

GAO

Report to the Chairman, Committee on
Foreign Affairs, House of
Representatives

October 1990

**FOREIGN
ASSISTANCE**

**AID Can Improve Its
Management of
Overseas Contracting**





United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-238446

October 5, 1990

The Honorable Dante B. Fascell
Chairman, Committee on
Foreign Affairs
House of Representatives

Dear Mr. Chairman:

In response to your request, we have reviewed selected components of the Agency for International Development's (AID) contracting and procurement system. This report focuses on (1) AID's overseas contracts that are subject to the full and open competition requirements of the Federal Acquisition Regulation and (2) a number of issues concerning AID's ability to plan and effectively manage its procurement of goods and services.

We are sending copies of this report to the Administrator of AID; the Director, Office of Management and Budget; cognizant congressional committees; and other interested parties. We will also furnish copies to others upon request.

The report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues. He can be reached at (202) 275-5790, should you or your staff have questions. Other major contributors are listed in appendix III.

Sincerely yours,

A handwritten signature in cursive script that reads 'Frank C. Conahan'.

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

As of October 1989, active overseas contracts, grants, and cooperative agreements financed by the Agency for International Development (AID) totaled \$2.6 billion. Of this amount, \$427 million had been awarded through contracts that were subject to the requirements for full and open competition, which means, basically, allowing all sources capable of meeting the government's needs to compete for contracts. The Chairman, House Committee on Foreign Affairs, was concerned that AID's procurement system might have become too cumbersome for effective overseas operations and requested that GAO

- determine whether the requirement for full and open competition, as provided by the Competition in Contracting Act of 1984 and the Federal Acquisition Regulation, adversely affects the ability of AID's overseas missions to contract for goods and services in a timely manner;
- identify potential options for streamlining and simplifying the current system or procurement regulations; and
- determine whether AID needs to improve management of its overseas procurement operations.

Background

AID's primary contracting and procurement activities involve direct contracts subject to the Federal Acquisition Regulation, and host country contracts, grants, or cooperative agreements that are not subject to the regulation. The Federal Acquisition Regulation requires full and open competition when awarding most direct contracts, except, for example, when only one responsible source exists for an item and no other item will satisfy agency requirements. AID has additional authority under the Federal Property and Administrative Services Act of 1949, as amended, (40 U.S.C. 474) to waive full and open competition when it impairs foreign assistance programs. AID uses this authority, for example, to waive full and open competition for overseas contracts valued at \$100,000 or less.

AID direct contracts are managed through a decentralized system of over 70 procurement organizations. These authorities are located in Washington, D.C., and at missions and field offices in developing countries. AID's Procurement Executive is responsible for ensuring that the agency implements procurement policies, regulations, and standards. However, he does not supervise overseas contracting officers or have responsibility for host country contracts.

GAO, in coordination with AID, surveyed AID's overseas missions and field offices with a series of questions about procurement matters and sent a

questionnaire to each of AID's overseas contracting officers. The responses to the survey and questionnaire are referred to throughout the report to help describe AID's contracting problems and issues. GAO also visited six overseas missions and one regional support office. A more complete discussion of GAO's objectives, scope, and methodology is in chapter 1.

Results in Brief

Full and open competition procedures increased the time required to award an overseas contract as compared to less than full and open contracting procedures; however, the average time to award such contracts appeared reasonable when compared to (1) AID contract guidance, (2) available data on award times for AID/Washington contracts, and (3) AID officials' perceptions of reasonable overseas award times. At five missions and one regional support office, full and open competition contracts averaged between 5 and 9 months to award, compared to between 3 and 5 months for less than full and open competition contracts. At these locations, GAO analyzed 12 contracts that required longer than average time to award. They were all delayed by factors unrelated to the requirements for full and open competition.

Full and open competition requirements did not unreasonably delay contract awards. However, the overseas procurement acquisition process has been hindered by (1) management weaknesses, such as poor procurement planning during project design; (2) fragmented procurement organizational structures at the missions; (3) insufficient procurement-related training for mission personnel; (4) inadequate assurance of mission contracting officers' independence; (5) a confusing handbook system for procurement guidance; and (6) the absence of specific guidance on follow-on contracts.

GAO's Analysis

Time Requirements for Overseas Competition Appear Reasonable

AID guidance states that AID/Washington should take about 6 months to award a full and open competition contract. GAO's analysis of all new direct contracts awarded in fiscal years 1987 and 1988 at five missions and one regional support office showed that at four of these offices, the average award time for full and open competition was 6 months or less. At the other two, full and open competition averaged 8 and 9 months, respectively. Although a time frame of between 6 to 9 months is not

considered unreasonable, according to AID's Competition Advocate, it can disrupt project implementation if project designers do not properly plan and realistically schedule procurements.

Improvements Needed in Mission Procurement Planning

Inadequate procurement planning, which was identified as a management weakness in the late 1970s by the AID Administrator and by GAO in its report AID Slow In Dealing With Project Planning and Implementation Problems (GAO/ID-80-33, July 15, 1980), continues to impede the overseas contracting process. In responding to GAO's questionnaire, about two-thirds of the 30 contracting officers identified inadequate procurement planning as a factor delaying overseas procurement, while about 25 percent identified full and open competition as a source of delay.

Based on case study reviews by GAO of the direct contracting process at six locations, procurement plans often were not prepared during project design or, when prepared, did not provide sufficient detail to be meaningful. In one case, for example, project implementation delays resulted because project designers did not allow enough time for the completion of a key contracting step. Poor planning also resulted in the project's technical advisers arriving in the country before computers needed by these advisers were delivered. Factors contributing to poor planning included a lack of (1) automated baseline data on contracting time frames, which is needed to provide the missions with realistic scheduling guidelines; (2) clearly defined agencywide requirements and standards, which would help ensure that procurement planning is done at the missions and would assist project officers in preparing procurement plans; (3) sufficient procurement-related training for project staff, which would enhance their understanding of the contracting process; and (4) contracting officer participation in the project procurement planning process, which would minimize legal and procedural difficulties.

Centralized Procurement Organization and Reporting Needed in the Missions

The organizational structure for procurement at AID's overseas missions has typically split responsibilities for direct and host country contracts between contracting and program/project offices. This structure has resulted in nonprocurement professionals making key procurement decisions during project design and implementation and inadequate control and oversight over AID-funded program acquisitions.

Other organizational weaknesses include the failure of the missions to ensure contracting officers' independence by having all overseas contracting officers report to the deputy mission director, as recommended by the AID Procurement Executive. Contracting officers expressed concerns that they do not have sufficient independence from mission officials.

Improvements Needed in Procurement Guidance

The majority of the missions responding to the survey reported confusion among their staff about AID's procurement guidance. Respondents frequently mentioned two primary sources of confusion—an inadequate indexing system and the large number of handbooks containing procurement procedures. Confusion also existed among mission staff over the use of follow-on contracts because AID had not provided specific guidance to clarify Federal Acquisition Regulation provisions.

Recommendations

GAO makes several recommendations to the AID Administrator to strengthen procurement planning, improve mission procurement management, enhance overseas contracting officers' independence, and improve AID's procurement guidance. (See ch. 4.)

Agency Comments

In commenting on a draft of this report, AID stated that it generally agreed with the report's recommendations, and plans to take action to implement them. (See app. II.)

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Abbreviations

AID	Agency for International Development
CICA	Competition in Contracting Act
FAR	Federal Acquisition Regulation
GAO	General Accounting Office

Introduction

The U.S. foreign economic assistance program, which is currently administered in approximately 70 foreign countries by the Agency for International Development (AID), has become increasingly complex and difficult to manage. In an effort to design a better assistance program, the Chairman and the Ranking Minority Member of the House Committee on Foreign Affairs established the Task Force on Foreign Assistance. In its February 1989 report, the Task Force raised fundamental questions about whether AID's contracting and procurement system had become too cumbersome for effective program implementation. The Chairman subsequently requested that we study (1) whether the requirements of the Federal Acquisition Regulation (FAR) for full and open competition have impeded timeliness in overseas contracting and (2) whether opportunities exist for AID to improve procurement management in such areas as planning, staffing, and training.

Because the FAR only applies to AID direct contracts, the primary focus of this report is AID's overseas direct contracting and procurement system¹ and its management of that system. This report also discusses AID's organizational structure for direct and host country contracts in its overseas missions. Host country contracts are legally binding agreements between a host country agency and a contractor to provide goods and services for AID-approved projects.

Regulatory and Legislative Framework for AID Contracting

The Competition in Contracting Act (CICA) of 1984 significantly changed several existing procurement statutes. These changes were implemented through two revisions of the FAR, effective on April 1, 1985, and February 3, 1986. The FAR requires federal agencies to

- base contract awards on full and open competition (defined, essentially, as allowing all sources capable of satisfying the government's needs to compete for a contract award);
- publish notices of proposed contract actions in excess of \$25,000 in the Commerce Business Daily to encourage competition;
- develop a coordinated and comprehensive approach to procurement planning; and

¹AID activities not covered by this report include direct contracts for agency and mission operations, interagency agreements, project grants and cooperative agreements, and nonproject assistance.

- limit the use of other than full and open competition to seven specified exceptions.²

In addition to the exceptions to full and open competition specified in CICA and the FAR, the Federal Property and Administrative Services Act of 1949, as amended (of which CICA is a part), provides that the act does not apply if foreign assistance objectives would be impaired. AID has used this nonimpairment provision to waive CICA's full and open competition requirement for acquiring personal services contracts performed overseas and for direct contracts awarded overseas to sources in-country that are \$100,000 or less.

Other legal requirements also restrict AID's overseas procurement. The Foreign Assistance Act of 1961, as amended, generally requires procurement from U.S. sources. To implement the requirements, AID has established a complex set of geographic codes for monitoring product source, origin, and nationality. Also, the Cargo Preference Act of 1954 requires the use of U.S. flag vessels when ocean transportation is used to transport U.S. government-financed commodities. AID is responsible for ensuring that commodities imported by foreign borrowers and grantees under AID loan and grant agreements are shipped in accordance with these requirements. Approvals of waivers and exemptions within the agency are necessary for deviations from these legislative requirements.

AID's Contracting System

AID contracts directly for goods and services through a decentralized system of procurement organizations referred to as "head of contracting activity" authorities. These authorities are located in Washington, D.C., and at over 70 missions and field offices worldwide.

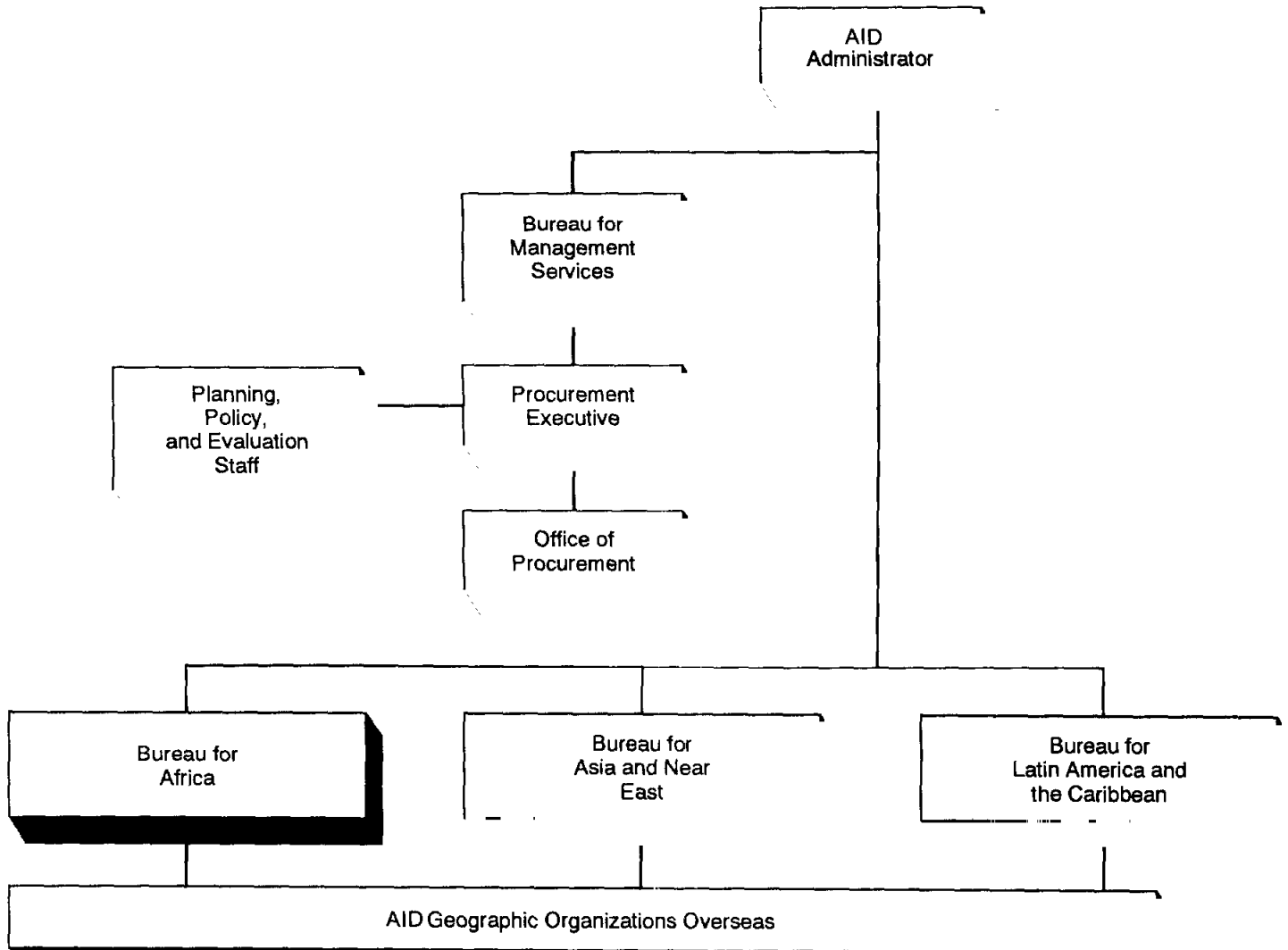
Organizational Responsibilities

Federal law requires executive agencies to designate a senior procurement executive to ensure that the agency implements procurement policies, regulations, and standards. The law also requires agencies to designate a competition advocate to promote the use of full and open competition for contracts awarded by the agency. The AID Procurement Executive oversees two procurement-related offices—the procurement Planning, Policy and Evaluation Staff and the Office of Procurement. (See fig. 1.1.) AID's Competition Advocate is the Chief of the Planning,

²For example, FAR requirements for full and open competition are not required when (1) there is only one responsible source and no other supplies or services will satisfy agency requirements or (2) an agency has such an unusual and compelling urgency for an acquisition that the government would be seriously injured unless it can limit the number of sources solicited.

Policy, and Evaluation Staff. This office is responsible for (1) formulating AID procurement policies, (2) evaluating the adequacy of AID's worldwide direct contracting system, and (3) controlling the process by which AID employees are delegated authority to sign contracts. The Office of Procurement is responsible for providing AID/Washington direct contracting support and for the selection of contracting officers.

Figure 1.1: AID Procurement Organization



Mission Contracting Organization

Each overseas mission and field office is an independent contracting office, subject to limitations of the contracting authority of its principal officers. AID's overseas professional contracting officers are granted authority to sign contracts based on individual qualifications, receiving authorizations ranging from \$500,000 per contract to an unlimited amount. In addition, mission directors may sign AID direct contracts with a cumulative value of \$250,000 for personal services contracts and \$100,000 for other types of contracts. Mission directors also are delegated authority to approve host country contracts. According to the Competition Advocate, mission directors generally re-delegate their host country contracting approval authority to other mission officials, such as the regional legal adviser. Contracting officers have no role in the host country contracting process, unless it is assigned to them by the mission director.

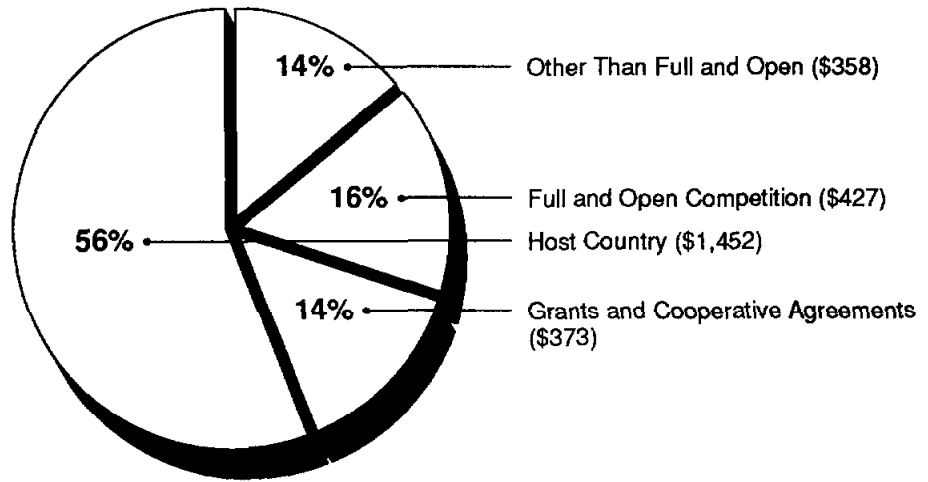
Missions and field offices are under the direction and supervision of the AID Assistant Administrator of the geographic bureau that has responsibility for the country program. The Competition Advocate stated that neither the Office of Procurement nor the Planning, Policy, and Evaluation Staff directly supervise the activities of overseas contracting officers. He also stated that AID's Procurement Executive and Competition Advocate have no formal responsibilities for approving, monitoring, or assessing the procedures used by the overseas missions for host country contracting.

Decentralized overseas operations increase the complexity of AID's procurement system. They also make the agency vulnerable to control and accountability problems. Our previous reviews and those of the AID Inspector General and others have identified several weaknesses in AID's overseas contracting and procurement system (see app. I). These weaknesses demonstrate that any actions to streamline or expedite AID contracting must weigh the advantages of saving time with the potential for exposing the agency to a greater risk of fraud and abuse.

Overseas Awards Subject to Full and Open Competition

About 16 percent (\$427 million) of the financial instruments used by AID's overseas missions to implement projects were contracts based on full and open competition. As shown in figure 1.2, most overseas awards were implemented through host country contracts, which are not subject to the FAR.

Figure 1.2: Overseas Contracts, Grants, and Cooperative Agreements (Dollars in Millions)



Overseas awards active as of October 1, 1989, based on AID data as of January 1990. Information may understate contract amounts because of continuous updating and reporting from the missions.

Other than full and open contracts include amendments and various forms of limited competition.

Host country contract information is based on a survey of AID missions; other data is from AID's COORS data base.

AID provides other forms of assistance not depicted in the chart, such as cash transfers and the commodity import program.

We also examined the level of competition used by AID's overseas missions for awarding direct contracts financed in fiscal years 1987 through 1989. We found that AID awarded between 37 and 64 percent of its overseas direct contracts based on full and open competition (see table 1.1).

Table 1.1: AID Overseas Direct Contracts Awarded in Fiscal Years 1987-1989^a

	Full and open		Other than full and open		Total
	Dollars in millions	Percent	Dollars in millions	Percent	
1987	\$86	41	\$126	59	\$212
1988	113	37	195	63	308
1989	196	64	110	36	306
Total	\$395	48	\$431	52	\$826

^aBased on AID data, January 1990. Totals for fiscal year 1989 may be understated because missions continuously update and report contract information.

Overseas Direct Contracting in Fiscal Year 1989

In fiscal year 1989, AID's overseas missions awarded \$306 million in direct contracts. According to AID's data, the principal types of direct contracts entered into by the overseas missions were (1) contracts for goods and services with firms, universities, and nonprofit institutions; (2) contracts for personal services of an individual; (3) contracts for nonpersonal services of an individual; and (4) contracts made under the Small Business Act.

Table 1.2 shows the principal types of direct contracts awarded by AID in fiscal year 1989, and whether they were awarded based on full and open competition.

Table 1.2: Direct Contracts Awarded by AID Overseas Missions in Fiscal Year 1989

Dollars in millions			
Type	Full and open	Other than full and Open	Total
Institutional goods and services	\$156	\$54	\$210
Personal services contracts	9	16	25
Other contracts with an individual	^a	2	2
Small business	31	38	69
Total	\$196	\$110	\$306

^aLess than \$1 million.

Based on data provided by AID, the five missions awarding the largest total amount of direct contracts in fiscal year 1989 were Pakistan, Egypt, El Salvador, Jamaica, and Guatemala, as shown in table 1.3.

Table 1.3: AID Missions' Direct Contracting Actions in Fiscal Year 1989

Dollars in millions					
Mission	Full and open		Other than full and open		Total
		Percent		Percent	
Pakistan	\$85	83	\$17	17	\$102
Egypt	29	69	13	31	42
El Salvador	14	70	6	30	20
Jamaica	^a	^b	16	100	16
Guatemala	6	60	4	40	10
Others	63	54	54	46	117
Total	\$197	64	\$110	36	\$307^c

^aLess than \$1 million.

^bLess than 1 percent.

^cTotal does not match other tables because of rounding

Objectives, Scope, and Methodology

The Chairman, House Committee on Foreign Affairs, requested that we (1) determine whether the requirements for full and open competition, as contained in CICA and FAR, adversely affect the ability of AID's overseas missions to contract for goods and services in a timely manner; (2) identify potential changes to current regulations and procedures that could expedite procurement; and (3) determine whether AID needs to improve management of its overseas procurement operations. We reviewed the procedures and procurement management used by AID to award overseas direct contracts to determine whether the requirements for full and open competition have impeded contract award times and to identify opportunities for improved management. We reviewed contract files and discussed policies and regulations with AID officials in AID/Washington and at the AID missions in Egypt, Guatemala, Honduras, Indonesia, Kenya, and Pakistan. We also reviewed files and interviewed AID officials at the regional support office in Kenya, which provides direct contract support to over 12 East and South African missions and offices. The missions and regional support office we visited accounted for about 52 percent of all overseas direct contract awards in fiscal year 1989.

Case Analyses of the Contracting Process and Computer Profile of AID

Since AID's data system could not provide information on the time required for overseas contracting or the factors affecting timeliness, we conducted case analyses of the direct contracting process at five missions and one regional support office.³ To develop data on contract award averages, we calculated the time it took to award all new direct contracts in fiscal years 1987 and 1988 at each location. We then examined the factors that affected the timeliness of contracting for 36 individual contracts. At each location, we selected (1) three full and open competition contracts—the two contracts that took the longest time to award and the one contract that took the shortest time and (2) three less than full and open competition contracts—the two contracts that took the longest time to award and the one contract that took the shortest time.

To obtain an overall profile of AID overseas awards, we used data from AID's Contract On-line Reporting System. AID uses this system for reporting its procurement actions to the government-wide Federal Procurement Data System. All the tables and numbers used in this report and calculated from AID's data base were verified with AID.

³Case study analyses of the direct contracting process were not done at the mission in Kenya because the regional support office handles the majority of this mission's contracts.

**Worldwide Surveys:
Contracting Officer
Questionnaire and Mission
Survey**

We coordinated our work with AID's Coordinating Group for Improving Agency Operations and Efficiency.⁴ Specifically, we coordinated with AID on the preparation of a questionnaire on contracting procedures, which was mailed to all overseas contracting officers to ensure a global perspective on AID's overseas contracting. Again, in coordination with AID, we prepared a series of questions about mission procurement practices and cabled them to all AID missions.

We mailed the questionnaire to all 35 contracting officers AID listed as being overseas as of March 1989. We later found that two officers were not in-country at the time of our survey; they were dropped from our survey. Of the 33 overseas contracting officers, 31 returned the questionnaire for a response rate of 94 percent.

The mission survey was sent to all of AID's overseas missions and offices. In the survey, we asked the missions to identify specific problems and issues that affected their contracting systems and to report on their procurement management. Thirty missions, accounting for over two-thirds of the dollar value of fiscal year 1989 direct contracts, responded to the survey.

Our review was performed from May 1989 to May 1990 in accordance with generally accepted government auditing standards.

⁴The Coordinating Group for Improving Agency Operations and Efficiency was established in 1988 to identify opportunities for improving AID management in critical areas, including contracting and procurement.

Award Times for Mission Full and Open Competition Contracts Appear Reasonable

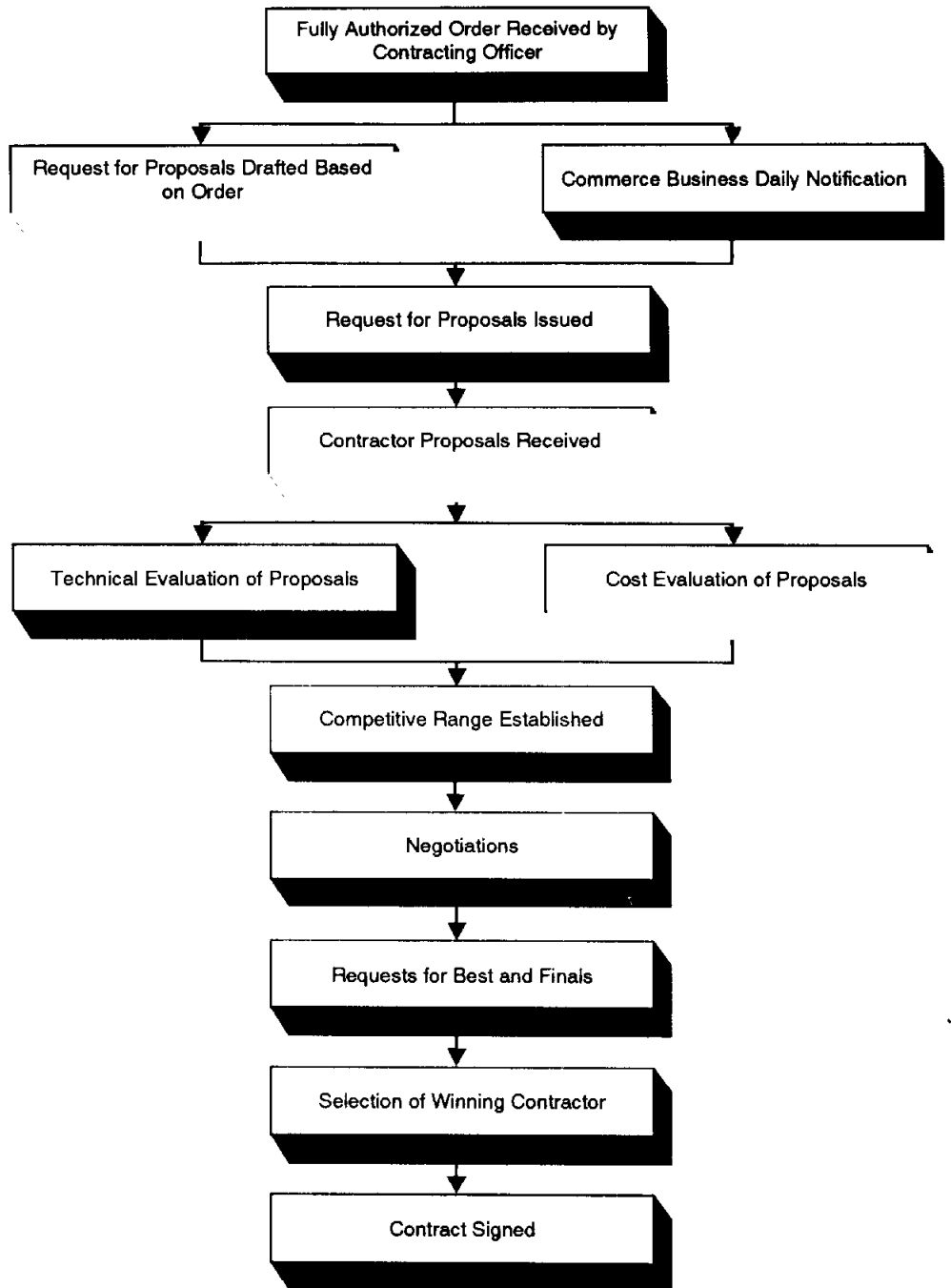
FAR requirements for full and open competition have been criticized for delaying contracting and impeding overseas assistance programs. Our analysis of contracting at five missions and one regional support office indicated that awarding contracts based on full and open competition took longer than using other contracting procedures. However, the average time to award full and open competition contracts was consistent with AID guidelines and with AID officials' perceptions of reasonable overseas contracting times. In addition, when we examined full and open competition contracts that had taken longer than average to award, none had been delayed by the requirements for full and open competition. A consultant for AID's Coordinating Group also concluded that although current procedures for contracting could be improved, they have not been a major impediment in the AID system.

Most of AID's overseas contracting officers, as well as many mission officials, recommended modifications to procurement regulations and procedures to expedite overseas direct contracting. The majority of missions responding to the survey recommended improvements in agency procurement guidance. Mission officials and contracting officers also consistently recommended that AID (1) develop an expedited process for awarding follow-on contracts and (2) raise the \$100,000 ceiling for waiving full and open competition and publishing notices of proposed contract awards in the Commerce Business Daily for overseas contracts.

Full and Open Competition Procedures

Under full and open competition procedures, the AID award process typically begins when the mission project officer sends a fully authorized project implementation order to the contracting officer. The order provides, among other things, information on the goods and services required of a contractor, the estimated cost, and time period when goods or services are required that the contracting officer uses to draft the request for proposals document. After receiving the order and preparing the requests, the contract officer must advertise the proposed contract in the Commerce Business Daily, unless exempted, at least 15 days before issuing the request for proposals. After the 15-day waiting period, the contracting officer issues requests to interested contractors, who are given at least 30 days to respond. The major steps in competing a typical full and open competition contract for technical services at AID are illustrated in figure 2.1.

Figure 2.1: Full and Open Competition
Procedures for Technical Services



Contract Award Times for Overseas Missions

Several of the missions responding to the survey indicated that the time required to process a full and open competition contract overseas has been excessive. However, AID's contracting information management system did not contain the information needed to determine actual contract processing times or to identify the factors contributing to procurement delays. To test the reasonableness of overseas contracting times, we (1) examined the files for all new contracts awarded in fiscal years 1987 and 1988 at five missions and one regional support office, (2) calculated the contracting times for these contracts—the elapsed time from the date the project officer signed the project implementation order to the date the contract was signed, and (3) compared the contracting times with relevant AID guidance and time standards to determine if the time requirements appeared reasonable. The following are the AID guidance and relevant time standards that we used to compare the mission contracting times.

- The Project Officers' Guidebook: Management of Direct AID Contracts, Grants, and Cooperative Agreements states that AID/Washington full and open competition contracts take about 6 months to award and that missions should allow time for their own requirements.
- An internal AID study found that AID/Washington full and open competition contracts awarded in fiscal year 1986 took an average of 7.8 months.
- Analyses in 1989 by the consultant for AID's Coordinating Group for Improving Agency Operations suggest that a time frame of 6 to 10 months is reasonable for awarding full and open competition contracts.
- Officials at several missions we visited thought that a range of 4 to 9 months is reasonable for awarding full and open competition contracts overseas.

Full and open competition contracts at five missions and one regional support office took an average of 5 to 9 months to award, whereas limited competition contracts took an average of 3 to 5 months. Four of the six—Guatemala, Honduras, Indonesia, and the regional support office in Kenya—awarded full and open competition contracts within the 6-month guidance for AID/Washington contracts, even though the missions and the regional support office do their own contracting. The average contracting times at all six locations also matched the time frames suggested by mission officials and by the Coordinating Group's consultant as being reasonable to award full and open competition contracts. In a May 1989 report to the Coordinating Group, the consultant concluded that expectations of shorter contracting times for full and open competition contracts were not realistic, and that overly optimistic expectations

Chapter 2
Award Times for Mission Full and Open
Competition Contracts Appear Reasonable

may account for concern among some missions about delays. Table 2.1 shows the average award times at the five missions and the regional support office.

Table 2.1: Average Contracting Times at Five Missions and One Regional Support Office

In months	Full and open competition	Other than full and open competition
Pakistan	9	3
Egypt ^a	8	4
Guatemala	6	5
Honduras	5	4
Kenya ^b	5	3
Indonesia	5	3

^aAward times for the mission in Egypt and the regional office in Kenya include some fiscal year 1989 contracts

^bRegional support office

AID's Competition Advocate said that 6 to 10 months for awarding a full and open competition contract overseas is reasonable if procurement needs are properly planned. He noted that full competition, whether in the United States or overseas, typically requires 45 days to advertise the proposed action and wait for proposals to be returned. Additional time is necessary for evaluation, negotiation, and other required actions. He noted that when time became critical, missions could exercise several options for waiving full and open competition under the FAR.

AID's Competition Advocate also pointed out that although full and open competition typically takes more time than less than full and open competition, the benefits of competition should not be understated. The benefits, according to the Competition Advocate, include minimizing collusion and protecting against fraud and abuse, ensuring that prices are fair and reasonable, and improving project concepts and program designs. Many of the overseas contracting officers responding to the questionnaire also agreed that full and open competition provided benefits. For example, 61 percent of the contracting officers stated that full and open competition is generally more advantageous than limited competition in helping control program costs; 87 percent stated that full and open competition is more advantageous in encouraging new suppliers to compete for AID contracts. Officials at several missions we visited also indicated that full and open competition has provided important benefits, including higher quality project proposals and more innovative development approaches, as well as cost control.

Little Evidence That FAR Caused Delays

Although average award times for full and open competition contracts at five missions and one regional support office were generally consistent with AID guidance, some contracts took as long as 11 to 15 months to award. To determine whether provisions of the FAR delayed contracts that took longer than average, we examined 12 full and open competition contracts—two contracts that took the longest times to award at five missions and one regional support office. Our analysis showed that each contract was delayed by management and administrative factors unrelated to the FAR. Following are some examples of contract delays unrelated to the FAR.

- In Honduras, where the average contracting time was 5 months, one contract that took 7 months to award was delayed because a local hire AID official on the evaluation committee disqualified himself after discovering he had a potential conflict of interest.
- Also in Honduras, processing of a contract was delayed because the host country official responsible for authorizing the procurement took 6 months to do so.
- In Pakistan, a contract that took 13 months to award was delayed when the contractor who was hired to help prepare the request for proposals defaulted and had to be replaced.
- At the regional support office in Kenya, a contract that took over 10 months to award was delayed because the mission's project officer was in Washington, D.C., for language training.
- In Guatemala, contracting for a water development project took 10 months because steel specifications were wrong and had to be changed, requiring the mission to notify all offerors of the change and ask for revised proposals.

Suggested Changes to Current Procedures

Although 23 contracting officers indicated, in response to the questionnaire, that AID's overseas contracting should remain subject to the FAR, 19 indicated that the requirements for competition or other procedures should be changed. Similarly, two-thirds of the missions responding to the survey (20 of 30), recommended modifying procurement procedures. The missions also suggested that AID

- improve its handbooks and other procurement guidance,
- develop an expedited process for follow-on contracting, and
- increase the \$100,000 limit for waiving full and open competition and advertising in the Commerce Business Daily for overseas contracts.

Improve Procurement Guidance

Mission officials told us that AID procurement guidance has been poorly organized and located in too many handbooks and other documents. The majority of missions responding to the survey also reported confusion over AID's handbook system. Handbook issues frequently identified by the respondents included an inadequate indexing system and the large number of handbooks containing procurement procedures. AID procurement guidance is located in a wide range of sources, including program handbooks, the AID Acquisition Regulation, and Contract Information Bulletins.

In addressing this issue, the consultant for AID's Coordinating Group concluded that better guidance would be helpful, especially for non-procurement personnel in the field. The consultant also concluded that a concordance of relevant procurement provisions would be an option. AID's Competition Advocate also agreed that a more useful index could help reduce confusion at the missions.

Expedite Follow-On Contracting

Eleven of the 30 missions responding to the survey indicated that follow-on contracting procedures have been an obstacle. In appropriate instances, they would like to award follow-on contracts, which are new noncompetition contracts to contractors already in place. Mission officials stated that follow-on contracts were particularly justified for contract extensions ranging from 2 years to 1 year or less because of the prohibitive costs of hiring and putting a new contractor in place. Additionally, they said that a new contractor could not easily develop good working relationships with host government officials in such a short time, yet good working relationships were vital for project success.

FAR provisions allow follow-on contracting, in some circumstances, without competition. According to the AID Competition Advocate, these contracts can be used when an award to another contractor would result in substantial duplication of cost or unacceptable delays to agency programs. To exercise this authority, the contracting officer must comply with certain requirements, including advertising the proposed follow-on action in the Commerce Business Daily.

AID's Competition Advocate agreed that mission officials are confused and uncertain about FAR follow-on contract procedures. In particular, AID has not provided its missions specific guidance on when follow-on work is justified and what procedures should be followed. The Competition

Advocate stated that several issues need clarification. For example, contracting officers need to be directly involved in planning the procurement so that the required provisions for follow-on work could be followed. Other factors to consider include the type of contract and the potential applicability of current provisions in the regulations.

Increase the \$100,000 Waiver Authority

AID missions can waive the requirements for full and open competition, as well as the requirement to advertise proposed actions in the Commerce Business Daily, for overseas contracts of \$100,000 or less. To use the waiver, AID must solicit bids only from contractors located overseas and award the contract through less than full and open competition procedures, which require obtaining and considering offers from as many potential offerers as is practical. Fifteen of the 30 missions responding to the survey indicated that they favored raising the waiver ceiling.

AID contracting officers and mission officials agreed that the waiver ceiling should be increased to (1) reflect inflation and (2) reduce the administrative burden of competing small-value contracts that local contractors can more economically and effectively carry out. The contracting officer in Guatemala said that, based on his experience, U.S. firms with operations only in the United States were not competitive with host country firms for contracts under \$200,000, and sometimes more. He also pointed out that U.S. firms wishing to compete for small-value contracts often have done so through branch offices in the host country or through local affiliates.

AID's Competition Advocate agreed. However, he did not support an increase any higher than \$200,000 because AID might become more vulnerable to contracting abuse, and some U.S.-based firms might be excluded from participating in AID programs. In this review, we did not assess the relative benefits and risks of increasing the \$100,000 ceiling, thus we do not make any recommendation concerning this matter.

Based on the nonimpairment provision of the Federal Property and Administrative Services Act of 1949, AID has the statutory authority to increase the waiver limit, if foreign assistance objectives would be impaired. According to the Competition Advocate, AID has exercised this authority periodically to increase the waiver ceiling for inflation—from \$25,000 in 1965 to \$50,000 in 1977, to the current \$100,000 level in 1982. If the \$100,000 waiver ceiling were adjusted for inflation, it would be about \$130,000 as of the fourth quarter of 1989. Table 2.2 shows the number of fiscal year 1989 overseas direct contract actions that were in

various cost ranges, and the percentage of overseas contracting for which they accounted.

**Table 2.2: Fiscal Year 1989 Contracts^a
Above and Below the \$100,000 Waiver
Ceiling**

Dollars in millions				
Value of Contract	Number	Percent	Total	Percent
\$100,000 or less	1,031	80	\$7.6	3
\$100,001 to \$130,000	26	2	2.9	1
\$130,001 to \$200,000	38	3	6.2	2
\$200,001 to \$300,000	26	2	6.6	2
Over \$300,000	167	13	258.1	92
Total	1,288	100	\$281.4	100

^aPersonal services contracts are excluded from this analysis because AID has established a blanket waiver from full and open competition for these contracts

Other Issues

Several of the survey respondents identified other problems and issues to consider in streamlining AID's overseas procurement system. In particular, two issues the missions identified are related to AID procurement policy and the Foreign Assistance Act of 1961, as amended.

- Should the use of blanket waivers from U.S. source and origin requirements be expanded, particularly for vehicles and commodities not made in the United States. Source and origin requirements restrict AID from procuring goods and services from countries other than the United States, unless a waiver is obtained. For example, using the authority delegated to him, the AID Administrator authorized a blanket waiver for certain motorcycles and right-hand drive vehicles as unavailable in the United States.
- Can the process for waiving requirements to ship goods and services on U.S. carriers (cargo preference) be expedited, especially for countries that receive little, if any, U.S. shipping service. The Cargo Preference Act of 1954 requires that at least 50 percent (by weight) of AID-financed commodities must be shipped on U.S. flag commercial vessels, to the extent the rates are fair and reasonable.

As an illustration of the perceptions on these two issues, the mission in Egypt responded that current U.S. source and origin requirements have necessitated countless waivers due to the lack of interest by U.S. suppliers or the unavailability of certain commodities from the United States. It also stated that the Cargo Preference Act requirements for U.S. flag vessels can (1) cost up to five times that of non-U.S. flag ships

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and (2) cause lengthy delays while shipments are consolidated for transport on a U.S. flag vessel. Several other missions raised similar concerns about U.S. source and origin and cargo preference rules applicable to the AID program.

Management of Overseas Contracting and Procurement Should Be Improved

The major obstacle to an efficient AID contracting system is inadequate procurement management in the overseas missions. We found that procurement plans, critical to the effectiveness of any contracting system, often were not prepared by the missions during project design. When prepared, however, these plans generally did not provide sufficient detail to ensure timely contracting actions or effective use of FAR regulations. Several systemic management weaknesses, such as AID's failure to provide clearly defined agencywide standards for procurement planning and sufficient procurement-related training, contributed to the absence of comprehensive procurement planning at the missions.

The effectiveness of overseas acquisition operations has been further diminished by the organizational structure for contracting and procurement in many missions. Most missions have not assigned responsibility for project procurement activities to one office or person, resulting in fragmented procurement decision-making and oversight. In addition, many contracting officers expressed concern that AID has not sufficiently assured their independence from mission officials.

Inadequate Procurement Planning

The majority of the contracting officers and almost one-half of the missions agreed that AID has not adequately planned its procurements. Further, about two-thirds of the contracting officers who responded to the questionnaire (20 of 30) indicated that inadequate procurement planning—for example, no plans, inadequate specifications for goods and services, and unrealistic cost estimates—has impeded AID's overseas contracting process. Most of the contracting officers identified inadequate procurement planning as a greater obstacle to timely contracting than the full and open competition requirements of the FAR.

Analysis of the survey responses to procurement planning questions indicates that the missions were closely divided on whether the lack of procurement planning was an operational problem at their mission (13 indicated that it was a problem and 15 indicated that it was not). In its response to the survey, the regional support office responsible for providing contract services to several African missions claimed that the absence of comprehensive and thorough procurement planning has been endemic throughout AID.

Our case study analyses supported the views of those AID officials who identified weaknesses in overseas procurement planning practices. These case studies revealed that procurement planning during project design generally was either nonexistent or lacked sufficient detail to be

meaningful, which, in some cases, may have delayed contract awards and limited the benefits of contract negotiations.

AID internal evaluations of overseas contracting management and a memorandum from a prior AID Administrator have indicated that inadequate procurement planning has been a fundamental management weakness for years. The AID Administrator concluded over 12 years ago that AID had not adequately planned its procurements, often resulting in incomplete identification of project needs and insufficient allocation of time for contract activities. The Administrator at that time tasked all assistant administrators and office heads to ensure that the projects they approved included realistic procurement plans.

However, systemic weaknesses in planning continued into the 1980s. In our 1980 report¹ we noted that while AID was attempting to improve procurement planning, inadequate procurement planning continued to adversely affect project implementation. We found, for example, that procurement plans were not always prepared, and, in those cases where they were prepared, many lacked specific information, were incomplete and unrealistic, and were prepared after the project agreement was signed rather than during project design and approval phase. The AID Procurement Executive, in each of his annual contract certification reviews conducted since 1986, also concluded that meaningful procurement planning has been only sporadically done during project design.

**Planning Requirements
Not Systematically
Addressed in Project Plans**

Federal regulations require procurement planning for government procurement, and AID handbooks point out that successful implementation of projects is closely related to the care with which the procurement of goods and services is planned. For example, the handbooks recommend that project officers consult mission contracting officers early in the project planning process to minimize potential procedural and legal difficulties. AID handbooks, however, do not require mission compliance with current guidance on key elements of procurement plans. As a result, we found many of the same planning weaknesses identified in our 1980 report. Missions were not routinely preparing project procurement plans or, when they did, insufficient detail was provided.

Our analyses of new contracting actions by the missions in Egypt, Guatemala, Honduras, Indonesia, Pakistan, and the regional support office

¹AID Slow In Dealing With Project Planning and Implementation Problems, (GAO/ID-80-33, July 15, 1980).

in Kenya showed both inconsistencies and inadequacies in project procurement planning. During our case study reviews, we found that none of the project papers² in Indonesia contained procurement plans. Similarly, we found little evidence of systematic procurement planning as a part of project design in Egypt. At the other three missions and the regional support office (Guatemala, Honduras, Pakistan and Kenya), project papers generally contained procurement plans. However, a comparison of these plans with AID guidance, which describes procurement planning processes, showed that the plans did not systematically address suggested planning elements, such as

- explaining the choice to use an AID direct contract versus a host country contract;
- preparing a complete list of goods and services that will be procured by contract, including specifications and expected source, origin and nationality;
- scheduling the (1) critical dates for proposed contracts, (2) preliminary sequencing of deliveries, and (3) interrelationships between goods and services;
- including a budget and financing scheme; and
- defining contract administration activities, such as audit and close out procedures.

We found significant variation among the procurement plans in the amount of information provided. Many of the procurement plans we examined provided little more than generic descriptions of requirements, their expected source, origin, and nationality, or an explanation of the decision to use a host country or AID direct contract. Although some project papers included contract milestones in other project paper sections, we found that these milestones were not consistently scheduled for all procurement activities and were difficult to track. In our view, the lack of clearly defined agency standards and requirements directly contributed to these procurement planning deficiencies.

An agricultural project in Guatemala provides a specific example of the types of procurement planning problems experienced by overseas missions. According to a mission official, the implementation of this project was delayed because project designers did not allow for the time needed to prepare and have the project implementation order approved. The order initiates the contracting process and provides a description of the

²Project papers summarize analyses carried out during project development and represent the final proposed project design.

procurement, upon which the contract will be based. Preparation and approval of the order took about 3 months; yet, the project designers scheduled only 2 months from the time the host country signed the project agreement until issuance of the requests for proposal. Poor planning also resulted in the project's technical advisers arriving in the country before computers needed by these advisers were delivered.

Poorly Prepared Project Implementation Orders

According to an official on the Planning, Policy, and Evaluation Staff, the project implementation order is the logical extension of the procurement planning process. Preparation of the order further refines project requirements identified during initial project design. Moreover, preparation and timely authorization of a fully detailed order is critically important because it is both the first step in the contracting process and the basic foundation of the resultant contract. The order, for example, is supposed to accurately identify the goods and services required of the contractor (the statement of work), the estimated cost and time period, logistical support arrangements, and other details necessary to facilitate the negotiation and execution of a contract.

Contracting officers indicated in their responses to the questionnaire and in follow-up interviews that orders often did not have enough information for them to begin the contracting process. Contracting delays sometimes occurred because the contracting officer either had to seek clarification or return the order to the project office for revision. Approximately two-thirds of the contracting officers reported that incomplete statements of work in orders have impeded the contracting process. In addition, a majority of the contracting officers reported that one-half or more of the orders (for new contracts in fiscal years 1987 and 1988) did not provide clearly defined breakouts of budget costs or clearly defined criteria for evaluating contract proposals.

According to some contracting officers, better prepared orders submitted on a timely basis would enable them to handle contracting actions in a routine, systematic, and timely manner. Contracting officers noted that they have received a significant number of "urgent orders," which did not provide sufficient time for contracting. Some contracting officers stated that these orders are often of such pressing urgency that all other contract actions had to be delayed while they dealt with the "crisis." For example, in Egypt, a contracting officer received an order for a \$2-million modification to a contract 10 days before it expired; yet, the project office knew of the need for the modification for over 2 months. To meet this deadline, the contracting officer had to stop work

on all other contracts. In addition, the lack of advance notice limited the contracting officer's ability to negotiate and possibly resulted in a higher contract cost.

Systemic Management Weaknesses Contribute to Inadequate Procurement Planning

Certain systemic weaknesses have contributed to inadequate procurement planning by the missions. These weaknesses include the lack of (1) data on the time required for various contracting actions, (2) agency-wide standards for procurement planning, (3) procurement-related training for project staff, and (4) contracting officers participation in project procurement planning.

Base-Line Data for Procurement Planning Not Available

We found that guidelines for scheduling overseas contracting were generally not available in AID or, where available, they were based on imprecise estimates. In Honduras, for example, the contracting division did not provide the project officers with written guidance on the time needed at the mission for each step in the contracting process. Although guidelines on the time required for various contract phases had been provided by the contracting staff in Guatemala, they were based on rough estimates and not actual mission averages.

Analyses by the consultant for AID's Coordinating Group also have concluded that project officers generally did not have guidance on the time needed for contracting activities. The consultant noted that the only basis for procurement planning in AID has been rough estimates. These rough estimates, the study concluded, cannot be validated because AID does not have data on the actual length of the contracting process for various types of procurement. Thus, many AID officials have based their plans on their own often highly optimistic expectations, resulting in disappointments and complaints about contracting delays.

Agencywide Standards for Procurement Planning Not Provided

AID handbooks have not provided agencywide standards for procurement plans or established clear requirements for project procurement planning. One-half of the missions responding to the survey question on mission orders reported that they also did not have orders establishing a procedure or requirement for procurement planning. The absence of standards to assist project officers in preparing procurement plans and making planning decisions has directly contributed to inefficiencies in overseas procurement.

Insufficient Procurement-Related Training

AID officials widely viewed the limited participation of mission staff in procurement-related training, particularly project and program officers, as a major cause of inadequate procurement planning. Ninety percent of the contracting officers responding to the questionnaire stated that inadequate project staff training in contracting and procurement has impeded AID's contracting process. Similarly, AID's consultant reports that approximately 80 percent of the missions responding to the survey indicated that the training and experience of all staff involved in contracting has been inadequate. In his report to the Coordinating Group, the AID consultant concluded that inadequate training of project officers may be the most pervasive weakness in AID's entire procurement system.

Analysis of mission responses to the survey further indicates that AID has not adequately ensured project officer participation in three critical training courses dealing with project design, project implementation, and contracting for nonprocurement personnel. According to the missions responding to the survey question on training, just over one-half (52 percent) of the direct hire project officers and only 8 percent of the foreign service nationals (non-U.S. citizen) project officers had completed the project design course. Participation was higher for the project implementation course; 75 percent of direct hires and 56 percent of the foreign service nationals reported completion of this course. Relatively few project officers (17 percent of the direct hires and 4 percent of the foreign service nationals) had completed the course on contracting for nonprocurement personnel.

Another training issue identified by some mission officials was the lack of contracting and procurement knowledge and skills among mission management. For example, regional contracting officers stated that senior mission managers, who have the authority to sign contracts within certain dollar limits, frequently have had little or no formal training in procurement. One officer suggested that (1) mission managers should attend formal training on contracting requirements and procedures and (2) procurement training should be a prerequisite to granting contracting authority to nonprocurement professionals, such as executive officers, deputy directors, and mission directors.

Contracting Officers Not Participating in Project Procurement Planning

Contracting officers did not systematically participate in procurement planning during project design, which, in the view of some mission officials and contracting officers, has led to inadequate procurement planning. Current AID guidance recommends consultations with contracting officers, as well as other mission officials, early in the process of

reviewing pre-implementation options to ensure that legal and procedural difficulties are minimized. Many missions, however, did not usually have contracting officers formally participate in project procurement planning. Sixty-three percent of the contracting officers responding to the questionnaire stated that they did not usually participate in the preparation of procurement plans and 50 percent stated that they did not usually approve completed plans.

In the view of several contracting officers, their collaboration with program officers in procurement planning would help reduce the time required for acquisitions by (1) providing realistic contracting time frames, (2) improving the quality of project implementation orders in the initial planning stages, and (3) pointing out possible contracting problems early in the process. To improve the timeliness of contracting through better planning, many contracting officers were in favor of requiring that contracting officers participate in preparing and possibly approving project procurement plans.

For fiscal year 1990, the mission in Honduras instituted an overall mission procurement planning process, designed to address contracting inefficiencies resulting from inadequate project procurement planning. The Mission Director required project officers to submit lists of proposed procurements, schedules, dollar values, and the anticipated level of competition to the contracting officer. At the time of our field work, the contracting officer was developing a mission-wide procurement plan based on the project-specific procurement plans. Anticipated benefits of these actions were (1) proactive rather than reactive management of the contracting workload, (2) increased accountability as an agreement is reached between the contracting officer and project staff on anticipated needs and delivery schedules, and (3) enhanced project staff understanding of the contracting process and rationale for mission management's decisions on contract priorities.

Although the effect on mission operations cannot be determined at this time, mission-wide procurement plans could improve the ability of missions to manage their contracting workload, as well as reduce costs through block buys of routine project procurement such as vehicles.

Procurement Management Not Integrated

Our review indicated that the organizational structure for contracting and procurement in AID's overseas missions has not been conducive to effective procurement management. Responsibilities for direct and host country contracts were typically split between contracting and program/project offices in overseas missions. This division resulted in non-procurement professionals making key procurement-related decisions and inadequate control and oversight of overall mission contracting actions. In addition, several contracting officers indicated that they have concerns about their independence to discharge their contracting responsibilities effectively.

Contracting Responsibilities Not Integrated

Most missions (20 out of the 24 missions responding to the survey question) stated that they have not integrated direct and host country contracting responsibilities under a single office. Division of these responsibilities has been a serious organizational weakness because (1) contracting officers, who are the agency's contracting experts, have not been systematically involved in host country contract approval or oversight; (2) project officers, who administer host country contracting at the missions, have not received sufficient procurement-related training; and (3) missions have not always maintained accurate information on host country contracting, which accounts for a substantial proportion of AID's funding.

Over one-half of the contracting officers responding to the questionnaire stated that it has not been the usual practice at their mission(s) for them to approve host country contracting procedures or for them to routinely review host country contracts for final approval. Generally, mission and regional contracting officers' responsibilities have been limited to direct contracts, grants, and cooperative agreements, whereas project officers typically have overseen host country contracting by (1) arranging host country contracting capability assessments; (2) assisting host country ministries with contracting procedures, such as preparing proposals and developing cost estimates to facilitate analysis of proposals; (3) reviewing proposed host country contracts; and (4) monitoring the host country ministry and performance of the contractor. As noted earlier, most project officers have not been sufficiently trained in contracting procedures, and consequently may not be qualified to assist in such activities.

The consultant for AID's Coordinating Group agreed that the split in responsibilities for direct and host country contracts has been a serious agencywide organizational problem. In our view, the lack of host

country contracting oversight by qualified contracting officers, coupled with the division of responsibility among several offices and individuals, is also an internal control weakness. For example, accurate and up-to-date information on the number and dollar value of AID-financed host country contracts was not available at many of the missions we visited. The mission in Egypt (which is responsible for over one-half of AID's active host country contracts) did not have a system to identify the number of host country agencies implementing AID-financed host country contracts or to determine whether these agencies' contracting capabilities had been assessed, as required by AID regulations.

Contracting Officer Independence Questioned

The contracting officer's first responsibility is to protect the overall interests of the U.S. government and to ensure that agencies meet their procurement needs in the most effective manner consistent with appropriate regulations and laws. Because contracting officers must have a certain amount of independence to fulfill this role, the AID Procurement Executive has recommended that overseas contracting officers and staff report to the deputy mission director.

Analysis of the questionnaire responses indicated that the recommended organizational placement of contracting officers has not been done by all missions. Over 40 percent (13 out of 30)³ of the overseas contracting officers stated that either they or the mission's supervisory contracting officer reported to an official lower than the deputy mission director.

According to the Competition Advocate, under this management structure, contracting officers have (1) not been in a position to participate equally with other senior mission officers in program procurement decisions and (2) been typically excluded from meetings in which key procurement decisions are made, which may have resulted in grants being used instead of contracts to avoid competition requirements. Also, seven of the contracting officers reported to the executive officer, who is also usually responsible for administrative procurement. The Competition Advocate stated that this situation may lead to an unacceptable balancing of contracting priorities because contracting officers may be pressured to give lower priority to project procurement needs.

³However, five contracting officers (representing over 16 percent of the respondents) indicated that the organizational placement of contracting officers at their mission was in the process of being changed to that recommended by the Procurement Executive. One of the 31 contracting officers responding to the questionnaire did not answer the question.

Many contracting officers, however, expressed concern that reporting to the deputy mission director may not be sufficient to ensure their independence. Respondents to the contracting officer's questionnaire stated that (1) contracting officers should either report directly to the Procurement Executive (about 36 percent) or (2) the annual performance ratings of overseas contracting officers should be reviewed by the AID Procurement Executive (just under one-half). Individual contracting officers stated that the current practice of having their performance ratings prepared and reviewed by mission officials creates the potential for undue pressure to make their contracting decisions conform with mission interests. Some contracting officers shared the view that an inherent conflict exists among the roles of contracting officers, project managers, and mission management, which hinders mission management from objectively rating contracting officers.

To insulate them from this conflict, two contracting officers and one mission survey respondent suggested that AID adopt rating procedures for contracting officers that are similar to those established for regional legal advisers. AID/Washington officials confirmed that the ratings of regional legal advisers are reviewed in Washington, D.C., to help shield these officials when they make rulings and decisions that are unpopular with mission management. Moreover, we were told that personnel in AID's Office of the General Counsel have informally suggested to agency management that the ratings of contracting officers should be reviewed in AID/Washington, because these officers are subject to the same pressures as regional legal advisers.

Under an appraisal system modeled after that of the regional legal advisers, contracting officer ratings would still be written by mission officials who have direct knowledge of performance, but these ratings would be independently reviewed by the Procurement Executive for balance, consistency, and fairness. Upon review, the Procurement Executive could intercede on behalf of contracting officers by adding reviewer comments that become part of the official personnel record.

Procurement Staffing Requirements Not Routinely Determined

As of March 1989, AID reported that 35 contracting officers were assigned to its overseas missions and field offices. Many AID officials, however, stated that additional contracting officers and contract support staff are needed to handle the contracting workload in the field.

- Sixty-three percent of the contracting officers responding to the questionnaire stated that inadequate contracting and procurement staff levels have impeded the contracting process.
- Over one-half of the missions responding to the survey question on staffing (based on AID analysis) considered the number of available contracting staff as being inadequate for their needs.
- Contracting certification reviews of individual missions by the Procurement Executive often have resulted in recommendations for additional contracting staff.

We did not determine whether contracting staff shortages exist. The functional allocation of direct hire staff slots in the missions has been left primarily to the discretion of individual mission directors, whose decisions, according to some AID officials, have rarely been based on a systematic assessment of the contracting staff resources needed to administer contracts for a given assistance program portfolio. According to AID's Competition Advocate, AID does not have a contracting and procurement staffing plan for overseas operations.

Conclusions and Recommendations

The major obstacles to efficient acquisition by AID's overseas missions are not related to the FAR requirements for full and open competition, but rather to poor procurement planning and fragmented organizational arrangements in the missions. The long-standing failure of AID to develop a sound approach to procurement planning may be the single most serious obstacle to an efficient overseas contracting system. The following are some of the specific deficiencies in procurement planning that AID needs to address.

- Procurement plans were not systematically prepared as part of project and program design.
- Contracting officers generally did not participate in procurement planning.
- Agency standards, requirements, and baseline data were not provided to assist project officers in preparing procurement plans.
- Project staff and mission management did not receive sufficient procurement-related training.

In assessing whether the FAR impedes overseas operations, we found that it applies to only a small portion of the financial instruments available for implementing projects; thus, its overall impact is limited. As expected, contracts awarded based on full and open competition require more time than those awarded under other than full and open competition. However, the additional time requirements for full and open competition, on average, appeared reasonable when compared to available data on AID/Washington contracting time frames. According to AID's Competition Advocate, if procurement is properly planned in advance, basing awards on full and open competition can substantially benefit the foreign assistance program by improving project concepts, controlling costs, and helping to minimize opportunities for fraud and abuse.

Although most of AID's contracting officers endorsed the FAR, many also recommended increasing the authority for waivers from the requirement for full and open competition for overseas contracts. Several contracting officers and mission officials stated that a higher dollar threshold for overseas competition would relieve the administrative burden of advertising small-value contracts that could be awarded to local sources. In considering such a change, AID needs to consider (1) the potential effect of increasing the waiver threshold on the ability of U.S. firms to participate in the U.S. assistance program, (2) the extent to which cost control would be compromised, and (3) the extent to which contractor favoritism might be increased under less than full and open competition.

The missions also stated that AID's procurement guidance is poorly organized and located in too many handbooks and other sources for efficient use in overseas contracting. Clearly, AID needs to improve its procurement guidance to make the most effective use of applicable regulations. The Competition Advocate stated that many missions were confused about the requirements for competing follow-on contracts and when follow-on contracts can be awarded to contractors in place without re-advertisement and competition. Specific AID guidance is needed in this area.

Other inefficiencies in the acquisition process include the organizational structure for contracting and procurement in the overseas missions, which, in our view, unnecessarily fragments decision-making, control, and oversight over direct and host country contracts. We agree with the consultant for AID's Coordinating Group that the split in responsibilities for direct and host country contracts has been a serious agencywide organizational problem. Although we did not directly solicit the views of the missions or overseas contracting officers on this issue, we found that most missions do not have a unified procurement organization to provide a single focal point for all project procurement responsibilities, operations, and accountability. Moreover, contracting officers, who are AID's procurement experts, are frequently excluded from key mission acquisition activities, such as procurement planning and approval of host country contracts. Also, many contracting officers did not report to the deputy mission director, as recommended by the AID Procurement Executive. This restricts their independence and organizational influence. The desire of many contracting officers to have the Procurement Executive review their annual performance rating further indicates that AID has not sufficiently ensured their independence or insulated them from undue pressures by mission management.

Recommendations

We recommend that the AID Administrator:

- Strengthen mission procurement planning by (1) establishing clear requirements for procurement planning during project design and implementation; (2) requiring contracting officer clearance of project procurement plans; (3) developing a procurement planning model for overseas operations, which includes the development of baseline data on the actual time required for major procurement actions and standard formats for procurement plans; and (4) ensuring that project officers and mission management receive procurement-related training necessary to effectively design and manage programs.

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- Improve procurement management by (1) placing host country and direct contracting responsibilities within one office and (2) requiring that the senior contracting officer at overseas missions report to the deputy mission director.
 - Enhance the independence of overseas contracting officers by requiring that annual performance ratings of overseas contracting officers be reviewed and approved by the agency's Procurement Executive.
 - Improve procurement guidance for the missions by, at a minimum, developing a better index for AID handbooks and other policy guidance that lists procurement topics and cites the specific sources that deal with the topic. In addition, specific guidance should be provided to the missions identifying (1) when follow-on work is justified without re-competition and (2) the procedures that should be followed when planning the original contract for a possible extension or follow-on work.

Agency Comments

In commenting on a draft of this report, AID stated that it generally agreed with the report's recommendations, and plans to take action to implement them. AID also raised some specific comments which have been incorporated into the report as appropriate. (See app. II.)

Prior Studies of AID Contracting

Prior studies and reviews from several sources have identified a range of problems in AID's contracting and procurement system, such as insufficient number of direct-hire staff and inadequate internal controls. In response to these studies and reviews, AID has taken a number of steps to improve its contracting and procurement system.

Our Reviews

Our report, Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, Jan. 22, 1990), identified weaknesses in internal controls over direct contracts that AID had not reported in its December 29, 1988 Federal Manager's Financial Integrity Act report. These weaknesses included inadequate accountability for project-funded, nonexpendable property in the possession of contractors, and AID policy and reporting requirements that were not sufficient to ensure systematic closeout and audit of completed contracts at the two missions we visited. AID internal audits and evaluations had identified similar weaknesses in these areas, but AID audit recommendations had not been satisfactorily resolved. These weaknesses made the agency unnecessarily vulnerable to the misuse, by contractors, of AID-financed property. The weaknesses could also potentially result in (1) delays in deobligating or decommitting funds, (2) unfulfilled contractual commitments, and (3) lack of assurance that only allowable contract costs had been paid.

Our reviews of AID programs during the 1980s examined other aspects of the agency's contracting and procurement system. The more prominent contracting issues we identified include the following:

- Our report, Foreign Aid: Improvement Needed in Management of Technical Services Contracts (GAO/NSIAD-87-183, Aug. 18, 1987), pointed out that AID did not have adequate management controls over centrally managed (AID/Washington) direct contracts. Specifically, AID had failed to (1) adequately monitor contractor compliance with contract terms, (2) ensure that expenditures were charged to the proper account, and (3) provide operational guidance specifying contract requirements. Inadequate AID management controls over centrally funded contracts resulted in expenditures being charged to the wrong accounts. Also, AID had insufficient management assurances that funds were used as intended and that services had been rendered.
- Our report, Direct Contracting by the Agency for International Development Can be Better Managed (GAO/NSIAD-84-108, July 9, 1984), also identified weaknesses in AID's management of direct contracting. The contracts examined generally contained vague statements of work,

leaving many unanswered questions about contractors' obligations and AID expectations. The effects of vague statements of work included contract implementation delays and poor contractor accountability. AID also had not compiled data on the extent of, and reasons for, contract amendments and noncompetitive procurements. Without this data, AID could not accurately report on noncompetitive actions, or identify possible opportunities to enhance competition in the agency.

- We reported in Managing Host Country Contracting Activities (GAO/ID-82-42, June 2, 1982) that AID had not developed a centralized inventory of host country contracts. We stated that information on host country contracts could improve AID's operational capabilities by (1) enabling AID to readily inform the Congress, AID managers, and auditors on contract activities; (2) assisting in evaluating the impact of host country contracting policy; (3) assisting in obtaining more economical and efficient audit coverage; and (4) providing a basis for exchanging contract cost information and serving to alert AID officials on problem contractors.
- According to our report, AID Slow in Dealing with Project Planning and Implementation Problems (GAO/ID-80-33, July 15, 1980), delays in ordering and receiving project commodities occurred because (1) AID management had not adequately planned procurements, (2) project officers were not adequately trained in procurement and supply management, and (3) AID had not issued clear instructions on project implementation. To improve planning, AID stated that it was revising its central guidance on project design and implementation and was developing an integrated training program for project management personnel.

AID Certification Reviews, Audits, and Investigations

Certification reviews of the agency's direct contracting system conducted by AID's Procurement Executive during the 1980s identified systemic weaknesses in overseas contracting and procurement. These weaknesses included insufficient organizational structures in the missions for ensuring independence of the contracting function and failure of the missions to properly plan their procurements.

Audits and investigations by the AID Inspector General have also identified a number of problems in the agency's contracting and procurement system, including questionable pricing practices by contractors, inadequate scrutiny of contract costs by AID, and poor monitoring of contractor performance. Some criminal activities also were identified, such as the bribery of a foreign national procurement specialist and collusion among bidders. An AID Inspector General report has concluded that the foreign environment in which AID executes its overseas procurement operations is highly vulnerable to fraud.

Federal Manager's Financial Integrity Act Reports

Beginning in the early 1980s, AID's annual Federal Manager's Financial Integrity Act reports identified several material weaknesses in the agency's internal controls directly related to the efficiency and effectiveness of the contracting and procurement process. They included the following:

- Failure of the missions to adequately address the contracting capability of host country agencies responsible for AID-financed host country contracts had placed the agency in a situation of sponsoring assistance programs that may not have fundamental management safeguards.
- A number of overseas missions had not developed the internal procedures and guidance necessary to ensure overall compliance with agency policies and regulations.
- AID was forced to use personal service and nonpersonal service contractors to carry out programs because of insufficient numbers of direct-hire staff.
- Inadequate audit coverage of development projects and programs, according to a high percentage of AID missions, has increased the agency's vulnerability to waste and mismanagement.

AID Actions to Improve Contracting and Procurement

AID actions to improve contracting and procurement have included

- promoting competition in contracting by having competition advocates (typically deputy mission directors) in each of the overseas missions;
- establishing a data base on contract amendments and noncompetitive actions;
- establishing additional overseas mission and regional contract officer positions;
- offering staff training courses such as the "Federal and AID Acquisition Course" and "Contracting for Nonprocurement Personnel;"
- increasing the staff in the Office of Inspector General and expanding the agency's funding of nonfederal financial and compliance audits; and
- developing an inventory of host country contracts and designing a new direct contract information system, which is in the initial stages of implementation.

Comments From the Agency for International Development

GAO comments: The wording in the text has been revised to incorporate the suggested changes

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523



ASSISTANT TO THE ADMINISTRATOR
FOR MANAGEMENT

AUG 22 1990

Mr. Frank C. Conahan
Assistant Comptroller General
United States General Accounting Office
441 G Street, N.W., Room 5055
Washington, D.C. 20548

Dear Mr. Conahan:

We have reviewed the draft report "Foreign Aid: A.I.D. Can Improve Its Management of Overseas Contracting" (Code 472190) and we are in general agreement with the recommendations contained therein. Our response to the final report will address the four recommendations and the actions planned or taken.

Specific comments on the text of the draft report follow:

- page 12 - it should be noted that AID has invoked its impairment authority only for overseas contracts that are \$100,000 or less.
- page 13 - it is true that MS/PPE controls the delegations of contracting authority for the Procurement Executive but it is MS/OP that controls the selection of Contracting Officers.
- page 58 - the recommendations on page 58 are slightly different from those stated on page 8 of the draft report.
- page 63 - there is reference to the bribery of a Procurement Specialist. It should be noted that this was a foreign national working at one of our overseas Missions and no cases have been brought against any U.S. direct-hire procurement officials.

We appreciate the time and effort expended by your staff in coordinating the data gathering for this draft report with A.I.D.'s Coordinating Group for Improving Operations and Efficiency.

Sincerely yours,

Michael Doyle

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