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OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF USAID/REGIONAL CENTER FOR SOUTHERN AFRICA'S CONTRACTOR PERFORMANCE EVALUATION PROGRAM

AUDIT REPORT NO. 4-690-06-007-P
May 18, 2006

PRETORIA, SOUTH AFRICA



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Office of Inspector General

May 18, 2006

MEMORANDUM

TO: USAID/Regional Center for Southern Africa, Acting Regional Mission Director, Anthony Vodraska

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/ [James Gaughran for]

SUBJECT: Follow-up Audit of USAID/Regional Center for Southern Africa's Contractor Performance Evaluation Program (Report No. 4-690-06-007-P)

This memorandum transmits our draft report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments in their entirety, as Appendix II.

This report has two recommendations to improve USAID/Regional Center for Southern Africa's (USAID/RCSA) contractor performance evaluation program. In response to the draft report USAID/RCSA concurred with both recommendations. The Mission provided a corrective action plan and target completion date for Recommendation No. 1. Therefore, we consider that a management decision has been reached for this recommendation. As a result of actions taken by the Mission, we consider Recommendation No. 2 to have received final action upon the issuance of this report. Please provide the Audit, Performance and Compliance Division with the necessary documentation to achieve final action on Recommendation No. 1.

I appreciate the cooperation and courtesy extended to my staff throughout the follow-up audit.

CONTENTS

Summary of Results	1
Background	2
Audit Objective	2
Audit Findings	3
Not All Evaluations Have Been Completed	3
Tracking Procedures Need to Be Strengthened	4
Evaluation of Management Comments	8
Appendix I – Scope and Methodology	9
Appendix II – Management Comments	11

SUMMARY OF RESULTS

The Regional Inspector General, Pretoria conducted this follow-up audit to determine whether USAID/Regional Center for Southern Africa's (USAID/RCSA) actions in response to Recommendation Nos. 1 and 2 of the Office of Inspector General's Audit Report No. 4-690-05-002-P, issued in December 2004, were effective in correcting the identified problems. (See page 2.)

For Recommendation No. 1, the follow-up audit found that, although the Mission had made progress in completing the backlog of contractor performance evaluations it had identified to complete, many evaluations were still in various stages of being completed. As a result, with several final and interim evaluations in progress, the Mission had not yet completed the backlog of overdue evaluations. Therefore, this recommendation remains open without final action. (See pages 3-4.)

For Recommendation No. 2, USAID/RCSA had developed a contractor performance evaluation tracking system and a contractor performance evaluation video. Although these actions were meant to help overcome problems that had been identified in the prior audit, this follow-up audit found that problems continued to exist in trying to process contractor performance evaluations on a timely basis. (See pages 4-7.)

Rather than reopening Recommendation No. 2 from the December 2004 audit report, which had already received final action, we are making two new recommendations in this report. These two recommendations will help USAID/RCSA improve its Contractor Performance Evaluation program. (See page 7.) In response to the draft report USAID/RCSA concurred with both recommendations. The Mission provided a corrective action plan and target completion date for Recommendation No. 1. Therefore, we consider that a management decision has been reached for this recommendation. As a result of actions taken by the Mission, we consider Recommendation No. 2 to have received final action upon the issuance of this report. (See pages 8 and 11.)

BACKGROUND

On December 15, 2004, the Office of Inspector General (OIG) issued Audit Report No. 4-690-05-002-P. The audit was designed to determine whether USAID/Regional Center for Southern Africa (USAID/RCSA) had complied with USAID and Federal Acquisition Regulation (FAR) guidelines in evaluating and reporting contractor performance. The audit determined that USAID/RCSA had not implemented a contractor performance evaluation program as required by USAID policies and procedures with regard to conducting interim and final contractor performance evaluations. As a result, USAID/RCSA had not completed all the required interim and final evaluations on contracts and task orders in excess of \$100,000. To address the problems, the previous audit report included the following recommendations:

- Recommendation No. 1: We recommend that USAID's Regional Center for Southern Africa determine which of its overdue contractor performance evaluations should be completed, and complete them in accordance with USAID policies and procedures.
- Recommendation No. 2: We recommend that USAID's Regional Center for Southern Africa develop and implement a procedure that includes a tracking system to help its contracting officers initiate and complete all final and interim contractor performance evaluations as required.

On April 14, 2005, USAID/RCSA submitted a memorandum to USAID's Office of Management Planning and Innovation (MPI) requesting that MPI close the recommendations made in the audit report. The attachments to the memorandum documented actions taken by the Mission and provided information on the implementation of the audit recommendations. In a memorandum dated August 23, 2005, USAID's Audit, Performance and Compliance Division (formerly MPI) stated that final action for Recommendation 1 would not be achieved until USAID/RCSA management rendered a final determination on the outstanding final contractor performance report. In addition, the Audit, Performance and Compliance Division stated that final action had been achieved for Recommendation 2.

AUDIT OBJECTIVE

This follow-up audit was conducted in accordance with the U.S. Office of Management and Budget's Circular No. A-50 and Office of Inspector General (OIG) audit policy, which require the OIG to follow up on audit recommendations. Specifically, the follow-up audit was conducted to answer the following question:

- Were USAID/RCSA's actions in response to Recommendation Nos. 1 and 2 of Audit Report No. 4-690-05-002-P effective in correcting the identified problems?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Regional Center for Southern Africa's (RCSA) actions in response to Recommendation Nos. 1 and 2 of Audit Report No. 4-690-05-002-P have not been effective in correcting the identified problems.

In response to Recommendation No. 1 from the prior audit report, USAID/RCSA had determined which of its overdue contractor performance report evaluations, both interim and final, needed to be completed. The Mission outlined a plan of action for completing the evaluations and established a target completion date of April 30, 2005. Although the Mission has made progress in completing its backlog of Contractor Performance Evaluations, many are still in various stages of being processed.

Although a tracking system and video were developed in response to Recommendation No. 2 in the prior audit report, problems continue to exist in trying to process Contractor performance evaluations on a timely basis. The Mission still needs to take additional action to further strengthen its evaluation process. Instead of reopening Recommendation No. 2 from the December 2004 audit report, which had already been closed, we are making two new recommendations.

Not All Evaluations Have Been Completed

Summary: Both USAID's Automated Directives System (ADS) Chapter 302 and the Federal Acquisition Regulation 42.15 require the use of contractor performance evaluations. In response to Recommendation No. 1, USAID/RCSA had determined which of its overdue final and interim contractor performance evaluations should be completed and initiated actions to complete them. However, USAID/RCSA did not complete all the required contractor performance evaluations that they had identified, and many evaluations were still in progress. Contractor performance evaluations had not been completed in part because of a shortage of contracting officers working at the Mission. As a result, important information on contractor performance was not officially documented. This could result in future selection of contractors who have performed poorly under USAID contracts in the past.

According to ADS 302.5.9, *Evaluation of Contractor Performance*, it is USAID policy that contracts in excess of \$100,000, including individual task orders under indefinite quantity contracts, must be evaluated at least annually (for contracts exceeding one year in duration) and on completion of activities, as required by FAR 42.1502. The ADS further states that more frequent evaluation may be conducted if the Contracting Officer and Cognizant Technical Officer determine them to be in the best interests of the activity. In response to USAID/RCSA not being able to implement its contractor performance evaluation program in accordance with these requirements, RIG/Pretoria included Recommendation No. 1 in its prior audit report. This recommendation stated, "We recommend that USAID's Regional Center for Southern Africa determine which of its overdue contractor performance evaluations should be completed, and complete them in accordance with USAID policies and procedures."

In response to Recommendation No. 1, USAID/RCSA had determined which of its overdue final and interim contractor performance evaluations needed to be completed. The Mission outlined a plan of action for completing the evaluations and established a target completion date of April 30, 2005. At the time of this follow-up audit, 34 final evaluations that were outstanding at the time of the prior audit were in the following status: 27 final evaluations were completed and 7 evaluations were in progress. In the case of interim contractor performance evaluations, USAID/RCSA had not completed all the required interim contractor evaluations that were identified from the prior audit as requiring contractor evaluations. To date, interim evaluations that were outstanding at the time of the prior audit have resulted in the following status: 13 interim evaluations completed; 6 interim evaluations in progress; 15 final evaluations completed; and 14 final evaluations in progress (these final evaluations included both evaluations completed in-lieu of an interim evaluation, as well as evaluations where a final evaluation was due).

Mission officials stated that, until recently, they lacked adequate staffing resources to complete the required contractor performance evaluations. The issue of staff shortages was raised in the prior audit report, as well as the Mission's Fiscal Year 2005 Annual Federal Manager's Financial Integrity Act. Specifically, one Mission official said that for most of the time evaluations were being completed, only one regional contracting officer was working at USAID/RCSA. This same official said he felt that the Mission had carried out many contractor performance evaluations without an adequate staffing level of regional contracting officers. At the time of this follow-up audit, three additional contracting officers were now working at USAID/RCSA. Other factors contributed to the Mission not completing all of the targeted contractor performance evaluations. These included, in part, the fact that the assigned CTOs were no longer working at that particular Mission.

By not completing the targeted evaluations, contractors' performance was not evaluated or documented. Therefore, important information on contractor performance was not recorded and will not be available for use in the future during source selection for new awards. This could result in the future selection of contractors who have performed poorly under prior USAID contracts.

Although progress has been made, USAID/RCSA needs to ensure that all the contractors they identified as requiring an interim or final evaluation from Recommendation No. 1 in the prior audit are completed. At this time, with several final and interim evaluations still in progress, the Mission has not taken final action on the recommendation. Consequently, we concur with Audit, Performance and Compliance Division's earlier decision that final action had not been achieved.

Tracking Procedures Need to Be Strengthened

Summary: USAID's Automated Directives System (ADS) Chapter 302 requires annual interim and final evaluations of contractor performance on all contracts and task orders in excess of \$100,000. In response to the prior audit report, USAID/RCSA developed a contractor performance evaluation tracking system and video. Yet, contractor evaluation problems persist with incomplete tracking and

evaluations not being completed in a timely manner. This was caused by (1) important tracking data not being collected; (2) no written procedural guidance had been developed for the Mission's staff, and (3) CTOs were not completing evaluations on a timely basis. As a result, the problem of not having contractor performance evaluations completed on a timely basis that was identified in the prior audit report continues today. One of the effects of this problem is that contractors are not being provided an assessment of their performance on a timely basis. In addition, when this occurs, the possibility exists that some contractors who performed poorly, and were not evaluated, may be selected for additional work with USAID.

ADS Chapter 302.5.9, *Evaluation of Contractor Performance*, states that contracts in excess of \$100,000, including individual task orders under indefinite quantity contracts, must be evaluated at least annually (for contracts exceeding one year in duration) and upon completion of activities. ADS Chapter 302.5.10 provides that past performance information should be used by source selection evaluation committees in awarding new contracts. USAID's *Past Performance Handbook: Contractor Performance Report Cards*, a mandatory reference in ADS 302, provides the procedure for conducting contractor performance evaluations. It notes that the initial performance assessment is a collaborative effort between the contracting office and the technical office. Contract Information Bulletin 97-28, an appendix in the *Past Performance Handbook*, notes that an evaluation should be initiated within 30 days after completion of activities (or in October for active contracts), and completed within 90 days (or in December for active contracts). The October and December time periods were the result of policy guidance issued by USAID's Office of Procurement in May 2002. Each subsequent interim evaluation must be performed before 12 months have elapsed since the previous interim evaluation. When a contract needs an evaluation, the responsible Contracting Officer (CO) should request that the Cognizant Technical Officer (CTO) develop the evaluation since the CTO is the party most knowledgeable about contractor performance in the areas of quality, cost control, and timeliness. Because USAID/RCSA was not able to implement its contractor performance evaluation program in accordance with these provisions, RIG/Pretoria developed Recommendation No. 2 in its prior audit report. This recommendation stated, "We recommend that USAID's Regional Center for Southern Africa develop and implement a procedure that includes a tracking system to help its contracting officers initiate and complete all final and interim contractor performance evaluations as required."

In response to Recommendation No. 2, the Mission instituted a tracking system for its COs to use in initiating and completing final and interim contractor performance evaluations. In addition, the Mission also developed a 23-minute Contractor Performance Evaluation video formatted onto a compact disk. Copies of the video were sent to each of the Missions served by USAID/RCSA. The video provided information such as legal requirements for contractor performance evaluations, the National Institutes of Health system, and the process of entering evaluation data into the system. Although these actions were meant to help overcome problems that had been identified in the prior audit, additional problems were identified during the current follow-up audit. These included:

- The new tracking system developed for the COs did not include tracking information such as date sent to CTO, number of days with CTO, and completion date.

- Several contractor performance evaluations in the past year (from USAID/RCSA, USAID/Angola, and USAID/Malawi) were 180-220 days overdue because they had not been submitted by the responsible CTOs. To remedy this problem, a CO from USAID/RCSA, who was not familiar with the performance of these contractors, wrote the evaluations for the contractors and gave them all ratings that were average.
- Two other evaluations in the past year had been overdue by over 200 days without the responsible CTOs providing contractor performance evaluation. One of these had been completed the week prior to this follow-up audit and the other was still waiting for the CTO to prepare the evaluation.
- For two different contractors, whose evaluations were being handled by the same USAID/RCSA acquisition specialist, the CTO started the interim contractor evaluations on February 10, 2005. One of the contractors had comments which were due on February 10, 2006 and the other on February 16, 2006—resulting in the evaluations taking over one year from start to completion. This acquisition specialist said, that until recently, he was not aware of the requirement to make the evaluations available for comment to each of the contractors.

There are three primary causes for these problems. The first was that the tracking system that was developed did not track important elements that would be needed to monitor the progress of the evaluation process. This would include information such as (1) the date sent to the CTO, (2) the number of days with the CTO, and (3) the completion date. Instead, it only contained the contractor name and award number, start/end dates of the contract, the estimated total amount, and status comments. Instead of the tracking system, copies of the Mission's Action Status Reports were relied upon by most of the acquisition staff and contracting officers to monitor the progress of the evaluations. However, the Action Status Report also did not provide specific items such as the number of days with the CTO and dates sent to the CTO. The Action Status Report also reported other contract information. Second, USAID/RCSA developed and implemented a procedure that included a tracking system to help its Contracting Officers initiate and complete all final and interim contractor performance evaluations. However, no written procedural guidance had been prepared by the Mission. Instead, the contractor performance evaluation video was intended to provide this guidance. However, a new staff member noted that having a simple checklist or one-page document that listed the procedures to be followed for the contractor evaluation process would be helpful. Third, Mission procurement staff expressed frustration with CTOs who would not complete the evaluations on a timely basis. The procurement staff said that in these cases, the CTOs would not respond to their emails that inquired about the status of overdue contractor performance evaluations.

The problem of not having contractor performance evaluations completed on a timely basis was reported in the prior audit report (No. 4-690-05-002-P) and continues today. Delays in completing contractor evaluations results in contractors not being provided an assessment of their performance on a timely basis. In addition, USAID selection committees tasked with choosing the best bidder for proposed awards will lack useful data on contractors' past performance if the contractors have not been subjected to a contractor performance evaluation. As a result, poorly performing contractors could be selected for additional USAID work, resulting in USAID's limited resources not being used efficiently.

In conclusion, USAID/RCSA needs to further strengthen procedures regarding its contractor performance evaluation process. Instead of reopening Recommendation No. 2 from the December 2004 audit report, which had already received final action, we are making two new recommendations. These recommendations will help to strengthen USAID/RCSA's ability to perform contractor performance evaluations.

Recommendation No. 1: We recommend that USAID's Regional Center for Southern Africa prepare and issue written procedures to help its procurement staff initiate and complete all final and interim contractor performance evaluations as required.

Recommendation No. 2: We recommend that USAID's Regional Center for Southern Africa modify its tracking system so that it can be used as intended. This modification should include (1) the date the Cognizant Technical Officer was requested to prepare the contractor performance evaluation, (2) the number of days the request was with the Cognizant Technical Officer, and (3) the completion date.

EVALUATION OF MANAGEMENT COMMENTS

In responding to our draft report, USAID/ Regional Center for Southern Africa's (RCSA) management concurred with Recommendation Nos. 1 and 2. For Recommendation No. 1, the Mission indicated that it had already developed a draft Mission Directive providing Contractor Performance Evaluation Procedures. This procedure is undergoing Mission clearances prior to issuance. The target date for completing this recommendation is May 24, 2006. In the case of Recommendation No. 2, the Mission provided evidence that it had already included the three data fields identified in the recommendation into the Mission's RCSA tracking system. Based on the above information, we consider that a management decision has been reached for Recommendation No. 1 and that final action has been achieved for Recommendation No. 2.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria conducted this follow-up audit in accordance with generally accepted government auditing standards. The purpose of the follow-up audit was to determine whether USAID's Regional Center for Southern Africa (USAID/RCSA) actions taken to close Recommendation Nos. 1 and 2 of Audit Report No. 4-690-05-002-P were effective in correcting the identified problems. The follow-up audit covered the period from August 7, 2004 to January 26, 2006. To make this determination, we reviewed Mission actions taken in response to the prior audit. The types of evidence reviewed were--but not limited to--the contract files, hard-copy contractor performance evaluations, and electronic contractor performance evaluations from the National Institutes of Health's (NIH) Contractor Performance Review System. In addition, we reviewed the tracking system developed by the Mission for tracking final and interim contractor performance evaluations and viewed the contractor performance evaluation video that was made by USAID/RCSA. To answer the audit objective, we took steps to determine whether the Mission had (a) completed the interim and final contractor performance evaluations identified during the prior audit, and (b) implemented a tracking system. In planning and performing the follow-up audit, we tested and assessed significant management controls, specifically the Mission's process for processing contractor performance evaluations, and its contractor performance evaluation tracking system. Additionally, we reviewed the Mission's documents provided to USAID's Office of Management Planning and Innovation (M/MPI) requesting final action on the recommendations. We also reviewed the correspondence from USAID's Audit, Performance and Compliance Division (formerly MPI) that closed Recommendation 2, but not Recommendation No. 1. As a result, Recommendation No. 1 maintained a non-final action status. The follow-up audit was conducted at the USAID/RCSA in Gaborone, Botswana from January 23 through January 27, 2006.

Methodology

In planning and performing the audit, we obtained and reviewed the previous audit report, examined USAID/RCSA's supporting documents that were prepared for the purpose of closing the recommendations, and interviewed officials from the Mission.

For criteria, we used the relevant information from USAID's Automated Directives System and other Federal policies. We also relied upon Audit Report No. 4-690-05-002-P (issued by RIG/Pretoria on December 15, 2004), on which this follow-up audit was based, in order to (1) identify and review the criteria that had been used, and (2) gain an understanding of the reported finding. We also determined the extent to which the problem areas had been addressed through the Mission's corrective actions. These determinations were based on professional judgment.

In the case of Recommendation No. 1 from the prior report, we obtained and reviewed a list of active and completed contracts and task orders in excess of \$100,000 identified from the prior audit and determined how many evaluations the Mission agreed to

complete. We then compared the list against the completed contractor evaluations that were maintained in files by USAID/RCSA.

In reviewing the tracking system developed in response to Recommendation No. 2, we interviewed contracting officers and acquisition specialists. We then analyzed the extent to which the tracking system was being utilized for tracking the status of the evaluations, and also determined whether this system was working as intended.

The nature of this follow-up audit did not lend itself to materiality thresholds; thus none were developed.



USAID
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SOUTHERN AFRICA

May 5, 2006

MEMORANDUM

TO: Regional Inspector General/Pretoria, Jay Rollins

FROM: USAID/RCSA Acting Mission Director, Anthony Vodraska

SUBJECT: Follow-up Audit of USAID/RCSA's Contractor Performance Evaluation Program (Draft Report No. 4-690-06-XXX-P) Dated March 23, 2006

This memorandum is in response to the subject draft audit report submitted for RCSA's review and comment. RCSA agrees with the audit recommendations and has provided comments constituting proposed corrective action.

Recommendation No. 1: We recommend that USAID's Regional Center for Southern Africa prepare and issue written procedures to help its procurement staff initiate and complete all final and interim contractor performance evaluations as required.

RCSA wishes to note that action has already been initiated to implement this recommendation. Attached is a draft Mission Directive providing Contractor Performance Evaluation Procedures that is undergoing mission clearances prior to issuance.

Recommendation No. 2: We recommend that USAID's Regional Center for Southern Africa modify its tracking system so that it can be used as intended. This modification should include (1) the date the Cognizant Technical Officer was requested to prepare the contractor performance evaluation, (2) the number of days the request was with the Cognizant Technical Officer, and (3) the completion date.

RCSA wishes to note that action has already been initiated to implement this recommendation. The three fields noted in the recommendation have been added to the RCSA tracking system.

RCSA appreciates the thoroughness and dedication exhibited by RIG/A in its efforts to improve RCSA's management efficiency.

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