

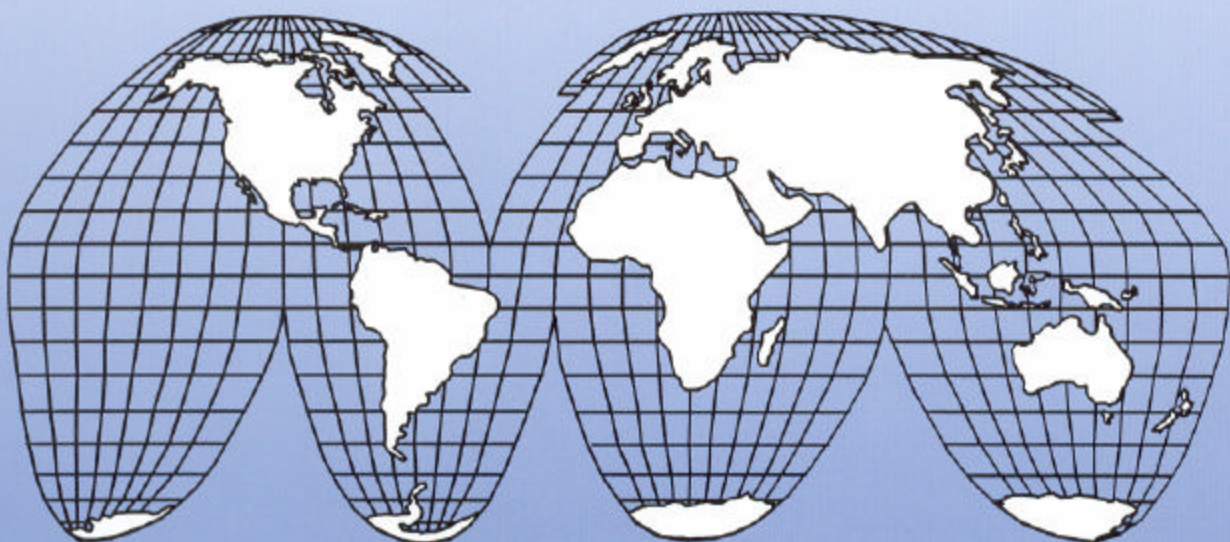
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq to Kroll Government Services International Inc.

Audit Report Number A-267-05-005-P

January 6, 2005



Washington, D.C.



January 6, 2005

MEMORANDUM

FOR: M/OAA/OD, Michael F. Walsh
DCFO, David Ostermeyer
SEC/OD, Harry Manchester, Jr.

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

SUBJECT: Audit of USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq to Kroll Government Services International Inc.
(Report No. A-267-05-005-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 them in their entirety as Appendix II.

The report contains four recommendations for corrective action. Based on your comments to our draft report, we consider that management decisions have been reached for Recommendation Nos. 1, 2, 3 and 4. For these recommendations, please notify the Bureau for Management's Office of Management Planning and Innovation when final action is completed.

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

cc: USAID/Iraq, Mission Director, James E. Stephenson
CFO, Lisa Fiely
ANE/AA, James R. Kunder
ANE/IR, Peter Amato

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Summary of Results

The Information Technology and Special Audits Division of the Office of Inspector General in Washington, D.C. has completed an audit to determine whether the U.S. Agency for International Development (USAID) complied with federal regulations in awarding a contract for security services in Iraq. Specifically, USAID: (1) did not adequately document the use of less than full and open competition or explain its contractor choice, (2) obtained security services using a letter contract that did not meet Federal Acquisition Regulation (FAR) requirements, (3) incurred multiple potential funds control violations, and (4) purchased armored vehicles that did not meet U.S. Government armoring standards. (See page 7).

USAID did not adequately document its use of sole source procurement or its selection of Kroll Government Services International Inc. (Kroll) to provide security services for USAID/Iraq. Also, USAID obtained security services for USAID/Iraq for a seven-month period using a letter contract that did not meet FAR requirements. (See pages 7-11).

USAID incurred multiple potential funds control violations in connection with obtaining security services from Kroll that require review and resolution by USAID's Deputy Chief Financial Officer. (See pages 11-13).

Finally, USAID purchased 14 armored vehicles through the Kroll contract that did not meet U.S. Government armoring standards and there was no documentation to support the \$1.9 million cost of the vehicles. (See pages 13-15).

In its response to our draft report, USAID management agreed overall with Recommendation Nos. 1, 2, 3 and 4. Thus, management decisions have been reached on all four recommendations. (See page 15). Management comments are included in their entirety in Appendix II. (See pages 19 and 20).

Background

In August 2003, USAID officials took steps to obtain security services for its personnel and facilities in Iraq—including the purchase of 17 vehicles (14 of them armored)—after multiple attacks on Mission staff. Using other than full and open competition as authorized under a blanket approval granted by the USAID Administrator for activities and programs initiated in response to the crisis in the Near East,¹ USAID officials in Baghdad selected Kroll Government Services International Inc. (Kroll) to provide these services. On August 23, 2003,

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

USAID's Chief Acquisition Officer authorized the use of a letter contract² to Kroll for up to \$4.5 million that would allow the contractor to begin immediately performing services. USAID submitted its proposed letter contract to Kroll for signature on August 24, 2003 which would have authorized costs of up to \$1 million. However, Kroll never signed this letter contract and the letter contract did not contain most of the required clauses for a letter contract as specified in the FAR. Despite USAID's inability to obtain Kroll's signature or agreement to the letter contract, on September 1, 2003, a USAID contracting officer in Baghdad provided Kroll with a letter authorizing Kroll to incur costs of up to \$4.5 million.

Over the next seven months, USAID negotiated price and contract terms with Kroll while Kroll provided the requested security services in Iraq. At Kroll's request, USAID agreed to change the contract type from a cost reimbursement contract—as originally proposed—to a fixed price contract for commercial items. Responsibility for the negotiations was eventually transferred back to USAID/Washington. During the period September 1, 2003 to March 31, 2004, four additional authorizing letters were given to Kroll increasing the amount of costs that could be incurred to \$12.5 million even though Kroll never signed the letter contract.

Finally, on March 31, 2004, more than seven months after Kroll began providing services, USAID executed and Kroll signed a \$12.1 million fixed price contract for commercial items, for Kroll to provide facility security and protection services and vehicles for USAID/Iraq. This action covered the time period August 24, 2003 through March 31, 2004. The following contract modifications increased the total contract price to \$29,742,389 and extended the contract an additional nine months to December 31, 2004:

(1) Modification No. 1 awarded on April 19, 2004 for April-May 2004 for an additional \$3,945,328;

(2) Modification No. 2 awarded on May 27, 2004 for June 2004 for an additional \$1,822,983; and

(3) Modification No. 3 awarded on June 28, 2004 for July-December 2004 for an additional \$11,874,078.

² As defined by FAR 16.603, a letter contract is a written preliminary contractual instrument that authorizes a contractor to immediately begin performing services.

Audit Objective

This audit was conducted by the Office of Inspector General’s Information Technology and Special Audits Division in Washington, D.C. in response to a recent request from the U.S. House Appropriations Subcommittee for Foreign Operations to review all new USAID contracts over \$1 million and an earlier request by the USAID Administrator to review the procurement process for all Iraq reconstruction contracts. This audit was designed to answer the following audit objective:

Did USAID comply with federal regulations in awarding the Iraq security services contract?

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

Audit Findings

For the areas reviewed, USAID did not comply with significant provisions of federal regulations in awarding a contract for security services in Iraq to Kroll Government Services International Inc. Specifically, USAID: (1) did not adequately document or explain its selection of Kroll, (2) obtained security services using a letter contract that did not meet FAR requirements, and (3) incurred multiple potential funds control violations. In addition, USAID purchased 14 armored vehicles through the Kroll contract that did not meet U.S. Government armoring standards and there was no documentation to support the \$1.9 million cost of the vehicles.

These areas are discussed in detail below.

Inadequate Documentation For Selection Of Kroll As Security Services Contractor

<p>Summary: USAID officials did not adequately document its use of sole source procurement or explain the selection of Kroll Government Services International Inc. (Kroll) as the contractor to provide security services for USAID/Iraq. Because USAID needed to quickly obtain security services for its employees, the required documentation for its selection of Kroll was lacking. Without documentation, we could not determine whether other potential offerors were competitive or whether the selection of Kroll was in the best interests of the U.S. Government.</p>

On January 16, 2003, the Office of the USAID Administrator authorized expedited acquisition and assistance procedures for activities and programs in response to the crisis in the Near East. This authority, under USAID Acquisition Regulation (AIDAR) 706.302-70 (b)(3)(ii), allowed USAID to award these contracts using other than full and open competition requirements in accordance with 40 USC 474. Solicitations for goods and services were still to be made from as many sources as practicable under the circumstances. This authority, however,

is limited by the requirements of AIDAR 706.302-70 (c)(2) that requires the contract file to include appropriate explanation and support justifying the award without full and open competition, as provided in FAR 6.303. FAR 6.303-2 states that the justification shall contain sufficient facts and rationale to justify the use of the authority and specifies 11 information items that it should include as a minimum.³

The justification for other than full and open competition for this contract, dated August 10, 2003, was prepared by the USAID/Iraq executive officer. The justification contained only 6 of the 11 information items required in FAR 6.303-2. Important missing information included (1) an explanation why Kroll was selected over other security services contractors as the best or most suitable choice for USAID to use as its sole source provider, (2) an explanation describing whether other firms were considered or any indication whether other firms were queried about interest in the contract or of their availability to quickly provide services, and (3) a determination by the contracting officer that the anticipated cost to the Government would be fair and reasonable. Regarding the selection, the USAID contracting officer in Iraq handling the procurement at that time explained that the USAID/Iraq executive officer had already made the determination that Kroll would provide the services when the justification was prepared and that deficiencies in the justification were a result of USAID/Iraq's desire to quickly acquire security services for its employees. Officials in USAID's Office of Security stated the selection of Kroll was made before they could offer any suggestions or input on choosing a security firm.

USAID officials stated they believed all documentary requirements for the decision to award sole source to Kroll were met by the USAID Administrator's waiver along with the justification prepared in August 2003. They also stated that the decision to select Kroll could have been better documented.

We believe the cited AIDAR and FAR requirements are clear that USAID's waiver to use other than full and open competition for Iraq-related procurements still requires explanation or support. Without documenting the explanation of the process for selecting Kroll as the contractor, USAID's selection of Kroll to be USAID/Iraq's security services provider is not fully justified or explained.

Recommendation No. 1: We recommend that USAID's Chief Acquisition Officer issue a notice reminding all Bureau of Management, Office of Acquisition and Assistance personnel that adequate and complete documentation must be prepared and retained in all procurements when using less than full and open competition. This documentation should adequately explain the contractor selection and why multiple contractors could not or were not considered for the procurement.

³ AIDAR 706.302-70 (c)(2) eliminates the need to include a twelfth item—the requirement for contracting officer certification.

Letter Contract Did Not Meet FAR Requirements

Summary: Contracting officers at USAID/Iraq obtained security services for the Mission over a seven-month period using a letter contract that did not meet many of the requirements of the FAR. USAID contracting officers opted to immediately obtain security services rather than negotiate with another contractor after Kroll declined to sign a proposed letter contract prepared by USAID. In addition, several clauses required by the FAR for inclusion in letter contracts in order to protect Government interests were not included in this letter contract. As a result, for seven months and after paying \$8 million to the contractor, USAID had no binding agreement to ensure the continued presence of critical security services for USAID employees in Iraq. USAID officials believed that they did not need the contractor's signature to create a binding agreement or could have alternatively claimed an "implied-in-fact contract" to support a judgment for performance if Kroll had ceased providing services.

FAR 16.603 prescribes the use of a "letter contract" as a written preliminary contractual instrument that authorizes a contractor to immediately begin performing services. FAR 16.603-2 states that a letter contract may be used when (1) the Government's interests demand that the contractor be given a binding commitment so that work can start immediately and (2) negotiating a definitive contract is not possible in sufficient time to meet the requirement. FAR 16.603-4 identifies specific clauses to be included in letter contracts to protect the Government's interests. In addition, FAR 4.102 (c) requires a contract with a corporation to be signed by a person with authority to bind the corporation.

On August 11, 2003, USAID selected Kroll under a sole source procurement to provide security services for USAID/Iraq personnel. By August 22, 2003, USAID had received technical and cost proposals from Kroll and the next day USAID's Chief Acquisition Officer authorized the use of a letter contract to Kroll for up to \$4.5 million.⁴ A letter contract was prepared and given to Kroll on August 24, 2003.

Although use of a letter contract was clearly appropriate in these circumstances, the letter contract that was prepared and the manner in which it was awarded did not meet many of the requirements of FAR 16.603 and, in our opinion, did not result in a binding agreement. These problems included:

- Kroll officials declined to sign the proposed letter contract as required by FAR 4.102 (c). In addition, FAR 52.216-23 "Execution and Commencement of Work" requires the contractor's signed acceptance and this clause was omitted from the letter contract though required by FAR 16.603.

⁴ Four subsequent letters of authorization increased the amount to \$12.5 million.

-
- Additional required clauses at 52.216-24, 25, and 26⁵ were also omitted from the proposed letter contract. Although the contract does contain information on limiting the Government's liability, it does not cover the requirements of the "Contract Definitization" and "Payments of Allowable Costs Before Definitization" clauses.
 - It is questionable that Kroll considered this to be a final letter contract. On August 27, 2003, three days after USAID "executed" the proposed letter contract and at the suggestion of USAID's contracting officer, a Kroll official forwarded it to USAID's regional legal advisor in USAID/Egypt for discussion with suggested changes to the letter contract. USAID's regional legal advisor—previously not consulted about the letter contract—pointed out the absence of the required clauses.

Using this letter contract, USAID was in the position of potentially losing its security services in Iraq on very short notice during the protracted negotiation process as USAID had no binding commitment to require Kroll to continue to provide services such as is contained in the required clause at FAR 52.216-25. A review of communications between the contractor and USAID during this period showed at least five occasions when the contractor threatened to promptly cease operations without a satisfactory written contract or letter contract.

In addition, USAID had begun paying the contractor without the benefit of any clauses in the letter contract to clearly protect its interests. From August 2003 until execution of the contract on March 31, 2004, USAID made payments of approximately \$8 million to Kroll for security services. Although the main point of dispute between Kroll and USAID was the cost of services, Kroll's risk was minimized as it billed and received payment from USAID using its proposed prices with none of the billed amount withheld pending contract definitization. Included in the \$8 million was an advance payment of \$1.9 million Kroll received in October 2003 to purchase 17 vehicles. Kroll only delivered 3 of the 17 prepaid vehicles to USAID/Iraq during negotiations over the next five months and delivered the remaining vehicles after the final contract was signed.

USAID officials stated that they believed they had a valid letter contract or alternatively an "implied-in-fact contract" that would have supported a judgment for performance if Kroll had decided to cease providing services.

⁵ FAR clause 52.216-26 "Payments of Allowable Costs Before Definitization" was required because a cost reimbursement definitive contract was contemplated at the time the letter contract was prepared.

In our opinion and as stated above, this letter contract was not prepared in accordance with FAR requirements and did not result in a binding agreement. Accordingly, USAID's position was weakened during the lengthy negotiation period. Following FAR requirements protects the Government's interests and helps eliminate many contractual disputes and the need for protracted legal intervention.

Recommendation No. 2: We recommend that USAID's Chief Acquisition Officer issue a notice to all Bureau of Management, Office of Acquisition and Assistance personnel reminding them that procurements for USAID activities are subject to all federal procurement requirements. Specifically, the reminder should cover the proper preparation of letter contracts in accordance with the Federal Acquisition Regulation along with examples of fully compliant letter contracts prepared in the past by USAID.

Potential Funds Control Violations

<p>Summary: USAID incurred multiple potential funds control violations in connection with obtaining security services from Kroll. These potential violations included establishing an obligation without the required minimum documentation and modifying the contract without providing funding to pay for the extended services. These potential funds control violations are a result of internal control weaknesses over the obligation of funds. Without an effective funds control system, USAID cannot prevent overspending or ensure compliance with various laws enacted to control and guide the implementation of federal fiscal policy.</p>

Automated Directives System (ADS) 621.3.2 lists the elements of a valid obligation including that it must be supported by written evidence. Among the possibilities listed in 31 U.S.C. Section 1501(a), an obligation is to be "supported by documentary evidence of a binding agreement between the Agency and another person or entity that is in writing, in a way and form, and for the purpose authorized by law". In the case of a contract, ADS 621.3.4c. states that the minimum documentation required for a valid obligation are the contract documents "signed by both parties".

ADS 634.3.5 states that funds control violations may be either statutory or administrative in nature. An administrative violation results from actions in violation of Agency funds control policies and procedures below the allotment level. ADS 634.3.5.2 describes circumstances in which administrative violations (funds control violations) occur to include obligations incurred prior to the commitment of funds. In addition, FAR 43.105 states that "The contracting officer shall not execute a contract modification that causes or will cause an increase in funds without having first obtained a certification of fund availability,

except for modifications to contracts that (1) are conditioned on availability of funds; or (2) contain a limitation of cost or funds clause”. ADS 634.3.5.3/.4/.5 provide procedures for investigating and reporting on funds control violations and the applicable penalties.

USAID obligated funds for security services in Iraq on August 25, 2003 without the minimum documentation specified by the ADS. An obligation for \$4.5 million was established based on a Standard Form 26 (Award/Contract face sheet) that was not signed by either USAID or Kroll representatives. Subsequent to this on September 30, 2003, a letter of authorization to Kroll (unsigned by Kroll) was added to the supporting documentation for the obligation. The Office of Financial Management at USAID/Egypt established an obligation to pay for these services reportedly based on assurances from a USAID contracting officer in Iraq and its regional legal advisor that a letter of authorization provided sufficient basis for creating the obligation. The proposed letter contract USAID gave to Kroll—discussed in the previous audit finding—was not provided as support for the obligation though it was also not signed by Kroll. Without a contract signed by both parties, there was no valid obligation in accordance with ADS 621.3.4c. Prior to signing a contract with Kroll on March 31, 2004, USAID made payments of approximately \$8 million without a valid obligation and accordingly incurred a potential funds control violation.

Additional potential funds control problems continued into the first contract modification to extend the contractor’s services. The initial contract providing security services in Iraq from August 24, 2003 through March 31, 2004 was not executed until March 31, 2004. The obligated amount for the contract exceeded the contract amount as of March 31, and Kroll continued to provide its services. However, there was no contractual instrument that provided for these additional services beyond the contract period until the expired contract was modified on April 19, 2004. Without a written and binding agreement for this period there was no valid obligation and another potential funds control violation.

When a Modification No. 1 was finally signed on April 19, 2004 to extend the contract from March 31 until May 31, 2004, only \$14.5 million in funding had been obligated although, without a limitation of cost or funds clause, the entire amount of the contract and the modification (\$16,045,328) needed to be obligated as required by FAR 43.105 to avoid a funds control violation. The contract modification was not fully funded until May 27, 2004—four days before the contract extension was completed.

In our opinion, the above potential funds control violations are a result of a breakdown in internal controls. Therefore, we are making the following recommendation.

Recommendation No. 3: We recommend that the Deputy Chief Financial Officer initiate an inquiry of this series of potential funds control violations as required by ADS 634.3.5.3 and prepare the appropriate report on the results of the inquiry as required by ADS 634.3.5.4 to also include identifying corrective measures to be taken to address the applicable internal control weaknesses.

Armored Vehicles Purchased That Do Not Meet U.S. Government Standards

Summary: Kroll used USAID funding to purchase 14 armored vehicles that do not meet U.S. diplomatic security standards for these vehicles. USAID/Iraq officials and contracting officers authorized the purchase without obtaining the approval of or coordinating with USAID's Office of Security. In addition, USAID finalized a fixed price contract with Kroll that included vehicles purchase without obtaining adequate documentation to support their actual cost to Kroll. As a result, approximately \$1.9 million in USAID funding was used to purchase vehicles of limited use.

ADS 563 details USAID's policies and procedures for its armored vehicle program to ensure these vehicles are purchased by USAID missions in accordance with Volume 12 of the U.S. Department of State's Foreign Affairs Manual (FAM) and The Omnibus Diplomatic Security and Antiterrorism Act of 1986. ADS 563.2 states that USAID's Office of Security (SEC) has overall responsibility for the USAID Armored Vehicle Program and USAID missions are responsible for the procurement, shipment, maintenance, and disposal (with SEC approval) of Lightly Armored Vehicles (LAVs). ADS 563, as written, does not explicitly apply to purchases of armored vehicles by contractors using USAID funding.

USAID's original Request for Proposal called for the contractor to provide all vehicles needed for the performance of the contract. In its initial cost proposal dated August 22, 2003, Kroll proposed purchasing 14 armored vehicles and 3 "soft-skinned" vehicles (at a cost of \$129,600 and \$43,200 each⁶) as part of the contract. USAID approved the purchase and Kroll was paid its total price of \$1,944,000 for the vehicles on October 22, 2003. According to the contract eventually signed with Kroll on March 31, 2004, only three of the vehicles had been delivered for USAID/Iraq's protection by that date. All 17 of the vehicles were subsequently delivered and formal title was transferred to USAID/Iraq on June 28, 2004 as part of modification number 3 to the contract.

There is no record in the contract files to show that the armored vehicle purchase was ever vetted with SEC or that SEC had ever approved the purchase. Kroll was permitted to purchase the vehicles—according to the memorandum of negotiation for the contract—because they would only be used to transport Kroll employees and not U.S. Government employees (to comply with ADS 563) and because

⁶ Includes an 8 percent material handling charge.

Kroll reportedly could obtain the vehicles immediately. During the audit, SEC officials stated they had advised USAID/Iraq officials and contracting officers that the proposed vehicles did not meet U.S. Government armor requirements and the vendor was not approved by the Department of State's Diplomatic Security but documentation shows that USAID officials had already approved Kroll's purchase of the vehicles.

It is unclear why USAID allowed these armored vehicles to be purchased for use in protecting USAID employees when the employees were not permitted to ride in the vehicles. Less than three months after all of the vehicles had been delivered, USAID had title to the vehicles transferred to USAID although reportedly the vehicles had been effectively incorporated into the overall USAID motor pool before that. The transfer was done because of the high cost to Kroll of insuring the vehicles in a war zone. USAID is now responsible for all of the maintenance and operating expenses of vehicles its own employees cannot use for transportation.

Another area of concern regarding these vehicles is their cost. A Defense Contract Audit Agency (DCAA) audit of Kroll's original cost proposal⁷ found that the proposed vehicle costs were based on a quote from another company and that no cost analysis had been performed by Kroll. No information was made available on the cost of the vehicles, armor, or the labor charges with armoring the vehicles. In addition, the material handling charge of 8 percent included in Kroll's price for the vehicles was not supported and described by DCAA as "nothing more than excess profit". In an e-mail of December 2003, an official in USAID's Office of Security stated "In my estimation, a LAV costing approximately \$130,000 is expensive".

In negotiating the cost of this contract award, the type of contract was changed from cost reimbursement to a fixed fee contract for commercial services at the request of Kroll. With this type of contract, USAID was compelled to establish price reasonableness for this portion (vehicles purchase) of the overall contract. Although significant negotiating efforts were made concerning the labor costs in the contract, there was no evidence in the contract files to indicate that the reasonableness of Kroll's proposed price for the vehicles was ever substantiated.

In summary, USAID has spent approximately \$1.9 million in Iraq reconstruction funding to purchase vehicles that do not meet U.S. Government standards and have limited use in Iraq. Further, there is no assurance the vehicles were even obtained at a fair and reasonable price.

Multiple USAID-funded contractors in Iraq have purchased numerous armored vehicles to protect their personnel and the life expectancy of these vehicles can be five years or more—often in excess of the term of the ir contracts. At the close of these contracts, USAID gains possession of these vehicles and their value is

⁷ USAID OIG Report No. E-266-04-002-D, issued November 4, 2003.

significantly diminished if USAID cannot use them to transport its own personnel. USAID/Iraq's contracting office issued a notice in January 2004 requiring all contractors/implementing partners in Iraq to procure only armored vehicles that meet U.S. Government armoring standards. While the OIG views this as a positive step toward preventing the purchase of below-standard armored vehicles in the future, we are making the following recommendation to ensure this "lesson learned" is applied to present and future USAID activities worldwide:

Recommendation No. 4: We recommend that the Office of Security initiate action to amend Automated Directives System 563 to extend its application to all USAID-financed armored vehicle purchases including purchases by USAID's contractors.

Evaluation of Management Comments

USAID's Deputy Chief Financial Officer (DCFO), Director of the Office of Acquisition and Assistance (M/OAA/OD) and the Director of the Office of Security ((SEC/OD) prepared a consolidated written response to our draft report. This consolidated response is included in its entirety in Appendix II of this report.

In this response, the responders agreed overall with the recommendations. For Recommendation Nos. 1 and 2, the Office of Acquisition and Assistance (M/OAA) agreed with these recommendations and is taking action to implement them. For Recommendation No. 3, the Office of Financial Management agreed to conduct an inquiry into the potential funds control violations and issue the appropriate report by March 31, 2005. For Recommendation No. 4, the Office of Security concurred with the recommendation and is taking action to implement it. Thus management decisions have been reached on all four recommendations.

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

The Information Technology and Special Audits Division of the Office of Inspector General in Washington, D.C. conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID complied with federal regulations in awarding a contract for security services in Iraq.

Fieldwork for this audit was conducted at the offices of USAID in Washington, D.C. from July 20, 2004 to November 5, 2004. The audit covered the awarding of a fixed price contract for commercial items (contract no. 267-C-00-03-00001-00) to Kroll Government Services International Inc. (Kroll) on March 31, 2004 and three subsequent modifications to the contract.

In carrying out this audit, we interviewed responsible personnel in USAID's Bureau of Management, Office of Acquisition and Assistance (M/OAA) in Washington, D.C. and reviewed records and information contained in M/OAA's contract files relating to the solicitation and awarding of the above contract and the initial three modifications. The audit reviewed these records in order to determine whether USAID complied with key federal regulations, specified in the Federal Acquisition Regulation (FAR), as well as Agency regulations, contained in the USAID Acquisition Regulation (AIDAR), pertaining to the awarding of the contract. Specifically, we reviewed USAID's compliance with key regulations contained in FAR Parts 6, 9, 12, 15 and 16 and AIDAR 706.3. In addition, we determined whether USAID complied with its own policies and procedures as contained in its Automated Directives System (ADS).

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

- Use of ProDoc document preparation software to ensure solicitation and contract documents contain required clauses.
- Review of Request for Proposals.
- Determination of whether prospective contractors are qualified.
- Documenting of assessments, discussions with prospective contractors evaluation results, and basis for final selections.

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

Methodology

To answer the audit objective, we interviewed M/OAA staff who worked on the procurement and examined supporting records and information contained in the contract files at M/OAA in Washington, D.C. to determine whether USAID complied with selected regulations contained in the FAR and AIDAR in the solicitation and awarding of the contract for security services in Iraq (contract no. 267-C-00-03-00001-00).

Some of the records and documents examined included the memorandum of negotiation, Request for Proposal, the contract and modifications, general correspondence including e-mails, and obligating documents for funding the contract. These documents were prepared by M/OAA staff in Baghdad and in Washington, D.C., USAID/Iraq officials, and regional legal and finance office staff in USAID/Egypt.

We also interviewed USAID staff in the Bureau for Legislative and Public Affairs, the Office of General Counsel and the Office of Security regarding various aspects of the audit findings and this contract award.

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

**Management
Comments**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

December 22, 2004

TO: AIG/A, Bruce N. Crandlemire

FROM: Michael F. Walsh, M/OAA/OD /s/
David Ostermeyer, DCFO /s/
Harry Manchester, SEC/OD /s/

SUBJECT: Consolidated Response to USAID Audit Report No. A-267-05-00X-P USAID's Compliance with Federal Regulations in Awarding the Contract for Security Services in Iraq

This memorandum is intended as a consolidated response to the subject audit report.

Recommendation No. 1 - M/ OAA accepts this recommendation without further comment. A notice by the Procurement Executive will be issued to Contracting Officers worldwide prior to March 30, 2005.

Recommendation No. 2 - M/OAA accepts this recommendation without further comment. A notice by the Procurement Executive will be issued to Contracting Officers worldwide prior to March 30, 2005.

Recommendation No. 3 - M/OAA contends a valid contract was in place. Nevertheless, the Office of Financial Management will conduct an inquiry in accordance with ADS 634.3.5.3 and issue the appropriate report as required by ADS 634.3.5.4 by March 31, 2005. The Office of Financial Management will also take the appropriate measures to address any internal control weaknesses identified as a result of the inquiry.

Recommendation No. 4 - The Office of Security (SEC) finds the audit factually correct. SEC concurs with the recommendation and will initiate an amendment to ADS 563 by March 31, 2005 to ensure "armor vehicles purchase with USAID Bureau or Mission funds for contractors are DS approved and remain the property of the Bureau or Mission until the threat no longer justifies armor vehicle usage. At that time, SEC will have the authority to reassign or transfer the FAV to another USAID mission based on operational and security requirements". SEC will pursue additional ADS revisions to assure adequate oversight.