

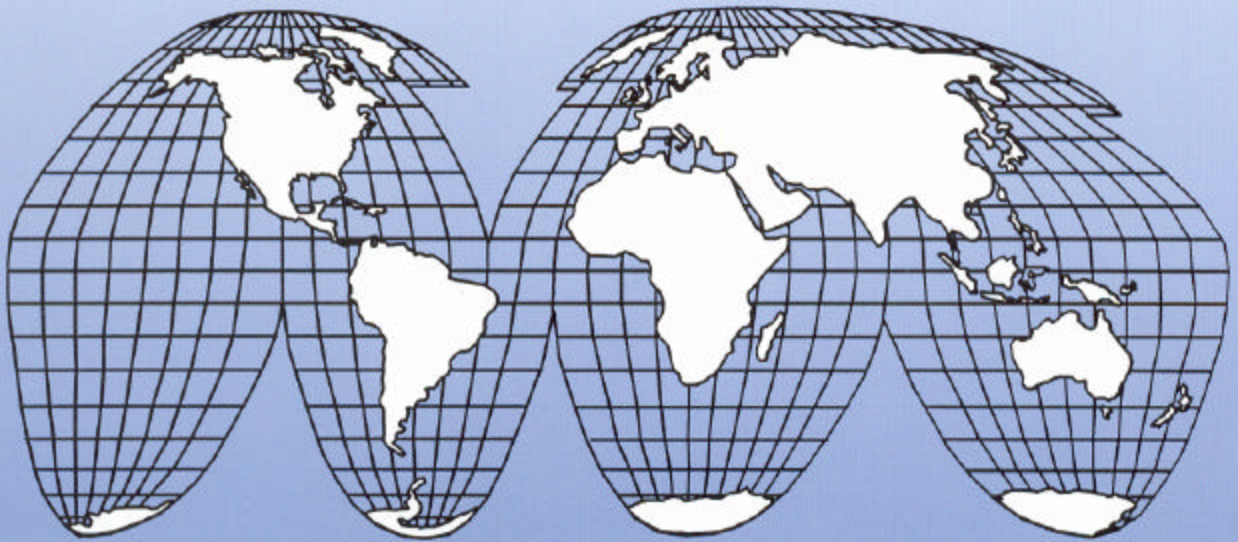
USAID

OFFICE OF INSPECTOR GENERAL

Capping Report on the Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase I Contracts

Audit Report No. A-000-04-003-P

May 19, 2004



**U.S. Agency for International Development
Washington, D.C.**



May 19, 2004

INFORMATION MEMORANDUM

TO: Andrew S. Natsios, Administrator

FROM: Everett L. Mosley, Inspector General /s/

SUBJECT: Iraq Summary Capping Report

In response to your request, attached you will find our summary "capping" report of the audits we have completed of USAID's compliance with federal regulations in awarding the first ten contracts under USAID's Iraq reconstruction effort. Findings and recommendations related to each individual contract were included in our previous reports issued for each of those contracts. The capping report summarizes those results and makes recommendations in two areas we believe have agency wide applications.

In the capping report, we highlight two major issues we set out to determine when our reviews began. First, did USAID have the legal authority to award contracts using less than full and open competition, given the nature and priority of the reconstruction effort in Iraq? Second, were the awards valid and legal? We report that in accordance with Federal Acquisition Regulations (FAR), USAID had the authority to use less than full and open competition in the awards process,

and that the awards, totaling \$1.5 billion, were valid and legal.

We also note in the capping report, that USAID personnel involved in the award of these contracts had performed well, especially given the number and value of the contracts, the varied and complex nature of the contracts, and the more than difficult time constraints for awarding the contracts.

In the capping report, we are recommending actions for Agency wide implementation that we believe will help the Agency avoid some of the problems we noted in the individual audit reports. Specifically, we recommend using: (1) a standard checklist of significant contracting steps that must be followed from the time it is determined that a product or service is to be contracted for until the award is made, and (2) a standardized illustrative budget and cost proposal format.

We believe using a standard checklist of significant contracting steps will help prevent some of the problems we noted in the individual reports. This is particularly true when staff who were not from the Office of Procurement become involved in the procurement process, as was the case on the Iraq contracts. All staff must fully understand that they do in fact become procurement officials when they have discussions about possible work with contractor representatives. An illustrative budget format would help because in the Iraq contract process, not all bidders submitted cost data in the same format or category, which made comparing cost data from different bidders difficult at best. We believe that the use of an illustrative budget and cost proposal format would help USAID in obtaining the same type of cost data in the same format from different bidders.

Since this issue expands to employees outside of the Management Bureau and the Office of

Procurement, I recommend that you personally issue a notification which emphasizes the need for all employees to understand that they become procurement officials of the Agency when they have discussions about possible work with contractor representatives.

We appreciated your early request to work with you and USAID managers and staff as these contracts were being awarded. Our goal is always to get early feedback to management when possible so that improvements can be made if necessary; and I think this process worked.

I again want to thank the staff of the Management Bureau and Office of Procurement and the Asia and Near East Bureau for their cooperation and candor as we performed our reviews.



May 19, 2004

MEMORANDUM

FOR: AA/M, John Marshall

FROM: AIG/A, Bruce N. Crandlemire /s/

SUBJECT: Capping Report on the Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase I Contracts (Report No. A-000-04-003-P)

This memorandum transmits our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included this response as Appendix II.

This report includes two recommendations to strengthen the USAID contract award process. Based on your comments to our draft report, we consider that a management decision has been reached for Recommendation No. 1 and a management decision is still pending for Recommendation No. 2. For Recommendation No. 1, please notify the Bureau for Management's Office of Management Planning and Innovation when final action is completed for this recommendation.

In addition, Appendix IV lists the status of recommendations made in our previously issued memorandum reports, including recommendations needing a management decision and final action. These outstanding recommendations are being included in the Agency's recommendation tracking system.

I appreciate the cooperation and courtesy extended to my staff during the course of this work.

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Summary of Results

This report summarizes the results of the Office of Inspector General's (OIG) audits of USAID's compliance with federal regulations in awarding ten contracts¹ under USAID's Iraq reconstruction effort (page 15). These ten procurements had an approximate cost of \$1.5 billion and included awards for economic governance, personnel support, seaport administration, local governance, education, infrastructure reconstruction, monitoring and evaluation, health, airport administration, and agriculture (page 15).

Between June 2003 and March 2004, we issued ten² individual memorandum reports on the awards process. The audits found that USAID complied with the Federal Acquisition Regulation (FAR) in authorizing the expedited award of these contracts using other than full and open competition, and that the contracts, valued at about \$1.5 billion were valid and legal. We also noted that USAID personnel involved in the award of these contracts performed well, especially given the number and value of the contracts, the varied and complex nature of the contracts, and the more than difficult time constraints for awarding the contracts. Furthermore, this report discusses some issues where the FAR was not complied with and where improvements in the awards process could be made (page 7).

The individual audits found a number of instances where USAID did not follow the FAR and the individual memorandum reports made specific recommendations for these issues which included: (1) adequately documenting market research related to contractors available to perform work being sought; (2) obtaining and documenting legal analysis regarding apparent or possible conflict of interest situations with contractors; (3) notifying and debriefing bidders who were not awarded a contract; and, (4) documenting the mitigation of an unfair competitive advantage we noted on one award (page 17).

In addition to determining if the contracts were awarded in accordance with the FAR, the Administrator also requested that we review and make recommendations where improvements in the awards process could be made for future awards. To that end, we also suggested improvements in the following areas: (1) documenting of pre-solicitation meetings; (2) developing guidance for determining if "requests for proposals" (RFPs) should specify a facilities clearance requirement (a security clearance for the firm); (3) standardizing the treatment of security costs in bidders' cost

¹ Nine contracts and one task order were actually awarded. For ease of readability, the words "contracts" or "procurements" also include and refer to the "task order" that was awarded.

² We also issued a separate memorandum dealing specifically with security clearance requirements for the seaport and airport contracts.

USAID has not used a standardized illustrative budget nor required a standardized cost proposal format because it has not devoted personnel resources to the design or use of such a format.

As a result, it was difficult for USAID to meaningfully compare—within each contract procurement—the cost proposals that were submitted by offerors. Furthermore, a standardized illustrative budget in the RFPs, coupled with a requirement to use a standardized cost proposal format, would not only improve comparability, but would simplify and make the cost proposal process for offerors more efficient. One offeror who bid on several Iraq contracts said that each contracting officer seems to have a different view on how the cost proposal should be put together and that the contracting process would have been better if there was a standardized cost proposal method.

To improve the cost proposal process, including the RFP illustrative budget, cost proposals submitted by offerors, and the review, analysis, and comparison made of these proposals by USAID, we are making the following recommendation.

RECOMMENDATION No. 2: We recommend that the Assistant Administrator for the Bureau for Management instruct the Office of Procurement to develop a standardized illustrative budget, including standardized line item definitions, to be used in its requests for proposals and to require the use of this standardized format in the cost proposals submitted to USAID by its offerors.

**Management
Comments
and Our
Evaluation**

In response to our draft audit report, USAID’s Assistant Administrator for the Bureau for Management (AA/M) provided written comments that are included in their entirety in Appendix II. In addition, we incorporated certain minor clarifications into the report that were suggested by the AA/M.

Overall, the AA/M agreed with the findings and recommendations in the report. For Recommendation No. 1, the AA/M agreed with this recommendation and is taking action to implement it. As a result, a management decision has been reached for Recommendation No. 1. For Recommendation No. 2, the AA/M agreed that a more standardized format for pricing proposals would be helpful, but plans to conduct additional reviews as to how to implement the recommendation. Thus, a management decision has not been reached for Recommendation No. 2.

**Scope and
Methodology****Scope**

The Office of Inspector General's Information Technology and Special Audits Division in Washington D.C. conducted this audit in accordance with generally accepted government auditing standards, except that one staff member assigned to the audit had not met the continuing professional education requirements specified in the standards. There was no impact on the conduct of the audit or its findings due to this exception. This audit encompassed a review of the nine contracts and one task order awarded under the first phase of USAID's Iraq reconstruction effort. These ten procurements had an approximate cost of \$1.5 billion and included awards for economic governance, personnel support, seaport administration, local governance, education, infrastructure reconstruction, monitoring and evaluation, health, airport administration, and agriculture.

In planning and performing the audit, we obtained an understanding of the rules, regulations, USAID procedures, and management controls related to the contract and task order award process including market research, technical evaluations of proposals, bidder requirements specified in the RFPs, pre-bid conferences, and award notifications and debriefings.

We conducted the audit at USAID's offices in Washington D.C. and the audit fieldwork was conducted from April 29, 2003 to February 27, 2004.

Methodology

This report is based on the results of our audit work and Assistant Inspector General for Audit (AIG/A) memorandums issued for the nine contracts and one task order awarded under the first phase of USAID's Iraq reconstruction effort. This report includes two findings and recommendations which result from and address our overall review of the ten Phase I Iraq procurements. Additionally, individual findings and recommendations related to each of the procurements encompassed in our review and reported in our AIG/A Memorandums can be found in Appendix IV. The recommendations listed in Appendix IV, for which management decisions have not been reached or final actions have not been taken, should be included in USAID's official recommendation tracking system.

In obtaining an understanding of rules, regulations, USAID procedures, and management controls related to the contract and task order award process, we reviewed applicable sections of the FAR, USAID's internal policies, the procurement work-flow process, and interviewed various USAID officials. In addition, some audit staff attended an intense three week procurement training course.

In developing our findings and recommendations, we reviewed the procurement files and applicable Asia and Near East (ANE) Bureau files for each of the ten procurements. In addition, we interviewed offeror officials involved in the ten procurements as well as USAID officials in the Office of Procurement, the ANE Bureau, and the Office of General Counsel. Additionally, in limited cases, we reviewed correspondence and proposal documents submitted by offerors. We compared the evidence we gathered with criteria from the FAR to identify areas of non-compliance. In addition, the evidence gathered along with our observations led to our suggested improvements in the awards process. Furthermore, these procedures identified many areas of compliance which are not discussed in the findings section of this report. These areas of compliance included technical evaluations of proposals, conducting pre-bid conferences, and the overall content of the RFPs.

Due to our audit objective and the nature of the items being reviewed we considered every instance of non-compliance to be material. Non-compliance issues and needed improvements were disclosed in our individual memorandum reports.

Appendix III

Schedule of Contracts Reviewed

Contract No.	Contract Title	Awardee	Contract Amount As of 12/31/03 (in \$ millions)⁴	AIG/A Memorandum No.
EDG-C-00-03-00011-00	Iraq Education Sector	Creative Associates International	\$62.6	03-001
EMT-C-00-03-00007-00	Personnel Support Services	International Resources Group	\$44.9	03-002
EEE-C-00-03-00018-00	Iraq Infrastructure Reconstruction	Bechtel National	\$1,030.0	03-003
EDG-C-00-03-00010-00	Sub-National Governance and Civic Institution Support	Research Triangle Institute	\$168.0	03-004
RAN-C-00-03-00010-00	Health System Strengthening	Abt Associates	\$43.8	03-005
AEP-I-00-00-00024-00	Monitoring and Evaluation Program Performance	Management Systems International	\$5.5	04-001
RAN-C-00-04-00002-00	Agriculture Reconstruction and Development Program	Development Alternatives, Inc.	\$40.0	04-002
DFD-C-00-03-00026-00	Airport Administration	SkyLink Air and Logistical Support (USA)	\$27.2	04-003
TRN-C-00-03-00054-00	Iraq Seaport Assessment and Operation	SSA Marine	\$21.0	04-004
RAN-C-00-03-00043-00	Economic Recovery, Reform and Sustained Growth	Bearing Point	\$80.0	04-005
TOTAL			\$1,523	

⁴ Source: USAID Office of Procurement

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**Status of Recommendations Made in Individual
Memorandum Reports
As of April 28, 2004**

Appendix IV

Report Number and Title	Recommendation	Status
04/25/03 Memorandum: Seaport and Airports	Issue a policy directive to provide guidance to procurement officials on the requirements for documenting contractor facilities clearances during the procurement process.	Management Decision Reached.
	Ensure that when facilities clearance requirements are part of an RFP, the decision to go forward or delete the requirement is made prior to selection.	Management Decision Reached.
AIG/A Memorandum # 03-001 Education Dated 06/06/03	M/OP maintain documentation within the contract award file demonstrating the analysis performed (or why one was not performed) and decisions made when conducting market research to identify prospective contractors when using other than full and open competition.	Management Decision Reached.
	Director, Office of Procurement conduct a full and detailed review of the contract award process to determine whether an unfair competitive advantage exists that impacts the contract award for the Iraq education sector.	Final Action Taken.
	The Assistant Administrator (AA) for Asia and Near East Bureau (ANE) requires that technical staff coordinate with the contracting officer and attorney advisor when entering into discussions with partners during the initial stages of a procurement process.	Final Action Taken.
	The AA for ANE requires that technical staff maintain sufficient records of meetings with outside	Final Action Taken.

Report Number and Title	Recommendation	Status
	organizations.	
AIG/A Memorandum # 03-003 Infrastructure Reconstruction Dated 07/23/03	M/OP develop administrative procedures to ensure that timely award notification and debriefings are performed in accordance with FAR requirements.	Awaiting Management Decision.
	In addition to the ANE efforts, M/OP issue an Agency-wide notice that would ensure that items discussed in pre-solicitation meetings with potential offerors are documented.	Awaiting Management Decision.
AIG/A Memorandum # 03-004 Local Governance Dated 09/09/03	ANE prepare a detailed analysis supporting the level of effort needed in Iraq before any option years for this contract are exercised.	Final Action Taken.
AIG/A Memorandum # 03-005 Health Dated 10/17/03	M/OP use a checklist of contract procurement steps, which among other things, will ensure that it requests and obtains an opinion from USAID's GC on conflict of interest issues regarding potential bidders.	Awaiting Management Decision.
	M/OP obtain an opinion from USAID's GC, which specifies whether the firm providing personnel support services to USAID in Iraq should have been excluded from the invitation to compete for the Health System Strengthening in Post-Conflict Iraq Contract.	Final Action Taken.
AIG/A Memorandum # 04-001 Monitoring and	ANE issue a memorandum to remind its staff that an analysis of program or contractual needs—with an appropriate budget or government estimate—should be prepared before proceeding with any procurement	Final Action Taken.

Report Number and Title	Recommendation	Status
Evaluation Dated 01/14/04	action.	
AIG/A Memorandum # 04-003 Airport Dated 01/27/04	A similar finding and recommendation was presented in our review of the award of the education contract (AIG/A Memorandum 03-001 issued June 6, 2003). Because USAID is taking action to implement that recommendation, the OIG did not make an additional recommendation in this memorandum.	Management Decision Reached.
	ANE, before sponsoring SkyLink USA for a facilities clearance and modifying the airport administration contract to require one, should determine if there is a need for SkyLink USA to have a facilities clearance and take appropriate action when this decision is made.	Final Action Taken.
AIG/A Memorandum # 04-004 Seaport Dated 01/27/04	A similar finding and recommendation for market research documentation was presented in our review of the education contract award (AIG/A Memorandum 03-001 issued June 6, 2003). Action is being taken to implement the recommendation. Thus no additional recommendations in this memo.	Management Decision Reached.
	The OIG's April 25, 2003 memorandum addressed this facilities clearance change issue and contained two recommendations. Thus, no additional recommendations made in this memo.	Management Decision Reached.

