

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
OAR/Oman's and A.I.D. Regional Contracting Office's
Management of A.I.D.-Direct Contracts
for Technical Assistance

Report No. 3-272-93-12
September 24, 1993





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 24, 1993

MEMORANDUM

*Regional
Inspector General
for Audit/Nairobi*

TO: A.I.D. Representative/Oman, Mark S. Matthews

FROM: *See* RIG/A/Nairobi, Everette B. *Off*

SUBJECT: Audit of OAR/Oman's and A.I.D. Regional Contracting Office's Management of A.I.D.-Direct Contracts For Technical Assistance

Enclosed are five copies of our audit report on OAR/Oman's and A.I.D. Regional Contracting Office's Management of A.I.D.-Direct Contracts for Technical Assistance, Report No. 3-272-93-12. We have included your comments to the draft report as Appendix II.

The report contains no recommendations addressed to you.

I appreciate the cooperation and many courtesies extended to the audit team during this audit.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 24, 1993

MEMORANDUM

*Regional
Inspector General
for Audit/Nairobi*

TO: Regional Contracting Officer, USAID/Jordan,
Ceophus Kennedy

FROM: *See* RIG/A/Nairobi, *Steve Orr* Everett B. Orr

SUBJECT: Audit of OAR/Oman's and A.I.D. Regional Contracting Office's
Management of A.I.D.-Direct Contracts For Technical
Assistance

Enclosed are five copies of our audit report on OAR/Oman's and A.I.D. Regional Contracting Office's Management of A.I.D.-Direct Contracts for Technical Assistance, Report No. 3-272-93-12. We reviewed your comments on a draft of this report and have included them as Appendix II.

The report contains two recommendations to you, which are unresolved. Please advise me within 30 days of any actions planned or taken to implement the recommendations.

I appreciate the cooperation and many courtesies extended to the audit team during this audit.

EXECUTIVE SUMMARY

Background

A.I.D. executes its development activities in Oman through a binational organization, the Omani-American Joint Commission (OAJC). OAJC was established in 1980 to manage U.S. Government economic assistance programs in Oman. OAJC is funded and guided by both governments. Routine activities in OAJC are handled by A.I.D. and Omani Government employees under the day-to-day supervision of the A.I.D. Representative. All project activities are undertaken in the name of OAJC and not in the name of A.I.D. However, all projects are designed and implemented in accordance with standard A.I.D. policies and procedures.

All project activities are undertaken in the name of OAJC and not in the name of A.I.D.

As of January 31, 1993, OAJC's project portfolio included four active projects involving the procurement of technical assistance through A.I.D.-direct contracts. We reviewed technical assistance procured under A.I.D.-direct contracts exceeding \$25,000 under the three most recent projects. As of January 30, 1993, commitments for the 14 contracts meeting these criteria totaled \$10,619,420 and expenditures totaled \$5,104,535. (See page 1.)

OAJC was responsible for determining the need for technical assistance, awarding some of the smaller contracts, monitoring contractor performance, and reviewing and approving payment vouchers. The A.I.D. Regional Contracting Office, located in Amman, Jordan, was responsible for awarding most contracts based on work statements prepared by OAJC and for providing technical support and training on contracting issues as needed.

Audit Objectives

Our field work commenced on January 30, 1993, and ended on June 14, 1993, and was conducted in Muscat, Oman and Amman, Jordan. The audit was designed to answer the following questions:

1. Did the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors? (See page 5.)
2. Did the Office of the A.I.D. Representative/Oman and the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in monitoring contractor performance? (See page 13.)
3. Did the Office of the A.I.D. Representative/Oman and the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in reviewing contractor vouchers for reimbursement? (See page 15.)

Summary of Audit Findings

The audit found that the Regional Contracting Office (RCO), when contracting for the acquisition of technical assistance for OAJC, followed U.S. Government and A.I.D. requirements for full and open competition, selected appropriate types of contracts, selected qualified contractors, and procured technical assistance at a fair price. However, RCO, which is currently staffed by one U.S. foreign service officer and one local secretary, did not always document contract negotiations or document them promptly. Nor did RCO provide procurement training to OAJC personnel, although the audit indicated that such training was needed. The current Regional Contracting Officer said that he had not documented price negotiations promptly or provided training because his heavy workload required that he focus his attention on higher priority responsibilities. (See pages 6 to 12.)

Neither we, OAJC, nor RCO are aware of any implementation problems or monetary losses that occurred because negotiations were not documented or training was not provided. However, when negotiations are not documented or not documented promptly, evidence needed to support decisions made, to prepare internal and external reviews, to prepare replies to Congressional inquiries, or to furnish critical information in the event of litigation may not be available when needed and the Government's interests may not be protected. In addition, procurement errors such

as those identified during the audit limit OAJC's ability to be sure that it always acquires the most qualified and responsive contractors, at the best prices available. (See pages 6 to 12.)

The audit found that OAJC and RCO followed U.S. Government and A.I.D. policies and procedures in monitoring the performance of contractors providing technical assistance. OAJC and RCO also followed A.I.D. policies and procedures in reviewing contractor vouchers for reimbursement to ensure that funds were expended only for services which were actually performed and funds were expended in accordance with contract terms. (See pages 13 to 16.)

Summary of Recommendations

The audit report makes two recommendations to RCO to correct problems noted during the audit. Specifically, we recommend that RCO conduct a workload assessment to determine whether it is, or will be, able to provide adequate and timely contracting support to the missions within its jurisdiction. Because the Mission Director, USAID/Jordan, controls staffing within the mission, RCO should provide the results of this assessment to the Mission Director, so that any internal control weaknesses caused by RCO staffing shortages can be considered when future staffing decisions are made. We also recommend that RCO provide training to OAJC personnel on procurement issues such as competition, selecting appropriate contract types and qualified contractors, and fair pricing. (See pages 7 and 10.)

Management Comments and Our Evaluation

OAJC and RCO reviewed the draft report and their comments, which we considered in preparing the final report, are included as Appendix II.

Office of the Inspector General
September 27, 1993

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INTRODUCTION

Background

A.I.D. can obtain technical assistance by contracting for it directly (A.I.D.-direct contracts) or by delegating contracting responsibilities to host country contracting agencies, subject to A.I.D. oversight and approval of specific contracting actions (host country contracts). Regardless of the procurement mechanism, A.I.D. is responsible for monitoring contractor performance to ensure that the desired results are accomplished.

As of January 31, 1993, OAJC's project portfolio included four active projects involving the procurement of technical assistance through A.I.D.-direct contracts. We reviewed technical assistance procured under A.I.D.-direct contracts exceeding \$25,000 under the three most recent projects. As of January 31, 1993, commitments for the 14 contracts meeting these criteria totaled \$10,619,420 and expenditures totaled \$5,104,535. During the audit, we reviewed payments totaling \$2,426,910 related to these contracts.

The Omani-American Joint Commission

A.I.D. executes its development activities in Oman through a unique binational organization, the Omani-American Joint Commission for Economic and Technical Cooperation (OAJC). OAJC was established in 1980 by the Governments of the United States and Oman to assist the economic development of Oman through cooperative and jointly-financed development projects. OAJC receives policy guidance from the Undersecretary for Political Affairs of the Ministry of Foreign Affairs and the U.S. Ambassador to Oman. The executive managers of OAJC are the Managing Director (the Undersecretary for Economic Affairs of the Ministry of Finance and Economy) and the A.I.D. Representative to Oman. Routine operations are handled by A.I.D. and Omani Government employees under the day-to-day supervision of the A.I.D. Representative. All project activities are undertaken in the name of OAJC and not in the name of A.I.D. However, all projects are designed and implemented in accordance with standard A.I.D. policies and procedures.

Audit Objectives

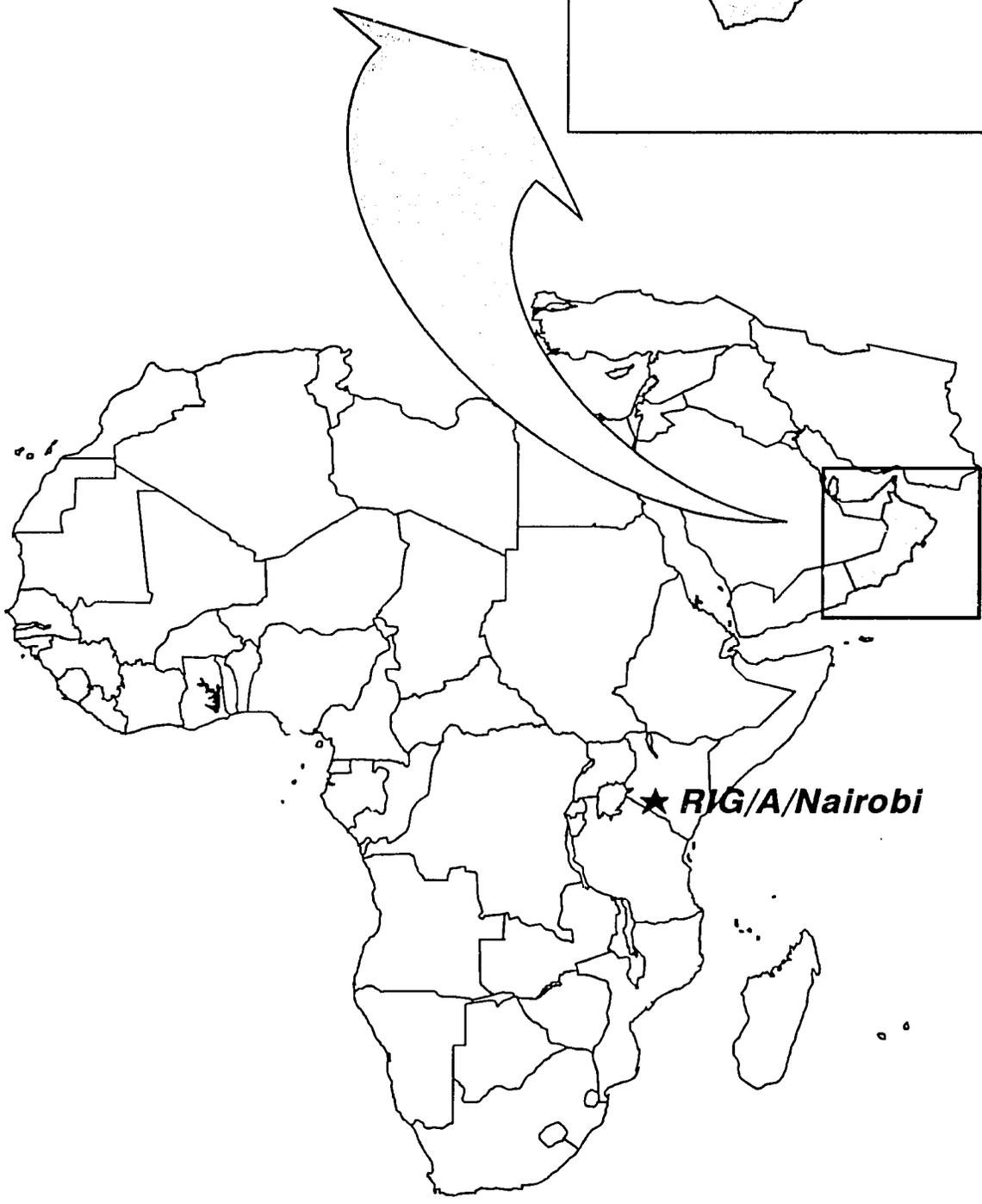
Our fiscal year 1993 audit plan included two audits of mission management of A.I.D.-direct contracts for technical assistance; however, neither audit was planned to be conducted in Oman. At the request of the A.I.D. Representative/Oman, who was concerned about the performance of OAJC's major technical assistance contractor, we changed the location of one of the planned audits to Oman. During the audit, we reviewed the A.I.D. Representative's concerns about the contractor. We forwarded our observations about the contractor's performance and policies to the Inspector General's Washington-based, Office of Financial Audits, so they could be considered during an Agency-contracted audit of the contractor's A.I.D.-funded contracts recently initiated by that office.

Our field work began on January 30, 1993, and ended on June 14, 1993, and was conducted in Muscat, Oman and in Amman, Jordan, the location of the Regional Contracting Office. The audit was designed to answer the following questions:

1. Did the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors? (See page 5.)
2. Did the Office of the A.I.D. Representative/Oman and the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in monitoring contractor performance? (See page 13.)
3. Did Office of the A.I.D. Representative/Oman and the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in reviewing contractor vouchers for reimbursement? (See page 15.)

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

Oman



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REPORT OF AUDIT FINDINGS

Did the A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors?

A.I.D.'s Regional Contracting Office, USAID/Jordan, (RCO) generally followed U.S. Government and A.I.D. requirements for procuring technical assistance at a fair price, selecting the appropriate type of contract, providing for full and open competition, and selecting qualified contractors; except that (1) RCO did not ensure that contract negotiations were fully or promptly documented and (2) RCO had not provided procurement training to personnel of the Omani-American Joint Commission (OAJC) who needed such training.

We determined that 6 of the 14 A.I.D.-direct contracts meeting our initial selection criteria had been negotiated and signed by RCO.¹ We reviewed documentation in RCO and OAJC files related to the 6 contracts and found that, in each case, an appropriate contract type was selected. As required by Federal Acquisition Regulation, Section 9.103 (a), in each case RCO reviewed references and qualifications of potential contractors before making the final selections. Also, appropriate actions were taken to ensure that the final price of each contract was reasonable. These actions included asking knowledgeable A.I.D. officials to review proposed budgets and asking personal services contractors to submit salary histories.

With respect to ensuring full and open competition, only one of the six contracts we reviewed was awarded on the basis of full and open competition. For this contract,

¹The remaining eight contracts were negotiated and signed by OAJC or AID/Washington, and we did not examine them as part of our audit of RCO actions. However, to determine whether RCO should provide procurement training to OAJC staff members, we examined five contracts negotiated and awarded by OAJC to determine if those contracts had been awarded in accordance with U.S. Government and A.I.D. regulations.

we found that there was public advertisement of the request for proposals. A technical evaluation committee was established to evaluate and rank submitted proposals. The committee submitted a report of its conclusions to the contracting officer. The contracting officer based the award on the technical evaluations and his ranking which included costs. For four of the remaining five contracts, the use of other than full and open competition (limited competition) was justified and supported in accordance with A.I.D. procedures. In each case, OAJC solicited proposals or applications from several sources and often convened committees to evaluate the proposals or applications submitted. In one case, the lack of competition was not properly justified.²

Although RCO's overall performance was satisfactory, we identified two problem areas which we believed needed corrective action. These are discussed below.

RCO Needs to Assess Ability to Provide Adequate and Timely Contracting Support

U.S. Government and A.I.D. acquisition regulations require that the contract negotiation process be promptly documented. However, only one of the six contract files we reviewed during our initial field work contained a negotiation memorandum. After bringing this matter to the attention of the Regional Contracting Officer, he prepared memorandums for the three contracts which he had negotiated. The Regional Contracting Officer advised us that he typically prepares such memorandums in batches but, because of his heavy workload, he had not done so promptly. If negotiations are not documented or are not documented promptly, evidence needed to support actions taken by various personnel in the procurement cycle, to prepare internal and external reviews or replies to Congressional inquiries, or to furnish critical information in the event of litigation may not be available when needed and the U.S. Government's interests may not be protected.

Because the Regional Contracting Officer attributed his inability to promptly prepare critical contract documentation to his increasingly heavy workload, we believed it would be useful for RCO to conduct a workload assessment that could be used when staffing decisions affecting RCO are made.

²We did not consider this single failure to properly justify a sole source procurement to be a significant problem or one that is likely to be repeated: the contract was less than \$65,000 and was awarded by a former A.I.D. Representative, the reasons for a sole source procurement were documented and appeared reasonable, and the result was likely to have been the same had the sole source procurement been properly justified.

Recommendation No. 1: We recommend that the Regional Contracting Officer, USAID/Jordan:

- 1.1 analyze its ability to provide adequate and timely support for the current and projected contracting workload of the missions within its jurisdiction, and**
- 1.2 provide the results of the analysis to the Mission Director, USAID/Jordan, so that significant discrepancies between workload and staff capabilities can be considered when making future staffing decisions for the Regional Contracting Office.**

Section 4.801 of the Federal Acquisition Regulation requires that documentation in contract files be sufficient to constitute a complete background for the basis of decisions at each step in the acquisition process. Section 15.808 of the same Regulation further requires that, at the conclusion of each negotiation of an initial or revised price, the contracting officers shall promptly prepare a memorandum of the principal elements of the negotiation. This section requires further that the memorandum be retained in the contract file and describe, at a minimum, the purpose of the negotiation, the name of each participant, and the basis for the final cost or price.

Section 704.803 of the A.I.D. Acquisition Regulation also emphasizes the need for complete contract files to (1) support actions taken by various personnel in the procurement cycle, (2) provide information for reviews conducted by A.I.D. or others, (3) supply data for use in preparing replies to Congressional inquiries, and (4) furnish essential facts in the event of litigation. Among the documents required to be maintained in contract files, as applicable, are full records of negotiations. Such memorandums should, at a minimum, describe the reasons for selecting the successful contractor; agreements on Government-furnished materials and facilities; terms, conditions, and type of contract agreed to; and justification for final cost or price.

We reviewed the files of six contracts negotiated by RCO, each of which required a memorandum documenting price negotiations. However, only one of these files included such a memorandum.

Three of the contracts for which negotiation memorandums had not been prepared were negotiated by the current Regional Contracting Officer. These were contracts with individuals for personal services. The Regional Contracting Officer advised us that he normally prepares negotiation memorandums for personal services contracts

in batches but, because of his increasingly heavy workload, had not been able to do so promptly. We noted that the oldest of these three contracts had been awarded almost 10 months prior to our initial review of the contract file in March 1993. After bringing this problem to his attention, we reviewed the same three files in June 1993 and found that memorandums of negotiation had been prepared and placed in the contract files.

We were unable to determine why negotiation memorandums were not prepared for the other two contracts negotiated by former contracting officers.

"...essential contract administration functions are often neglected."

In a December 1991 memorandum, "Report on A.I.D. Contracting: Workload and Workforce", the Director of the Office of Procurement reported that the limited number of direct hire foreign service staff in procurement positions was "marginally capable of continuing to make awards at [the current level of obligations and commitments], and essential contract administration functions are often neglected". The report included an analysis of projected discrepancies between contracting workload and the workforce available to support the contracting workload for each mission and regional contracting office for fiscal year 1992. It noted that any sustained program increase in the Jordan/Yemen/Oman/West Bank region would require significantly more staff than the one direct hire now responsible for this work. The Regional Contracting Officer advised us that the projected workload increase did occur, but that RCO continues to support contracting activities in five locations with the assistance of only one local secretary.

The Regional Contracting Officer believed that with one additional staff member, RCO could (1) respond more quickly to mission requests for assistance, (2) ensure that missions had access to advice when the Regional Contracting Officer is not available, and (3) ensure that the Regional Contracting Officer can focus all his attention on issues related to the mission he is visiting and not be interrupted to respond to requests for assistance from other missions. The Regional Contracting Officer noted that small missions, such as Oman, need more assistance than larger missions, because they lack executive or administrative officers with contracting experience or authority. As a result, even though the A.I.D. Representative can currently sign contracts which do not exceed \$250,000, OAJC does not have anyone who can put them together. OAJC's occasional practice of contracting with a former

A.I.D. contracting officer for short visits to prepare contracting documents has been very useful, to both RCO and OAJC. The audit noted that the need for improved turn-around time for the receipt of assistance from RCO had been raised by at least two missions in its area of jurisdiction.

When we discussed this issue with the Mission Director, USAID/Jordan, who is responsible for staffing decisions at that mission, he said that he was not aware that RCO needed additional staff.

The audit did not disclose any problems or monetary losses that occurred because negotiations were not promptly documented. However, when negotiations are not documented or not documented promptly, evidence needed to support procurement decisions, to prepare internal and external reviews, to prepare replies to Congressional inquiries, or to furnish critical information in the event of litigation may not be available when needed and the U.S. Government's interests may not be protected.

Because RCO attributed its inability to promptly prepare critical contract documentation to its increasingly heavy workload, we believe it would be useful for RCO to systematically assess its ability to provide adequate and timely support to the missions within its jurisdiction and provide the results of this assessment to the Mission Director, USAID/Jordan, who can take action, as warranted.

**RCO Should Provide
Training to OAJC Personnel**

According to A.I.D. procurement policy, regional contracting officers are responsible for recommending or conducting appropriate training for project officers. The audit found that RCO had not conducted procurement training to OAJC staff, even though the need for such training was demonstrated by the number and range of procurement errors made by OAJC staff. Although OAJC staff said they needed and would welcome procurement training and the Regional Contracting Officer had planned to provide such training, he had not been able to do so because of his heavy workload.

Procurement errors such as those identified during the audit limit OAJC's ability to be sure that it always acquires the most qualified and responsive contractors, at the best prices available. The provision of procurement training to OAJC personnel might prevent the recurrence of a similar pattern of procurement errors in the future and better trained OAJC personnel might reduce the need for support from RCO.

Recommendation No. 2: We recommend that Regional Contracting Officer, USAID/Jordan, provide training to staff of the Omani-American Joint Commission on issues related to the procurement of technical assistance under A.I.D.-direct contracts. This should cover such subjects as competition, selection of contract types and qualified contractors, and fair pricing.

A.I.D. Contract Information Bulletin 88-7 describes the role and responsibilities of mission and regional contracting officers. Included in the list of responsibilities is a requirement to "recommend or conduct appropriate training for project officers or contract staff". Contract Information Bulletin 93-8 also noted that delegating administrative contracting responsibilities only to properly trained project officers would help assure accountability.

The Regional Contracting Officer has not provided training to OAJC personnel on procurement subjects such as competition, selecting appropriate types of contracts and qualified contractors, and fair pricing, and we found no evidence that such training was provided by former contracting officers in the past.

To determine whether OAJC staff needed procurement training, we reviewed five contracts negotiated and awarded by OAJC and found that OAJC staff had made contracting errors which limited OAJC's ability to be sure that it always acquired the most qualified and responsive contractors, at the best prices available. The range and number of such errors suggested a general lack of familiarity with U.S. Government and A.I.D. procurement regulations, policies, and procedures. Examples of the errors we identified include the following.

- In January 1991, the A.I.D. Representative signed a \$58,500 contract with the local affiliate of a U.S. firm to conduct a survey of private sector training needs. OAJC had solicited proposals from six such firms and four submitted proposals. Several firms questioned the survey methodology outlined in the request for proposals and one firm declined to submit a proposal for the same reason. An evaluation committee established to review submitted proposals agreed that the statement of work should be changed but decided to select a leading offeror and allow only that firm to modify its proposal.

Section 15.606 of the Federal Acquisition Regulation, "Changes in Government Requirements", states that when the Government modifies its requirements the solicitation must be amended. In deciding which firms to notify, the contracting officer will consider the stage in the acquisition process at which the modification occurred. For example, if the competitive range has

been established, only those offerors in the range should be sent the amendment. In this case the competitive range had not been established before the need to change the government's requirements was established. In our opinion, at least the four firms submitting proposals, if not the six firms originally contacted, should have been notified of the changed requirements and given the opportunity to revise their proposals.

- In January 1990, the A.I.D. Representative signed the first of several personal services contracts with a third country national. Under the terms of the first two contracts, OAJC provided the contractor with a cost of living allowance during his first year of service. A third contract for a second year of services specifically stated that a cost of living allowance was not authorized. However, OAJC increased the contractor's base pay by an amount equal to the cost of living allowance he had received during the previous year. The rationale for OAJC's decision to stop paying a cost of living allowance to the contractor was not documented nor was the rationale for its decision to include an amount equal to the allowance in his base pay. The result also served to increase post differential payments to the contractor which were calculated on his base pay.
- In March 1991, the A.I.D. Representative signed a contract with a local firm for the provision of services needed to conduct an orientation program for new employees of the Omani Directorate of Fisheries. Prior to awarding this contract, OAJC solicited proposals from five local firms, but did not otherwise advertise the availability of the contract. Nor did it prepare documentation justifying other than full and open competition.

Because the award exceeded \$100,000 and preceded Contract Information Bulletin 92-5 which raised the ceiling for advertisement to \$250,000, it should have been advertised in the Commerce Business Daily for full and open competition as required by Part 5 of the Federal Acquisition Regulation and Subpart 705.2 of the A.I.D. Acquisition Regulation. Alternatively, OAJC should have followed procedures in Subpart 6.3 of the Federal Acquisition Regulation and Subpart 706.3 of the A.I.D. Acquisition Regulation which describe instances in which other than full and open competition can be used.

The current Regional Contracting Officer gave us copies of materials he prepared for a course on procurement which he has presented in Yemen and Jordan. He said that he had not been able to provide this course to OAJC personnel because of his heavy

workload and higher priority responsibilities. RCO agreed to provide such training as soon as both offices could arrange a mutually acceptable schedule.

Although the errors discussed above were made on contracts signed by the former A.I.D. Representative, current OAJC staff members told us that they needed and would welcome procurement training. Such training might prevent the recurrence of a similar pattern of errors in the future and better trained OAJC personnel might reduce the need for support from RCO.

Did the Office of the A.I.D. Representative/Oman and A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in monitoring contractor performance?

The Office of the A.I.D. Representative and the Regional Contracting Office (RCO) followed U.S. Government and A.I.D. policies and procedures in monitoring contractor performance, including the receipt and use of commodities purchased with project funds.

A.I.D. Handbook 3, Chapter 11, stipulates that project officers must monitor A.I.D.-financed projects and contracts to determine project and contractor progress and whether implementation methods and procedures are in accordance with project and contract terms. Specifically, the Handbook requires project officers to (1) physically inspect project activities as necessary, (2) meet regularly with contractor officials and other project participants to review contract progress and identify and resolve implementation problems that may exist, and (3) review reports submitted by contractors in accordance with contract terms. The Handbook also emphasizes the importance of project monitoring in ensuring that U.S.-financed goods and services are effectively used to produce intended results. The need for A.I.D. project managers to routinely and consistently evaluate contractor performance was recently reemphasized by a joint A.I.D. - Office of Management and Budget review team in its recommendations aimed at improving management in A.I.D.

We reviewed the Omani-American Joint Commission's (OAJC's) and RCO's monitoring of the provision of technical assistance under four contracts with institutional contractors and four contracts with individuals for personal services. We found that, in accordance with the requirements of A.I.D. Handbook 3, OAJC and RCO monitored contractor progress and performance by conducting and documenting routine site visits, holding regular meetings with contractor and host government officials, discussing contract implementation details with contractor officials on an almost daily basis, and receiving and reviewing contractor reports and other deliverables.

Our favorable conclusion with respect to OAJC's monitoring of the performance of the institutional contractor for the Fisheries Development and Management Project (FDMP) is based on our review of six quarterly reports prepared by the FDMP contractor between May 1991 and December 1992 and numerous memorandums of meetings and voluminous correspondence between OAJC and contractor and host government officials about project activities. We also examined four trip reports prepared by the Regional Contracting Officer covering his oversight of the FDMP

contractor's activities during the period August 1991 to January 1993. This intensive contact and oversight led current OAJC management to realize that the FDMP had project design and implementation problems and request an early evaluation of the project's objectives and contractor's performance. In addition, as required by A.I.D. regulations, the FDMP project officer monitored the receipt and use of A.I.D.-funded commodities.

Our favorable conclusion with respect to OAJC's monitoring of other institutional contractors is based on our review of correspondence and project officer memorandums which indicated that they were aware of project progress and contractor performance. With respect to OAJC and RCO oversight of personal services contractors, we found that personal services contractors were closely supervised by their U.S. direct hire supervisors and their performance was reviewed annually.

For the technical assistance contracts reviewed during this audit, OAJC monitored the receipt and use of A.I.D.-funded commodities, as required by A.I.D. Handbook 15. For example, the project officer required the FDMP contractor to maintain detailed records of the location of all project commodities. According to the project officer, selected items were periodically inspected to verify their location and condition. We verified the completeness and accuracy of the commodity records by physically inspecting a selection of the items.

Did the Office of the A.I.D. Representative/Oman and A.I.D. Regional Contracting Office follow U.S. Government and A.I.D. policies and procedures in reviewing contractor vouchers for reimbursement?

The Office of the A.I.D. Representative and the Regional Contracting Office (RCO) followed U.S. Government and A.I.D. policies and procedures in reviewing contractor vouchers for reimbursement.

A.I.D. Handbook 19, Chapter 3, Appendix 3A, states that the project officer is responsible for administratively approving vouchers submitted by contractors for payment because he is familiar with the projects, the progress and performance of the contractors, and can prevent significant errors if the amounts claimed do not appear reasonable in relation to the work performed. Mission controllers (certifying officers) are responsible for checking payment vouchers for arithmetical accuracy and for consistency with the terms of the contract before processing payment. The controller should review all billing items not encompassed in the project officer's administrative reviews, such as home office costs, travel and transportation charges, communication costs, and miscellaneous personnel costs, including housing and education allowances. Subpart 31.201 of the Federal Acquisition Regulation requires that payments to contractors be made only for allowable costs and places the decision on matters of allowability of costs on the contracting officer.

We reviewed the Omani-American Joint Commission's (OAJC's) procedures for reviewing payment vouchers submitted by both institutional and personal services contractors. We identified the procedures followed by project officers and the finance and administrative officer in reviewing payment vouchers and reviewed payments made to three institutional and four personal services contractors. To test OAJC's procedures, we compared, on a sample basis, the amounts paid to the contractors against the terms of their respective contracts and against A.I.D. procedures as appropriate. Further, we reviewed RCO's oversight role in the payment process.

The audit found that OAJC had a system which ensured that payment vouchers were reviewed and which detected questionable claims. Contractors' payment vouchers were reviewed and approved by both a project officer and controller/finance officer. The basis of project officer's approval, typically periodic visits or contacts with contractors, was indicated in the vouchers. Where payment was based on a contractor's completion of specified tasks, we found evidence that such tasks had been completed before payment was made. Where payment was based on contractors' staff daily rates, we found evidence that such rates agreed with

contractually approved rates. For personal services contractors, we found that payments agreed to contractual rates for both compensation and benefits.

The disallowance of certain claimed amounts provided further evidence that controls existed over the voucher payment process. For example, as a result of his administrative review of ten monthly vouchers submitted by the Fisheries Development and Management Project contractor, the project officer questioned and disapproved reimbursement of costs totalling \$13,626 which had been claimed on seven vouchers.

The Regional Contracting Officer did not participate in this day-to-day review of payment vouchers but the audit found that he provided necessary guidance on questionable claims when requested.

MANAGEMENT COMMENTS AND OUR EVALUATION

The A.I.D. Representative/Oman and the Regional Contracting Officer reviewed a draft of this report and fully agreed with its findings, conclusions, and recommendations. We made two minor editorial changes recommended by the Regional Contracting Officer. The complete text of their comments is included as Appendix II.

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SCOPE AND METHODOLOGY

Scope

We audited the Office of the A.I.D. Representative/Oman's (OAR/Oman's) and Regional Contracting Office's (RCO's) management of A.I.D.-direct contracts for technical assistance in accordance with generally accepted government auditing standards.

As of January 31, 1993, the project portfolio of the Omani-American Joint Commission (OAJC) -- the binational organization which executes A.I.D. development activities in Oman -- included four active projects involving the procurement of technical assistance under A.I.D.-direct contracts. We identified 14 A.I.D.-direct contracts for technical assistance exceeding \$25,000 under the three most recent projects -- 272-0105, 272-0106, and 272-0109. We excluded the fourth project from our review because we had included it in our recent audit of OAR/Oman's management of construction services and because host country contracting was the primary procurement method used. As of January 31, 1993, commitments for the 14 contracts meeting our selection criteria totaled \$10,619,420 and expenditures totaled \$5,104,535. We reviewed vouchers for payments totaling \$2,426,910.

We conducted our field work primarily at the offices of the Omani-American Joint Commission (OAJC) in Muscat, Oman, and the Regional Contracting Office in Amman, Jordan. Our field work began on January 30, 1993, and concluded on June 14, 1993.

Methodology

In addition to the specific methodology followed for the three audit objectives discussed below, we reviewed reports of similar IG audits conducted at other missions. We also reviewed OAR/Oman's fiscal year 1992 Internal Control

Assessment to determine whether it disclosed any material weaknesses in the management of A.I.D.-direct contracts for technical assistance.

We did not test the reliability of computer-generated data used in the report: (1) because the validity of the data was not crucial to accomplishing the audit objectives and (2) because computer-generated data has been used only to a limited extent for background and informational purposes.

We negotiated with OAR/Oman and RCO and obtained written representations for all essential assertions relating to our audit objectives.

The methodology for each objective follows.

Audit Objective One

To answer this objective, we evaluated RCO's controls against criteria established in Federal and A.I.D. Acquisition Regulations and A.I.D. Contract Information Bulletins. We determined that 6 of the 14 A.I.D.-direct contracts meeting our initial selection criteria had been negotiated and signed by RCO. As of January 31, 1993, commitments and expenditures for these six contracts totaled \$9.6 million and \$4.2 million, respectively. This represented 91 percent of the total committed and 82 percent of the total spent within the universe of 14 contracts.

We reviewed documentation in RCO and OAJC files related to these contracts to determine whether RCO actions leading to the award of these contracts complied with the criteria described above and resulted in fair contract prices, the selection of appropriate contract types, awards made on the basis of full and open competition (unless the use of less than full and open competition was adequately justified and documented), and the selection of qualified contractors.

In addition, we tested whether contract negotiations had been promptly documented, as required by Federal and A.I.D. Acquisition Regulations. We reviewed a worldwide contracting workload report prepared by the Office of Procurement, AID/Washington. We also interviewed the Mission Director, USAID/Jordan and OAJC officials regarding their opinions as to whether RCO was able to provide timely and adequate contracting support to the missions within its jurisdiction.

In addition to reviewing RCO actions, we examined OAJC actions leading to the award of five additional contracts and interviewed the Regional Contracting Officer

and current OAJC officials as to OAJC's need for training and RCO's ability to provide it.

Audit Objective Two

To answer this objective, we judgementally selected and reviewed 8 contracts from the 14 A.I.D.-direct contracts for technical assistance meeting our selection criteria. This sample included four contracts with institutional contractors and four contracts with individuals for personal services. In general, our sample was designed to include the highest-cost contracts. As of January 31, 1993, commitments and expenditures for these eight contracts totaled \$9.6 million and \$4.7 million, respectively. This represented 90 percent of the total committed and 92 percent of the total spent within the universe of 14 contracts.

We reviewed documentation in contract and project files to determine the extent to which OAJC had monitored contractor performance and to determine whether these efforts complied with the requirements of A.I.D. Handbook 3. For example, for the Fisheries Development and Management Project, we

- reviewed quarterly reports submitted by the largest institutional contractor between May 1991 and December 1992,
- reviewed numerous memorandums of meetings and voluminous correspondence between OAJC and contractor and host government officials about project activities,
- examined four trip reports prepared by the Regional Contracting Officer covering his oversight of the contractor's activities between August 1991 and January 1993,
- reviewed contract documentation to determine whether OAJC monitored the receipt and use of A.I.D.-funded commodities and tested the completeness and accuracy of commodity records by physically inspecting a selection of items,
- reviewed the report of the early evaluation of the project's objectives and contractor's performance,

- interviewed staff of the Fisheries Sciences Center and Ministry of Agriculture and Fisheries in their Muscat offices, and
- interviewed staff of the Fisheries Development and Management Project contractor in its Muscat offices.

To test OAJC's monitoring of the performance of the three other institutional contractors, we reviewed correspondence and project officer memorandums concerning project progress and contractor performance and interviewed the project officers regarding their monitoring activities. In addition, we reviewed contract files and interviewed OAJC supervisors to determine the extent to which OAJC had reviewed the performance of personal services contractors.

Audit Objective Three

To answer this objective, we identified the procedures followed by OAJC project officers and the finance and administrative officer in reviewing payment vouchers and making payments to three institutional contractors and four personal services contractors. Our objective was to determine whether OAJC had a system which ensured that payment vouchers were reviewed, and which detected questionable claims.

To test OAJC's procedures, we compared, on a sample basis, the amount paid to contractors against the terms of their respective contracts and against A.I.D. procedures as appropriate. In all, we reviewed vouchers for payments totaling \$2,426,910. Finally, we reviewed RCO's oversight role in the payment process.

Omani-American Joint Commission
Economic & Technical Cooperation

اللجنة العمانية الأمريكية المشتركة
للتعاون الاقتصادي والتقني

MEMORANDUM

TO: Everett B. Orr, RIG/A/Nairobi

FROM: ^{HSG} Michael S. Gould, Acting A.I.D. Representative

DATE: August 22, 1993

SUBJECT: Audit of OAR/Oman's and A.I.D. Regional Contracting Office's Management of A.I.D.-Direct Contracts for Technical Assistance

The O.A.J.C. staff have reviewed the draft report of the subject audit and have no comments on its substance. We are looking forward to receiving the recommended procurement training from the Regional Contracting Officer. We are pleased with the results of the audit and wish to express our appreciation for the efficient and professional services provided by your staff.

RCO Comments to Draft RIG/A/N Audit Report

Thanks for the opportunity to comment on the audit report. As I was given the opportunity during the audit team debriefing in Muscat, I have no substantive recommendation or comment, except on page 7, Report of Audit Findings, page 7 (footnote 1).

"..., the contract was less than \$65,000 and was awarded by a former OAJC REP. The current Regional Contracting Officer agreed that use of the class justification for other than full and open competition might have been improper but the OAJC is not likely to repeat this occurrence...."

On Page 18, recommend the insertion of "and preceded CIB 92-5 which raised the ceiling to \$250,000" after "Because the award exceeded \$100,000...."

Ceophus Kennedy
RCO/Annan

APPENDIX III

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