



September 9, 2003

MEMORANDUM

TO: AA/ANE, Wendy Chamberlin  
M/OP, Timothy T. Beans

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

SUBJECT: USAID's Compliance with Federal Regulations in Awarding the Iraq Sub-National Governance and Civic Institution Support Contract (AIG/A Memorandum 03-004)

SUMMARY

The Office of Inspector General (OIG) has completed a review to determine compliance with federal regulations in awarding the contract for Iraq sub-national governance and civic institution support (often referred to as "local governance activities") to Research Triangle Institute (RTI) of Research Triangle Park, North Carolina.

The OIG determined that the U.S. Agency for International Development (USAID) complied with the applicable federal regulations for authorizing other than full and open competition, assessing the contractor's ability to perform, and conducting the pre-solicitation, selection and negotiation processes.

However in making its award to RTI, USAID did not prepare and use adequate needs-based support for determining the level of effort or technical assistance procured under the contract. Based on a review of contract files and discussions with USAID officials, we determined that the level of effort called for in the request for proposal (RFP)—and subsequent contract award—was not based on an analysis of the requirements for possible local

government assistance in Iraq. As a result, the contract may have been awarded in an amount in excess of need.

#### BACKGROUND

USAID is awarding 10 or more contracts for reconstruction activities in Iraq. As of the date of this memorandum, USAID has awarded nine contracts estimated to cost a total of \$1.06 billion for economic governance, personnel support, seaport administration, local governance, education, infrastructure reconstruction, monitoring and evaluation, health, and airport administration. In addition to these nine contracts, USAID has also awarded grants, cooperative agreements, and interagency agreements.

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 approval allowed USAID to award these contracts using other than full and open competition requirements as is authorized under 40 USC 474. This statutory authority requires the awarded contracts to be supported by written justifications and approvals as described in the Federal Acquisition Regulation (FAR). This statutory authority also requires that agencies shall request offers from as many potential sources as is practicable under the circumstances.

USAID exercised this authority on March 4, 2003 and issued a Request for Proposal (RFP) to three prospective offerors to bid on the contract for Iraq local governance activities. The firms were given until March 17, 2003 to respond to the RFP. Two of the three firms declined to submit proposals in response to the RFP. One of these two firms pointed out that the proposed award would require them to rapidly triple in size in one year. Only RTI submitted a proposal.

On April 11, 2003, USAID awarded RTI a Cost-Plus-Fixed-Fee level of effort term contract for approximately \$168 million. In addition to this base year amount, the contract also provides for two option years for approximately \$298 million.

USAID awarded this contract under expedited acquisition and assistance procedures in order to meet urgent Iraq requirements. According to the Office of Procurement's fiscal year 2003 annual procurement planning guidance, the procurement time to award a contract under limited competition, on average, requires about

seven months once an acceptable statement of work or program description is received. In this case, the Office of Procurement awarded the Iraq local governance contract, using limited competition, in approximately ten weeks.

## REVIEW RESULTS

The OIG reviewed USAID documentation and interviewed USAID and offerors' representatives to determine the events that took place and decisions made supporting: 1) the authorizing authority for using other than full and open competition, 2) the contracting officer's determination of contractor ability to perform the work under the contract, 3) the pre-solicitation process, and 4) the selection and negotiation process, and 5) the award process. For the first four of the five activities, USAID complied with applicable federal regulations.

However, based on a review of USAID's contract files and underlying supporting documentation, the OIG determined that the level of technical assistance being procured for local governance in Iraq was not supported by an adequate analysis of needs. Our review disclosed that the contract budget was developed to justify spending the available funding of approximately \$150 million within one year rather than being based on an assessment of actual or estimated needs.

### Contract Level of Effort Is Not Supported By Analysis of Needs for Iraq

The level of effort (LOE) for the local governance contract in Iraq was not established specifically for a program in Iraq but appeared to be established to spend an amount of funding being made available for the program. As currently designed, the USAID local governance contract for Iraq requires the contractor to provide 69,080 workdays of effort over a one year period. This equates to approximately 265 positions<sup>1</sup>. These positions are spread over eight functional labor categories within the local governance technical field and call primarily for senior-level American or foreign expatriate professionals. The contract contains several other line items including local national salaries, grants to local governments, and other direct support costs.

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<sup>1</sup> Based on a 2087 hour work year and 8 hours per workday.

The basic framework of the contract budget was prepared by USAID's Office of Democracy and Governance (DCHA/DG). This office manages an indefinite-quantity contract (IQC) to provide local governance services for programs in other countries. DCHA/DG officials explained that creating a program budget for local governance activities in Iraq was problematic because of the number of unknowns involved (the budget was prepared before the war even began), but DCHA/DG officials were eventually advised by USAID's ANE Bureau that the program was expected to cost approximately \$150 million. Using this dollar amount and extrapolating pricing and usage information from task orders under their IQC, a level of effort and a rough government cost estimate was provided to the ANE Bureau. With some modification, this became the LOE used in the RFP. In summary, the program was designed to cost rather than to an analysis of possible needs in Iraq.

When questioned about support for the LOE of 265 expatriates in the RFP and contract, ANE Bureau officials provided a basic analysis of program needs prepared earlier in the process that was used in discussions with the Office of Management and Budget (OMB). The total program cost in this analysis matched the cost estimate for the RFP. However, this analysis showed an expectation of only 57 expatriates needed for the local governance program in Iraq for a period of 20 months; approximately one-fifth the LOE required under the contract.

The OIG's concerns that the LOE may be in excess of what is needed are reinforced by comparison of this contract with other USAID local governance programs. For example, two USAID bureaus (DCHA/DG and E&E) have IQCs with seven different firms to provide services in local governance. As of January 31, 2003, the total value of task orders under these IQCs since 1999 total only \$119.8 million for all seven firms. The biggest local government program under these IQCs is a \$26 million three-year program in Serbia—considerably smaller than this one-year \$168 million contract for Iraq. Although it is not surprising that this Iraq effort is much larger than earlier local governance programs, the unprecedented size and breadth of this contract make it even more imperative that USAID demonstrate that contract requirements are actually supported by an analysis of needs in Iraq.

#### RECOMMENDATION

The Office of Inspector General recommends that the ANE Bureau prepare a detailed analysis supporting the level of

effort needed in Iraq before any option years for this contract are exercised.

We are continuing to review this and the other Iraq contracts. Please provide us within 15 days information related to actions planned or taken to implement this recommendation. We appreciate the courtesies extended to the OIG staff on this review.

cc: AA/LPA, E. Fox  
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