



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID'S
PROCUREMENT EVALUATION
PROGRAM**

AUDIT REPORT NO. 9-000-06-007-P
May 11, 2006

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

May 11, 2006

MEMORANDUM

TO: Office of Acquisition and Assistance Director, Michael F. Walsh

FROM: IG/A/PA Director, Steven H. Bernstein /s/

SUBJECT: Audit of USAID's Procurement Evaluation Program
(Report No. 9-000-06-007-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and included them in their entirety in Appendix II.

This report includes two recommendations—(1) the Director, Office of Acquisition and Assistance should develop an actionable plan that will verify and ensure that USAID is effectively implementing Executive Order 12931 and (2) the Director, Office of Acquisition and Assistance should (a) establish a policy that requires missions to implement the recommendations made by the evaluation teams, and (b) develop a plan to ensure that the recommendations have been implemented.

In your written comments, you concurred with both recommendations, took final action to address Recommendation No. 1, and proposed actions to close Recommendation No. 2. Therefore, we consider that a management decision has been reached and final action has been taken on Recommendation No. 1. For Recommendation No. 2, we consider that a management decision has been reached. Please coordinate final action with USAID's Office of Audit, Performance and Compliance.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

The Office of Inspector General's Performance Audit Division performed this audit to determine whether USAID's evaluation of its procurement operations verified and ensured that USAID effectively implemented Executive Order 12931 (Federal Procurement Reform). (See page 2)

USAID's evaluations of its procurement operations did not verify and ensure that USAID effectively implemented Executive Order 12931 (Federal Procurement Reform). To implement Executive Order 12931, USAID's Procurement Executive¹ issued the "Reviewing and Certifying USAID's Direct Contracting System" memorandum that developed 29 system criteria. Each criterion identified performance standards that defined the Agency's methods used to carry out the system criteria. The Procurement Executive also instituted an evaluation program, which was designed to conduct evaluations of procurement operations of all missions every three years to ensure that the Agency is effectively implementing Executive Order 12931. However, during the last three fiscal years, the Office of Acquisition and Assistance/Evaluation Division conducted a total of 9 evaluations – about 11 percent of its goal, which provided oversight of only 3 percent or \$533 million out of the \$17.5 billion in USAID procurements. (See page 3) At the end of each evaluation, the evaluation team presented its findings to the Mission Director as well as other involved Mission staff. Although final reports, which included findings and recommendations, were issued, the Office of Acquisition and Assistance did not require missions to act on recommendations unless the report reflected a "funds control"² violation. (See page 4)

We made two recommendations to address the deficiencies identified in the report. We recommended that (1) the Director of the Office of Acquisition and Assistance develop an actionable plan that will verify and ensure the Agency is effectively implementing Executive Order 12931 (see page 4); and (2) the Director of the Office of Acquisition and Assistance (a) establish a policy that requires missions to implement the recommendations made by the evaluation teams, and (b) develop a plan to ensure that recommendations have been implemented. (See page 5)

The Office of Acquisition and Assistance (OAA) concurred with our recommendations and took final action to address Recommendation No. 1. For Recommendation No. 2, we consider that a management decision has been reached and we requested that OAA coordinates final action with the Office of Audit, Performance and Compliance. (See page 8)

¹ At USAID, the Director of the Office of Acquisition and Assistance serves as the Agency's Procurement Executive.

² Per USAID's Automated Directives System 634.3.5, funds control violations include violations of the Anti-Deficiency Act or Agency funds control policies and procedures.

BACKGROUND

On October 13, 1994, the President signed Executive Order 12931 (Federal Procurement Reform). The purpose of the Executive Order was to ensure effective and efficient spending of public funds through fundamental reforms in Government procurement by addressing three areas,³ one of which was making procurement more effective by: (a) reviewing and replacing procurement rules, requirements and procedures over and above those required by statute, with guiding principles; (b) ensuring that agency programs meet mission needs; (c) focusing on measurable results and understanding and meeting customer needs; (d) increasing usage of commercially available items, emphasizing past contractor performance and promoting best value; (e) using simplified acquisition procedures for procurements under the threshold, (f) expanding usage of the government purchase card by delegating authority to the lowest level of user; (g) establishing clear lines of contracting authority and accountability; (h) designating a Procurement Executive to: oversee the development of procurement goals, guidelines and innovations, measure and evaluate performance against stated goals, enhance the career development of the procurement workforce and advise agency heads whether goals are being achieved; and (i) ensuring that the agency receives the best value regarding price and technology.

To implement the requirements of Executive Order 12931, USAID named a Procurement Executive who (a) developed and issued a memorandum, "Reviewing and Certifying USAID's Direct Contracting System," which included 29 criteria for use in the Agency's procurement process, and (b) developed an evaluation program designed to review procurement operations at approximately 85 USAID missions every three years. This evaluation program was not a requirement of the Executive Order, but was a management tool developed by USAID to assess and evaluate USAID's compliance with the requirements of the Order.

AUDIT OBJECTIVE

The Office of Inspector General, Performance Audit Division conducted this audit, as part of its annual audit plan, to answer the following objective:

- Did USAID's evaluation of its procurement operations verify and ensure that USAID has effectively implemented Executive Order 12931 (Federal Procurement Reform)?

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

³ The other two areas do not relate to the scope or objective of this audit.

AUDIT FINDINGS

USAID's evaluations of its procurement operations did not verify and ensure that USAID effectively implemented Executive Order 12931 (Federal Procurement Reform).

According to officials in USAID's Office of Acquisition and Assistance/Evaluation Division, the goal was to evaluate the procurement operations of all USAID missions every three years. This goal was discussed and considered common knowledge; however, the goal was not formalized in a written policy. During fiscal years 2003, 2004 and 2005, the Evaluation Division conducted evaluations at nine missions – 11 percent of USAID's approximately 85 missions. The following table shows the number of procurement actions and the value of procurement dollars that the evaluation teams reviewed for fiscal years 2003, 2004, and 2005.

Fiscal Years	2003	2004	2005	Total	Procurements Evaluated	Percentage Evaluated
Number of Procurement Actions	6,561	4,831	1,447 ⁴	12,839	571 ⁵	4%
Value of Procurement Dollars	\$6.5 billion	\$6.4 billion	\$4.6 billion	\$17.5 billion	\$533 ⁶ million	3%

Evaluations were designed to be performed in teams of two and were conducted over two to three weeks at the missions. The evaluation teams utilized the memorandum, "Reviewing and Certifying USAID's Direct Contracting System," which included the 29 criteria developed in response to Executive Order 12931. After the evaluation team completed its fieldwork and held an exit conference with appropriate Mission staff, the Director of the Office of Acquisition and Assistance would issue a report to the Mission Director. These reports identified deficiencies and provided recommendations addressing the deficiencies noted during fieldwork. However, the Evaluation Division did not meet its targeted evaluation goal nor did it have a written policy requiring missions to implement the recommendations stemming from the procurement evaluations. These issues are discussed below.

The Evaluation Division Did Not Meet Its Goal

The Office of Acquisition and Assistance/Evaluation Division, according to its management, had a goal of evaluating procurement operations at all USAID missions every three years. This goal was discussed and considered common knowledge within the Office of Acquisition and Assistance; however, it was not formalized into a written policy objective. According to Evaluation Division management, the goal was set for two

⁴ Reflects the number of procurement actions for the Office of Acquisition and Assistance only.

⁵ Due to insufficient supporting documentation, we could not verify the number of procurement actions evaluated. We addressed this issue in discussions with Office of Acquisition and Assistance management.

⁶ Due to insufficient documentation, we could not verify the dollar amount of procurements evaluated. We addressed this issue in discussions with Office of Acquisition and Assistance management.

purposes: (1) to perform procurement evaluations and (2) to conduct reviews of Contracting Officers' warrants. During fiscal years 2003, 2004, and 2005, the Evaluation Division conducted evaluations at only nine missions.⁷ According to Evaluation Division management, during the three-year scope of this audit, the Division had an average of two staff assigned to, among other duties, conduct evaluations. When the evaluation program was developed in 1994, the Evaluation Division had 14 staff assigned to conduct evaluations. According to Evaluation Division management, budget reductions resulted in a reduction in staff, which adversely impacted the Evaluation Division's ability to meet its target. In addition, a huge increase in procurement operations, as a result of USAID's programs in Iraq and Afghanistan, contributed to the reduction of evaluations conducted every year. Because of the small number of evaluations conducted during fiscal years 2003, 2004 and 2005, the Office of Acquisition and Assistance/Evaluation Division was not able to certify to its Bureau, as required by the Automated Directives System, section 596.3.6, on the overall adequacy and effectiveness of management controls. In addition, the Evaluation Division could not provide reasonable assurance that USAID is effectively implementing Executive Order 12931. Given anticipated budget and human resource constraints we are not making a recommendation to increase Evaluation Division staffing. Furthermore, the Office of Acquisition and Assistance is assessing whether the evaluation program is the best tool to ensure the implementation of Executive Order 12931.

Recommendation No. 1: We recommend that the Director of the Office of Acquisition and Assistance develop a plan that will verify and ensure that the Agency is effectively implementing Executive Order 12931.

The Evaluation Division Did Not Require Missions to Comply With Recommendations

At the end of every evaluation, the evaluation teams discussed their results with appropriate Mission staff. Subsequently, the Director of the Office of Acquisition and Assistance issued a report to the Mission Director, which included findings and recommendations noted during fieldwork. However, the Evaluation Division did not require missions to implement the recommendations resulting from the evaluations. The Government Accountability Office's Standards for Internal Control in the Federal Government, Monitoring section states: "Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention." The Evaluation Division staff was not aware of this criterion. In addition, evaluation team members viewed their findings and recommendations as suggestions because the team members felt that it was important for the Contracting Officers to maintain their autonomy. The evaluation team members also stated that missions were required to implement

⁷ We determined the number of mission evaluations based on the evaluation files provided to us. We did not find any other source to confirm the actual number.

recommendations only when “funds control” violations were noted. As a result, there is no value added and no justification for travel costs and human resources used in performing the evaluations if missions do not address or implement issues identified by the evaluation teams.

Recommendation No. 2: We recommend that the Director of the Office of Acquisition and Assistance (a) establish a policy that requires missions to implement the recommendations made by the evaluation teams, and (b) develop a plan to make certain that recommendations have been implemented.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, the Office of Acquisition and Assistance (OAA) provided an actionable plan that will verify and ensure that USAID is effectively implementing Executive Order 12931. Based on the response addressing Recommendation No. 1, we consider that final action has been taken.

OAA plans to issue an Acquisition and Assistance Policy Directive on October 1, 2006 that will address Recommendation No. 2. Based on the proposed action to address Recommendation No. 2, we consider that a management decision has been reached. When this action is completed, OAA should coordinate final action with the Office of Audit, Performance and Compliance. Appendix II contains management's comments in their entirety (without attachments).

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Performance Audits Division conducted this audit in accordance with generally accepted government auditing standards. The purpose was to determine whether USAID's evaluation of its procurement operations verified and ensured that USAID was effectively implementing Executive Order 12931. We conducted this audit at the Office of Acquisition and Assistance/Evaluation Division in Washington, D.C. from October 25, 2005 to January 19, 2006. We reviewed the management controls relevant to the audit objective to determine how the evaluation team collected and verified the procurement data, and whether there was a system for follow up on evaluation findings and recommendations.

The scope of our audit covered procurements conducted in fiscal years 2003, 2004 and 2005. We reviewed documentation of evaluation files, and how the Evaluation Division monitored and followed-up on evaluation results. However, we did not assess the quality of the evaluations because the Evaluation Division had not developed standards or a standardized set of procedures and policies for conducting their evaluations. We also reviewed Executive Order 12931 "Federal Procurement Reform," and USAID policies and procedures for evaluating its procurement process. We reviewed files for seven of the nine evaluations conducted during fiscal years 2003, 2004 and 2005, which covered a total of 12,839 procurement actions and represented \$17.5 billion dollars in procurement actions. Supporting documentation was not available for two evaluation reports, and we discussed this issue with management in the Office of Acquisition and Assistance.

Methodology

We interviewed Office of Acquisition and Assistance officials, including the Evaluation Division officials, at USAID/Washington to: (1) gain an understanding of USAID's procurement evaluation process and (2) obtain an understanding of management controls related to the development of that process. Furthermore, we reviewed documents and files related to the evaluation process. We did not use any statistical sampling. To determine whether the Office of Acquisition and Assistance/Evaluation Division met its goal, we used the following materiality thresholds. If the number of evaluations conducted was more than 90 percent of the target, the opinion would be positive. Whereas, if the evaluations conducted were between 80 percent and 90 percent, of the target the opinion would be qualified, and if the number of evaluations conducted was below 80 percent of the target, the opinion would be negative.

MANAGEMENT COMMENTS

April 27, 2006

MEMORANDUM

TO: Mr. Steven H. Bernstein, Director, IG/A/PA

FROM: Lynn Kopala, Acting Director, M/OAA /s/

SUBJECT: Draft Audit Report Entitled "Audit of USAID's Procurement Evaluation Program", Recommendation Nos. 1 and 2(a) and 2(b)

The subject draft Audit Report, has two recommendations which the Office of Acquisition and Assistance requests final action on the subject Recommendation of the subject audit report based on the actions performed.

Recommendation No. 1: The Director of the Office of Acquisition and Assistance develop an actionable plan that will verify and ensure the Agency is effectively implementing Executive Order 12931.

Management Decision: M/OAA concurs with Recommendation No. 1. M/OAA has developed the attached actionable plan that includes implementation of the new Balanced Scorecard business model which will verify and ensure that USAID is effectively implementing Executive Order 12931. Actions included in the plan that have been completed thus far include developing tools for baseline, establishing elements of self assessment, developing milestones, and developing scoring/formatting/validation metrics.

Recommendation No. 2: The Director of the Office of Acquisition and Assistance:

- (a) establish a policy that requires missions to implement the recommendations made by the evaluation teams; and
- (b) develop a plan to ensure that the recommendations have been implemented.

Management Decision: With regard to Recommendation No. 2(a), M/OAA concurs and in accordance with the action plan, policy will be issued by the Procurement Executive via an Acquisition and Assistance Policy Directive (AAPD) on October 1, 2006.

With regard to Recommendation No. 2(b), per the Action Plan, there is a built-in mechanism in the web-based scorecard that requires missions to address each recommendation from the previous year and how it has been implemented. This is in addition to the regular web-based scorecard information which will be certified and submitted by each mission on a yearly basis.

Conclusion: Because the actions M/OAA has taken as described above comply with the recommendations in the draft audit report, we request that the subject Audit Recommendations be closed.

Attachments: (a) Action Plan
(b) Balance Scorecard

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