



OFFICE OF INSPECTOR GENERAL

USAID/MEXICO COULD DO MORE TO MEASURE THE MEXICO ECONOMIC POLICY PROGRAM'S PROGRESS

AUDIT REPORT NO. 1-523-16-007-P

AUGUST 2, 2016; REISSUED SEPTEMBER 13, 2016

SAN SALVADOR, EL SALVADOR



Office of Inspector General

September 13, 2016

MEMORANDUM

TO: USAID/Mexico Acting Mission Director, Margaret Spears

FROM: Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: USAID/Mexico Could Do More to Measure the Mexico Economic Policy Program's Progress (Report No. 1-523-16-007-P)

This memorandum transmits our revised final report on the subject audit. The objective of this audit was to determine whether USAID/Mexico's Economic Policy Program was meeting its goal of improving economic governance by strengthening policies and enhancing the capacity of key Mexican Institutions. In finalizing the audit report, we considered your comments on the draft report and included them in their entirety, excluding attachments, in Appendix II. The report was revised to clarify our position regarding the identified questioned costs.

The report contains ten recommendations to help USAID/Mexico strengthen its Mexico Economic Policy Program. After reviewing information provided in response to the draft report, we acknowledge management decisions on recommendations 1-4, and 6-10. OIG cannot acknowledge the agency's management decision on recommendation 5 because the mission response did not specify the amount of questioned costs allowed or disallowed. Please provide a management decision determining the allowability of questioned costs for recommendation 5 within 30 days. We acknowledge final action on recommendations 1-4, 6, and 8-10.

Additionally, we disagree with the management decision on recommendations 6 and 10 for the reasons given on pages 10-11. Included in the recommendations are opportunities to address \$366,212 in ineligible questioned costs (recommendation 5) and a further \$1,738,912 in potential unsupported questioned costs savings (recommendation 10) related to noncompliance with the Federal Acquisition Regulation. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

The draft report we submitted to you for comment contained 11 recommendations requiring mission action. After considering your management comments, we determined that the eleventh recommendation—to require external audits of the subcontractors—should be deleted from this final report.

Thank you and your staff for the cooperation and assistance extended to us during this audit.

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| Abbreviations | |
| The following abbreviations appear in this report: | |
| ADS | Automated Directives System |
| AO | agreement officer |
| CFR | Code of Federal Regulations |
| CO | contracting officer |
| COR | contracting officer’s representative |
| FAR | Federal Acquisition Regulation |
| M&E | monitoring and evaluation |

SUMMARY OF RESULTS

In the past two decades, the Mexican Government has lowered tariffs, privatized state-owned enterprises, and shifted from agriculture toward manufacturing and services to improve its overall economy. However, it still faces challenges in moving forward on commercial laws, competition, government transparency, and private sector development.

To help the Mexican Government, in April 2013 USAID/Mexico awarded a 3-year, \$15.6 million contract to Abt Associates Inc. to implement the Economic Policy Program. As of June 30, 2015, USAID/Mexico had obligated \$15.6 million and disbursed \$8.7 million for the program.

According to the contract, the program's goal is to improve Mexico's economic governance by strengthening policies and enhancing the capacity of key Mexican Institutions. To accomplish this, the program is providing technical assistance to the Mexican Government, implementing 37 activities to help bring about results in three areas:

1. Endorsing or implementing new or modified laws, regulations, programs, rules of operation, or mechanisms affecting Mexico's economic competitiveness or governance.
2. Adopting mechanisms to improve the institutional capacity of select public institutions.
3. Training individuals from the Mexican Government and the private sector to improve economic governance.

Our objective was to determine whether USAID/Mexico's Economic Policy Program was meeting its goal. USAID/Mexico reported that the program had some achievements.¹ Specifically, the program staff:

- *Provided technical assistance to key Mexican Government institutions that resulted in their endorsing or adopting 12 new policies out of an end-of-program target of 24.* For example, the program helped the National Council for Science and Technology change its criteria for selecting grant applicants for its innovation program, which supports applied research that addresses national needs in health, the environment, and agriculture. Similarly, the program helped the National Institute of the Entrepreneur change its process for selecting small and medium-sized businesses to implement economic development projects.
- *Trained more than 2,000 individuals, out of an end-of-program target of 2,400, from the Mexican Government and the private sector.* Participants included judicial officials and regulators, who received training on legislative reforms to boost market competition.

However, we found that USAID/Mexico did not ensure that performance monitoring plans met Agency standards, hindering the mission's ability to evaluate whether the program is achieving its goal (page 4). The program's monitoring and evaluation (M&E) plans did not document the data collection methodology, and the program's work plan did not include budget projections as required by the contract or align with the M&E plan. The plans' deficiencies led to poor data on the number of policies adopted and the number of people trained, two of the program's three indicators.

¹ As of June 30, 2015.

In addition, during the course of our audit we identified other matters related to USAID/Mexico's oversight of the program's contractor, Abt Associates. Specifically:

- The mission did not establish a fixed-fee payment schedule for the contract (page 6). By not conditioning payments on progress, the mission gave the contractor no incentive to make any.
- The contractor did not follow procurement regulations (page 6). Abt did not consistently advertise awards widely, obtain enough bids, or document the scoring of winning bids.
- The contractor did not meet requirements for branding and marking materials paid for by the program (page 7). Labeling materials lets users know that the support comes from the American people. Abt did not obtain approvals or waivers for branding and marking, and used subcontractor logos incorrectly.
- The program's monitoring of foreign subcontractors' expenses was insufficient (page 8). Two subcontractors that spent \$1.7 million were not audited.

To improve program management, we recommend that USAID/Mexico:

1. Require Abt Associates Inc. to update its M&E plan (to include data sheets specifying how to gather information on all indicators), and update its work plan to match the M&E plan and comply with contract requirements (page 5).
2. Require Abt Associates Inc. to reflect the correct number of people trained in program reports and databases (page 5).
3. Require Abt Associates Inc., after updating the M&E plan and reported results, to train staff on how to collect and report data (page 5).
4. Implement a fixed-fee payment schedule tied to the accomplishment of the contract goals and indicator targets (page 6).
5. Determine the allowability of \$366,212 in ineligible questioned costs related to the contractor's noncompliance with Federal Acquisition Regulation, Part 13, and recover from Abt Associates Inc. the amount determined to be unallowable (page 7).
6. Conduct a financial review of Abt Associates Inc. that includes an evaluation of compliance with Federal Acquisition Regulation, Part 13, and make recommendations to improve compliance if warranted (page 7).
7. Implement a monitoring plan to make sure mission staff and implementers (meaning Abt and its subcontractors) are complying with branding and marking requirements (page 8).
8. Require Abt Associates Inc. to obtain mission approvals for using contractor and subcontractor logos and waivers from using USAID's logo on all materials and Web sites developed and supported by the program, and establish an approval process with the mission for all future activities (page 8).

9. Provide written instructions to Abt Associates Inc. regarding branding and marking requirements, and require Abt Associates Inc. to implement training for its staff and all subcontractors working on the program (page 8).
10. Determine the allowability of up to \$1,738,912 in potential unsupported questioned costs for C230 Consultores S.C. and Instituto Mexicano para la Competitividad A.C., and recover from Abt Associates Inc. the amount determined to be unallowable (page 9).

Detailed findings appear in the following section. The scope and methodology are described in Appendix I. Management comments appear in Appendix II, and our evaluation of them is on page 10.

AUDIT FINDING

USAID/Mexico Did Not Ensure that Performance Monitoring Plans Met Agency Standards, Hindering Their Ability to Evaluate the Program's Progress

Chapter 203 of ADS lists the plans needed before performance monitoring can take place, including establishing reasonable measures of performance and collecting, analyzing, and reporting high-quality data. Such data allow the mission to monitor progress and make necessary adjustments to address any obstacles to progress. However, we identified problems with the M&E plans and the performance data that are collected to assess the program's progress.

Deficient M&E Plans. For the Mexico program, the plans deviated from Agency guidance², which states that the mission must (1) make sure that M&E plans have data sheets defining each indicator and telling how data are to be collected to measure performance and (2) that the work plans of implementers specify data collection requirements. The contract for the Mexico Economic Policy Program contains two additional requirements, that the program's work plan include a budget projection that relates quantifiable outputs to cost estimates and that thorough cost estimates be submitted in a timely manner. However, we found that plans to monitor the program's progress were deficient:

1. The M&E plan did not include procedures for collecting and reporting results on the program's three performance indicators. It did not have indicator data sheets, nor did it explain how to validate that data collected were consistent and reliable.
2. The program's work plan, which is prepared yearly to include upcoming activities and their performance indicators, instead included old indicators and targets.
3. The work plan did not include cost estimates for program outputs as required by the contract.

Unreliable Performance Data. We reviewed a sample of Abt's reported results for the program and found that some data were not always reliable or timely—likely a result of a lack of attention to ensuring that detailed M&E plans were in place.

- **Policies endorsed and adopted.** Abt reported that as of June 30, 2015, the Mexican Government had endorsed and adopted 12 policies under the program. However, the audit found that Abt lacked documentation for three of the policies. Abt staff explained that they had completed the work but were waiting for documentation from the Mexican Government that would confirm the assistance provided by Abt. Abt staff said they expected the documentation to arrive prior to reporting the results in March 2015, but it did not. Abt's M&E specialist did not realize the documentation was lacking until the audit team pointed it out. Abt eventually obtained support documentation in August 2015.

² ADS 203.3

- **Number of people trained.** Abt misstated the number of individuals trained; Abt should have reported 2,164 participants but instead reported 6,147. Abt erred in not always verifying documentation provided by Mexican Government officials or subcontractors, who sometimes miscounted participants. For example, instead of reporting the number of individuals (54) who completed a 6-month series of trainings related to new laws and regulations to increase competition, staff reported the number who completed any 3-hour session (4,261). Consequently, the figure was significantly inflated. Although the mission had taught Abt staff how to report training, Abt staff said the training was not sufficient.

Contributing to these problems was the mission's lack of focus on ADS requirements and understaffing.

- Instead of focusing on meeting all the ADS requirements, Abt staff and the contracting officer's representative (COR) had numerous exchanges about acceptable performance targets. Abt staff submitted numerous versions of plans and parts of plans, only to have the COR return them for changes to targets before he would approve them.
- The COR was new to USAID and had to oversee many programs because the mission was shorthanded. The position of program officer, whose job it is to guide the COR in reviewing documents like the plans, was never filled full-time. Because of insufficient staff, the mission did not provide continuous M&E support and oversight to the implementer during the execution of the long-term training, allowing this situation to go unnoticed. The mission has since increased the number of staff.

Without an adequately developed M&E plan, staff did not have a reference or a clear understanding of how to collect and report data or what documentation they needed. Reliable and valid data are essential to help the mission assess the program's progress, make decisions, and adapt the program as needed to achieve the intended impact. We therefore make the following recommendations.

Recommendation 1. *We recommend that USAID/Mexico require Abt Associates Inc. to update its monitoring and evaluation plan to include data sheets for all indicators, and update its work plan to match the monitoring and evaluation plan and comply with contract requirements.*

Recommendation 2. *We recommend that USAID/Mexico require Abt Associates Inc. to reflect the correct number of people trained in program reports and databases.*

Recommendation 3. *We recommend that USAID/Mexico require Abt Associates Inc., after updating the monitoring and evaluation plan, work plan, and reported results, to train staff on how to collect and report data.*

OTHER MATTERS

Mission Did Not Establish a Fixed-Fee Payment Schedule for the Contract

The Federal Acquisition Regulation (FAR)³ defines a cost-plus-fixed-fee, completion-type contract as one that normally requires the contractor to complete and deliver the specified end product (e.g., a final report on how the contractor accomplished a goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee.

Although Abt had this kind of contract, its payment schedule was not based on demonstrated progress toward goals or targets. Instead, payments were based on level of effort—that is, on the hours the contractor billed. For example, if the contractor billed for half the hours foreseen in the contract, it would receive half the total allocated to labor in the budget, whether or not it had met any goal or target.

The contracting officer (CO) who signed the award did not implement a fixed-fee schedule because she felt that paying by level of effort was appropriate. However, her successor agreed that implementing a fixed-fee payment schedule would be preferable and committed to doing so.

If payment is not based on performance, the contractor could get the entire fixed fee without meeting any goals or targets. We therefore make the following recommendation.

***Recommendation 4.** We recommend that USAID/Mexico implement a fixed-fee payment schedule tied to the accomplishment of contract goals and indicator targets.*

Program’s Contractor Did Not Follow Procurement Regulations

When issuing subcontracts for less than \$150,000, Abt was required to follow small-purchase procedures to ensure adequate competition as outlined in the FAR and the Code of Federal Regulations (CFR). The FAR⁴ states that competition must be promoted “to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government.” To this end, the CFR⁵ required Abt to obtain price or rate quotations from an adequate number of qualified sources (the FAR specifies at least three). If only one or two parties respond, the FAR requires that a market price assessment—showing what market rates are for the services being procured, to justify the prices the government will pay—be kept in the contract file.⁶

However, Abt did not consistently follow these procedures, but the mission did not know because it was not monitoring Abt’s procurement processes. We tested 8 procurements worth \$486,889 out of 34 procurements worth \$2,159,645. All were subject to the small-purchase

³ FAR 16.306

⁴ FAR 13.104

⁵ 2 CFR 200.320

⁶ FAR 13.104 and FAR 13.106-3.

procedures. Seven of the eight, worth \$366,212, did not meet requirements for competition, as noted below:

- Three procurements were not advertised.
- Three did not have the three solicitations required, nor did they have justifications in the files. Only one of these three had a market price assessment.
- One did not have documentation showing the scores given to the winning bid when three solicitations were obtained.

The mission's controller depended on Abt, a seasoned implementer, to comply with financial provisions in the contract. Since U.S. prime contractors are audited in the United States, this practice is commonplace.

By not following the small-purchase procedures, Abt has not guaranteed that the U.S. Government is getting the most advantageous services for its money. We question the \$366,212 spent on the seven procurements as ineligible.

***Recommendation 5.** We recommend that USAID/Mexico determine the allowability of \$366,212 in ineligible questioned costs related to the contractor's noncompliance with Federal Acquisition Regulation Part 13, and recover from Abt Associates Inc. the amount determined to be unallowable.*

***Recommendation 6.** We recommend that USAID/Mexico conduct a financial review of Abt Associates Inc. that includes an evaluation of compliance with Federal Acquisition Regulation Part 13, and make recommendations to improve compliance if warranted.*

Program's Contractor Did Not Follow USAID Branding and Marking Requirements

The program's branding and marking plan states that the USAID logo and its tagline, "From the American People," must be used for any materials and publications produced under the program to communicate the generosity of the American people and further U.S. Government objectives for development and diplomacy. To verify that implementers meet this requirement, USAID/Mexico's COs are supposed to review and approve program materials and publications. USAID guidance⁷ states that the use of contractor and subcontractor logos is not permitted unless USAID's senior adviser for brand management or designee gives advance approval. The contractor must also obtain waivers from USAID for not including the USAID logo.

However, Abt did not comply with USAID's marking and branding requirements on the materials, publications, and Web sites that it developed. Specifically, Abt did not:

- Obtain CO approval for its program materials.
- Get authorization to include subcontractors' logos as part of branding and marking.
- Always use USAID's logo, or did not use the correct one, and did not obtain a waiver.

⁷ ADS 320.3.2.3

These problems occurred for the following reasons:

- Abt's communication specialist, who handles the program's branding and marking, had only limited training, which did not cover the use of logos. However, USAID/Mexico has made available online references explaining branding and marking policy for all implementers.
- Abt staff did not provide sufficient oversight to its local staff and subcontractors to make sure their use of logos complied with branding and marking requirements.
- Although mission staff received training on branding and marking, the CO and COR did not fully understand the approval and waiver processes. Since the audit fieldwork, the mission has resolved this issue.

Without appropriate use of the USAID logo and clear approvals for other logos included as part of the program's branding and marking, USAID and the American people might not receive appropriate recognition for their assistance. We therefore make the following recommendations.

***Recommendation 7.** We recommend that USAID/Mexico implement a monitoring plan for its branding and marking requirements to make sure mission staff and implementers are complying.*

***Recommendation 8.** We recommend that USAID/Mexico require Abt Associates Inc. to obtain approvals for using contractor and subcontractor logos and a waiver from using USAID's logo on all materials and Web sites developed and supported by the program, and establish an approval process with the mission for all future activities.*

***Recommendation 9.** We recommend that USAID/Mexico provide written instructions to Abt Associates Inc. regarding branding and marking requirements and require Abt Associates Inc. to develop and implement a training plan for its staff and all subcontractors working on the program.*

Program Contractor's Monitoring of Foreign Subcontractors' Expenses Was Insufficient

The FAR⁸ makes the prime contractor responsible for determining the allowability of subcontractor costs and ensuring that only allowable costs are billed. It also requires USAID's COs to review and confirm that submitted contractor expenses, which include subcontractor expenses, are reasonable and allowable before issuing payments. Monitoring expenses is especially important when the subcontractors are foreign organizations whose awards exceed \$150,000 (known as the simplified acquisition threshold), making them especially risky.

Two Abt subcontractors spent significant funds but had not been audited. One was C230 Consultores S.C., which had a 3-year contract for \$1,913,518, and the other was Instituto Mexicano para la Competitividad A.C., whose 3-year contract was for \$1,617,213. As of June 24, 2015, the two subcontractors had expended \$843,917 and \$894,995 respectively. The mission was unable to provide us assurance that the subcontractor expenses had been otherwise reviewed or monitored to make sure that all costs were reasonable and allowable; according to mission officials, they have no oversight responsibilities for subcontractors

⁸ FAR 52.216-7

Neither Abt nor the mission monitored expenditures under these high-risk contracts, totaling more than \$1.7 million, because they said they did not know they were expected to.

By not verifying that subcontractor expenses were reviewed for reasonableness and allowability, the mission put USAID funds at increased risk of misuse. Furthermore, the \$1.7 million expended by these subcontractors are potentially unsupported costs. Therefore, we make the following recommendation.

Recommendation 10. We recommend that USAID/Mexico determine the allowability of up to \$1,738,912 in potential unsupported questioned costs related to the lack of appropriate monitoring and oversight for amounts expended by C230 Consultores S.C. and Instituto Mexicano para la Competitividad A.C., and recover from Abt Associates Inc. the amount determined to be unallowable.

EVALUATION OF MANAGEMENT COMMENTS

The mission agreed with seven of the ten recommendations directed to it. They disagreed with recommendations 5, 6, and 10. We acknowledge management decision on recommendations 1-4, and 6-10. OIG cannot acknowledge the agency's management decision on recommendation 5 because the mission response did not specify the amount of questioned costs allowed or disallowed.

Additionally, we disagree with the management decision on recommendations 6 and 10. Our evaluation of management comments follows.

Recommendation 1. The mission agreed and decided to have the contractor update its M&E plan. Abt did so and integrated it into an updated work plan, which the COR approved on March 2, 2016. Abt also developed the required data sheets, which the mission approved on February 12, 2016. We acknowledge the mission's management decision and final action.

Recommendation 2. The mission agreed and decided to require the contractor to correct the number of people reported in TraiNet as trained. Abt did so on March 28, 2016. We acknowledge the mission's management decision and final action.

Recommendation 3. The mission agreed and decided to conduct training on how to collect and report data. It held training on February 10, 2016. We acknowledge the mission's management decision and final action.

Recommendation 4. The mission agreed and decided to develop a fixed-fee payment schedule. It did so on February 19, 2016, and modified the contract accordingly on March 7, 2016. We acknowledge the mission's management decision and final action.

Recommendation 5. The mission disagreed that it should determine the allowability of \$366,212 for the contractor's noncompliance with the FAR, stating that FAR Part 13 does not apply to the contractor, a private company with internal procurement policies. The mission further stated that, using the contractor's procurement manual as criteria, it finds no evidence to support questioned costs for all subcontracts identified by the audit. Therefore, the mission decided not to take any action.

We disagree with the mission's position. FAR Part 13 applies to the government's acquisition of supplies and services—whether under a contract or a subcontract—the aggregate amount of which does not exceed the “simplified acquisition threshold,” which is \$150,000 in most cases. There were seven procurements under the Abt contract, each below the \$150,000 threshold, making them subject to these FAR provisions. The fact that the contractor is a private company with its own procurement manual is irrelevant because it is working under a government contract.

We cannot acknowledge management decision because the mission response did not specify the amount of questioned costs allowed or disallowed.

Recommendation 6. The mission disagreed with conducting a financial review of Abt to, among other things, evaluate its compliance with the FAR, again stating that FAR Part 13 does not apply to the contractor. The mission therefore decided not to take any action.

However, we do not agree with the mission and believe that FAR Part 13 applies for reasons described under Recommendation 5. Therefore, while we acknowledge the mission's management decision and final action, we disagree with the decision.

Recommendation 7. The mission agreed and decided to provide training on branding and marking for mission and implementer staff on acquisition and assistance instruments. Additionally, the mission committed to update its mission order on site visits to require the monitoring of branding, which it will tie to travel voucher approvals. The mission anticipates closure of this recommendation by June 30, 2016. We acknowledge the mission's management decision.

Recommendation 8. The mission agreed and decided to instruct Abt to advise its staff that any nonconformity with the approved Branding and Marking Plan requires approval from USAID/Mexico. The mission did so on February 5, 2016, and the contractor acknowledged and accepted the directive. We acknowledge the mission's management decision and final action.

Recommendation 9. The mission agreed and decided to provide the contractor with branding and marking requirements. It did so on February 5, 2016. The contractor in turn trained its staff in branding and marking on February 10, 2016. Abt further issued guidance and instructed all its subcontractors on branding and marking on February 26, 2016. We acknowledge the mission's management decision and final action.

Recommendation 10. The mission disagreed that it should determine the allowability of \$1,738,912 related to Abt's insufficient monitoring of its subcontractors, stating that (1) Abt certified that the subcontractors' costs were supported and underwent an annual audit that included the costs, and (2) the costs being questioned were unclear. Therefore, it decided not to take any action.

We do not believe that Abt gave the mission enough information for determining the allowability and reasonableness of the subcontractors' expenses, which is why we questioned the total expenditures of both subcontracts as of June 24, 2015. Although an audit may be a good way to determine if costs were allowable after they are paid, it does not take away the mission's responsibility under the FAR to review and confirm submitted contractor expenses before issuing payments. We therefore acknowledge the mission's management decision and final action, but we disagree with the decision.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Mexico's Economic Policy Program was achieving its main goal of improving Mexico's economic governance by strengthening policies and enhancing the capacity of key Mexican institutions.

On April 18, 2013, USAID/Mexico signed a 3-year, \$15.6 million contract with Abt Associates, with the possibility of exercising two option periods to implement the program. As of June 30, 2015, USAID/Mexico had obligated \$15.6 million and disbursed \$8.7 million. This represents the amount audited.

The audit covered program activities from inception through June 30, 2015. These activities were designed and implemented to meet the overall goal of the program. Auditors conducted fieldwork from July 13 through 29, 2015, in Mexico City, as most activities were implemented at the national level and within the city and state of Mexico. We held some interviews with government representatives and subcontractors by teleconference.

In planning and performing the audit, the audit team assessed the significant management controls the mission used to monitor the program. The assessment included controls to determine whether the mission (1) reviewed and tested indicator data to determine the achievement of targets and results, (2) reviewed and approved required deliverables, (3) performed data quality assessments and a portfolio review, and (4) conducted and documented site visits to evaluate progress and monitor quality.

Methodology

To answer the audit objective, we evaluated the mission's management and oversight of the program, the performance of Abt Associates and its subcontractors, and the effectiveness and sustainability of activities. We met with various USAID/Mexico officials, including the former and current COR and other staff. We held numerous meetings with Abt officials, including the project director, chief of party, M&E personnel, and financial staff. We met with staff of subcontractors as well. We visited and confirmed information with government institutions that received assistance.

To determine program progress, we relied on computer-processed data in quarterly and annual progress reports prepared by the implementers. We assessed the reliability of this data by verifying 100 percent of the results reported on the program's three main indicators as of June 30, 2015. We tested the reported results by tracing them to documentation. In addition, we conducted interviews and site visits. These tests and interviews led us to conclude that the data were sufficiently reliable to use in answering the audit objective; however, we noted that some reported results were not reliable, as discussed on pages 4 and 5.

To gain an understanding of the program, the audit team reviewed the mission's contract with Abt Associates Inc., its modifications, and the performance management plan. During fieldwork at the mission and interviews with Abt and its subcontractors, we verified reported progress and compared it with actual achievements. Specifically, we reviewed program work plans, progress reports, the branding and marking plan, and training records. We also verified that the mission incorporated into its program planning all required crosscutting considerations—sustainability, gender, and environmental compliance.

To verify progress and achievements, we judgmentally selected 32 of the program's 37 activities. We chose them after considering factors such as the location of beneficiary institutions, expected results, and contract or subcontract amount. We also conducted testing of internal controls by judgmentally sampling invoices and documentation. We selected for testing the largest (\$1.1 million) of Abt's six most recent invoices; the total available universe was 24 invoices totaling \$8.7 million. We tested 20 percent of the supporting documents for the invoice, which we considered sufficient for spot-checking compliance with the agreement's terms. In addition, we verified the information provided by the governmental institutions during meetings with subcontractors, confirming all interventions with at least one subcontractor when multiple subcontracts were contributing to the same activity. Because the testing and site selections were based on judgmental samples, the results and conclusions related to the analysis are limited to the items and areas tested, and cannot be projected across all program activities. We believe our testing was sufficient to support the audit's findings.

MANAGEMENT COMMENTS



ACTION MEMORANDUM

TO: Jon Chasson, Regional Inspector General/San Salvador

FROM: Richard Goughnour, Acting Mission Director /s/

DATE: March 9, 2016

SUBJECT: Mission Response to Draft Audit Report of USAID/Mexico's Economic Policy Program (Audit Report No. 1-523-16-XXX-P)

Thank you for the opportunity to respond to the draft report of the Audit of USAID/Mexico's Economic Policy Program, per your memorandum dated January 25, 2016.

Below we have listed each of the recommendations contained in the draft audit report. Following each recommendation are USAID/Mexico's management comments and decisions.

Management Response to Recommendations

Recommendation 1. "We recommend that USAID/Mexico require Abt Associates Inc. to update its monitoring and evaluation plan to include data sheets for all indicators, and update its work plan both to match the monitoring and evaluation plan and to comply with contract requirements."

USAID/Mexico concurs with this recommendation. The Mission has met with Abt Associates Inc. to discuss its monitoring and evaluation plan and work plan. In response, Abt Associates Inc. updated and adjusted their monitoring and evaluation plan and integrated it into an updated work plan so that the work plan both matches the monitoring and evaluation plan and complies with contract requirements. The revised work plan was reviewed and approved by the Contracting Officer's Representative (COR) on March 2, 2016. (Attachment 1). In addition, Abt Associates developed data sheets for all indicators and cost estimates for program outputs; data sheets were approved by the COR on February 12, 2016 (Attachment 2). Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 2. "We recommend that USAID/Mexico require Abt Associates Inc. to reflect the correct number of people trained in program reports and databases."

USAID/Mexico concurs with this recommendation. Abt Associates Inc. has corrected the number of people trained in TRAINet (see Attachment 3 for screenshot of TRAINet). The

description of specific modifications made to TRAINet numbers of people trained is included in Attachment 4 - Page 2. Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 3. “We recommend that USAID/Mexico require Abt Associates Inc., after updating the monitoring and evaluation plan, work plan, and reported results, to train staff on how to collect and report data.”

USAID/Mexico concurs with this recommendation. The required training on how to collect and report data was provided on February 10, 2016 and a description of that training is provided in a separate letter by Abt Associates (see Attachment 5). Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 4. “We recommend that USAID/Mexico implement a fixed-fee payment schedule tied to the accomplishment of contract goals and indicator targets.”

USAID/Mexico concurs with this recommendation. The contractor was requested to provide a fixed-fee payment schedule which they did on February 19th (See Attachment 6). This fixed-fee payment schedule was modified into the award on March 7, 2016 (See Attachment 11) Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 5. “We recommend that USAID/Mexico determine the allowability of \$366,211 in unsupported questioned costs related to the contractor’s noncompliance with Federal Acquisition Regulation Part 13, and recover from Abt Associates Inc. the amount determined to be unallowable.”

USAID/Mexico does not concur with this recommendation because there is no evidence that the full amount of \$366,211 is not sufficiently supported and Federal Acquisition Regulation (FAR) Part 13 is not applicable as stated below and in recommendation No. 6.

The seven sub-awards questioned by the audit are Instituto Tecnológico Autónomo de México Cívica Digital A.C.; Acción y Gestión Pública S.A. de C.V. ;d/b/a AGP; Centro de Investigación para el Desarrollo, A.C. (CIDAC) ; Edmundo Gamas; Alejandra Vargas and Marisol Vasquez.

FAR Part 13 does not pertain as Abt Associates Inc. has internal procurement policies (Attachment 12). Furthermore per communications with Abt, they have provided USAID/Mexico their procurement policy and they have certified by email (Attachment 13) that they have followed their procurement policies for these sub-awards, (which is also evidenced by the Contracting Officer’s prior approval of these sub-awards). Finally, concerning the remaining sub awards, FAR 44.201-2 – Advance notification requirements: (b) For civilian agencies other than the Coast Guard and the National Aeronautics and Space Administration, even if the contractor has an approved purchasing system, 41 U.S.C. 3905 requires notification before the

award of any cost-plus-fixed-fee subcontract, or any fixed-price subcontract that exceeds the simplified acquisition threshold (\$150,000) or 5 percent of the total estimated cost of the contract. The remaining sub-awards were under the FAR notification requirements and therefore they did not require CO approval.

As there is no reason to suspect that Abt has not complied with their own procurement procedures, the Mission feels that there is no basis to question these costs (unless the RIG has evidence of actual questioned costs that came to light as part of the audit). Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 6. “We recommend USAID/Mexico conduct a financial review of Abt Associates Inc. that includes an evaluation of compliance with Federal Acquisition Regulation Part 13, and make recommendations to improve compliance if warranted.”

USAID/Mexico does not concur with this recommendation as Federal Acquisition Regulation Part 13 does not directly apply to USAID’s prime contractors. USAID’s prime contractors are private entities who are in business to make a profit. The mission is not aware of any federal regulations which impose upon them the use of FAR 13. The FAR, as concerns USAID’s contractors, bases selection of sub-awards on the entity’s approved Purchasing System (because it is a complicated process, rarely does USAID ever approve Implementer’s Purchasing Systems). A purchasing system would be the written procurement policies of the business or entity. Abt has verified that they have fully complied with their sub-award written procurement policies as required by their Sub-award Mandatory provision. This is further evidence that the CO at the time approved these subawards when CO approval was required. Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 7. “We recommend that USAID/Mexico implement a monitoring plan for its branding and marking requirements to make sure mission staff and implementers are complying.”

USAID/Mexico concurs with this recommendation. USAID/Mexico invited all CORs and USAID contractors to participate in a branding and marking training for acquisition instruments and invited all AORs and USAID grantees to participate in a separate branding and marking training for assistance instruments. Both were offered on November 20, 2015. See attached training materials (Attachment 7) and sign in sheets for both trainings (Attachment 8). Additionally, the Mission will revise the Mission Order “Procedures for Documenting and Maintaining Site Visit Records” to include a requirement that branding and marking be reviewed during site visits. Furthermore, the Mission will require that before a site visit travel voucher can be processed, a site visit report must be submitted with the travel voucher. We estimate closure of this recommendation by June 30, 2016.

Recommendation 8. “We recommend that USAID/Mexico require Abt Associates Inc. to obtain mission approvals and waivers for the use of USAID and other logos on all materials and Web sites developed and supported by the program, and establish an approval process with the mission for all future activities.”

USAID/Mexico concurs with this recommendation. USAID/Mexico has instructed Abt Associates to consult its approved Branding and Marking Plan as found in its award and to advise staff that any deviation requires approval from USAID/Mexico (Attachment 9 – Page 3). Abt Associates had acknowledged and accepted the directive. Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 9. “We recommend that USAID/Mexico provide written instructions to Abt Associates Inc. regarding branding and marking requirements and require Abt Associates Inc. to develop and implement a training plan for its staff and all subcontractors working on the program.”

USAID/Mexico concurs with this recommendation. The Contracting Officer provided formal notification of branding and marking requirements to Abt Associates Inc. on February 5, 2016 (See Attachment 9). Furthermore, Abt Associates Inc. provided training to its staff on branding and marking on February 10, 2016 (See Attachment 10). Finally, the Abt Associates Inc. Communication Specialist drafted instructions for all MEPP contractors on branding and marking requirements and she will meet with the representatives of all current sub-contractors C230, IMCO and Ethos on February 26, 2016 to ensure proper understanding of the guidance. Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 10. We recommend that USAID/Mexico determine the allowability of \$1,738,912 in unsupported questioned costs related to the lack of subcontractor audits for C230 Consultores S.C. and Instituto Mexicano para la Competitividad A.C., and recover from Abt Associates Inc. the amount determined to be unallowable.

USAID/Mexico does not concur with this recommendation as it is not clear specifically which costs are being questioned. At the time of sub-award approval by the CO, audit costs should have been built into the overall sub-award price. As this did not happen and as Mission is not aware of any specific questioned costs, USAID/Mexico would be required to contract for a separate audit of these sub-awards. As Abt has certified that the costs are supported, and these costs are included as part of Abt’s annual audit, USAID/Mexico does not feel that the additional cost of these audits is warranted (unless the RIG has evidence to support that there are questioned costs). Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Recommendation 11. We recommend that USAID/Mexico formally communicate to Abt Associates Inc. the requirement to conduct (1) external financial audits for its subcontractors

C230 Consultores S.C. and Instituto Mexicano para la Competitividad A.C. for all costs incurred prior to June 26, 2015, in accordance with Automated Directives System 591maa, and (2) closeout audits for these same subcontractors, again in accordance with Automated Directives System 591maa.

USAID/Mexico does not concur with this recommendation; however the Contracting Officer provided formal notification of the external audit requirements to Abt Associates Inc. on February 5, 2016 (See Attachment 7) as described in ADS 591maa, which is not specifically included in their award. Abt responded that ADS 591maa is not applicable to their award and the Contracting Officer concurs that until there is further guidance or clarification on this ADS requirement, Mission cannot require a Prime to audit its subcontractors. Therefore, the Mission requests that this recommendation be closed upon issuance of the audit report.

Suggested changes to Report

Below are some suggested changes to consider before the final issuance of the audit report.

P. 4, lines 32-33: “The position of Program Officer, whose job it is to guide the COR in reviewing documents like the plans, was vacant.” This statement is incorrect. During the time frame of the period covered by the audit (April 18, 2013 to June 30, 2015), the Program Officer position was never vacant. There was either a Foreign Service Officer assigned to the position or someone was serving in an Acting capacity. Furthermore, while the overall development and management of the Mission’s Performance Management system is the responsibility of the Program Office, the COR is responsible for ensuring Activity M&E Plans are sufficient and compliant with the terms of the contract. Finally, it is the responsibility of the COR’s supervisor and Contracting Officer to ensure the COR is carrying out his/her contractual responsibilities, including reviewing M&E plans and ensuring contractual compliance.

P. 5, lines 16-17: “Staff vacancies, including the departure of the M&E Specialist, who assisted technical officers on TrainNet, interfered with monitoring.” The statement on the M&E Specialist is incorrect; the M&E Specialist position, a new position in the Program Office (as previously the M&E function was part of another position in the office) had its first incumbent as of December 2014.

The position was subsequently vacated in June 2015, the same month as the audit was conducted. Therefore, the timing of the vacancy of the position is not material to this finding. In addition, TrainNet support was never part of the M&E Specialist duties, rather a different position in the Program Office (Program Development Specialist position), which did not have a staffing gap.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
<http://oig.usaid.gov/>
Audit Task No. 11100515