

# USAID

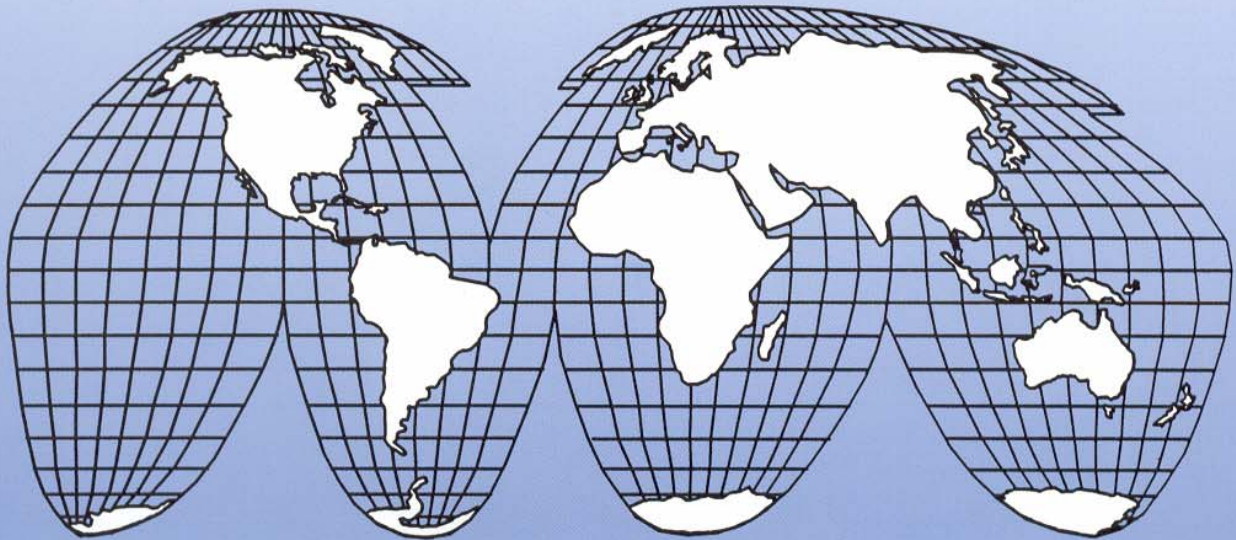
## OFFICE OF INSPECTOR GENERAL

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### **Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract**

**Audit Report Number E-266-04-003-P**

**August 6, 2004**



**Baghdad, Iraq**



August 6, 2004

**MEMORANDUM**

**FOR:** M/OAA/OD, Timothy T. Beans

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

**SUBJECT:** Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract (Report No. E-266-04-003-P)

This memorandum transmits our final report on the subject audit. The report contains no recommendations.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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## Summary of Results

The Regional Inspector General in Baghdad (RIG/Baghdad) has completed an audit to determine whether USAID complied with federal regulations in awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract. (See page 6.)

For the areas reviewed, RIG/Baghdad determined that USAID complied with applicable federal regulations in the awarding of this contract. (See page 6.)

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## Background

In response to the emergency situation in Iraq, USAID awarded \$1.5 billion in contracts to carry out the initial phase of reconstruction work within the country. Among these contracts was a \$27.1 million contract awarded to the International Resources Group, Ltd. (IRG) to provide experienced personnel for the implementation of emergency relief and short-term rehabilitation activities. This contract was awarded on February 7, 2003 as a cost-plus-fixed-fee contract (EMT-C-03-00007) using *other than* full and open competition as authorized under a blanket approval granted by the USAID Administrator for activities and programs initiated in response to the crisis in the Near East<sup>1</sup>. The duration of the contract was three months (base period) with two, one-year option years.

USAID/Iraq later determined that the statement of work under the IRG contract needed to be revised to address the changing situation and current needs of the Mission. As a result, a decision was made not to extend the contract for the second option year and to award a new contract instead as part of the second phase of contracts awarded for work in Iraq. In addition, the Mission, in consultation with the Bureau for Management, Office of Acquisition and Assistance, determined that, unlike the former contract, the needs of the Agency would be best met by awarding this new contract by negotiation under a full and open competition.

On March 30, 2004, USAID completed its procurement process and awarded a \$86.8 million cost-plus-fixed-fee term contract to IRG<sup>2</sup> to provide experienced personnel for the implementation of development assistance promoting the reconstruction effort in Iraq. This contract covers a 42-month period which includes an 18-month base period plus two, one-year option periods.

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<sup>1</sup> On January 16, 2003, the Office of the USAID Administrator authorized expedited acquisition and assistance procedures for activities and programs in response to the crisis in the Near East. This authority allowed USAID to award these contracts using other than full and open competition requirements in accordance with 40 USC 474. This statutory authority requires the awarded contracts to be supported by written justifications and approvals as described in the FAR.

<sup>2</sup> Contract No. 517-C-00-04-00106-00

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**Audit Objective** The Office of Inspector General (OIG) has developed an audit strategy to address performance and financial issues being faced by USAID during its performance of reconstruction efforts in Iraq. This audit was conducted by the Regional Inspector General's Office in Baghdad to implement this strategy which is based, in part, on an earlier request by the U.S. House Appropriations Subcommittee for Foreign Operations for the OIG to review all new USAID contracts over \$1 million. This audit was designed to answer the following audit objective:

**Did USAID comply with federal regulations in awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract?**

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

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**Audit Findings** For the areas reviewed, we determined that USAID complied with applicable federal regulations in awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract.

The federal regulations covering the contract award process are contained in the Federal Acquisition Regulation (FAR). Some of the key regulations under the FAR include requiring contracting officers, with certain limited exceptions, to provide for full and open competition through the use of the competitive procedure that is best suited to the circumstances of the contract action (FAR Part 6.100). Contracting officers must also publicize contract actions in order to increase competition, broaden industry participation and assist small or disadvantaged business concerns in obtaining contracts (FAR Part 5.000). In advertising the contract actions, the FAR specifies the procedures for preparing the Request for Proposals, as well as restrictions regarding the exchange of information with prospective contractors prior to receipt of the proposals (FAR Part 15.200). The FAR also requires contracting officers to obtain and document sufficient evidence to enable them to make a determination as to whether prospective contractors submitting proposals are qualified (FAR Part 9.100).

In addition to the FAR, the USAID Acquisition Regulation (AIDAR) specifies prescribed procedures for evaluating proposals received from prospective contractors and require the results of these evaluations, including any discussions held with offerors, to be documented in the contract files.

We determined that USAID complied with the aforementioned regulations in awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract to IRG. We found, for example, that USAID's Bureau for Management, Office of Acquisition and Assistance (M/OAA) complied with FAR

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Part 6 by selecting a competitive procedure to solicit offers and issuing a negotiated request for proposals in an effort to provide for full and open competition.

In addition, we determined that M/OAA complied with FAR Parts 5 and 15 in publicizing this contract action and in preparing the Request for Proposal. On January 2, 2004, USAID issued the Request for Proposal for this contract on the Federal Business Opportunities website, resulting in two firms submitting final proposals by the February 19, 2004 closing date. Documentation contained in the contract files showed that M/OAA made the required determination as to whether these two prospective contractors were qualified and responsible to perform the contract.

A technical evaluation panel reviewed the two proposals and determined that both were acceptable, prompting discussions with the two firms regarding their cost proposals. As required under AIDAR 715, the contract files documented the results of this panel evaluation, including justification for its final selection, as well as any exchanges between the panel and prospective contractors.

On March 30, 2004, USAID awarded a cost-plus-fixed-fee term contract to IRG for approximately \$86.8 million covering a 42-month period which included an 18-month base period followed by two, one-year option periods.

Based on the above, we concluded that USAID had complied with federal regulations and awarded the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract to IRG under full and open competition.

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**Evaluation of  
Management  
Comments**

M/OAA stated that they agreed with the findings in the report.



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

The Regional Inspector General's Office in Baghdad (RIG/Baghdad) conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID complied with federal regulations in awarding the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract.

Fieldwork for this audit was conducted at the offices of USAID/Iraq in Baghdad, Iraq from May 10, 2004 to July 15, 2004. The audit covered the awarding of a cost-plus-fixed-fee contract entitled Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight (Contract No. 517-C-00-04-00106-00) to the International Resources Group, Ltd. on March 30, 2004.

In carrying out this audit, we reviewed records and information contained in the contract files relating to the solicitation and awarding of the above contract. Some of these records were obtained in electronic format from records on-file at USAID's Bureau for Management, Office of Acquisition and Assistance (M/OAA). The audit reviewed these records in order to determine whether USAID complied with key federal regulations, specified in the Federal Acquisition Regulation (FAR), as well as Agency regulations, contained in the USAID Acquisition Regulation (AIDAR), pertaining to the solicitation and awarding of the contract. Specifically, we reviewed USAID's compliance with key regulations contained in the FAR Parts 5, 6, 9 and 15 and AIDAR 715.3.

The scope of this audit also involved obtaining an understanding of USAID's process for soliciting and awarding contracts which included the following key management controls:

- Use of ProDoc document preparation software to ensure solicitation and contract documents contain required clauses.
- Review of Request for Proposals.
- Determination of whether prospective contractors were qualified.
- Evaluation of proposals by the technical evaluation panel.
- Documenting of assessments, discussions with prospective contractors, evaluation results, and basis for final selection.

This audit did not involve an assessment of the overall effectiveness of the management controls at USAID/Iraq or M/OAA with regards to the solicitation and awarding of contracts. In addition, the audit did not assess the reasonableness of the contract price or review the assessments and results of the panel evaluation.

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## **Methodology**

To answer the audit objective, we examined supporting records and information contained in the contract files at USAID/Iraq to determine whether USAID complied with selected regulations contained in the FAR and AIDAR in the solicitation and awarding of the Iraq Phase II Reconstruction and Rehabilitation, Program Advisors and Oversight Contract (contract no. 517-C-00-04-0016-00).

Some of the records and documents examined included the memorandum of negotiation, Request for Proposals, memorandum on the results of the technical evaluation committee review, contract and general correspondence. These documents were prepared by the procurement staff at USAID/Iraq in Baghdad, M/OAA in Washington, D.C. and by the Regional Contracting Officer assigned to the USAID/Dominican Republic Mission in Santo Domingo, Dominican Republic.

A materiality threshold was not established for this audit given the nature of the audit objective which involved assessing procedural compliance with applicable federal regulations in the awarding of this Iraq Phase II contract.