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Assistant Inspector General for Audit

Audit of USAID's Management of Contractor
Staffing and Salaries

Report No. 6-263-95-006
March 16, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

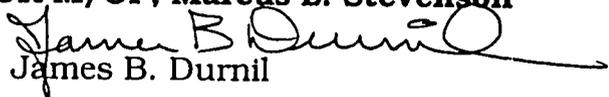
Agency for International Development

Washington, D.C. 20523

*Assistant Inspector General
for Audit*

MAR 16 1995

MEMORANDUM FOR M/OP, Marcus L. Stevenson

FROM: AIG/A,  James B. Durnil

SUBJECT: Audit of USAID's Management of Contractor Staffing and Salaries
(Audit Report No. 6-263-95-006)

This is the report on our audit of contractor staffing and salaries in seven USAID missions and offices. This report represents a summary of findings which have been previously reported to the Regional Support Mission for East Asia, the Regional Economic Development Services Office for East and Southern Africa, the Regional Contracting Office/Swaziland, USAID/Swaziland, USAID/Mozambique, the Regional Economic Development Services Office for West and Central Africa, and USAID/Egypt.¹ The report includes one recommendation for your action. This recommendation is classified as unresolved pending agreement between our offices on the action to be taken.

I wish to express my appreciation for the cooperation and courtesies extended to my staff by all of the missions and offices involved in this audit.

Background

USAID relies on technical services contractors to help implement USAID projects. These contractors provide expert personnel (e.g., engineers, economists, systems

¹ Audit of USAID/Thailand RSM/EA Contractor and Subcontractor Staffing and Salary Awards (5-493-94-016, August 25, 1994)

Audit of REDSO/ESA's Management of Contractor Staffing and Salaries (3-623-95-003, November 16, 1994)

Audit of the Management of Contractor Staffing and Salaries by the USAID Regional Contracting Office/Swaziland, USAID/Swaziland, and USAID/Mozambique (3-645-94-010, September 19, 1994)

Audit of USAID/Egypt Contractor Staffing and Salaries (6-263-95-005, February 27, 1995)

Audit of USAID/Regional Economic Development Services Office for West and Central Africa's Contractor Staffing and Salary Awards (7-624-95-004, February 13, 1995)

analysts, and trainers) to advise and assist host country officials who are implementing USAID projects. The quality of the personnel assigned by these contractors can significantly influence the success or failure of USAID's projects. To control its costs, USAID tries to ensure that contractors provide qualified personnel at the minimum salary levels necessary in a competitive market.

However, the Congress, USAID management officials, and the Office of Inspector General have expressed concerns that contractors might win contract awards based, in part, on the quality of the personnel they propose to employ and then substitute other personnel of lesser quality. They have also expressed concerns that contractor personnel might be paid salaries in excess of what their position, salary history, education, and experience would justify.

Our audit focussed on "key personnel" employed under USAID-financed contracts. USAID-financed contracts include both direct contracts (which are awarded by USAID) and host country contracts (which are awarded by a host government contracting agency). Key personnel are considered critical to performance of the contract and may not be replaced without USAID's consent. (In the case of host country contracts, the consent of the contracting agency is required.)

The audit covered 97 technical services contracts valued at approximately \$255 million, which named over 500 key personnel. The specific audit tests we performed covered a sample of 209 key personnel.

Audit Objectives

Pursuant to our fiscal year 1994 audit plan, the Office of Inspector General conducted an audit to answer the following questions:

- Did USAID missions ensure that technical services contractors provided the same key personnel included in their proposals or provided substitutes of comparable quality?
- Did USAID missions ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?

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

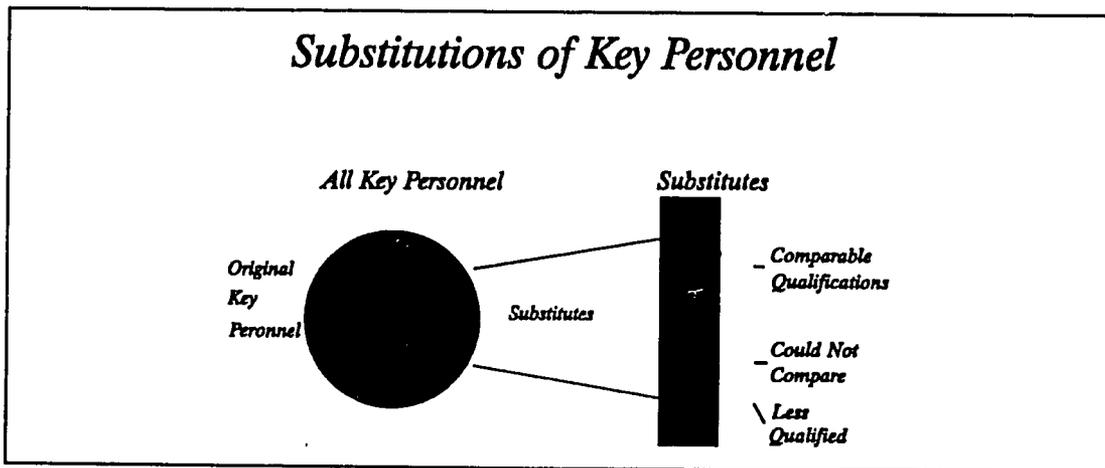
Audit Findings

Did USAID missions ensure that technical services contractors provided the same key personnel included in their proposals or provided substitutes of comparable quality?

With minor exceptions, the missions covered by the audit ensured that technical services contractors provided the same key personnel included in their proposals or provided substitutes of comparable quality.

Individuals named as key personnel are considered critical to performance of the contract. USAID direct contracts for technical services normally include a contract clause which requires contractors to obtain USAID's consent before key personnel are replaced. For host country contracts, the consent of the host country contracting agency (and sometimes USAID as well) is normally required.²

Our audit tests covered 209 key personnel, including 41 substitutes. Of these 41 substitutes, 30 had qualifications comparable to those of the personnel they replaced. Four of the substitutes were less qualified than their predecessors, but the substitutes were usually approved by USAID and in some cases were paid lower salaries. Biographical data sheets and resumes were not available for 7 substitutes, so we could not compare their qualifications with those of their predecessors.



² Consent requirements for USAID direct contracts are found in USAID Contract Information Bulletins 86-7 and 94-10. Consent requirements for host country contracts are found in USAID Handbook 11, Sections 4.3.7 and 5.7.

Although the contractors generally provided the personnel included in their proposals or substitutes of comparable quality, the auditors found that two of the missions covered by the audit could improve their management controls to reduce the possibility that contractors could substitute key personnel without the missions' knowledge. Accordingly, the auditors recommended that the two missions take steps to better ensure that contractors obtained their consent before substituting key personnel.

Did USAID missions ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?

Five of the missions covered by the audit ensured, or generally ensured, that the salaries of key personnel were justified by the employees' position, salary history, education, and experience. The other two missions covered by the audit did not ensure that the salaries of contractor personnel were justified.

In five of the seven missions reviewed, the missions generally ensured that initial salaries established for contractor key personnel, as well as any subsequent salary increases, were reasonable and were within limitations established by the contracts and USAID regulations. They also generally ensured that biographical data sheets were obtained for key personnel assigned to USAID contracts.

However, two missions needed to obtain salary histories for personnel employed under USAID-financed contracts to ensure that salaries established for contractor personnel were reasonable. This issue is discussed in the following section.

More Complete Information Was Needed To Ensure That Salaries Were Reasonable

USAID policy states that salaries payable under USAID contracts should be at the minimum levels necessary to attract needed technical services in a competitive market. Two of the missions covered by the audit did not ensure compliance with this requirement because they did not consistently obtain salary histories for contractor personnel. In some cases, salary histories were not obtained because the employees were employed under host country contracts, and USAID policies do not specifically require biographical data sheets or salary histories for these employees. In other cases, we did not determine the specific cause of the problem. Where salary histories were not obtained, the missions could not verify that salaries were at the minimum level required to attract qualified personnel.

Recommendation No. 1 We recommend that the USAID Office of Procurement remind missions of the importance of obtaining salary histories before salaries are established under USAID-financed direct or host country contracts.

For USAID direct contracts, USAID Handbook 14, Appendix G states that it is the contracting officer's responsibility to scrutinize salary increases as a matter of business acumen whenever negotiations deal with any salaries payable under contracts. All salaries should be fully justified, even when specific approval procedures are not involved. Salaries payable under USAID contracts should be at the minimum levels necessary to attract needed technical services in a competitive market. In addition, for most direct contracts over \$500,000, Sections 15.805-1(b), 2, and 3 of the Federal Acquisition Regulations require contracting officers to perform a cost analysis to evaluate the reasonableness of proposed individual cost elements, such as salaries.

For host country contracts, USAID Handbook 11, Chapter 1, Sections 2.1, 3.5.4, and 3.5.5 state that USAID is required to approve the draft contracts and final signed contracts expected to exceed \$250,000 in value. USAID's approval will be based, among other things, on the biographical information submitted for key personnel and the analysis of the contract cost or price prepared by the contracting agency.

Two of the missions covered by the audit did not ensure that salaries established for contractor personnel were reasonable because they did not consistently obtain biographical data sheets or salary histories for personnel employed under USAID-financed contracts:

- In one mission, no salary histories or biographical data sheets were obtained for 9 of the 65 contractor employees reviewed. All of the employees were local employees, and the contractor's chief of party stated that he established their salaries based on the position they were hired to fill rather than on their salary histories. Biographical data sheets were subsequently prepared for these employees which showed that they received salary increases of 15 to 115 percent. In addition, even when biographical data sheets were obtained, they were not always accurate, complete, and timely. Of the 65 biographical data sheets reviewed by the auditors, 1 contained inaccurate salary information, 10 were not signed by the contractor, and 2 were submitted six months after the employees commenced work.
- In the second mission, no salary histories were obtained for 45 of the 89 key personnel reviewed. This included 28 personnel hired under USAID-financed host country contracts and 17 personnel employed under USAID direct contracts. In addition, 5 of the 89 personnel in the audit sample, as well as 6 other personnel who were outside the sample, included apparently incorrect information about their education and/or salary histories in biographical data sheets and resumes provided to USAID. The auditors

identified \$193,702 in unsupported costs related to three of these individuals. The mission is in the process of trying to recover these costs.

In some cases, salary histories were not obtained because the employees were hired under host country contracts, and USAID policies do not specifically require biographical data sheets or salary histories for these employees. At the same time, USAID missions and host country contracting agencies are not prohibited from requesting salary histories either. Officials in one of the host country contracting agencies stated that they did not know they could request this information. For direct contracts, we did not determine specifically why salary histories were not obtained. One USAID official suggested that contracting officers might be reluctant to delay the award of a large contract because a few biographical data sheets were missing or incomplete.

We believe that salary histories should be obtained to provide assurance that salaries under USAID-financed contracts are at the minimum levels necessary to attract qualified personnel. Therefore, this audit report recommends that the USAID's Office of Procurement remind missions of the importance of obtaining salary histories before salaries are established for **both direct and host country contracts**.

Where salary histories were not obtained, USAID could not ensure that salaries were at the minimum level necessary to attract qualified personnel. Obviously, where salary histories were not obtained, we could not determine whether excessive salaries were being paid. However, given the magnitude of costs involved—salaries are often the largest category of direct costs under technical services contracts and indirect costs such as overhead are usually calculated as a percentage of salary costs—it would be prudent for USAID to at least be aware of the salary histories of personnel employed under USAID-financed contracts. As we found in one mission, possible excess costs incurred as a result of incorrect education and salary history information amounted to \$193,702 for just a few key personnel.

Therefore, we are recommending that USAID's Office of Procurement remind missions of the importance of obtaining salary histories before salaries are established under USAID-financed contracts. We are not making a recommendation regarding verification of the information in biographical data sheets because Contract Information Bulletin 94-17, dated September 30, 1994, revised the biographical data sheet form and made the contractor responsible for verifying the information included in biographical data sheets.

Management Comments and Our Evaluation

The Office of Procurement stated that it did not want to require or even encourage Missions to obtain and review salary histories when there are better ways of ensuring that salaries of contractor employees are justified. For example, the Office indicated that knowledge of the market place might be sufficient to show that salaries are justified. As another example, the Office stated that a salary might be justified by an employee's position, regardless of whether the employee's previous salary was higher or lower. Finally, the Office stated that cost/price competition should help ensure that salaries are justified. The Office of Procurement also disagreed with our interpretation of USAID Handbook 14, Appendix G regarding approval of contractor salaries.

We continue to believe that USAID policy included in Appendix G of USAID Handbook 14 requires contracting officers to obtain and review salary histories for individuals hired under direct contracts. This policy states, in part, that:

... it is the Contracting Officer's responsibility to scrutinize increases as a matter of business acumen whenever AID negotiations deal with *any* salaries payable under contracts.... Personnel compensation negotiated and payable under AID contracts should be at the minimum levels necessary to attract needed technical services in a competitive market. [Emphasis added.]

As stated in both our draft report and this final report, there is currently no equivalent requirement for host country contracts. Nevertheless, we believe that salary histories should be obtained and reviewed for both direct contracts and host country contracts. Without reviewing an individual's salary history, there is little assurance that the salary paid is at the minimum level necessary to attract qualified personnel.

A hypothetical case will help illustrate this point. It might be possible to establish, based on knowledge of the local market, that the prevailing salary range for a given position is \$24,000 to \$36,000. The salary actually paid should logically depend on several factors, one of which is the salary history of the individual selected to fill the position. An individual currently employed at a salary of \$34,000 may not accept the position for less than \$36,000. An individual who previously made only \$30,000 and has been unemployed for a year may accept the position for \$28,000. Without knowing the proposed candidate's salary history, it is very difficult to say what specific salary level within the prevailing range would be justified.

It is true that cost competition among contractors should help restrain salary levels. Once a contract is awarded, however, cost competition is no longer a

factor and there are few incentives for contractors to minimize costs under cost reimbursement contracts.

Recommendation No. 1 is considered unresolved until the Office of Procurement and the Office of Inspector General reach agreement on the action to be taken.

SCOPE AND METHODOLOGY

Scope

We conducted our audit in accordance with generally accepted government auditing standards. The fieldwork was conducted by our offices in Singapore, Nairobi, Dakar, and Egypt from November 1993 through October 1994. The audit covered technical assistance contracts which were awarded by seven USAID missions and offices from October 1, 1990 through September 30, 1993.³

The audit covered 97 technical services contracts valued at approximately \$255 million, which named over 500 key personnel. The specific audit tests we performed covered a sample of 209 key personnel. The sample of 209 key personnel was drawn using judgmental sampling techniques.

The sources of evidence for the audit consisted primarily of interviews and documentation provided by USAID officials and contractor staff.

This audit did not verify the reliability of computer-generated information used in the report because this information was primarily used as background information rather than as evidence to support the audit findings.

³ The seven offices covered by the audit were: the Regional Support Mission for East Asia, the Regional Economic Development Services Office for East and Southern Africa, the Regional Contracting Office/Swaziland, USAID/Swaziland, USAID/Mozambique, the Regional Economic Development Services Office for West and Central Africa, and USAID/Egypt. In the Regional Support Mission for East Asia, the audit covered contracts awarded from January 1, 1990 through September 30, 1990 and included both contractor key personnel and other contractor employees.

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Several of our offices identified cases where individuals apparently misstated their education or salary history on biographical data sheets provided to USAID. In these cases, we attempted to contact the individuals for an explanation. However, in most cases, we were not successful because the individuals were no longer working for the same contractors and we could not obtain a telephone number to contact them. Had we been successful in contacting all of the individuals, it is possible that they could have provided a satisfactory explanation for the apparent discrepancies discussed in this report.

The audit included an assessment of the internal controls related to the audit objectives. We obtained an understanding of the internal controls, determined whether they had been implemented, and assessed control risk.

Methodology

The methodology for each objective follows.

Audit Objective One

This objective was to determine whether the USAID missions and offices covered by the audit ensured that technical services contractors provided the same key personnel included in their proposals or provided substitutes of comparable quality. To accomplish this objective, the auditors interviewed USAID, host country, and contractor officials and reviewed documentation they provided to determine whether:

- key personnel named in contracts were also named in contractors' final proposals,
- key personnel named in contracts were still working on the contracts or whether substitutions were made,
- substitutes had qualifications comparable to those of the individuals they replaced, and
- substitutes were approved by USAID and/or the host country contracting agency as required.

Audit Objective Two

This objective was to determine whether the missions and offices covered by the audit ensured that the salaries of contractor key personnel were justified by the employees' position, salary history, education, and experience. To accomplish this objective, we interviewed USAID, host country, and contractor officials and reviewed documentation to:

- determine the rationale for any increases over individuals' previous salaries, and
- verify that salary limitations established by USAID regulations and contract terms were complied with.

We also verified the information on education and salary histories provided to USAID on biographical data sheets by contacting past employers and educational institutions. Where apparent discrepancies arose, we attempted to contact the individuals concerned to obtain an explanation.



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FEB 21 1995

MEMORANDUM

TO: AIG/A, Mr. James B. Durnil

FROM: M/OP, James *James B. Murphy*, Acting Director

SUBJECT: Audit of USAID's Management of Contractor Staffing and Salaries (Audit Report No. 6-263-95-XX)

Thank you for the opportunity to comment on the draft audit report on management of contractors' staffing and salaries.

We do have a substantive problem with the audit as written. The draft audit takes the position that obtaining and reviewing the salary history of contractors' employees is required by regulation. It is not. Neither the AIDAR nor Handbook 11 require that salary histories be reviewed.

Appendix G of the AIDAR says "[r]ates should be determined by the market place where the types of services are obtained." The only context in which the individual's customary salary level for similar work is mentioned concerns review of salaries over the FS-1 (now ES-6) threshold. The situation described on page 9 of the draft report where the contractor's chief of party stated that salaries were based on the positions local employees were hired to fill rather than on their salary history is a good example of an appropriate way to determine salaries. Relying on competition in the local market to assure salary reasonableness is in keeping with the Appendix G guidance.

Contracting Officers in the Missions and AID/W have, in fact, been looking for better ways to deal with contractor salaries issues, in part because of problems such as those mentioned in the draft report - biographical data sheets are not always accurate, complete, or timely - as well as because of the administrative burden involved in review and approval of salaries. We are trying to move away from review of individual salary histories, and we do not want to require, or even encourage, continued review of salary histories when there are better ways to deal with the issue. It is the contractor's responsibility to assure that qualified employees are performing under the contract; the Contracting Officer can determine that the costs are justified through means other than salary history

including knowledge of the market place and cost/price competition.

One additional point: the draft report states that key personnel may not be reassigned, terminated, or replaced without USAID's consent. The most recent Contract Information Bulletin on key personnel (CIB 94-10) says that no replacement of key personnel shall be made without approval of the contracting officer. The contractor does not give up the right to reassign or terminate any employee; USAID retains only the right to approve the individual who will be substituted in that key position.