

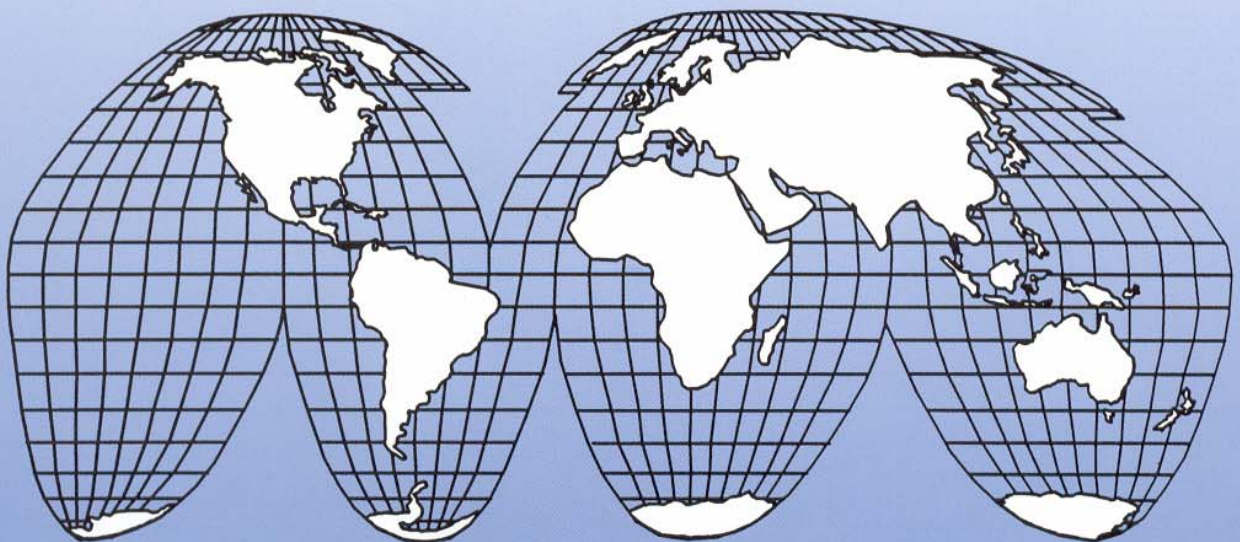
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID's Small and Disadvantaged Business Utilization Practices

Audit Report Number 9-000-04-004-P

September 3, 2004



Washington, D.C.

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September 3, 2004

MEMORANDUM

FOR: M/OAA, Timothy T. Beans
OSDBU, Marilyn S. Marton

FROM: IG/A/PA Acting Director, Roosevelt Holt /s/

SUBJECT: Audit of USAID's Small and Disadvantaged Business Utilization Practices (Report No. 9-000-04-004-P)

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

This report includes four recommendations to 1) update USAID's Small Business Administration-related guidance, 2) coordinate reporting with the Federal Procurement Data Center, 3) improve data verification procedures, and 4) reconstruct missing contract files. In your written comments, you concurred with Recommendations No. 2 and 4 and identified planned actions to address our concerns. Consequently, we consider that management decisions have been reached and that final action is pending on those recommendations. Information related to your final action on these recommendations should be provided to USAID's Office of Management Planning and Innovation.

Concerning Recommendation No. 1, you indicated the need to seek additional input from USAID's General Counsel, the Small Business Administration and the Office of Federal Procurement Policy. Accordingly, a management decision has not been reached for Recommendation No. 1. Moreover, while you indicated your agreement with the goal of Recommendation No. 3, you do not believe that OAA's current requirements for data verification should be revised. Consequently, a management decision has not been reached for Recommendation No. 3.

Please provide written notice within 30 days of any additional information related to the actions planned or taken to implement any recommendations without a management decision.

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

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Summary of Results

An Office of Small and Disadvantaged Business Utilization (OSDBU) exists in all U.S. Federal agencies in accordance with The Small Business Act to ensure both the participation of U.S. small and disadvantaged businesses in Federal procurement opportunities and that the goals established by the Small Business Administration are met. The procurement goals are stated as a percentage of total contracting that is subject to the Act. (See “Background” section below.)

As part of the multi-year plan for auditing procurement activities, the Performance Audits Division of the Office of Inspector General conducted this audit to determine whether the task ordering process carried out by overseas missions affected USAID’s ability to meet the goals established by the Small Business Administration. (See page 6.)

The audit concluded that the task ordering process¹ carried out by mission directors materially affected USAID’s ability to meet the goals established by the Small Business Administration. Due to the fact that USAID mistakenly had not included mission task orders in its small and disadvantaged business program, it did not report these task orders in the program. Had they been included in the program, they would have materially lowered the percentage of awards to small and disadvantaged business, thus affecting USAID’s ability to achieve the goals established by the Small Business Administration. (See pages 6 and 7.)

Additionally, USAID’s Office of Acquisition and Assistance’s contract data base, as well as the Federal Procurement Data Center’s data base, were not accurate and complete, which materially understated the amount of task orders awarded by missions. Had all of the mission task orders been accurately recorded in the contract data base and reported in the program results, they would have further lowered USAID’s achievements and impacted USAID’s ability to achieve its Small Business Administration goals. An additional problem concerned original contract files that were missing. (See pages 10 and 13.)

This report includes four recommendations to assist the Office of Acquisition and Assistance and the Office of Small and Disadvantaged Business Utilization in expanding the small and disadvantaged business program to include mission task orders, reporting program results completely and accurately, as well as maintaining contract documentation. (See pages 9, 10, 12 and 13.) Management concurred with two of the recommendations, generally concurred with the goal of one other recommendation and is awaiting additional information before deciding on the final recommendation. (See pages 13 and 14.)

Background

In the Small Business Act of 1953 (Public Law 85-536), Congress created the Small Business Administration (SBA) whose function was to aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns. The

¹ Task orders are individual orders awarded under an indefinite quantity contract.

charter also stipulated that the SBA would ensure small businesses a fair proportion of government contracts. In summary, the law requires that:

- Federal agencies establish an Office of Small and Disadvantaged Business Utilization (OSDBU) to assist small businesses by expanding their contracting opportunities and by helping solve problems.
- Federal agencies provide maximum practicable opportunity to small businesses to win awards and work to improve procurement processes to meet the goals.
- Annual goals for prime contracting and subcontracting with small and disadvantaged businesses be set by Federal agencies.
- The head of each agency report on the extent of participation of these entities to the SBA on an annual basis.
- Monitoring be conducted of performance against contracting plans by the SBA.
- Subcontracting plans for small business be completed for larger prime contractors.

The SBA has established the Federal small business goals for fiscal year 2002 and later years by requesting that all Federal agencies establish goals that will provide a total of 23 percent of all Federal procurement awards to small businesses, as well as goals for small and disadvantaged business and other categories. A memo dated February 4, 2002, from the Administrator, acknowledges the SBA goals and sets forth the Small Business Procurement Preference Goals for USAID in order to meet the Federal goals.

In addition to the Small Business Act, as amended, Section 602 of the Foreign Assistance Act of 1961 (P.L. 87-195) calls for assisting American small business to participate equitably in the furnishing of commodities, articles, and services financed with funds made available under the Foreign Assistance Act.

Audit Objective

This audit was conducted as part of the Office of Inspector General's fiscal year 2004 audit plan, and was conducted to answer the following question:

Has the task ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration?

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

Audit Findings

The task ordering process carried out by mission directors has affected USAID's ability to meet the goals established by the Small Business Administration. Due to the fact that USAID had mistakenly considered all mission contracting exempt from SBA program requirements, it did not include mission task orders in its small and disadvantaged business program, nor did it include them in its reported

SBA achievements in fiscal year 2002, the year we tested. Had USAID reported these task orders in its program results, they would have materially lowered the percentage of awards to small and disadvantaged business, thus affecting USAID's ability to achieve its SBA goals.

Those percentages would have been furthered lowered had USAID been accumulating and reporting complete data on task order awards. Our tests determined that task orders at two missions were materially understated in USAID's contract data base. The fact that USAID's controls for recording mission task orders in the contract data base need to be strengthened suggests that understatements probably existed at other missions as well. This problem suggests that USAID's SBA achievements would have been lowered further had mission task orders been accurately reported in the SBA program results. These issues are discussed below.

Mission Task Orders Were Not Included in SBA Program

Summary: USAID did not include mission task orders under USAID/Washington indefinite quantity contracts (IQCs) in its small and disadvantaged business program in fiscal year 2002, contrary to a recent USAID General Counsel opinion that was issued during the course of this audit. This occurred because management had mistakenly believed that an exemption in the Federal Acquisition Regulation (FAR) excluded all mission contracting from the program. The resulting exclusion overstated USAID's officially reported SBA accomplishments and would have materially affected USAID's ability to achieve its SBA goals had they been included in the program.

For fiscal year 2002, the Federal Procurement Data Center (FPDC) reported the following achievements for USAID's small and disadvantaged business program.²

Table 1
 FPDC Reported Fiscal Year 2002
 Small Business Administration Achievements
 (Percentage of Applicable Procurement)

	Small Business	Small Dis-advantaged Business	Section 8(a) Business ³	Non-Section 8(a)	Women Owned Business	HUB Zone Business ⁴	Veteran's Owned Business
SBA Minimum Goal	23	5	*	*	5	3	3
Reported USAID Achievement	45	33	2	31	3	0	0

*No minimum goals set by SBA

² These results were reported in May 2003.

³ Section 8(a) pertains to small disadvantaged businesses that contract indirectly through the SBA.

⁴ Historically Underutilized Businesses are located in high unemployment or low income areas.

As indicated above, USAID was reported as having exceeded SBA goals for small and small disadvantaged businesses by significant margins. However, the goals for women-owned, HUB zone and veteran's-owned businesses were not entirely met. USAID officials stated that the reason the goals were not met for women-owned, HUB zone, and veteran's-owned business was that there was not a sufficient number of firms in these categories that were able to supply the goods and services required by USAID.

To compute the above percentages, the FPDC reported that in fiscal year 2002, USAID had awarded a total of \$344.8 million of contracts subject to SBA goals (also referred to as the contract baseline). However, per USAID guidance, mission task orders under USAID/Washington indefinite quantity contracts were not included in the program, nor were they reported in the contract baseline. The Office of Acquisition and Assistance (OAA) calculated that these mission task orders totaled \$238.1 million in fiscal year 2002, which would have increased the contract baseline from \$344.8 million to \$582.9 million—or by 69 percent—had they been included. OAA officials stated that the reason for excluding missions from the program was based on an exemption in Section 19.000(b) of the Federal Acquisition Regulation.

FAR Part 19 implements the acquisition-related sections of the Small Business Act. FAR Section 19.000(b) contains an exemption which states that Part 19 only applies in the United States or its outlying areas. USAID management interpreted this to mean that contracting at overseas missions was exempt from the program, since missions were not located in the United States.

USAID's SBA guidance, implementing the program internally, is contained in the Automated Directives System Chapter 321 and is codified in the AID Acquisition Regulation (AIDAR) Part 719. Although it provides explicit contracting procedures for awarding contracts to small and disadvantaged business, AIDAR 719 specifically applies only to USAID/Washington contracting activities.

Since mission task orders under USAID/Washington-based indefinite quantity contracts were not specifically discussed in the FAR 19 exemption, we asked USAID's General Counsel's Office (GC) for an opinion regarding the application of the FAR 19 exemption to these task orders. The GC responded in a memo dated January 29, 2004 with an opinion which stated that a task order did not constitute a contract and therefore was not by itself subject to the FAR. The actual contract in this case, however, would be the overlying indefinite quantity contract. Since this overlying instrument was awarded in the United States, the contract would be subject to the FAR 19 and subsequently the SBA program. By extension, all of the task orders under that indefinite quantity contract would therefore be subject to FAR 19 and the SBA program regardless of whether the work would be performed in the United States or overseas. Consequently, the General Counsel's Office concluded that mission task orders under

USAID/Washington-based IQCs would be subject to FAR 19, and subsequently, to the SBA program, which is contrary to current USAID policy.

Based on current USAID guidance found in AIDAR 719, missions were not required to follow the provisions of the small and disadvantaged business program when awarding task orders under USAID/Washington-based IQCs. The result of this policy was that a material amount of USAID procurement was not included in the small and disadvantaged business program as required by the FAR. By excluding mission task orders from the program, USAID overstated its SBA achievements for fiscal year 2002. Adding the \$238.1 million⁵ of mission task orders calculated by OAA into the reported contract baseline of \$344.8 million would have materially lowered the reported achievements, and would have had a significant effect on USAID's ability to meet the SBA goals. Although USAID may still have met the small business and the small disadvantaged business goals based on reported results, the margin would have been significantly less. Additionally, the achievement for the women-owned business goal would have been substantially lower. HUB zone and veteran's-owned businesses would have remained at zero.

Furthermore, as detailed in the following section, OAA's reported amount of \$238.1 million for task orders for two missions was understated by at least \$22.3 million—or about 9 percent. Although this understatement cannot be projected to the entire universe, the control weaknesses that caused the understatement indicate that the amount of task orders reported for other missions may also be understated. If these and additional amounts from other missions had been added to the \$238 million baseline, it would further have affected USAID's ability to achieve its goals under the small and disadvantaged business program. This situation, along with the omission of mission task orders from the SBA program, continued in fiscal years 2003 and 2004, thereby overstating achievements in these years as well. Because we were unable to project our sample results to the entire mission task order population, we did not compute USAID's SBA achievements with mission task orders included in the contract baseline.

To ensure that 1) USAID's overseas contracting officers have proper guidance on applying the SBA program to task orders, 2) small and disadvantaged firms are afforded the protections provided by the small and disadvantaged business program and 3) small and disadvantaged business program results are accurately reported, we are making the following recommendations.

Recommendation No. 1: We recommend that USAID's Office of Acquisition and Assistance, in conjunction with USAID's Office of Small and Disadvantaged Business Utilization, revise its guidance and internal control procedures for its small and disadvantaged business program to include mission task orders

⁵ Of the \$238.1 million, OAA reported that \$26.4 million (11.1%) was small business and \$6.7 million (2.8%) was small disadvantaged business.

awarded under USAID/Washington indefinite quantity contracts.

Recommendation No. 2: We recommend that USAID’s Office of Acquisition and Assistance revise its reporting procedures and coordinate with the Federal Procurement Data Center to ensure that mission task orders under indefinite quantity contracts are reported by the Federal Procurement Data Center as part of the contract baseline subject to the small and disadvantaged business program.

The Reporting of Mission Task Orders Was Understated

Summary: While we did not identify any discrepancies in the reporting of USAID/Washington contract actions, our audit tests revealed that both the OAA and the FPDC underreported USAID mission contract actions. Like other Executive departments and agencies, USAID is responsible for collecting and reporting procurement data to the computer-based Federal Procurement Data System (FPDS). Furthermore, the “FPDS Reporting Manual” states that such agencies shall 1) establish a central data collection point to collect and 2) verify the accuracy of reports submitted by their contracting offices. The data reported by the FPDS is important because it is used to measure and assess the impact of Federal procurement on the nation’s economy, the extent to which small business firms and small disadvantaged business firms are sharing in Federal procurement and for other procurement policy purposes. Accurate input from USAID is essential if U.S. Government officials and others are to accurately assess USAID’s contributions to the above areas. This underreporting was the result of weak system application controls as discussed below.

Testing at Missions—For the two missions tested,⁶ task orders under indefinite quantity contracts (IQC), as reported by the OAA and FPDC, were understated. For fiscal year 2002, the Ukraine and West Bank Gaza missions reported \$43.2 million of task orders in their Mission Accounting and Control System (MACS). We traced this total to supporting mission contracting documents without exception. However, as presented in Table 2, OAA’s contract data base reported only \$20.9 million, for an understatement of \$22.3 million, or 52 percent of the total for the two missions. This understatement represents approximately nine percent of the \$238.1 million that OAA’s contract data base reported for all mission task orders under USAID/Washington IQCs.

⁶ We performed audit tests at two out of 44 reporting overseas locations.

Table 2
Fiscal Year 2002 OAA's Data Base vs. MACS Reported Task Orders

Mission	OAA Data Base	MACS	Variance OAA/MACS	Understatement of OAA Data Base
Ukraine	\$11,500,000	\$26,500,000	\$15,000,000	57%
West Bank Gaza	9,400,000	16,700,000	\$7,300,000	44%
Total	\$20,900,000	\$43,200,000	\$22,300,000	52%

As set forth in Table 3, task orders under IQCs reported by FPDC totaled \$11.5 million, for an understatement of \$31.7 million, or 73 percent of the audited total for the two missions tested. This understatement represents approximately 13 percent of the \$238 million that OAA's contract data base reported for all mission task orders under USAID/Washington IQCs.

Table 3
Fiscal Year 2002 FPDC vs. MACS Reported Task Orders

Mission	FPDC Data Base	MACS	Variance FPDC/MACS	Understatement of FPDC Data Base
Ukraine	\$10,500,000	\$26,500,000	\$16,000,000	60%
West Bank Gaza	1,000,000	16,700,000	15,700,000	94%
Total	\$11,500,000	\$43,200,000	\$31,700,000	73%

There were several causes for the understatements in OAA's contract data base. For example, OAA relied on contract document preparation software called Prodoc as its source for mission contract data. Mission contracting officers used Prodoc to prepare actual contract documents. The data was then transmitted quarterly to USAID/Washington, after which OAA loaded the data from Prodoc into its contract data base. Once the data was in OAA's data base, OAA prepared transmittal forms that were sent to FPDC for recording in the FPDS, and ultimately for reporting USAID's SBA achievements.

However, during fiscal 2002, one of the missions tested did not use Prodoc for the entire year because the system was newly implemented at the mission and contract personnel were still training on the system. Consequently, contract data did not reach the final edit stage and, therefore, was not transmitted to OAA in Washington.

According to OAA officials, another reason that task orders may not have been recorded in OAA's data base was due to fact that missions, in general, may not have been installing Prodoc upgrades in a timely manner. Since Prodoc can experience several upgrades over the course of a year, missions must upgrade their systems in a timely manner, otherwise their data transmissions may not be

properly received by OAA due to differences between OAA's production version and an outdated mission version of the system.

Finally, although it did not impact fiscal year 2002 data, we determined that OAA's data verification program, which started in fiscal year 2003, needed to be strengthened. This program began in fiscal year 2003 with a request that contracting officers verify key fields on a schedule of contracts recorded in OAA's data base. However, the program did not specifically request missions to search for contracts that may have been missing from OAA's data base, nor did the program require that contracting officers respond. One mission that we examined did not respond to the verification request citing work load problems. The other mission we tested did verify the data fields, however, it did not look for contracts that may have been missing from OAA's schedule. Since OAA is planning on installing a new contract data base system in fiscal year 2005, we are not making any recommendations concerning the controls for Prodoc. However, if data in USAID's current system is going to be migrated into the new system, complete and accurate current and historical data will be needed. Therefore, OAA's data verification program will remain an important element of OAA's control procedures.

Regarding the FPDC understatements, OAA officials stated that, in addition to the above causes, one additional cause for the understatement was due to the slow receipt of contract data from missions. Although FPDC has a strict cutoff date for fiscal year data, frequently missions transmit contract data for a particular year after FPDC's cutoff date. Therefore, while OAA's data base may reflect a late-reported contract action, FPDC's system would not.

By understating the number of mission contracts, USAID's procurement data reported by the Federal Procurement Data Center was not accurate and reliable. In general, data that is not accurate will not adequately contribute to the effective measurement and assessment of the impact of Federal procurement on the nation's economy, as well as measuring the extent to which small business firms and small disadvantaged business firms are sharing in USAID procurement. Specifically, since mission data was understated, these unrecorded contracts artificially inflated USAID's SBA achievements by understating the contract baseline against which achievements were measured. To address these issues, we have the following recommendation.

Recommendation No 3: We recommend that USAID's Office of Acquisition and Assistance revise its contract data verification procedures to: 1) require mission contracting officers to verify the completeness of mission-reported contracts that are reported to the Federal Procurement Data Center, and 2) require that all mission contracting officers respond to the data verification requests.

Some Original Contract Documents Were Missing

GAO’s “Standards for Internal Control in the Federal Government” states that all transactions and other significant events should be clearly documented, and that the documentation should be readily available for examination. Accordingly, all documentation and records should be properly managed and maintained. This is especially important in the case of contracts, where the original documents may serve as the legal basis for obligating the U.S. Government and where the files comprise the historical record of a contract.

Despite the importance of maintaining contract files, OAA was unable to locate the original files for four USAID/Washington contracts totaling \$23.1 million out of a sample of 22 contracts. As a result, USAID may not have the documents supporting the validity of those contracts and the related obligations. Moreover, in addition to providing legal documents in support of official accounting transactions, contract files provide contracting officers with a comprehensive record for managing the respective contracts, which can be subject to numerous amendments. This historical knowledge may have been lost with the disappearance of those files.

When asked, OAA officials were unable to provide an explanation for the absence of the requested contract files. Moreover, the person in charge of OAA’s file room indicated that the files in question had never been logged into the file room.

In order to guard against future losses of contract files and to address the four missing files, we are making the following recommendation.

Recommendation No. 4: We recommend that USAID’s Office of Acquisition and Assistance: 1) determine the cause for the four missing contract files, 2) revise related control procedures to improve assurance that contract files are safeguarded and adequately maintained, and 3) reconstruct the missing contract files.

Evaluation of Management Comments

USAID’s Office of Acquisition and Assistance (OAA) and the Office of Small and Disadvantaged Business Utilization (SDBU) provided the following response to our recommendations.

Recommendation No. 1 recommended that OAA—in conjunction with SDBU—revise USAID’s guidance and procedures for its small and disadvantaged business program to include mission task orders. Management responded that it needed to seek further clarification from USAID’s General Counsel, the Small Business

Administration and the Office of Federal Procurement Policy before issuing guidance. Accordingly, a management decision has not been made on this recommendation.

Recommendation No. 2 recommended that OAA revised its reporting procedures and coordinate with the Federal Procurement Data Center to ensure that mission task orders are appropriately included in the data reported for USAID. Management concurred with this recommendation and, consequently, a management decision has been reached.

Recommendation No. 3 recommended that OAA revise its contract data verification procedures to require that contracting officers verify the completeness of mission-reported data and that all mission contracting officers respond to data verification requests. While Management agreed with the goal of this recommendation, it stated that these requirements already exist and that the key issue is compliance with existing guidance. Management does not agree with the need to revise its verification procedures. Therefore, a management decision has not been reached.

Recommendation No. 4 recommended that OAA determine the cause of the missing contract files, revise the related control procedures to improve the safeguarding and maintenance of files and reconstruct the missing files. Management concurred with this recommendation and noted that its plans to reconstruct the missing files within 90 days. Moreover, Management committed to ensuring that the files are maintained in accordance with office file room procedures. Accordingly, OAA has reached a management decision. However, Management did suggest that putting in place curative procedures would be more productive than seeking the cause of the lost files. While we laud OAA's interest in strengthening its file keeping practices, we suggest that identifying the cause of the lost files is a key element in strengthening those practices. Unless this cause is identified and addressed, changes to file keeping procedures may or may not adequately address that cause and may or may not prevent the loss of future files.

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

The Performance Audit Division conducted this audit in accordance with generally accepted government auditing standards. We conducted the audit field work at USAID/Washington, as well as overseas at USAID/Kiev and USAID/West Bank Gaza, from February 5, 2004 to July 23, 2004. For contract data, we used the data base maintained by the Office of Acquisition and Assistance (OAA), the data base at the Federal Procurement Data Center, and Mission Accounting and Control Systems at the two missions visited, assessing the reliability of the data in these systems against the original contract files. The sample for USAID/W contracts in the Office of Acquisition and Assistance's data base totaled \$104.0 million out of a reported population of \$469.8 million. The sample for mission task orders in the Office of Acquisition and Assistance's data base totaled \$20.9 million out of a reported population of \$238.1 million. The scope was limited to fiscal year 2002 contracts.

The scope of the audit included an examination of the management and internal controls associated with the implementation of the small and disadvantaged business program and related reporting requirements. These controls consisted of recording and transmitting original contract data at both the mission and USAID/Washington levels, maintaining OAA's contract data base, verifying contract data accuracy and completeness, and transmitting contract data to the Federal Procurement Data Center.

Regarding the causes for the understatement of mission task orders, we did not confirm all of the weaknesses in the Prodoc system due to the fact that the system is currently scheduled for replacement in the next fiscal year. Concerning the causes for the missing contract files, we did not confirm what the actual causes were for the file disappearances due to the fact that this area was outside the scope of the original audit objective.

We found no prior audit findings related to the areas reviewed.

Methodology

In order to gain an understanding of USAID's reporting of contracts and implementation of the small and disadvantaged business program, we held discussions with USAID officials in the Office of Acquisition and Assistance, the Office of Small and Disadvantaged Business Utilization, Office of General Counsel, USAID/Kiev, and USAID/West Bank Gaza, the Small Business Administration, as well as officials from the Federal Procurement Data Center.

We performed the following:

- Reviewed relevant laws, regulations, guidance, and procedures to gain an understanding of the compliance issues relating to the small and disadvantaged business program.
- Obtained an opinion from the General Counsel, which stated that mission task orders under USAID/Washington indefinite quantity contracts should be included in the small and disadvantaged business program.
- Interviewed cognizant officials and evaluated the management and internal control systems for ensuring compliance with the small and disadvantaged business program and related reporting requirements.
- Evaluated the management and internal controls for recording contract data at both the mission and USAID/Washington levels, maintaining the OAA contract data base, and reporting contract data to the Federal Procurement Data Center.
- Traced a judgmental sample of contracts from OAA's data base to the source documents at two missions and at USAID/Washington, as well as to the data base at the Federal Procurement Data Center, assessing the reliability of the data. The sample selection criteria consisted of missions with both a large number of task orders and a large dollar value of task orders.
- Compared the amount of actual mission task orders to the total reported amount of contracts subject to the small and disadvantaged business program.

To answer the audit objective, we set the materiality threshold for the total reported mission task orders at five percent of the total reported contract amount subject to the small and disadvantaged business program.

**Management
Comments**

Aug 25, 2004

MEMORANDUM

To: IG/A/PA Acting Director, Michael W. Clinebell

From: M/OAA, Timothy T. Beans /s/
OSDBU, Marilyn S. Marton /s/

Subject: Draft Report on Audit of USAID's Small and Disadvantaged
Business Utilization Practices (Report No. 0-000-04-00X-P)

Thank you for the opportunity to comment on the referenced DRAFT report. The Offices of Acquisition and Assistance (M/OAA) and Small and Disadvantaged Business Utilization (OSDBU) offer the following in response to your DRAFT recommendations.

Recommendation No. 1: We recommend that USAID's Office of Acquisition and Assistance, in conjunction with USAID's Office of Small and Disadvantaged Business Utilization, revise its guidance and internal control procedures for its small and disadvantaged business program to include mission task orders awarded.

M/OAA and OSDBU have long sought clarity on what types of actions are covered or excluded in the Small Business Program. In recent months, several events have further underscored a need for this clarification. One is the development of the successor to the Federal Procurement Data System (FPDS), namely FPDS – Next Generation, or FPDS-NG. The other, and related, event, is the Small Business Administration's (SBA) clarification of its Goal Procedures. Based on a report the General Accounting Office (GAO) issued (see GAO Report 01-551, August, 2001), SBA and the Office of Federal Procurement Policy (OFPP) have clarified OFPP reporting guidelines specifically to *exclude* from its small business goals contracts performed outside the U.S., regardless of where the contract was awarded.

We believe that prior to implementing Recommendation 1, we must seek further guidance from the General Counsel, SBA and OFPP. M/OAA and OSDBU have already begun that process. A memo to USAID's General Counsel requested clarification (see copy attached) and representatives from M/OAA and

OSDBU met with SBA, OFPP and the Department of State on this issue on August 23, 2004. Once we have clarified SBA and OFPP's position on how to count and report USAID's "overseas contracts" in FPDS, then M/OAA, in conjunction with OSDBU, will issue policy guidance. We project issuing guidance within 120 days of clarifying guidance from USAID's General Counsel and the interested agencies and offices.

Recommendation No. 2: We recommend that USAID's Office of Acquisition and Assistance revise its reporting procedures and coordinate with the Federal Procurement Data Center to ensure that mission task orders under indefinite quantity contracts are reported by the Federal Procurement Data Center as part of the contract baseline subject to the small and disadvantaged business program.

M/OAA and OSDBU concur with Recommendation 2. However, the structure of FPDS-NG (the replacement for the Federal Procurement Data System which is part of an e-gov initiative) has been developed by the OFPP and the General Services Administration (GSA) with input from other agencies such as the Small Business Administration. We are confident that the issues raised by the Inspector General will eventually be considered and incorporated in the design of FPDS-NG.

As noted above in the response to Recommendation No. 1, some policy issues remain unsettled. Further, as of this date, FPDS-NG is not yet programmed to deliver socio-economic information regarding the use of small business. Until an upgrade of FPDS-NG software is implemented, projected for October 1, 2005, FPDS-NG will report contracts as awarded to either a small or large business, with no further data as to the type of small business. With such a large issue to be resolved, the finer point of task orders and place of award may not be addressed as soon as the Inspector General recommends. M/OAA and OSDBU will keep the Inspector General apprised of developments that will correct these shortfalls.

Recommendation No. 3: We recommend that USAID's Office of Acquisition and Assistance revise its contract data verification procedures to: 1) require mission contracting officers to verify the completeness of mission-reported contract actions that are reported to the Federal Procurement Data Center, and 2) require that all mission contracting officers to respond (sic) to the data verification requests.

M/OAA and OSDBU concur with the goal of this recommendation. Accurate data collection continues to be a priority. However, these requirements presently exist, so the issue is not one of policy nor procedural requirements, but rather compliance. As such, compliance has been stymied by ease of reporting and consistent guidance. As consistent guidance is developed (see our response to Recommendation No. 1, above), some of the issues identified by the Inspector General should be resolved.

Unfortunately, ease of reporting will not be as soon addressed. M/OAA is presently engaged in development of a new automated system for capturing acquisition and assistance information that will be a part of the agency's integrated management systems. Projected for December 2005, the new Acquisition and Assistance system will address the shortfalls in reporting, both from the field and in headquarters.

Recommendation No. 4: We recommend that USAID's Office of Acquisition and Assistance: 1) determine the cause for the four missing contract files, 2) revise related control procedures to improve assurance that contract files are safeguarded and adequately maintained, and 3) reconstruct the missing contract files.

M/OAA and OSDBU concur with Recommendation No. 4. M/OAA will take steps to reconstruct the missing files and will have them reconstructed within 90 days. Further, M/OAA will take steps to ensure that staff properly and promptly construct and maintain A&A award files and ensure that they are maintained in accordance with office file room procedures. M/OAA has contracted out file room administration and will determine if a modification to this contract will improve file maintenance, and if so, will take such action in the first quarter of FY 2005. M/OAA suggests that putting in place the curative procedures will be more productive than seeking the cause of the four lost files identified by the Inspector General.

Attachment:

Draft Report on Audit of USAID's Small and Disadvantaged Business Utilization Practices (Report No. 0-0000-04-00X-P)