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## IMPROVEMENTS SHOULD BE MADE IN PLANNING FOR AND ADMINISTERING INDEFINITE QUANTITY CONTRACTS

AID may be paying more than necessary for services by obtaining expertise under an IQC because:

- Policy directives and legislative restraints have discouraged the use of less costly sources of technical services.
- Poor planning precluded the consideration of less costly sources of technical services and necessitated the use of IQCs for quick implementation of project activities.

Also, AID's justification for using costly IQCs is not adequately documented.

Audit Report Number 80-84

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Area Auditor General, Washington  
Agency for International Development  
Washington, D.C. 20523

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## Introduction

The indefinite quantity contracts (IQCs) used by AID are essentially for time and material. They provide for the procurement of services on the basis of direct labor hours at predetermined fixed rates. These rates include direct labor, overhead and profit. IQCs are short term contractual agreements used to obtain services quickly in quantities that cannot be precisely defined. These unique characteristics makes them an expensive mode of procurement. They do, however, fulfill AID's need to provide technical assistance from sources other than the direct-hire employees, personal services contractors, consultants, or other individual sources when such sources are not available. The authority and conditions for use of these contracts are set forth in Section 1-3.409 of the Federal Procurement Regulation (FPR).

## Purpose and Scope

The purpose of the review was to determine if AID was (1) considering other less costly sources of needed expertise before using an IQC and (2) administering IQCs in the most efficient and effective manner. As of July 1, 1979, there were 54 active work orders, totalling \$2 million, that were written against 115 IQCs and 1098 inactive work orders valued at \$33.7 million.

We reviewed AID's policies, procedures and planning as well as the data available in the Office of Contract Management, various technical backstop offices and four missions in Central America and the Caribbean. We also examined 30 active and inactive work orders valued at \$734,497 written against 20 contracts. In addition, we held discussions with appropriate AID officials.

## Problems Associated with the Use of IQCs

In our view, the Agency may be paying more than necessary by obtaining needed expertise under an IQC because:

- The justifications for the use of costly IQCs are not always documented.
- Policy regulations and legislative restraints have discouraged the use of less costly sources of technical services such as personal service contracts.
- Poor planning has resulted in an expeditious need for technical services under an IQC. This precludes the consideration of less costly sources of technical services and encourages the use of quickly implemented IQCs.

We also found that some AID missions are not aware of current IQC requirements and that administrative procedures for IQCs are not always followed. For example (1) three of the four missions we visited did not have copies of work orders for work being done in their respective countries, (2) some IQC technicians were used without justification, (3) IQC technicians were not always adequately supported at the mission, and (4) not all IQCs have been evaluated by the using office as required.

### Conclusions and Recommendations

The use of an IQC is a costly mechanism for obtaining needed services. It should only be used when other less costly sources of technical services cannot be obtained. In our view, the extent to which other sources of technical services were considered, prior to using an IQC, should be fully documented along with the justification used to request an IQC. We also believe that existing administrative procedures for the use of IQCs need to be emphasized. Accordingly, we recommend that the Office of Contract Management (SER/CM):

1. Incorporate into its procedures a requirement that Agency entities, using IQCs, document the extent to which other sources were reviewed prior to committing themselves to the use of an IQC,
2. require using offices to include in their request for IQC services full justification that the services are needed quickly, and
3. reemphasize the need to follow established IQC administrative procedures.

### Management Comments

SER/CM agreed that the record should be fully documented to show the extent alternative sources of technical services were explored before using an IQC. They also agreed that the need for technical services quickly via an IQC should be fully justified in the record. SER/CM stated that they were in the process of updating the uniform procedures for using IQCs and would incorporate both of these requirements into them.

## FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Use of Costly Indefinite Quantity Contracts Instead of Cheaper Sources of Services is not Adequately Documented

AID offices using IQCs are not adequately documenting the extent of reviews made to obtain the services required from less costly sources such as direct-hire employees, consultants or personal services contractors. Consequently, AID may be paying more for needed expertise than is necessary. There is a general agreement in AID that the use of IQCs to obtain the variety of services required by the Agency is usually more expensive than the use of individual resources, either by a personal service contract (PSC), a direct-hire or other government agency personnel. We found that the profit and overhead cost factors increase the daily rate for technicians by 50% to over 200%. We believe that the use of IQCs should be limited to those cases where it is absolutely necessary to accomplish missions.

Agency procedures established by letter in February 1978 provide that requiring offices certify that "no AID direct hire employee or other individual resources such as experts and consultants or personal service contractors are available which can properly be used to perform the required services." We found that the review or research done to make this certification is not being documented, and in some cases the certifications are not being made. As a result, IQCs are possibly being used more frequently than is necessary with a consequent increase in the overall cost of procurement.

We reviewed 25 IQC work orders and could find no evidence demonstrating the extent to which agency personnel attempted to identify other sources of expertise before engaging IQC personnel.

Fourteen did not contain required certification. The other 11 files contained the required standard certification, but no other evidence such as correspondence or phone calls to support the certification. AID officials indicated to us that they generally know what other sources are available, but do not document them. Because of the significant cost differential between IQCs and other sources, we believe the justification for using them should be fully documented.

The examples shown below illustrate the difference in cost between an expert employed as an individual and one employed under an indefinite quantity contract.

- (a) USAID/Haiti employed a technician under a letter contract as an individual at \$175 per day to assist a small farmer improvement project. Upon completion of his letter contract assignment, the same individual was employed under an indefinite quantity contract with Practical Concepts, Inc., to perform in the same area at the rate of \$437 per day.

- (b) USAID/Panama employed indefinite quantity contractor, Donovan, Hamester and Rattien, Inc., (DH&R) to furnish energy experts for a project in Panama. DH&R charged USAID/Panama \$520 per day for the services of one of the experts whose personal compensation rate was \$180 daily without the addition of indirect costs. This particular individual had been hired in the past as a consultant, for not more than \$240 per day.

IQC daily rates are higher than the rates paid contractors as individuals because the IQC rates include not only the daily labor rates, but also charges for indirect costs (overhead) and profit.

The addition of an overhead and profit factor to the daily labor rate can increase the total daily rate by as much as 211% and rarely less than 50%. For example, the addition of indirect costs and profit increased the daily rates for Practical Concepts, Inc., technicians by 211% and DH&R technicians by 185%. In discussing the utilization of IQCs with AID/W technical office personnel, contracting officers and mission directors, we were told, in essence, that the IQCs are used primarily because the services are quickly obtainable. IQC users also told us that because ceilings are placed on the number of direct hire employees, other Government agency personnel, consultants and personal service contracts, IQCs may become the only available source for the services needed.

AID has taken steps to identify alternative sources of technical expertise. The Revised Automated Manpower and Personnel System (RAMPS) identifies position title and language capability of direct hire AID employees. RAMPS can also produce a listing of AID retirees and individual consultants if such individuals give consent to do so.

AID offices also publish other lists of technicians - both in and out of Government - available for development activities.

While information on alternative sources are available, the files of requiring offices do not document the extent to which attempts were made to utilize these other sources.

### Conclusions and Recommendations

AID has adequate lists of sources of technical expertise that can be used as alternatives to IQCs. These lists just need to be fully utilized.

Because it is costly we believe that the use of IQCs should be fully justified. SER/CM agreed and stated that it was planning to update the uniform IQC procedures requiring full documentation of the sources considered.

### Recommendation No. 1

The Office of Contract Management (SER/CM) should incorporate into its procedures a requirement that requiring offices using IQCs, document the extent to which other sources were reviewed prior to committing themselves to the use of an IQC and that such documentation should be available in the office designated.

### Law, AID's Policies and Regulations Discourage the Use of Alternative Sources for Services

The fiscal year 1979 appropriations act, along with AID policy and regulations have all contributed to discouraging the use of personal service contracts and direct hire U.S. Government employees to obtain technical services. As a result AID may be paying more for services than would be necessary.

The appropriations act of FY 1979 placed severe financial limitations on personal service contracts. The Act placed a dollar limit on the total amount of funds the agency could use for this purpose. In order to get jobs done, agency management turned to other sources for technical services, e.g., IQCs.

Policy Determination 37 (PD37) issued in February 1967 restricts the use of direct hire personnel and personnel from other Government agencies. It encourages contracting with the private community to obtain needed skills. Also, Handbook 25 limits the number of days AID retirees may work for the Agency.

Not only has funding limitations and AID policies discouraged utilization of other sources of services, but AID procedures encourages the utilization of IQCs. We were told that the approval process for work orders under IQCs is faster and easier than any other method of obtaining services. Because an IQC is in existence and ready for use, it encourages offices to obtain the services through an IQC rather than review and pursue alternative sources of available expert assistance.

In recent hearings on the Foreign Assistance and Related Programs Appropriations for 1980 before a House Appropriations Subcommittee, agency officials registered their concern with and objections to limitations placed on AID's ability to utilize sources less costly than non-personal services contracts. In discussing funding limitations on the use of personal services contracts, the AID Administrator noted "arbitrary limitations create enormous problems and is really counterproductive in terms of constraining costs." The AID Controller elaborated on this theme when he stated "if they (USAIDs) have to perform work and don't have enough people, they will simply obtain services through a non-personal service contract. Generally, we have to pay an overhead rate of 30 or 40 percent in supporting non-personal service contracts. Thus, in the end we pay more for exactly the same service."

In our view, AID officials are well aware of the effects of the limitations placed on the utilization of sources of services other than non-personal services, and have made these concerns known to an appropriate committee of Congress.

#### Poor Planning Increases the Costs of Services

Poor planning frequently results in a need for services on short notice, forcing missions and technical offices to resort to IQCs. Longer range forecasting of needs would have permitted a greater range of sources and perhaps reduced costs.

- (a) In November 1978, USAID/Honduras made an assessment of the Agricultural Section which determined that the Government of Honduras (GOH) should develop a landless poor strategy. USAID/H planned to have a contractor perform the study for the strategy statement and include the strategy statement in an Agricultural Sector Project Paper (PP).

USAID/H anticipated the PP would be published in April 1979. A 10 day IQC work order was issued in January 1979 to Poyner International, Inc., to identify data sources and analyze and formulate alternative strategies for addressing the needs of the landless poor. The contractor found that the work could not be accomplished within the time frame of the original work order and the strategy statement would, therefore, not be ready for the April 1979 PP.

A follow-up work order was issued for a 48-day period in May 1979, which required Poyner to assist a local contractor collect data for the strategy paper. However, after the May 1979 work order was issued, USAID/H was unable to obtain the services of a suitable local contractor. As a result, the mission requested Poyner to extend its work order from 48 work days to 105 work days so that Poyner could accumulate the data and prepare the strategy paper. As a result of these stops and starts, the PP was issued and loan agreement signed in June 1979 without the strategy statement. The total cost of work done by the Poyner organization to December 31, 1979 was \$42,915.

- (b) USAID/Haiti employed an expert under a Letter Contract at \$175 per day for the period June to September 1978. The Mission used this mode of contracting (short term) because there was some doubt as to the availability of the data needed to complete a Coffee Area Small Farmer Improvement Study. Upon completion of the Letter Contract

USAID/Haiti intended to contract with the same expert to complete a much broader study of the same area. However, during the course of the Letter Contract, the expert joined an IQC firm. Consequently, when USAID/Haiti asked the expert to complete the broader study, they were forced to hire him as an employee of an indefinite quantity contractor at \$437 per day. The study was completed in February 1979.

- (c) In response to a communication from USAID/Honduras requesting the services of an evaluation team, the Latin America Bureau (LAC) notified USAID/H on April 18, 1978, that direct hire personnel would not be available to perform an evaluation of their Agro-Industrial Export Project before June 15, 1978. The LAC cable suggested contacting Checchi & Co. for those services. A June 9, 1978 memorandum from LAC to Contract Management (CM) requested issuance of a work order to Checchi and Company. A work order was issued June 28.

Since CM/s procedures inform IQC requiring offices that contracting officers should be allowed 2 weeks to issue a work order, we asked the LAC representative if direct hire personnel were to be available on June 15, 1978, why would he request the services of a contractor on June 9, 1978, knowing it takes 2 weeks to issue a work order. He told us that it is to be assumed no direct hire employees were available on June 9 or June 15. This assumption could not be verified because there was no evidence in LAC to document the lack of availability of direct hire employees.

- (d) USAID/Panama employed Donovan, Hamester and Rattien (D H&R) in March-April 1979 to perform a feasibility study on non-conventional energy sources. We determined that the experts used on this work order were not listed as regular employees of D H&R when the contractor submitted his proposal for the IQC. Personnel in the Office of Energy in the Bureau for Development Support (DS/EY) told us that their office contacted one of the experts and informed him that employment was available through D H&R. D H&R charged AID for this employee's services at the employee's daily rate plus a factor for indirect costs. DS/EY also told us that employing the expert through an IQC rather than on a direct contract or as a consultant was easier and quicker than to pursue the necessary AID procurement procedure culminating in a consultant's contract or PSC.

It appears to us that CM's procedure which provides that requiring offices certify that no experts, consultants or PSCs are available has to some extent been circumvented in the interests of delivering the needed services quickly.

## Conclusions and Recommendations

The lack of adequate planning precluded considering a broader range of sources of technical expertise. In these cases good planning could have resulted in obtaining services at less cost. To ensure that contracting officers have sufficient information to determine that the required services are needed quickly, we make the following recommendation. SER/CM agreed that the need for services quickly should be justified and that they plan to add the requirement to the uniform procedures.

### Recommendation No. 2

SER/CM should require ordering offices to include in their request for service, full justification showing that the services are needed quickly.

### Administrative Procedures Not Followed

The flow of information and documentation between SER/CM, missions and technical backstop offices is not always timely or complete; compliance with AID's procedures was not entirely satisfactory.

The Administrator's October 5, 1977 directive assigned responsibility of the business management of current and future agency-wide IQCs to SER/CM. Problems we noted were:

1. Although SER/CM's records show that four copies of the July 1979 procedures were sent to USAID/Panama, at the time of our visit in September 1979, the mission had not received a copy.
2. The USAIDs in Panama, Honduras, and Guatemala did not have copies of all work orders or contracts which authorized the work in those countries.
3. Although regulations require special justifications if more than one-half of the contractor's level of effort is provided by individuals for whom the contractor did not submit biographical data in its IQC proposal, we found a number of unjustified instances where more than one-half of the level of effort is provided by a "pick-up team" rather than long term employees.
4. Although contractor's vouchers were properly approved at missions, they were not supported by a mission approved record of daily hours worked. This is required by SER/CM procedures.

5. Procedures require coordinating technical offices to send an AID form 1020-43 "Contractor Performance Evaluation Report" to the mission project manager for completion. We found only seven such evaluations had been made out of the 28 completed work orders reviewed.

### Conclusions and Recommendations

Although these lapses in administration do not appear to adversely affect performance of the contractors, they do in our opinion subvert AID's efforts to control costs and contractor performance.

#### Recommendation No. 3

SER/CM should reemphasize to its own staff and other AID missions and offices to observe and follow the established procedures.

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Assistant Administrator, Bureau for Program and Policy Coordination	1
Assistant Administrator, Bureau for Development Support	1
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