE SUMMARY | i |
| INTRODUCTION | 1 |
| Background | 1 |
| Audit Objectives | 1 |
| REPORT OF AUDIT FINDINGS | 3 |
| Did USAID/Dominican Republic plan technical assistance in accordance with U.S. Government and A.I.D. policies and procedures? | 3 |
| Work Statements Need Improvement | 4 |
| Did the A.I.D. Regional Contracting Office procure technical assistance at a fair price, select the appropriate type of contract, provide for full and open competition, and select qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures? | 12 |
| Government Cost Estimates Need Improvement | 13 |
| Documentation Was Not Sufficient to Substantiate Contractor Responsibility | 17 |
| Contract Files Need Improvement | 19 |
| Did USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitor contractor performance to ensure that technical assistance was provided and used as prescribed by U.S. Government and A.I.D. policies and procedures? | 21 |
| Performance Levels Needs to Be Established | 22 |
| Controls Over Non-Expendable Property Need Improvement | 28 |



| | <u>Page</u> |
|------------------------------------|-------------|
| REPORT ON INTERNAL CONTROLS | 31 |
| REPORT ON COMPLIANCE | 35 |
| APPENDIX I - SCOPE AND METHODOLOGY | 37 |
| APPENDIX II - MANAGEMENT COMMENTS | 41 |
| APPENDIX III - REPORT DISTRIBUTION | 47 |

- 2 -

EXECUTIVE SUMMARY

Background

USAID/Dominican Republic uses A.I.D. procured technical assistance contracts to implement most of its development assistance projects. The management of USAID/Dominican Republic is responsible for determining the need for the technical assistance, monitoring contractor performance, and ensuring that A.I.D. funds are properly accounted for. Also, the A.I.D. Regional Contracting Office (located in Santo Domingo, Dominican Republic) is responsible for the procurement process, including negotiating the contract amount.

As of March 31, 1992, USAID/Dominican Republic administered technical assistance contracts in 10 active projects with total authorized project costs of \$90.1 million. Technical assistance obligations and expenditures for these projects, as of that date, amounted to \$30.1 million and \$20.5 million, respectively.

Audit Objectives

We audited USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's controls over A.I.D. procured contracts for technical assistance in accordance with generally accepted government auditing standards (see Appendix I, Scope and Methodology). We conducted our fieldwork from June through October 1992 to answer the following audit objectives:

1. Did USAID/Dominican Republic plan technical assistance in accordance with U.S. Government and A.I.D. policies and procedures? (See page 3.)
2. Did the A.I.D. Regional Contracting Office procure technical assistance at a fair price, select the appropriate type of contract, provide for full and open competition, and select qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures? (See page 12.)
3. Did USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitor contractor performance to ensure that technical

assistance was provided and used as prescribed by U.S. Government and A.I.D. policies and procedures? (See page 21.)

Summary of Audit

USAID/Dominican Republic planned for technical assistance in accordance with U.S. Government and A.I.D. policies and procedures except that it did not always specify the minimum job requirements nor the time frames and performance indicators for job requirements. The A.I.D. Regional Contracting Office procured technical assistance in accordance with U.S. Government and A.I.D. policies and procedures except that it did not (1) ensure that Government cost estimates were properly prepared and used to evaluate bid proposals, (2) document how it determined that contractors possessed a sufficient degree of responsibility to accomplish proposed tasks, and (3) properly maintain its contract files. USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitored technical assistance in accordance with U.S. Government and A.I.D. policies and procedures except that they did not define the minimum acceptable levels of contractor performance in the contracts nor implement a recent contract provision designed to strengthen controls over non-expendable property. Consequently, there were insufficient assurances that \$30.1 million obligated for technical assistance was used as efficiently and effectively as possible in producing the desired project results or that approximately \$8.4 million of A.I.D.-funded property was adequately safeguarded.

Audit Findings

Work Statements Need Improvement

USAID/Dominican Republic prepared incomplete work statements which omitted prescribed time frames and performance indicators and which, in two cases, lacked the minimum job tasks required for achieving project objectives. This occurred because the Mission had not established and implemented policies and procedures to guide its project officers on how to properly prepare work statements. Office of Management and Budget Circular A-76, Supplement Number 2 and A.I.D. Handbook 3, Supplement A provide guidance that work statements should identify the minimum work requirements needed to achieve project objectives and specify the respective target dates and performance indicators for accomplishing the job tasks. The failure to follow such guidance resulted in insufficient assurances that \$30.1 million obligated for technical assistance was used as efficiently as possible to produce the desired project outputs and places A.I.D. in a weak position should the need arise to seek recourse against contractors for poor performance (see page 4).

**Government Cost Estimates
Need Improvement**

Government cost estimates were not always properly prepared nor used to evaluate the reasonableness of bid proposals. The Federal Acquisition Regulation and A.I.D. procedures require that independent U.S. Government cost estimates be prepared and used for evaluating the reasonableness of a prospective contractor's cost proposals. The absence of Mission policies and procedures requiring the preparation and utilization of Government cost estimates for determining price reasonableness was the primary cause for not evaluating the price reasonableness of bid proposals. As a result, technical assistance costs could not be substantiated as being reasonably priced (see page 13).

**Documentation Was Not Sufficient to
Substantiate Contractor Responsibility**

The contract files did not contain documentation showing how it was determined that contractors possessed a sufficient degree of responsibility to accomplish proposed tasks. This occurred because the Mission had not established and implemented policies and procedures requiring the contracting officer to verify the responsibility of potential contractors. The Federal Acquisition Regulation requires contracting officers to determine if a prospective contractor is responsible before awarding a contract and to include supporting documents in the contract file. Without conducting a routine verification to determine if prospective contractors are responsible, the Mission is vulnerable to hiring contractors who may lack the necessary level of responsibility to accomplish the work desired (see page 17).

**Contract Files
Need Improvement**

Contract files were not maintained in accordance with the Federal Acquisition Regulation because the Mission had not given sufficient priority to establishing policies and procedures regarding the maintenance of contract files. The Federal Acquisition Regulation and A.I.D. Handbook 14 require contract files to be established and maintained for all contractual actions. Inadequate maintenance of contract files resulted in insufficient evidence that the Government obtained the best price and contracted with responsible contractors (see page 19).

**Performance Levels
Need To Be Established**

USAID/Dominican Republic did not, prior to contract award, determine the minimum acceptable levels of performance to be included as requirements

in its contracts. This occurred because USAID/Dominican Republic's policies and procedures did not require that such performance levels be defined as part of the Project Implementation Order/Technical Services (PIO/T) process. It is U.S. Government policy that whenever it contracts out a job it is entitled to receive quality service. In order that the Government can define and measure quality, Office of Management and Budget (OMB) Circular A-76, Supplement Number 2 presents a methodology for analyzing contracted service functions so as to develop performance based statements of work, including the definition of minimum acceptable levels of performance for key work tasks. The omission of minimum acceptable levels of work performance from contract work statements resulted in USAID/Dominican Republic officials not being able to objectively assess the adequacy of contractor performance on \$30.1 million obligated for technical assistance (see page 22).

Controls Over Non-Expendable Property Need Improvement

As of November 3, 1989, policy contained in A.I.D. Handbook 14 requires that all A.I.D. contractors prepare a program, subject to A.I.D. approval, outlining its controls over non-expendable property costing \$500 or more. USAID/Dominican Republic project officers did not receive such programs from their contractors because the Mission was not aware of the requirement and therefore had not established procedures to implement it. As a result, approximately \$8.4 million of A.I.D.-funded property may be more vulnerable to waste and abuse (see page 28).

Summary of Recommendations

We made six recommendations to improve the internal controls for the areas audited. Most recommendations entailed the need to establish written policies for the areas reviewed and to develop appropriate procedures for implementing and monitoring them. The internal control weaknesses described in this report had not been reported by USAID/Dominican Republic in its 1991 Internal Control Assessment. Consequently, we recommended that the weaknesses be reported in its next assessment if not resolved prior to its submission.

Management Comments and Our Evaluation

The draft report was reviewed and commented on by USAID/Dominican Republic management (see Appendix II).

Management stated that the Mission had undergone an A.I.D./Washington assessment of its procurement systems prior to the audit which assured

the Mission that it had no problems in the areas under the responsibility of the Regional Contracting Office (RCO). Also, it noted that included in the audit sample were a cooperative agreement and a personal services contract which in the first case was not governed by the Federal Acquisition Regulation (FAR) and in the second case was governed by FAR provisions different than those applicable to a normal contract for technical assistance. Even so, the Mission generally agreed with the audit report findings and explained the actions taken and planned by both the Mission and the RCO to implement the report's recommendations.

RIG/A/T considers the actions proposed and taken by the Mission and RCO generally are responsive to the audit recommendations although in certain cases the Mission has not yet committed itself to establish policies and procedures as recommended. RIG/A/T did not evaluate the adequacy of the A.I.D./Washington assessment and therefore has no basis to comment on why it did not find the conditions noted in this audit. As regards the inclusion of a cooperative agreement and personal services contract in our sample we considered that each procured technical assistance and that it was appropriate to include them within the scope of our review. Half of the report's findings are based on criteria that apply equally to contracts and grants, and for those that the cited criteria does not directly apply to grants (e.g. FAR criteria for determining contractor responsibility and maintaining complete files) the concept applied. In all cases the recommendations are properly addressed according to the applicable criteria.

Office of the Inspector General

Office of the Inspector General
April 23, 1993

INTRODUCTION

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires A.I.D. to prepare a yearly report to Congress and the President of its management controls. In turn A.I.D. requires each mission to submit a yearly assessment of its management controls in order to prepare the required report. These management controls, also called internal controls, are to provide reasonable assurance that obligations and costs are proper, funds and assets are safeguarded, and revenues and expenditures are properly accounted.

USAID/Dominican Republic uses A.I.D. procured technical assistance contracts to implement most of its development assistance projects. The management of USAID/Dominican Republic is responsible for determining the need for the technical assistance, monitoring contractor performance, and ensuring that A.I.D. funds are properly accounted. The A.I.D. Regional Contracting Office (located in Santo Domingo, Dominican Republic) is responsible for the procurement process, including negotiating the contract amount.

As of March 31, 1992, USAID/Dominican Republic had a project portfolio consisting of 10 active projects valued at \$90.1 million. Technical assistance obligations and expenditures for these projects as of that date were \$30.1 million and \$20.5 million, respectively.

USAID/Dominican Republic is responsible for establishing systems of internal control to manage its portfolio in accordance with the FMFIA. Our audit focused on the Mission's systems for managing technical assistance procured by A.I.D. We selected these systems because of their importance to reaching program objectives and because prior Office of Inspector General audits frequently disclosed problems with these systems.

Audit Objectives

As a part of our annual audit plan the Office of the Regional Inspector General for Audit/Tegucigalpa audited USAID/Dominican Republic and the A.I.D. Regional Contracting Office's systems of internal controls for

managing technical assistance procured by A.I.D. to answer the following audit objectives:

1. Did USAID/Dominican Republic plan technical assistance in accordance with U.S. Government and A.I.D. policies and procedures?
2. Did the A.I.D. Regional Contracting Office procure technical assistance at a fair price, select the appropriate type of contract, provide for full and open competition, and select qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures?
3. Did USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitor contractor performance to ensure that technical assistance was provided and used as prescribed by U.S. Government and A.I.D. policies and procedures?

In answering these audit objectives, we tested whether USAID/Dominican Republic and the A.I.D. Regional Contracting Office followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable, but not absolute, assurance in answering the audit objectives and detecting abuse or illegal acts that could significantly affect the audit objectives.

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

REPORT OF AUDIT FINDINGS

Did USAID/Dominican Republic plan technical assistance in accordance with U.S. Government and A.I.D. policies and procedures?

Except for preparing incomplete work statements, USAID/Dominican Republic planned its technical assistance in accordance with U.S. Government and A.I.D. policies and procedures.

As of March 31, 1992, USAID/Dominican Republic had obligated \$30.1 million in technical assistance for 10 active projects. We reviewed six active projects to determine the adequacy of planning for the procurement of technical assistance. For these six projects, technical assistance obligations amounted to \$18.9 million (63 percent of the total obligations for technical assistance). For the six projects reviewed, the related project papers identified technical assistance needs and provided procurement plans in accordance with A.I.D. policies and procedures. In all cases, technical assistance needs were related to project objectives. Also, in accordance with the policies and procedures described in A.I.D. Handbook 3, Chapter 3 the project paper specified such information as the kinds of goods and services to be procured, their probable sources, the contracting mode and procedures to be used, and an implementation plan.

However, for five of the six projects reviewed, USAID/Dominican Republic project officers wrote work statements that omitted time frames and performance indicators for the various job tasks; and for two of the six projects the work statements did not identify all of the minimum job tasks required to attain the project objectives. USAID/Dominican Republic Mission Order Number II.3, dated March 1986, regarding project development and implementation, assigns to the respective project officer the responsibility for coordinating the completion of the work statement, but it does not elaborate on how to prepare a work statement. As discussed below, written policies and procedures are needed to provide guidance to project officers on preparing work statements that define all of the minimum job requirements, as well as respective time frames and performance indicators for the job tasks. A properly prepared work statement serves to hold technical assistance contractors strictly accountable for their services.

**Work Statements
Need Improvement**

USAID/Dominican Republic prepared incomplete work statements which omitted prescribed time frames and performance indicators and which, in two cases, lacked the minimum job tasks required for achieving project objectives. This occurred because the Mission had not established and implemented policies and procedures to guide its project officers on how to properly prepare work statements. Office of Management and Budget Circular A-76, Supplement Number 2 and A.I.D. Handbook 3, Supplement A provide guidance that work statements should identify the minimum work requirements needed to achieve project objectives and specify the respective target dates and performance indicators for accomplishing the job tasks. The failure to follow such guidance resulted in insufficient assurances that \$30.1 million obligated for technical assistance was used as efficiently as possible to produce the desired project outputs and places A.I.D. in a weak position should the need arise to seek recourse against contractors for poor performance.

Recommendation No. 1: We recommend that USAID/Dominican Republic:

- 1.1 establish and implement policies and procedures which require project officers to prepare work statements that specify: (1) the minimum job requirements needed to arrive at a specific output service, (2) time frames for accomplishing the job requirements, and (3) performance indicators for job requirements considered essential to achieve project goals; and**
- 1.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.**

In a joint effort to address A.I.D. management problems, the Office of Management and Budget (OMB) and A.I.D. conducted a two and one half month review. Among other things, this review showed that over reliance was being made on cost reimbursement contracts because project officers were not able to provide sufficiently detailed statements of work to permit fixed price contracts. Consequently, the review team recommended that the use of "level of effort" (cost reimbursement) contracts should be reduced and that fixed price contracts should be used to the maximum extent feasible.

OMB Circular A-76, Supplement Number 2 entitled "*A Guide For Writing and Administering Performance Statements of Work for Service Contracts*", describes a systematic approach for developing service contract work

statements which will result in better defined statements suitable for fixed price contracts¹. This systematic approach consists of, among other things, job analysis techniques. Job analysis is a step-by-step review of the minimum job requirements needed to arrive at specified outputs. It also requires that minimum acceptable performance levels be specified for key job requirements.

Handbook 3, Supplement A, the Project Officers' Guidebook (Appendix C, Attachment B) similarly requires that work statements specify the goals and objectives for a particular project and the performance indicators which must be met. Additionally, it requires that target dates be established for job tasks. Chapter II of the Guidebook further states that the Project Implementation Order/Technical Services² (PIO/T), and the resultant contract, should include specific indicators of progress or benchmarks which will permit measurement of the contractor's progress against the expenditures of both time and money.

The audit showed that work statements could be more specific on the job tasks required to achieve project objectives. Also, time frames and performance indicators needed to be linked to the specified job tasks. Mission policies and procedures were not established requiring project officers to prepare work statements with specific job tasks, and with time frames and performance indicators. Establishing these policies and procedures was given a low priority by the Mission because it was felt that its project officers were already aware of the need to do specific work statements. However, our review of six projects showed that there were insufficient assurances that technical assistance would be efficiently used to produce the desired project outputs.

A narrative description on each of the six projects reviewed follows.

1. On Farm Water Management (Project No. 517-0159)

This \$12.0 million project was authorized on June 30, 1983, and is scheduled for completion on March 30, 1993. As of May 31, 1992, \$9.6 of the \$12.0 million had been expended, of which technical assistance expenditures were \$4.6 million (48 percent of total expenditures). The project purpose is to strengthen the Dominican Government's capability to: (1) effectively plan the development of its water resources for irrigation, (2) plan and operate irrigation systems, (3) support increased agricultural

¹ *Office of Federal Procurement Policy, Policy Letter 91-2--Service Contracting, recognizes that fixed price contracts will not always be possible.*

² *This is the official A.I.D. instrument (A.I.D. Form 1350-1) that initiates the process for procurement of technical services and which describes the services required.*

productivity under irrigation, and (4) prevent and/or correct the deterioration of land resources presently under irrigation.

To help the responsible Dominican agency implement the project, technical assistance contract number 517-0159-C-00-5005 was awarded on December 1, 1984 to Utah State University. As of August 25, 1992 the contract was valued at \$5.2 million. The PIO/T and the resulting contract, however, did not specify all of the minimum job tasks required to achieve project objectives. This discrepancy was detected in an audit performed by a local audit firm. The report stated that it was not possible to determine the uses of A.I.D. project expenditures for the approximate seven years since the project was initiated nor could the existence and location of equipment acquired with project funds be determined.

In our opinion, the capability of achieving a project's goals is adversely affected whenever accountability over project funds is not maintained. Accountability for project funds is a basic work requirement needed to ensure that goals are attained and should have been specified in the work statement prepared by the project officer.

Furthermore, time frames and performance indicators were not established for various job tasks. For example, the contract statement of work was amended on May 1, 1991 to include a new job description for a financial assistant. Although five job tasks are listed, there were no time frames or specific performance indicators described. Suggested time frames and specific performance indicators which could have been developed follow:

- **Job Tasks:**

Reconcile all project income and expenditures since inception to present.

Monitor project expenditures and prepare financial statements.

- **Time Frames:**

The reconciliation is to be completed by (specified date). Should a complete reconciliation not be attainable, a discrepancy report should be submitted by that date explaining the reasons.

Monthly financial statements are to be submitted by the fifteenth of each month.

- **Performance Indicators:**

The accuracy of the reconciliation and financial reporting will be verified through an annual financial audit by an independent accounting firm.

Another of the tasks identified in the contract's work statement was that a long term advisor (referred to as Chief of Party, Irrigation and Drainage Advisors) be responsible for assisting the Dominican Government institution in achieving the objectives of the project. This job task was not linked to any time frames nor were any specific performance indicators pegged to the job task. Furthermore, we believe this statement is too global as it does not identify the specific job tasks required to achieve the overall project objectives.

2. University Agribusiness Partnership (Project No. 517-0243)

This \$12.0 million project was authorized on November 7, 1989, and is scheduled for completion on June 30, 1996. As of May 31, 1992, \$3.0 million of the \$12.0 million had been expended, of which technical assistance expenditures were \$1.4 million (47 percent of total expenditures). The project purpose is to provide the expanding agribusiness and agro-industrial community with increased trained manpower by institutionally strengthening two Dominican implementing agencies.

To help implement the project, technical assistance contract number 517-0243-C-00-C149 was awarded on March 1, 1990 to the Midwest Universities Consortium for International Activities. As of July 30, 1992 the contract was valued at \$8.1 million. In this instance, the contracting officer acknowledged that the PIO/T's work statements were incomplete. The contracting officer wrote that *"the PIO/T which was fully signed by September 1989 contained an inadequate statement of work i.e., it simply referenced page numbers in the Project Paper, did not contain position descriptions for the long term technical assistance advisors, etc. The contracting officer required that the technical office resubmit a statement of work which was more contractible; however, the technical officer in charge did not provide adequate information. (The contracting officer had to rework the statement of work into a more acceptable document. This statement of work was reviewed by the project officer and found to be acceptable.)"*

However, our review of the revised work statement showed that time frames and performance indicators were still not established. The work statement in the contract identified five specific areas where technical assistance was to be provided: (1) Administration, (2) Horticulture/Agronomy, (3) Animal Production, (4) Forestry/Natural Resources, and (5) Agribusiness. In all these areas, numerous job tasks were identified but were not linked to specific time frames and performance indicators.

For example, for the animal production area, the work statement stated that the project would strengthen the Dominican implementing agency's animal production program at the degree level and provide advisory services to the animal production sector. It was expected that four person years of technical assistance would be provided by an animal nutritionist and a production systems specialist. Yet, there were no verifiable indicators nor time frames that tied the technical assistance being provided to any of the project output goals.

3. Child Survival (Project No. 517-0239)

This project, funded at \$5.7 million, was authorized on September 24, 1987, subsequently amended on February 21, 1991, and is scheduled for completion on June 30, 1993. As of May 31, 1992, \$3.5 of the \$5.7 million had been expended, of which technical assistance expenditures totaled \$2.3 million (65 percent of total expenditures). The project purpose is to create, in three health regions, an integrated public/private child survival health services delivery system which can be expanded to national coverage.

To implement the project, the Mission signed a cooperative agreement on September 29, 1987, with Save the Children Federation, a U.S. private voluntary organization, for the period September 29, 1987 to September 30, 1991. Under this agreement, the Federation was to provide technical assistance to Dominican implementing agencies and subgrantees in eight health and administrative areas. Our review showed that the statement of work in the PIO/T and the resulting cooperative agreement lists a number of general tasks required, but does not clearly state the date when the technical advisors are required to complete these tasks. Additionally, the work statement does not establish quantifiable indicators of progress.

4. PVO Co-Financing (Project No. 517-0247)

This \$9.5 million project was authorized on September 22, 1989 and is scheduled for completion on August 30, 1996. As of May 31, 1992, \$0.6 million of the \$9.5 million had been expended, of which technical assistance expenditures totaled \$0.4 million (67 percent of total expenditures). The project purpose is to increase the capability of private voluntary organizations and nongovernmental organizations to deliver selected services and other resources to the poor.

On September 22, 1989, USAID/Dominican Republic signed a \$3.0 million grant agreement with the Dominican Government to help achieve the project goals. Subsequently, a \$1.8 million technical assistance contract, for the period May 10, 1991 to May 9, 1996, was awarded to a Dominican institutional contractor to provide seven professionals and five office personnel to develop a Fund Administration Mechanism. The work

statement in the PIO/T included a number of general tasks, none of which were linked to specific performance indicators. For example, one of the general tasks identified in the work statement provided that the Fund Administration Mechanism would facilitate the awarding of grants to qualified applicants and assure that the funds are being used properly and project purposes are being met. However, no specific time frames and performance indicators were established to link the contractor's performance to the overall project objectives.

5. Micro and Small Business Development (Project No. 517-0254)

This project, funded at \$7.3 million, was authorized on July 11, 1990, and is scheduled for completion on June 30, 1997. As of May 31, 1992, \$1.3 of the \$7.3 million had been expended, of which technical assistance expenditures totaled \$0.2 million (15 percent of total expenditures). The project purpose is to make a Dominican institution into a viable organization which will be able to efficiently provide the financing and technical assistance needed by nongovernmental organizations.

To implement the project, a \$7.3 million cooperative grant agreement was awarded on July 18, 1990. In accordance with this agreement, technical assistance was to be provided from an A.I.D./Washington contract and a personal services contract (contract No. 517-0254-S-00-0327). Although the PIO/Ts for both contracts were prepared at the Mission level, only the personal services contract was awarded by the Mission. The A.I.D./Washington contract was awarded and managed by A.I.D. Washington and therefore was not included as a part of the audit.

Our review of the personal services contract showed that performance indicators were not linked to the contractor's work performance. The initial contract which was awarded on September 26, 1990, was valued at \$133,100 and covered the period October 1, 1990 to March 31, 1993. The contractor was to provide services as a Micro and Small Business Program Manager for a period of 30 months. The scope of work listed 12 specific job tasks, none of which were linked to specific indicators. For example, the contractor was required to advise and assist the Dominican implementing agency in the planning and implementation of its financial support and credit management improvement programs. However, there were no time frames nor performance indicators on how this job task was to be achieved.

For this project, the Mission did have alternative procedures for ensuring that project objectives were accomplished within given time frames and performance indicators. In accordance with A.I.D. Handbook 14, Subpart 752.7026, the contractor was required to prepare quarterly or yearly work plans outlining steps to accomplish the project objectives. After Mission concurrence, these plans were incorporated into the Mission's Semi Annual

Project Implementation Status Report and used to report on how technical assistance was progressing towards attainment of project goals. We did not review the contractor work plans, but instead focused on the Semi Annual Report since it summarized the contractor's approved work plans.

In our opinion, however, the above procedures did not satisfy the intent of OMB and A.I.D. guidance because it was the contractor that was relied upon after contract award to establish the time frames and performance indicators. Work plans developed by the contractor after contract award should complement, not substitute for a project officer's determination of what and when tasks need to be done. The responsibility for defining the time frames and performance indicators should be solely vested in the party that is paying for the technical services. Otherwise, the contractor, who already has been awarded the contract and assured of some monetary compensation, can pursue its own levels of performance.

6. Development Training (Project No. 517-0216)

This \$15.0 million project was authorized on July 2, 1986, amended on August 24, 1988, and is scheduled for completion on August 24, 1995. As of May 31, 1992, \$9.5 million of the \$15.0 million had been expended. We could not determine how much of the total \$9.5 million expenditures were for technical assistance because the Mission's accounting records did not report on this element. The project purpose is to increase the number of trained professional, technical and managerial personnel needed to meet the manpower demands of an export-oriented economy, and, by providing training to Dominicans already employed, to improve the efficiency and productivity of private and public sector institutions and organizations supportive of A.I.D.'s strategy.

To help implement the project, a technical assistance contract, valued at \$3.4 million, was awarded on January 24, 1990 to Development Associates for the purpose of providing technical and participant programming assistance to the Dominican National Council of Businessmen. In this instance, the work statement in the PIO/T as well as the resultant contract included illustrative project outputs and time frames for the job tasks. However, because it was not clearly stated whether the Mission considered these performance indicators to be the minimum acceptable levels of contractor performance, it was unclear whether they were meant to be the contractual standard by which to judge the acceptability of the contractor's work.

In summary, for the six projects reviewed, comprising 63 percent of the Mission's total technical assistance obligations as of March 31, 1992, the Mission prepared incomplete work statements which in five projects omitted timeframes and performance indicators for job tasks and in two projects

lacked the minimum job tasks required for achieving project objectives. For the one case where timeframes and performance indicators were defined in advance of contract award, they were identified as being "illustrative" and it was not clear whether they were intended to define the Mission's minimum requirements. We did note that subsequent to contract award the Mission's approval of contractor workplans in essence established timeframes and performance indicators that contractors were expected to meet. However we do not believe that establishing timeframes and performance indicators in this fashion meets the intent of OMB and A.I.D. guidance, since such timeframes and indicators are developed after contract award and therefore may be biased in favor of the contractor rather than representing what is needed to achieve project goals.

To provide greater assurance that contracted technical assistance is used efficiently and effectively to achieve project goals, we believe that the Mission should exert greater efforts in advance of contract award in defining its minimum job requirements and specifying timeframes and performance indicators for key job requirements.

Management Comments and Our Evaluation

In response to Recommendation No. 1.1 management stated that the Regional Contracting Officer (RCO) had completed a course for all project officers in writing better statements of work to contain performance indicators. Each participant was given a desk guide to use in preparing better statements of work for PIO/Ts and this desk guide will be used by the Mission's Program Development Office during the review process for draft PIO/Ts to bring potential problems in this area to the attention of the RCO.

The Mission stated that it forwarded a copy of the desk guide to RIG/A/T and that it was in the process of revising its Mission Operations Manual Order Number II-3 to include or strengthen, as appropriate, policies and procedures relating to work statements as suggested in the recommendation.

In response to Recommendation No. 1.2 the Mission stated that it had reported the weakness in its October 1992 internal control assessment. However, as there was no specific internal control technique directly related to this weakness, it was not clear to RIG/A/T on what basis the Mission believed it had reported this weakness.

Based upon the Mission's actions taken and planned RIG/A/T considers Recommendation No.1.1 to be resolved. RIG/A/T has not received the desk guide referred to by the Mission and therefore requests another copy. To close the recommendation the Mission should submit its revised Mission

Order showing that the recommendation has been implemented. Since Recommendation No. 1.1 is resolved, Recommendation No. 1.2 is considered to be closed.

Did the A.I.D. Regional Contracting Office procure technical assistance at a fair price, select the appropriate type of contract, provide for full and open competition, and select qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures?

Except for insufficient assurances that technical assistance was procured at a fair price and from responsible contractors, the A.I.D. Regional Contracting Office followed U.S. Government and A.I.D. policies and procedures for procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors.

With regard to selecting the appropriate type of contract, the Federal Acquisition Regulation, Subpart 16.301-2, allows cost reimbursement-type contracts when uncertainties in contract performance do not permit costs to be estimated to the same degree of accuracy as fixed-price contracts. For five contracts reviewed³, the Mission determined that work statements could not be sufficiently defined and appropriately selected cost reimbursement-type contracts.

The Federal Acquisition Regulation, Subpart 6.101, provides for full and open competition in soliciting offers from prospective contractors. These requirements were met for all of the five contracts and one cooperative agreement reviewed. For example, the evaluation factors for making the selection and their relative importance were provided in the Requests for Proposals; the Requests for Proposals were published in the Commerce Business Daily; and technical evaluation committees evaluated each proposal based on the evaluation criteria and submitted their report to the contracting officer.

However, the A.I.D. Regional Contracting Office had not established policies and procedures that required (i) Government cost estimates to be used for evaluating the reasonableness of contractor bid proposals; and (ii) formal determinations to be made of contractor responsibility. These conditions

³ Five of the six projects in our sample contained technical assistance contracts. The remaining project (No. 517-0239) contained a cooperative agreement requiring technical assistance.

were exacerbated because contract files did not contain all the necessary documentation.

**Government Cost Estimates
Need Improvement**

Government cost estimates were not always properly prepared nor used to evaluate the reasonableness of bid proposals. The Federal Acquisition Regulation and A.I.D. procedures require that independent U.S. Government cost estimates be prepared and used for evaluating the reasonableness of a prospective contractor's cost proposals. The absence of Mission policies and procedures requiring the preparation and utilization of Government cost estimates for determining price reasonableness was the primary cause for not evaluating the price reasonableness of bid proposals. As a result, technical assistance costs could not be substantiated as being reasonably priced.

Recommendation No. 2: We recommend that USAID/Dominican Republic:

- 2.1 in coordination with the A.I.D. Regional Contracting Office, establish policies and procedures requiring that: (1) independent U.S. Government cost estimates be prepared in the detail required by the Federal Acquisition Regulation and A.I.D. policies and procedures, and utilized as a comparison in determining the reasonableness of bid proposals from contractors and (2) the analysis determining bid reasonableness be documented for each cost element of a contractor's proposal; and**
- 2.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.**

The Federal Acquisition Regulation (FAR), Subpart 15.803-(B), states that "before issuing a solicitation, the contracting officer shall (when it is feasible to do so) develop an estimate of the proper level or value of the supplies or services to be purchased". To comply with this requirement, A.I.D. Handbook 3, Supplement A (Appendix D) provides guidance on preparing and utilizing Government cost estimates. This guidance states that A.I.D.'s preferred method for developing an independent cost estimate is through the detailed budget section of the PIO/T. Among other things, this cost estimate provides a bench mark against which technical and cost proposals can be evaluated for price reasonableness. The Handbook further requires estimates to be broken down into 13 line items such as home and field salaries, allowances, fringe benefits, international and local travel, transportation, etc.

Additionally, the Federal Acquisition Regulation, Subparts 15.805-1 and 15.805-3, requires the contracting officer to make a cost analysis when evaluating the reasonableness of a contractor's proposed costs. According to this criteria the analysis should compare costs for individual cost elements proposed by the prospective contractors with actual cost history, previous cost estimates from the offeror, cost estimates received from other prospective contractors, and independent U.S. Government cost estimates. Further, the cost analysis should verify cost or pricing data provided by the prospective contractor and analyze subcontract costs.

Finally, FAR Subpart 15.805-5 requires that:

... contracting officers shall request a field pricing report (which may include an audit review [pre-award survey] by the cognizant contract audit activity) before negotiating any contract or modification resulting from a proposal in excess of \$500,000, except as otherwise authorized under agency procedures, unless information available to the contracting officer is considered adequate to determine the reasonableness of the proposed cost or price. When available data are considered adequate for a reasonableness determination, the contracting officer shall document the contract file to reflect the basis of the determination.

Although USAID/Dominican Republic prepared Government cost estimates for the five contracts and one cooperative agreement reviewed, there were no cost analyses documented by the A.I.D. Regional Contracting Office to show how these estimates were used to evaluate bid proposals for price reasonableness. Our review of the independent Government cost estimates (budget section of the PIO/T) showed that these estimates often lacked sufficient details to permit an evaluation of price reasonableness.

The apparent reason for not preparing adequate Government cost estimates was the absence of Mission policies and procedures on the subject matter. The Mission gave low priority to the establishment of such policies and procedures because, as previously stated, it presumed that all of its involved employees were aware of the requirements regarding Government cost estimates. Consequently, technical assistance costs for the six projects reviewed could not be substantiated as being reasonably priced.

A narrative description on each of the six projects reviewed follows.

1. On Farm Water Management (Project No. 517-0159)

The initial PIO/T was prepared on August 9, 1984, for an estimated cost of \$3.7 million. A contract was awarded on December 1, 1984, in the amount of \$3.3 million. Our review of the budget section of the PIO/T showed that

all costs were grouped into either long or short term person-months of technical assistance. There was no breakout of these costs to indicate what represented fringe benefits, overhead, travel and transportation, etc. We were unable to determine how this \$3.3 million contract was negotiated and awarded due to lack of documentation on file regarding this matter.

Further, we were unable to determine how a subsequent contract increase for \$315,567 in project management costs was negotiated. It was especially important that this negotiation be documented as the original contract already provided for \$848,335 in overhead costs. A.I.D. defines overhead as those costs which are incurred in the general operation of an organization and which cannot be identified to a specific contract. They involve facilities, company officers salaries, utilities, rents, public relations, etc. Since there were no memoranda of negotiations in the files which discuss the transaction, there was no explanation on this matter.⁴ In our opinion, the inclusion of a project management fee appears to duplicate the overhead rates previously agreed to in the contract.

2. University Agribusiness Partners (Project No. 517-0243)

The initial PIO/T was prepared on September 11, 1989, for an estimated amount of \$8.7 million. A contract was awarded on March 1, 1990, in the amount of \$7.3. In this case, the costs shown per the PIO/T were separated into various cost elements such as salaries, allowances, and travel and transportation but were estimated for a 7-year period instead of the normal 5-year period required for contracts. The memorandum of negotiation stated that because the PIO/T was written for a 7-year instead of a 5-year contract period, the bid proposal had to be revised. Based on this revision, a bid totaling \$9.9 million was received from which the contracting officer negotiated the contract totaling \$7.3 million. No documentation was available showing how the negotiated amount was arrived at and determined to be reasonable costs to the U.S. Government. Since the PIO/T costs were based on a 7-year period, the PIO/T's usefulness as a tool for evaluating the reasonableness of the bid proposals was questionable.

3. Child Survival (Project No. 517-0239)

The initial PIO/T was prepared on April 28, 1988, for an estimated amount of \$3.8 million. A cooperative agreement was subsequently awarded on August 2, 1988, in the amount of \$4.7 million. We found no evidence that any analysis of price reasonableness was done for the \$4.7 million. Further,

⁴ A detailed discussion regarding the maintenance of contract files is on page 19 under the subtitle "Contract Files Need Improvement."

we noted that about \$1.3 million of the \$4.7 million were for costs (home office and educational social marketing) not identified in the initial PIO/T.

4. PVO Co Financing (Project No. 517-0247)

The initial PIO/T was prepared on October 12, 1990, for an estimated amount of \$1.6 million for which a contract was subsequently awarded for \$1.8 million. We were unable to determine whether this contract was reasonably priced because no price analysis was documented.

5. Micro and Small Business Development (Project No. 517-0254)

The initial PIO/T was prepared on September 21, 1990, showing costs of \$149,700 for the services of a Micro and Small Business Program Manager. The actual contract, awarded for \$133,106, was not supported by a documented price analysis, thus, we were unable to determine whether the contract was reasonably priced.

6. Development Training (Project No. 517-0216)

The initial PIO/T was prepared on July 11, 1989, for an amount totaling \$3.3 million. A contract was awarded on January 24, 1990, for \$3.4 million. Although, in this instance a worksheet was prepared identifying the various cost elements from the proposed bids, the Government estimate showed only the aggregate amount. Consequently, we could not determine the reasonableness of the various cost elements proposed by the contractors in their bids.

The projects reviewed illustrate that Government cost estimates were not always properly prepared or used to evaluate the reasonableness of contractor bids. In order to establish a level of assurance that its contracts are reasonably priced, USAID/Dominican Republic should establish and implement appropriate policies and procedures requiring the proper preparation and use of Government cost estimates, including requirements to document the analysis of a bid proposal for price reasonableness.

Management Comments and Our Evaluation

Although management indicated it was in agreement with Recommendation No. 2.1, it did not specifically state that it would establish the recommended policies and procedures. Instead it indicated that the problems noted by the auditors were the result of practices followed by a past Regional Contracting Officer (RCO). It stated that memorandums of negotiation prepared by the current RCO show use of government cost estimates to evaluate the reasonableness of cost proposals and it provided examples of these memorandums. Also, the current RCO has given

instructions to project officers on how to prepare better in-house cost estimates. These instructions were included in the desk guide referred to by the Mission in its response to Recommendation No. 1.1.

In response to Recommendation No. 2.2 the Mission stated that it had reported this weakness in its October 1992 internal control assessment. However, as there was no specific internal control technique directly related to this weakness, it was not clear to RIG/A/T on what basis the Mission believed it had reported this weakness.

RIG/A/T agrees that for its more recent procurements that memorandums of negotiation indicated that in-house cost estimates were used by the RCO in establishing the Government's negotiation position and as a comparison in cost analysis of a contractor's proposal. However the auditors considered that the problems noted for past procurements were due to an absence of Mission policies and procedures which if not corrected could lead to a recurrence of the problem in the future. As the Mission has not stated that it will establish these policies and procedures, RIG/A/T considers Recommendation Nos. 2.1 to be unresolved. Also Recommendation No. 2.2 is considered to be unresolved pending the receipt of further information from the Mission showing under which internal control technique the Mission reported this weakness in its October 1992 internal control assessment.

Documentation Was Not Sufficient to Substantiate Contractor Responsibility

The contract files did not contain any documentation showing how it was determined that contractors possessed a sufficient degree of responsibility to accomplish proposed tasks. This occurred because the Mission had not established and implemented policies and procedures requiring the contracting officer to verify the responsibility of potential contractors. The Federal Acquisition Regulation requires contracting officers to determine if a prospective contractor is responsible before awarding a contract and to include supporting documents in the contract file. Without conducting a routine verification to determine if prospective contractors are responsible, the Mission is vulnerable to hiring contractors who may lack the necessary level of responsibility to accomplish the work desired.

Recommendation No. 3: We recommend that USAID/Dominican Republic, in coordination with the A.I.D. Regional Contracting Office:

- 3.1 establish and implement procedures to document the contracting officer's determination of a prospective contractor's degree of responsibility and retain this**

documentation in the contract file as required by the Federal Acquisition Regulation (Subparts 9.104-1, 9.105-2(b) and 9.106-1); and

3.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.

The Federal Acquisition Regulation, Subpart 9.103 (a), requires that contracts be awarded only to responsible contractors. To be determined responsible, Subpart 9.104-1 states that a prospective contractor must:

- *be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments;*
- *have a satisfactory performance record;*
- *have a satisfactory record of integrity and business ethics; and*
- *have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them.*

If the information on hand is not sufficient to make a determination regarding responsibility, Subpart 9.106-1 states that a pre-award survey is normally required. Finally, Subpart 9.105-2(b) provides that documents and reports supporting a determination of responsibility or nonresponsibility must be included in the contract file.

The contract files for the five contracts reviewed did not include documents indicating that the contracting officer had made a proper determination of contractor responsibility. We believe the absence of Mission policies and procedures requiring this determination may have been the reason the A.I.D. Regional Contracting Office did not document them. The Mission assumed that the contracting officer was performing this requirement among his other duties and therefore did not emphasize this procedure.

USAID/Dominican Republic's vulnerability to hiring contractors who lack the necessary level of responsibility is increased unless the A.I.D. Regional Contracting Office conducts and documents its checks on prospective contractors. If such checks are not considered necessary because of a contractor's reputation, the contracting officer should still document such a decision. Accordingly, we believe that the contracting officer should comply with the requirements of the Federal Acquisition Regulation concerning the determination and documentation of a prospective contractor's responsibility.

Management Comments and Our Evaluation

The Mission did not directly respond to Recommendation No. 3.1, instead it stated that A.I.D./Washington has prepared new guidance concerning pre-award surveys/audits on contractors to substantiate responsibility and that responsibility issues come into play when a contractor is on A.I.D.'s list of debarred or suspended contractors/grantees. The Mission stated the Regional Contracting Officer (RCO) consults this list on every procurement or grant and documents the file. Also, it indicated that the RCO does reference checks on a contractor/grantee's performance in cases where the contractor/grantee has done business with the Mission or other A.I.D. missions. The Mission provided memorandums of negotiation which documented that it was following these procedures.

Regarding Recommendation No.3.2 the Mission did not report a weakness in this area in its October 1992 internal control assessment because the RCO considered that the weaknesses noted by the audit referred only to past procurements.

RIG/A/T agrees that for its more recent procurements that memorandums of negotiation indicate that the RCO checked the list of debarred or suspended contractor/grantees and referred to past performance or audits. However, in the past this was not documented consistently. Recommendation No. 3.1 is to establish and implement procedures to document the determination of responsibility as required by the FAR. As the Mission has not indicated that it plans to establish such procedures, Recommendation No. 3.1 remains unresolved. Also, since this weakness was neither resolved nor reported in the Mission's October 1992 internal control assessment, Recommendation No. 3.2 remains unresolved also.

Contract Files Need Improvement

Contract files were not maintained in accordance with the Federal Acquisition Regulation because the Mission had not given sufficient priority to establishing policies and procedures regarding the maintenance of contract files. The Federal Acquisition Regulation and A.I.D. Handbook 14 require contract files to be established and maintained for all contractual actions. Inadequate maintenance of contract files resulted in insufficient evidence that the Government obtained the best price and contracted with responsible contractors.

Recommendation No. 4: We recommend that USAID/Dominican Republic, in coordination with the A.I.D. Regional Contracting Office:

4.1 establish policies and procedures requiring contract files to be maintained in accordance with Federal Acquisition Regulation and A.I.D. Handbook 14 requirements; and

4.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.

Subpart 4.803 of the Federal Acquisition Regulation specifies that the head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions. Examples of what should be contained in a contract file are:

- Government estimate of contract price,
- Cost or price analysis,
- Records of negotiations,
- The original of the signed contract or award, all contract modifications, and supporting documents executed by the contracting office, and
- Cross references to pertinent documents that are filed elsewhere.

Subparts 4.801 and 4.803 also require that documentation in the contract files be sufficient to constitute a complete background for the basis of decisions at each step in the acquisition process. Examples of these documents include pre-award survey reports and cost or price analyses.

Additionally, A.I.D. Handbook 14, Subpart 704.8, requires that all contract files contain the data required by Subpart 4.803 of the Federal Acquisition Regulation. This requirement is to ensure that actions taken by various personnel in the procurement cycle are properly supported and to provide information for reviews conducted by A.I.D. or others. Among other things, a full record of negotiations (memorandum of negotiation) is required to show the participants; dates and places of meetings; and selection of the successful contractor, including reasons for selection.

For all five contracts reviewed, there was no documentation to support how the Government estimate was used to analyze the contract cost in order to determine price reasonableness nor how contractors' level of responsibility was determined. Consequently, insufficient evidence existed to show that the Government had obtained the best contract prices and had verified that prospective contractors possessed a sufficient degree of responsibility to accomplish contract tasks. The apparent cause was the lack of emphasis by the Mission on establishing policies and procedures on how to document the contract files. In our opinion, the Mission should establish policies and procedures to ensure that contract files contain all the information as required by the Federal Acquisition Regulation and A.I.D. Handbook 14.

Management Comments and Our Evaluation

In response to Recommendation No. 4.1, the Mission stated that it is currently consolidating and computerizing its filing system with the assistance of A.I.D./Washington and the National Archives. The Mission hopes that its new system will be a model for other missions to follow. Additionally the Mission noted that it had shown the auditors some of its more recent contract files and the auditors found them satisfactory. Currently the Regional Contracting Officer is maintaining new contract/grant files in the Regional Contracting Office.

In response to Recommendation No. 4.2, the Mission stated that since the auditors had considered its more recent filing efforts to be satisfactory this area had been marked as satisfactory in its October 1992 internal control assessment.

RIG/A/T commends the Mission for its effort to develop a computerized filing system which might serve as a model for other Missions to follow and RIG/A/T agrees that more recent contract files shown to the auditors late during the audit appeared to be adequate. However, the intent of Recommendation No. 4.1 was to assure that contract files contained all the information specified by the FAR and AIDAR. The Mission's response does not make clear the specific policies and procedures which will be established to achieve this end. Therefore pending receipt of further information in this respect RIG/A/T considers Recommendation Nos. 4.1 and 4.2 to remain unresolved.

Did USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitor contractor performance to ensure that technical assistance was provided and used as prescribed by U.S. Government and A.I.D. policies and procedures?

Except for not defining the minimum acceptable levels of contractor performance in contracts and not implementing expanded control provisions for non-expendable property, USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitored technical assistance as prescribed by U.S. Government and A.I.D. policies and procedures.

USAID/Dominican Republic Mission Orders 3.10 and 3.11, dated March 17, 1986 and April 29, 1988, respectively, establish Mission policies and procedures for conducting oversight of technical assistance. For the six projects reviewed, having a total of \$18.9 million in technical assistance obligations, we found that the project papers contained a monitoring plan,

project site visits were made, time and attendance over contractor personnel was maintained, contractors prepared work plans on how project goals would be achieved, contractor work plans were reviewed and approved by project officers, and contractor progress reports were reviewed by the project officers. Every six months, monitoring results were summarized and reported in the Mission's Semi-Annual Project Implementation Status Report. The Report provides, among other things, information on the impact that technical assistance was having on achieving project goals. As of March 31, 1992, all of the six projects reviewed were categorized by the Mission as progressing as planned but with some implementation problems.

However, because the monitoring system did not require project officers to define (prior to contract award) the minimum acceptable levels of contractor performance, there was no predefined contractual standard for measuring the acceptability of a contractor's work performance. Instead, as discussed previously, the technical assistance contractors and project officers would mutually agree as to what job tasks should be done and by when. Although this approach establishes time frames and performance standards, it is done after the award of a contract. As such, these time frames and standards may be biased, favoring a contractor's own time frames instead of focusing on the prompt achievement of the project goals. Additionally the audit noted that strengthened controls over contractor acquired non-expendable properly had not yet been implemented. These two problem areas are further discussed in the following subsections.

Performance Levels Need To Be Established

USAID/Dominican Republic did not, prior to contract award, determine the minimum acceptable levels of performance to be included as requirements in its contracts. This occurred because USAID/Dominican Republic's policies and procedures did not require that such performance levels be defined as part of the PIO/T process. It is U.S. Government policy that whenever it contracts out a job it is entitled to receive quality service. In order that the Government can define and measure quality, Office of Management and Budget (OMB) Circular A-76, Supplement Number 2 presents a methodology for analyzing contracted service functions so as to develop performance based statements of work, including the definition of minimum acceptable levels of performance for key work tasks. The omission of minimum acceptable levels of work performance from contract work statements resulted in USAID/Dominican Republic officials not being able to objectively assess the adequacy of contractor performance on \$30.1 million obligated for technical assistance.

Recommendation No. 5: We recommend that USAID/Dominican Republic:

- 5.1 following the guidance of Office of Management and Budget Circular A-76, Supplement Number 2, establish and implement policies and procedures which require: (1) project officers to define in the Project Implementation Order/Technical Services document the minimum acceptable levels of contractor performance for key work tasks, (2) contracting officers to include the defined minimum acceptable levels of performance in the contractor's work statement, (3) project officers to measure a contractor's performance against the established levels of minimum acceptable performance, and (4) contracting officers to direct that deductions for substandard performance be made through a contract's Inspection of Services Clause, when deemed necessary by the project and contracting officers; and**
- 5.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.**

Although a project officer may be fully aware of a contractor's performance, and can subjectively ascertain that a contractor's overall progress is acceptable, minimum acceptable levels of performance need to be defined to objectively measure a contractor's work. The inclusion of minimum acceptable performance levels in a contract results in a legally enforceable document whereby a contractor is held accountable for specific results.

A.I.D. Handbook 3, Supplement A, stipulates that project officers should monitor contract implementation and ensure that contractor performance is evaluated. The project officer should review each progress report and comment, through documentation to the project file, upon its adequacy, particularly with regard to discussions of progress toward planned targets and identification of actual or potential problem areas. The project officer should also bring any deficiencies in the reports (e.g. failure to measure progress toward identified targets) to the contractor's attention along with suggestions to rectify the problems.

More recently, an OMB review of A.I.D. recommended that A.I.D. project officers should routinely and consistently evaluate contractors' performance and document whether they have met contract terms and satisfied project requirements. To ensure objective evaluations, OMB Circular A-76, Supplement Number 2, "*A Guide For Writing and Administering Performance Statements of Work for Service Contractors*", (dated October 1980) provides a methodology for analyzing service functions to develop performance based statements of work. The methodology includes defining minimum

acceptable levels of performance for key work tasks, to be included in the subsequent contract and used in contract surveillance plans to ensure that contractor performance meets these minimum requirements.⁵

Our review of six technical assistance procurements, totaling \$18.9 million in obligations, showed that monitorship could be improved by establishing minimum acceptable levels of contractor performance. For the six procurements reviewed, there was no basis to objectively measure the acceptability of the actual work accomplished because performance standards were either not identified or, when they were identified, it was not clear whether they were meant to be contractually binding.⁶ As a result, it was unclear whether a contractor's performance was acceptable or not acceptable in those instances where project goals were not achieved.

Currently, the Mission's only objective means of determining whether a contractor's performance is acceptable is based on the actual accomplishment of the project goals, whose time frames for accomplishment could be several years. To illustrate, for the period ended March 31, 1992, it was unclear whether the following instances, where project goals had not yet been achieved, represent acceptable levels of contractor performance.

1. On Farm Water Management (Project No. 517-0159)

Authorized on June 30, 1983, and with a revised anticipated project completion date of March 30, 1993, two of ten stated project goals had not yet been achieved. One of these goals requires that 306.5 kilometers of rehabilitated irrigation be completed. However, only 158.3 kilometers had been reported as being accomplished (52 percent of the project goal). Regarding the second goal, it was anticipated that irrigation efficiency would be increased for 1,150 hectares. Yet, with the project completion one year away only 20 hectares were reported as being accomplished (or 2 percent of the end of project goal).

⁵ Additionally, on April 9, 1991 the Office of Federal Procurement Policy (OFPP) issued Policy Letter 91-2--Service Contracting, establishing a preference for performance based scopes of work and a requirement for establishment of performance standards and surveillance plans in the contract to allow objective performance evaluation. OFPP Policy Letter 91-2 to a large extent reemphasizes the principles contained in the earlier Supplement Number 2 to OMB Circular A-76.

⁶ A detailed discussion of this problem area is on page 4 under the subtitle "Work Statements Need Improvement."

2. University Agribusiness Partnership (Project No. 517-0243)

Authorized on November 7, 1989, and with an anticipated project completion date of June 30, 1996, six of eight stated project goals had not yet been achieved. These six goals and their status as of our review follow:

| Goal | | Status | % of Goal |
|---|---------------|---------------|------------------|
| Short-term Faculty Exchange (in person-weeks) | 342 | 147.5 | 43 |
| Policy Seminars | 60 | 29 | 48 |
| Training of Agribusiness farm leaders | 3,000 | 2243 | 75 |
| Research monographs | 250 | 74 | 30 |
| Local currency contributions for endowment fund | \$5.0 million | \$1.5 million | 30 |
| Faculty Exchange (in person-years) | 16 | 0 | 0 |

(unaudited)

As shown, the current status of project goals not yet attained varied from 0 to 75 percent, but it is unclear if these levels of performance are acceptable.

3. Child Survival (Project No. 517-0239)

Authorized on September 24, 1987, and with a revised anticipated project completion date of June 30, 1993, three of the five stated project goals had not been achieved. For the first unattained goal, 1,750 private voluntary organization (PVO) female promoters were to be trained. Yet, only 853 had been reported as being trained (49 percent of the project goal). Regarding the second unattained goal, 50 PVO male promoters were to be trained. Nonetheless, only 27 had been reported as being trained (54 percent of the project goal). For the final unattained goal, three mass communication modules were to be developed and aired. But, none had been accomplished. Again, it is unclear whether the level of progress achieved in each of these cases represents an acceptable level of contractor performance.

4. PVO Co-Financing (Project No. 517-0247)

Authorized on September 22, 1989, and with a anticipated project completion date of August 30, 1996, three of the four stated project goals had not been achieved. For the first unattained goal, 35 subgrants were planned to be made to PVOs, but none had yet been made. It is unclear whether this represents an acceptable level of work performance. Further, for the second and third unattained goals, there are no life of project outputs established for the job tasks. While 17 PVOs were provided technical assistance and 461 persons were provided short term training, without a standard against which to measure there is no objective basis to judge the acceptability of performance.

5. Micro and Small Business Development (Project No. 517-0254)

Authorized on July 11, 1990, and with a anticipated project completion date of June 30, 1997, twelve of the sixteen reported project goals had not been achieved. Examples of some of these goals are as follows:

- For two job tasks, no life of project outputs were established. Therefore there is no predefined standard for measuring the acceptability of the fact that no long term training has yet been provided and no credit program management assistance programs have been established.
- For another stated project goal, it was anticipated that 58 loans would be made to nongovernmental organizations. Yet, only 2 loans had been made (3.5 percent of the project goal).

For this project there remains a 5-year window before the anticipated project completion date. Still, at this point in time there is no objective standard against which to evaluate the current accomplishments to determine whether performance is acceptable or not.

6. Development Training (Project No. 517-0216)

Authorized on July 2, 1986, and with a revised project anticipated completion date of August 24, 1995, three of the five stated project goals had not been achieved. For the first unattained goal, it was anticipated that 690 students would complete short term training. However, a total of 582 students had completed such training (84 percent of the project goal). For the second unattained goal, it was expected that 90 in-country courses would be held. Yet, only 46 such courses had been held (51 percent of the project goal). Finally, a total of 2,250 trainees was expected, but thus far there had been only 1245 trainees (55 percent of the project goal).

In conclusion, USAID/Dominican Republic had no predefined contractual standards to measure the performance of technical assistance contractors in meeting project goals and therefore had no objective basis to evaluate the acceptability of the contractors' performance in delivering technical assistance. The establishment of minimum acceptable levels of performance, prior to contract award, provides for maximum effort in defining work requirements, which may permit the use of a fixed price rather than a cost reimbursement contract. Furthermore, the inclusion of minimum acceptable performance levels in a contract allows the U.S. Government to seek compensation in case of poor performance. Accordingly, we recommend that USAID/Dominican Republic follow the methodology explained in OMB Circular A-76, Supplement Number 2 to define, to the maximum extent practical, the contractually required minimum acceptable levels of performance for key work tasks to achieve all project goals.

Management Comments and Our Evaluation

In response to Recommendation No. 5.1, the Mission indicated that it is in the process of reviewing its Mission Operations Manual Order Number II-3 and that the Mission Order will be revised, as appropriate, in line with the recommendation. It further indicated that both Recommendation Nos. 1.1 and 5.1 concern areas that are the subject of recent contract information bulletins (CIBs) from A.I.D./Washington in response to recommendations made by the joint A.I.D./OMB review (SWAT) team mentioned on page 4 of this report. The Mission stated there is more to come from A.I.D./Washington in the way of CIB policy on other SWAT team recommendations and that the Mission is awaiting the specific guidance and will implement same.

Regarding Recommendation No. 5.2, the Mission stated that it had reported this weakness in its October 1992 internal control assessment. However, as there was no specific internal control technique directly related to this weakness, it was not clear to RIG/A/T on what basis the Mission believed it had reported this weakness.

Based upon the Mission's agreement to implement Recommendation No. 5.1, RIG/A/T considers Recommendation No. 5.1 to be resolved and Recommendation No. 5.2 to be closed. To close Recommendation No. 5.1 the Mission should submit its revised Mission Order showing that it has implemented the recommendation as stated.

Controls Over Non-Expendable Property Need Improvement

As of November 3, 1989, policy contained in A.I.D. Handbook 14 requires that all A.I.D. contractors prepare a program, subject to A.I.D. approval, outlining its controls over non expendable property costing \$500 or more. USAID/Dominican Republic project officers did not receive such programs from their contractors because the Mission was not aware of the requirement and therefore had not established procedures to implement it. As a result, approximately \$8.4 million of A.I.D.-funded property may be more vulnerable to waste and abuse.

Recommendation No. 6: We recommend that USAID/Dominican Republic:

- 6.1 establish and implement policies and procedures to ensure that contractors establish an acceptable program for the receipt, use, maintenance, protection, custody, and care of non-expendable property purchased under contracts; and**
- 6.2 report this weakness in its next internal control assessment unless it is fully resolved prior to its submission.**

In accordance with A.I.D. Handbook 14, Subpart 752.245, it is A.I.D. policy to vest title with the cooperating country for contractor acquired non-expendable property costing \$500 or more. This Subpart requires a contractor to:

... prepare and establish a program to be approved by the Mission, for the receipt, use, maintenance, protection, custody, and care of non-expendable property for which it has custodial responsibility, including the establishment of reasonable controls to enforce such a program.

We reviewed the On Farm Water Management Project (517-0159) and determined that the contractors had not prepared and submitted the property control program required by A.I.D. policy. This project funded equipment and vehicles estimated at \$1.2 million. As of May 31, 1992, about \$0.9 million of the \$1.2 million had been reported as being purchased.

USAID/Dominican Republic officials said that they were not aware of the requirement to approve the property programs. Therefore, USAID/Dominican Republic had not established procedures to implement the requirement in any of its contracts. However, during the audit, the

contracting officer told us that the referenced clause would be added to all active and new contracts.

As a result of not obtaining and approving contractor property control programs, A.I.D.-funded property may be more vulnerable to waste and abuse. To ascertain the extent of vulnerability, we reviewed the Mission's financial report for the period ended May 31, 1992. We determined that for the six projects selected for review, \$8.4 million of A.I.D.-funded property was acquired for project purposes. To improve property accountability, USAID/Dominican Republic should ensure that all contractors prepare and establish a program, to be approved by USAID/Dominican Republic, for the receipt, use, maintenance, protection, custody, and care of non-expendable property.

Management Comments and Our Evaluation

In response to Recommendation No. 6.1, the Mission stated the recommended policies and procedures would be included in the revision of Mission Operations Manual Order Number II-3 and that the Mission's Program Development Office will establish a system to monitor implementation of these policies and procedures. In response to Recommendation No. 6.2, the Mission reported this weakness in its October 1992 internal control assessment.

Based upon the Mission's planned action, RIG/A/T considers Recommendation No. 6.1 to be resolved. As the Mission reported this weakness in its October 1992 internal control assessment, Recommendation No. 6.2 is closed.

REPORT ON INTERNAL CONTROLS

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

Scope of Our Internal Control Assessment

We performed 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; and
- 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 controls applicable to the audit's objectives and not to provide assurance on the auditees' overall internal control structures.

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

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget's implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls 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 internal controls 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.

Conclusion for the Audit Objectives

Audit Objective One

The first audit objective was to determine if USAID/Dominican Republic planned for technical assistance in accordance with U.S. Government and A.I.D. policies and procedures. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3, the Project Officers Guidebook, and Office of Management and Budget Circular A-76, Supplement number 2. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: identifying technical assistance needs, developing an implementation plan, and preparing work statements.

Our tests showed that the Agency's controls were consistently applied except:

- USAID/Dominican Republic project officers prepared work statements without specific time frames and performance standards to ensure that funds spent for technical assistance were efficiently used.

USAID/Dominican Republic did not report this weakness in its 1991 internal control assessment. It should report this weakness in its next internal control assessment if it has not been fully resolved.

Audit Objective Two

The second audit objective was to determine whether the A.I.D. Regional Contracting Office procured technical assistance at a fair price, selected the appropriate type of contract, provided for full and open competition, and selected qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures. In planning and performing our audit we considered the applicable internal control policies and procedures cited in the Federal Acquisition Regulation and A.I.D. Handbook 14. For the

purposes of this report, we have classified the relevant requirements into the following categories: procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting responsible contractors.

Our test showed that the Agency's controls were consistently applied except:

- USAID/Dominican Republic often prepared Government cost estimates which lacked sufficient details to be useful for evaluating the reasonableness of proposed contract prices.
- The A.I.D. Regional Contracting Office did not document its cost analyses showing use of Government cost estimates in evaluating the reasonableness of contract price proposals.
- The A.I.D. Regional Contracting Office did not document the basis for its determination that prospective contractors possessed a sufficient degree of responsibility to accomplish contract tasks.
- USAID/Dominican Republic did not ensure that its contract files contained all the information requested by the Federal Acquisition Regulation and A.I.D. Handbook 14.

USAID/Dominican Republic did not report these weaknesses in its 1991 internal control assessment. It should report these weaknesses in its next internal control assessment if they are not fully resolved.

Audit Objective Three

The third audit objective was to determine if USAID/Dominican Republic and the A.I.D. Regional Contracting Office monitored contractor performance to ensure that technical assistance was provided and used as prescribed by U.S. Government and A.I.D. policies and procedures. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in Office of Management and Budget Circular A-76, Supplement Number 2, and A.I.D. Handbooks 3 and 14. For the purposes of this report, we have classified the relevant requirements into the following categories: contractors' work plans and reporting, and controls over A.I.D.-funded property.

Our tests showed that the Agency's controls were consistently applied except:

- USAID/Dominican Republic did not, prior to contract award, determine the minimum acceptable levels of contractor performance for key work

tasks to enable USAID/Dominican Republic and others to objectively measure contractor performance.

- USAID/Dominican Republic did not ensure that technical assistance contractors established approved programs to control A.I.D.-funded property as required by A.I.D. Handbook 14.

USAID/Dominican Republic did not report these weaknesses in its 1991 internal control assessment. It should report these weaknesses in its next internal control assessment if they have not been fully resolved.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Dominican Republic's and the A.I.D. Regional Contracting Office'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); and
- 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 tested USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's compliance with the Federal Acquisition Regulation as it could affect our audit objectives. However, our objective was not to provide an opinion on their overall compliance with the Federal Acquisition Regulation.

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 entity'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 laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with laws and regulations applicable to the technical assistance contracts is the overall responsibility of USAID/Dominican Republic's management and the A.I.D. Regional Contracting Office. The responsibility for managing technical assistance contracts is divided between USAID/Dominican Republic and the A.I.D. Regional Contracting Office with USAID/Dominican Republic responsible for determining the need for technical assistance, providing information to the Regional Contracting Office needed in the procurement process, monitoring contractor performance and ensuring that A.I.D. funds are properly accounted for. The Regional Contracting Office is responsible for the procurement process itself, including negotiating the contract amount.

Conclusions on Compliance

USAID/Dominican Republic and the A.I.D. Regional Contracting Office complied with the Federal Acquisition Regulation as it pertained to our objectives except for not:

- preparing or using U.S. Government cost estimates to demonstrate that negotiated prices were reasonable as required by the Federal Acquisition Regulation (Subparts 15.803 and 15.805) (see page 13);
 - obtaining or preparing sufficient documentation to support the determination that contractors were responsible as required by the Federal Acquisition Regulation (Subparts 9.104, 9.105, and 9.106) (see page 17); and
 - maintaining contract files as required by the Federal Acquisition Regulation (Subparts 4.801 and 4.803) (see page 19).
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SCOPE AND METHODOLOGY

Scope

We audited USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's controls over A.I.D. procured contracts for technical assistance in accordance with generally accepted government auditing standards. We conducted the audit from June to October 1992, and covered the systems and procedures relating to A.I.D. procured contracts that were active as of March 31, 1992. As of March 31, 1992, USAID/Dominican Republic administered technical assistance contracts in 10 active projects with total authorized project costs of \$90.1 million. Technical assistance obligations and expenditures for these projects, as of that date, amounted to \$30.1 million and \$20.5 million, respectively. We conducted field work in the offices of USAID/Dominican Republic and the A.I.D. Regional Contracting Office in Santo Domingo, Dominican Republic.

In addition to the types and sources of evidence obtained and the audit techniques used to verify evidence described in the following section for each audit objective, we obtained a representation letter from USAID/Dominican Republic's management confirming in writing information we considered essential for answering our audit objectives and for assessing internal controls and compliance.

Methodology

The methodology for each audit objective follows:

Audit Objective One

The first audit objective was to determine if USAID/Dominican Republic followed U.S. Government and A.I.D. policies and procedures in planning for technical assistance. To accomplish this objective, we selected six of the 10 active projects as of March 31, 1992. The six projects were judgmentally selected and had total project authorized costs of \$61.7 million. Technical assistance obligations and expenditures for these projects, as of that date, amounted to \$ 18.9 million and \$12.7 million, respectively.

We analyzed the project papers applicable to the six projects to determine if the work statements included in technical assistance contracts were related to the project objectives and if the project designs (i.e., project papers) identified such information as kinds of goods and services to be procured, contracting mode and procedures to be used, and an implementation plan. We also reviewed planning documents (Project Implementation Order/Technical Services) for the six projects in our sample to determine if USAID/Dominican Republic prepared work statements as required by A.I.D. Handbook 3 (Chapter 3 and Supplement A) and in accordance with the guidance in Office of Management and Budget (OMB) Circular A-76, Supplement Number 2. We interviewed USAID/Dominican Republic officials and the A.I.D. Regional Contracting Officer to discuss the adequacy of the planning process.

Audit Objective Two

The second audit objective was to determine if the A.I.D. Regional Contracting Office followed U.S. Government and A.I.D. policies and procedures in procuring technical assistance in support of USAID/Dominican Republic's development assistance program. To accomplish this objective we selected the same six projects as used for audit objective one. We determined whether, for technical assistance contracts, the A.I.D. Regional Contracting Office followed the Federal Acquisition Regulation and A.I.D. Acquisition Regulations (A.I.D. Handbook 14) to: (1) ensure the reasonableness of the negotiated prices, (2) select the appropriate type of contract, (3) provide for full and open competition, and (4) select qualified contractors.

We reviewed the respective contract files and documents maintained by USAID/Dominican Republic and the A.I.D. Regional Contracting Office. Examples of documents reviewed include notices to prospective offerors, lists of qualified offerors, requests for technical and cost proposals, technical selection panel results, prospective contractors' cost proposals, biographical data sheets of key contractor personnel, cost analysis work sheets prepared by the A.I.D. Regional Contracting Office, and memoranda of negotiations. We also interviewed the A.I.D. Regional Contracting Officer and USAID/Dominican Republic officials.

Audit Objective Three

The third audit objective was to determine if USAID/Dominican Republic and the A.I.D. Regional Contracting Office followed U.S. Government and A.I.D. policies and procedures cited in the OMB Circular A-76, Supplement No. 2 and A.I.D. Handbooks 3 and 14, in monitoring contractor performance. To accomplish this objective, we selected the same six projects as used for audit objective one. We determined for technical

assistance contracts whether: (1) the contract work statements were well-defined and technical assistance contractors' work plans and progress reporting complied with contract requirements and were adequate for measuring the contractors' performance in achieving the contract and related project objectives; and (2) USAID/Dominican Republic ensured that contractors had adequate controls over A.I.D.-funded property and submitted required reports on those controls to USAID/Dominican Republic. Further, at USAID/Dominican Republic and the A.I.D. Regional Contracting Office, we interviewed responsible officials and reviewed applicable files and records including project papers, contract files and related documents, and work plans and progress reports submitted to USAID/Dominican Republic by the contractors.

**MANAGEMENT COMMENTS
AND OUR EVALUATION**

AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic



UNITED STATES GOVERNMENT
MEMORANDUM

Date: March 19, 1993 *R. F. Rifenburg*
From: Raymond F. Rifenburg, Director
To: Lou Mundy, RIG/A/T
Subject: Management Comments on the Draft Audit Report of the Audit of USAID/Dominican Republic's and the A.I.D. Regional Contracting Office's Controls over A.I.D. Procured Technical Assistance Contracts.

Given the Commitment of our project officers and this Mission to manage its projects in the most effective and professional manner possible, we are pleased no statutory or legal violations were found in the review of our controls and procedures in managing "Technical Assistance Contracts". We appreciate your constructive suggestions, made in the draft audit report, on how our mutual goal, that of making sure that the U.S. taxpayers' resources are being effectively used for the development objectives specified, can be accomplished. The suggestions by your staff are helpful in ensuring that the mechanisms are in place and are properly followed so that USG resources are appropriately managed and expended.

There are however a few issues raised in this audit where we do not fully agree with the opinions expressed by the audit team. Also, I would like to call to your attention that the Mission underwent an assessment of our procurement systems conducted by a team from the Office of Procurement in AID/W shortly prior to this audit and we received assurances from that team that we did not have any problem in the areas under the responsibility of the RCO. We are having difficulty understanding how we can have a review from the Office of Procurement in AID/W which found no problems and an audit conducted by the IG soon thereafter which raises the concerns expressed in this audit. Before addressing the specific audit recommendations, the Mission considers it important to address our perceived inconsistencies and/or misinterpretations in the audit report.

Page ii, item 2 of the draft report speaks of processing technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors in accordance with U.S. Government and A.I.D. policies and procedures. This concerns acquisition/procurement of technical assistance governed by the FAR and the AIDAR.

However, instruments for implementation that were examined during the course of the audit included an assistance instrument, cooperative agreement, governed by OMB Circulars and AID HB13. These include a cooperative Agreement with Save the Children Foundation under our Child Survival Project 517-0239. Also, a personal services contract (PSC) was examined. The Mission treats a PSC, as required by HB14 appendices C and J, as for performance and evaluation as a direct hire employee. Statements of Work are essentially the same as job descriptions for an employee. The Mission Management Office is responsible for PSCs. Their performance is evaluated by their supervisors the same as any PSC be they a TCN, US, or FSN.

During the Course of the audit the auditors stated, after examining more recent contracts, that memorandum of negotiation indicated that in house cost estimates were used by the RCO in establishing the Government's negotiation position and as a comparison in cost analysis of a contractor's proposal. There is no mention of this in the draft audit report.

The RCO completed a course for all project officers on February 23, 1993 in writing better statements of work to contain performance indicators. This course presented materials from HB3, the FAR, and other outside sources to the participants. A package was prepared by the RCO and given to each participant to use as a desk guide in preparing better statements of work for PIO/Ts. Also included in this course was how to prepare in-house estimates, the Government's Minimum needs. We feel that this has resulted in current PIO/Ts containing performance oriented statements of work with more detailed cost estimates.

Two of the audit recommendations concerning contractor responsibilities and monitoring and evaluating contractor performance are the recent subject of Contract Information Bulletins (CIBs) from FA/PPE providing AID policy on these matters as a result of the SWAT team recommendations. There is more to come from FA/PPE in CIBs as policy on other SWAT recommendations and this Mission is waiting for the specific guidance and will implement same.

The Mission is concerned about a push toward more fixed price contracts. This Mission does not have construction contracts, high volume off the shelf direct buy commodity contracts, nor service contracts (outside of those in the Management Office using OE funds) amenable to a fixed price mode. A janitorial or guard service contract can more easily fit into a fixed price mode than a technical assistance contract for financial and/or advisory services. However, the Mission has many IQCs for audit services and an IQC for design and evaluation services under which each work order is fixed price. These contracts were not examined by the auditors because they are not TA but audit and advisory assistance contracts.

The Mission does business on a fixed price basis with the numerous purchase orders (Contracts up to \$25,000) which it does with project, PD&S and OE funds. Much of this use of project and PD&S funds is for reports and advisory assistance. On the OE side it is mostly for supplies and materials.

The Mission believes that the task of ensuring that independent Government cost estimates were properly prepared rests with those involved in the Mission's clearance process. The RCO can review the estimates and send them back with comments for insufficiencies.

The auditors should note that the evaluation of cost proposals is only done for negotiated procurement and not sealed bid. Negotiated RFPs contain evaluation criteria upon which proposals are evaluated. Usually cost is only 10% or 20% of the evaluation Criteria. Usually, AID-negotiated procurements are for cost reimbursable contracts. Sealed bid is only for fixed price contracts requiring no negotiation, just a ranking and selection of the best price and delivery. Therefore, with AID, independent Government cost estimates are primarily (under CR contracts) used for establishing a negotiation position and providing an earmark of funds. AID contractors for TA are primarily chosen on their technical evaluation/expertise and not on cost.

Specific Comments on recommendations addressed to our Mission follows:

Recommendation No. 1: As noted in the preceding discussion, the RCO has prepared a desk guide for preparing better statements of work and distributed copies to project officers while instructing them in the area of minimum job requirements. This desk guide is being used in our Mission and our Program Development Office brings draft PIO/Ts to the attention of the RCO during the review process to review them for potential problems in this area. A copy of this desk guide is forwarded with this response for your review. Additionally, our Mission is in the process of reviewing our Mission Operations Manual Order Number II-3 and will revise it to include or strengthen, as appropriate, policies and procedures relating to work statements as suggested in Recommendation No. 1.1. Attached is a copy of the report Section from our Mission's Annual Assessment conducted in October, 1992 where this weakness was reported after the work was completed for this audit.

Based on the above, we request that Recommendation No. 1.1 be considered resolved and closed once the revised Mission Operations Manual Order No. II-3 is issued; and, that Recommendation No. 1.2 be considered resolved and closed.

Recommendation No. 2: Memorandums of negotiation prepared by the current RCO show the use of Government Cost Estimates to evaluate the reasonableness of cost proposals. Copies are included for your review. The RCO has given instruction to project officers for preparing better cost estimates contained in the desk guide discussed under Recommendation No. 1 Above. However, the Mission must point back to AID/W that it is imperative that project officers be instructed in these areas by AID/W before they arrive at a Mission.

A Mission can in some respects provide OJT (on the job training) but Washington must provide good and intense training in this area before putting people in the Mission. As with Recommendation No. 1 above, attached is a copy of the report section from our Mission's Annual Assessment conducted in October, 1992 where this weakness was reported after the work was completed for this audit.

Based on the above, we request that Recommendations No. 2.1 and No. 2.2 be considered resolved and closed.

Recommendation No. 3: New guidance is coming out of FA/PPE concerning pre-award/audit surveys on contractors to substantiate responsibility. The RCO has been following this on E-Mail messages from FA/PPE. Basically, responsibility issues come into play when the Mission has knowledge of a procurement alert notice from FA/PPE that the contractor is on the AID list of debarred or suspended contractors/grantees. The RCO consults this list on every procurement or grant and documents the file. Attached are copies of this documentation for your review. However, with contractors/grantees that the Mission or other missions have done business with and through reference checks have performed well, the Mission considers this sufficient. Copies of past reference checks are attached for your review. As with Recommendations Nos. 1 and 2 above, attached is a copy of the report section from our Mission's Annual Assessment conducted in October, 1992 where this weakness was reported after the work was completed for this audit.

Based on the above and the attachments presented related to this recommendation, we request that Recommendations No. 3.1 and 3.2 be considered resolved and closed.

Recommendation No. 4: The Mission is currently undergoing a test to consolidate and computerize its filing system. Currently the RCO is maintaining new contracts/grants files in the office of the RCO. Once the quest to computerize and centralize files has been completed the Mission hopes to have a model for other Missions to follow. This effort is being assisted by the FA/AS and the National Archives and has the full support of AID/W. We also know that the audit team reviewed later contract files being maintained by the RCO subsequent to the contracts reviewed during the course of this audit and found them satisfactory. This further review was noted in the report section from our Mission's Annual Assessment conducted in October, 1992 and this item was accordingly marked satisfactory. We request that the audit team review their work papers for this audit to verify that later contract files were also reviewed with the RCO and found to be satisfactory.

Based on this review we request that Recommendations No. 4.1 and No. 4.2 be considered resolved and closed if not deleted from the final audit report.

Recommendation No. 5: The suggestions made in Recommendation No. 5.1 will be included or strengthened, as appropriate, in our revised Mission Order No. II-3 discussed above. Attached is a copy of the report section from our Mission's Annual Assessment conducted in October, 1992 where this weakness was reported after the work was completed for this audit.

Based on the above, we request that Recommendation No. 5.1 be considered resolved and closed once the revised Mission Operations Manual Order No. II-3 is issued and, that Recommendation No. 5.2 be considered resolved and closed.

Recommendation No. 6: The suggestions made in Recommendation No. 6.1. will be included or strengthened, as appropriate, in our revised Mission Order No. II-3 discussed above. Additionally, our Program Development Office (PDO) will establish a system to monitor the implementation of these policies and procedures. Attached is a copy of the report section from our Mission's Annual Assessment conducted in October, 1992 where this weakness was reported after the work was completed for this audit.

Based on the above, we request that Recommendation No. 6.1 be considered resolved and closed once the revised Mission Operations Manual Order No. II-3 is issued and our PDO establishes the system to monitor the implementation of the policies and procedures contained in the revised order; and , that Recommendation No. 6.2 be considered resolved and closed.

APPENDIX V

REPORT DISTRIBUTION

| | |
|---|----|
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| GC | 1 |
| AA/OPS | 1 |
| AA/FA | 1 |
| FA/FM | 1 |
| AA/R&D | 1 |
| POL/CDIE/DI | 1 |
| FA/MC | 2 |
| FA/FM/FPS | 2 |
| IG | 1 |
| AIG/A | 1 |
| AIG/I&S | 1 |
| IG/A/PPO | 3 |
| IG/LC | 1 |
| IG/RM | 12 |
| IG/A/PSA | 1 |
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