



Office of Inspector General

September 18, 2012

MEMORANDUM

TO: M/OAA, Chief Acquisition Officer and Director, Aman S. Djahanbani
M/AA, Senior Advisor, Tracy Blackburn

FROM: IG/A/PA Director, Steven Ramonas /s/

SUBJECT: Survey of USAID's Efforts to Address Its Backlog of Expired Awards
(Report Number 9-000-12-002-S)

This memorandum transmits our final report on the subject survey. In finalizing the report, we considered your comments and included your response in Appendix II.

The report contains four recommendations to help USAID manage its backlog of expired awards awaiting closeout. Based on your response to the draft report, we determined that management decisions have been reached on all four recommendations. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the recommendations.

Thank you for the cooperation and courtesy extended to the audit staff during this survey.

SUMMARY

USAID's Office of Acquisition and Assistance (OAA) implements programs by issuing and administering contracts, grants, and cooperative agreements, collectively referred to as "awards". OAA's work is essential to the success of USAID's development objectives since the Agency executes virtually all of its international development and humanitarian assistance programs through these instruments.

The closeout process verifies that all administrative matters are completed for an award that is "physically complete."¹ Ideally, this process would begin 3 months before an award ends. Agreement or contracting officers review official award files to verify that they are complete and to determine whether excess residual funds can be deobligated. The officer should begin closeout no later than 3 months after the award is physically complete.

USAID officials acknowledged the Agency's backlog of incomplete closeout and deobligation activities as an internal control weakness in its fiscal year (FY) 2010 financial report. USAID had a significant amount of program funds that might not be recovered without steps to address (1) the backlog of required contractor audits and (2) insufficient funds for closeout and deobligation activities.

According to the report, as of July 2010, USAID had nearly \$252 million in program funds and \$13 million in operating expenses that could be deobligated. Agency officials later said the report inadvertently overstated the amount of funds that could be deobligated and that the right amount was probably closer to \$120 million. The Agency included this problem as a significant deficiency in its FY 2011 financial report.

The delay in closing out expired awards is a concern because it hinders USAID from complying with the Federal Acquisition Regulations (FAR). If the Agency does not take steps to address the backlog of contractor audits and insufficient funding of closeout and deobligation activities, it also risks losing the use of program funds. Moreover, the Agency does not gain much by performing audits many years later when important evidence could have been misplaced, lost, or not easily retrieved. Companies may have gone out of business, making it impossible to collect any refunds or offsets due the government. The delay allows inefficient, fraudulent, or vulnerable practices to go undetected. Finally, business practices or leadership may change, making the recommendations irrelevant.

The Office of Inspector General's (OIG's) Performance Audit Division conducted this survey to determine whether USAID's plans and actions are sufficient to mitigate the backlog of expired awards. This survey focused only on expired awards that OAA in Washington, D.C., was responsible for closing.

¹ According to supplemental guidance for USAID's Automated Directives System (ADS) 302 and 303, an award is considered physically complete when "the contractor has completed the contractually required deliveries, and the Government has inspected and accepted the supplies; or the contractor has performed all contractually required services, and the Government has accepted these services; and all option provisions, if any, have expired." An assistance award is considered physically complete when "the funding period, or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions, has expired; or the total award amount has been expended; and the recipient has complied with all applicable terms and conditions of the award, and the Government has confirmed compliance."

The survey concluded that USAID took some actions to address the causes for untimely closeouts. The Agency also tried to reduce the number and amount of outstanding obligations and expired awards awaiting closeout. For example, it hired more people for its closeout team.

However, the survey determined that:

- Award closeouts were not completed on time (page 3).
- The backlog of incurred cost audits was large (page 4).
- Agreement or contracting officer's representatives did not identify excess funds before sending awards for closeout (page 5).

Overall, the survey found that USAID's corrective action memorandum to address the backlog of awards awaiting closeout as a significant control deficiency was not sufficient. For example, it did not require OAA to explore alternative closeout procedures when feasible; such procedures could have helped OAA reduce the backlog of expired contracts and increase the number of awards that were closed out on time. Nor did the memorandum address whether OAA could have public accounting firms perform incurred cost audits instead of relying exclusively on the Defense Contract Audit Agency (DCAA) to perform them. Finally, it did not address the agreement/contracting officer's representatives' roles in reviewing contracts for excess funds prior to closeout.

To address these deficiencies, the survey recommends that:

1. OAA conduct a feasibility review of alternative closeout actions to improve the timeliness of award closeout based on guidance issued by the Office of Federal Procurement Policy and other best practices, and document the results (page 4).
2. USAID's Management Bureau implement a plan to prioritize conducting incurred cost audits (page 5).
3. OAA reduce the backlog of incurred cost audits awaiting closeout by implementing a plan to contract with certified public accounting firms to supplement DCAA's efforts to perform incurred cost audits when feasible (page 5).
4. OAA document actions to enforce procedures for agreement and contracting officer's representatives to conduct adequate reviews of excess and unneeded funds prior to the closeout process (page 6).

Detailed findings follow. The survey's scope and methodology are described in Appendix I. Management comments appear in Appendix II, and our evaluation of them is on page 7.

SURVEY RESULTS

Award Closeouts Were Not Completed on Time

Part 4 of the FAR establishes several different time frames and describes numerous steps to close various types of contracts. The Office of Federal Procurement Policy’s *Guide to Best Practices for Contract Administration* identifies many best practices to help program and contracting officials close contracts more effectively. For example, it suggests that organizations establish a separate closeout function to emphasize the importance of contract closeout. It also suggests using contractors when federal employees are not available.

Furthermore, the guide suggests using quick closeout procedures for cost-reimbursable contracts when there is no evidence of fraud or waste, the contractor’s performance is good, and there is no history of unallowable costs.

From 2009 to 2011, OAA’s closeout division reported that it closed almost 1,400 awards. However, most of these were not closed within the time frames outlined in the FAR. Table 1 shows that closeout actions for nearly two-thirds of all awards during that period took almost 3 years longer than they should have.

USAID provided OAA with additional funding in FY 2011. The office then supplemented its closeout staff to reduce the number of expired awards awaiting closeout and to reduce the amount of unliquidated obligations.

Table 1. Closeout Results by Award Type, 2009-2011 (Unaudited)

Type of Award	Number Closed	Number With Overage	Percent With Overage	Average Overage (Months)
Grants	443	228	51	28
Personal services contracts	441	246	56	15
Cooperative agreements	164	101	62	26
Contracts	21	16	76	60
Indefinite quantity contracts	99	94	95	57
Purchase orders	185	185	100	27
Schedule orders	36	36	100	24
Total	1,389	906	65	34

Source: DB Consulting Group Inc.

Despite the additional funding, OAA officials said they did not have enough financial resources or employees to close out awards on time. Therefore, they focused on processing awards with large, unliquidated balances and hired a contractor, DB Consulting Group Inc., to provide closeout services.

OAA did not adopt other actions that could have reduced the number of awards awaiting closeout. For instance, OAA officials acknowledged that the quick closeout procedure is underutilized for cost-reimbursable contracts.

The Agency is required to deobligate and reobligate funds within 4 years after the funds were made available.² Otherwise, USAID cannot reobligate these funds as needed. Therefore, we make the following recommendation.

Recommendation 1. *We recommend that the Office of Acquisition and Assistance conduct a feasibility review of alternative closeout actions to improve the timeliness of award closeout based on guidance issued by the Office of Federal Procurement Policy and other best practices, and document the results.*

Backlog of Incurred Cost Audits Was Large

Incurred cost audits are required for cost-reimbursable contracts to determine the reasonableness, allowability, and allocability of the costs incurred during an award’s period of performance. FAR 42.705-2 further notes that a government auditor will establish the final indirect cost rates for certain business units. Incurred cost rates for USAID are established by DCAA.

OAA’s backlog of incurred cost audits that DCAA must perform is growing because OAA does not have sufficient funds to pay for them. According to OAA officials, several years elapse from when costs are incurred to when DCAA can schedule the audit. For example, OAA scheduled several FY 2005 audits with DCAA in 2011.

Scheduling audits requires that funds to perform them are available and sufficient, which has not been the case with OAA in the past several years. The cost of DCAA audits continues to grow, but the funds OAA has received have not kept pace with the Agency’s needs. Table 2 shows OAA’s funding requirements for incurred cost audits, the amounts OAA has requested, and those received for FYs 2009 through 2011.

Table 2. Funding for Incurred-Cost Audits in OAA’s Inventory 2009-2011 (Unaudited)

Funding	Amount (\$)		
	2009	2010	2011
Required	6,300,000	8,900,000	10,800,000
Requested	1,500,000	1,500,000	2,000,000
Received	750,000	1,000,000	2,700,000
Shortfall	5,550,000	7,900,000	8,100,000

As of December 2011, OAA still had not scheduled 315 audits. OAA officials said they needed about \$11 million for DCAA to conduct those audits—much more than the \$2.7 million that it received. OAA also said it does not ask for the funds necessary to perform the incurred-cost audits because it knows it will not receive it. For FY 2012, OAA officials said that it would need about \$13 million.

² ADS 621.3.11 defines the Section 511 Authority of USAID’s appropriations acts. Since FY 2002, this authority has allowed most of USAID’s appropriated funds, if initially obligated by the end of their period of availability, to remain available for deobligation and reobligation for an additional 4 years from when the availability of funds would otherwise have expired. At the end of those 4 years, the funds expire and are no longer available for new obligations.

OAA has discussed using accounting firms to conduct the required audits as one way to manage the growing need for such audits and to supplement DCAA. However, OAA would need to compare the costs associated with using them to DCAA's because the firms could be more expensive.

The Agency has also begun to streamline its implementation and procurement processes under its USAID Forward reform agenda and intends to increase the number of fixed-price contracts awarded, when feasible and appropriate. More fixed-price contracts might decrease the number of awards that require incurred cost audits.

To help mitigate the need for more funds and more effectively manage the inventory of incurred cost audits, we make the following recommendations.

Recommendation 2. We recommend that USAID's Management Bureau implement a plan to prioritize conducting incurred cost audits.

Recommendation 3. We recommend that the Office of Acquisition and Assistance reduce the backlog of incurred costs audits awaiting closeout by implementing a plan to contract with certified public accounting firms to supplement the Defense Contract Audit Agency's efforts to perform incurred cost audits when feasible.

Excess Funds Were Not Identified Before Sending Awards for Closeout

USAID guidance says that agreement or contracting officer's representatives are required to use sound financial management practices throughout an award's performance period by reviewing and identifying excess and unneeded funds so that those funds can be deobligated and made available for other purposes. According to USAID's *Deobligation Guidebook*, excess and unneeded funds may be identified in various ways, such as those outlined below:

1. Monitoring performance and management oversight through procurement planning, periodic portfolio reviews, and exercises for the Annual Report and Bureau Program Budget Submission Program.
2. Requiring that accruals are reported at the end of each quarter.
3. Periodically reviewing unspent balances to identify activities with excess and unneeded funds that should be deobligated.
4. Identifying awards to be deobligated from forecasting, spending, and burn-rate reports.

In addition, USAID's *Guidance on Closeout Procedures for Acquisition and Assistance Awards* states that within the last 3 months of the award, the agreement or contracting officer should determine and deobligate excess funds. Additional agency guidance allows the contracting and agreement officers to act on requests from their representatives to deobligate excess funds.

In 2011 OAA's closeout group reported that it deobligated nearly \$51 million from 747 awards, with more than \$23 million in pre-close deobligations from 92 awards. Agreement or contracting officer's representatives did not identify these excess funds before closeout. Furthermore, 62 of

the 92 were for \$100,000 or more and totaled more than \$22 million, which represented almost 95 percent of all the pre-close deobligations the closeout group handled in FY 2011.

According to senior contracting officials, the agreement or contracting officer's representatives did not perform their excess funds review thoroughly before closeout for two reasons:

- Some funds are left to settle post-completion administrative matters, like the negotiation of final overhead rates under cost-reimbursable contracts. Instead of having less money on hand to use if such matters arise—for which the representatives could be penalized—they tend to leave buffers to cover anything unexpected.
- Although agreement or contracting officer's representatives are required to review awards thoroughly for excess funds, they do not have any incentive to do so because the excess funds might not be returned to them to use for their programs.

OAA discovered more than \$23 million in excess funds in FY 2011. This shows that OAA needs to review awards comprehensively to identify excess and unneeded funds that could be deobligated and reprogrammed. These reviews would also prevent OAA from consuming additional resources for excess funds reviews instead of concentrating on closing expired awards.

USAID may be able to use its limited resources better by establishing sound financial management practices. Therefore, to deobligate and reobligate excess funds in a more efficient, effective manner, we make the following recommendation.

Recommendation 4. *We recommend that the Office of Acquisition and Assistance document actions to enforce procedures for agreement and contracting officer's representatives to conduct adequate reviews of excess and unneeded funds prior to the closeout process.*

EVALUATION OF MANAGEMENT COMMENTS

On the basis of information provided by the Agency's response to the draft report, we determined that management decisions have been reached on all four recommendations.

Recommendation 1. OAA has implemented most of the suggestions in the Office of Federal Procurement Policy's *Guide to Best Practices for Contract Administration*. It also agreed to determine whether it could implement other closeout actions to improve the timeliness of award closeout.

Recommendation 2. USAID's Management Bureau is implementing a plan to prioritize conducting incurred cost audits. As part of the plan, the bureau is considering a proposal to charge an internal fee to bureaus, offices, and missions for all awards to help support incurred cost audits in the future.

Recommendation 3. OAA is implementing a plan to address the backlog of incurred cost audits, which includes contracting with certified public accounting firms to augment DCAA's efforts to address the Agency's backlog of audits. OAA anticipates completing nearly 152 audits by September 30, 2013.

Recommendation 4. OAA will reinforce the importance of conducting adequate reviews of excess and unneeded funds prior to the closeout process through additional training and sending a reminder notice to employees.

The Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer will make a determination of final action on completion of the corrective actions. The Agency's written comments on the draft report are included in their entirety as Appendix II.

SCOPE AND METHODOLOGY

OIG conducted this survey in accordance with the evidence and documentation standards in *Government Auditing Standards*, paragraphs 6.56 and 6.79 through 6.85. Those standards require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our survey objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this survey was to determine whether USAID's plans and actions were sufficient to mitigate its backlog of expired awards. The survey focused on awards that expired on or before September 30, 2008, that OAA was responsible for closing. During the survey, we took the following steps:

- Assessed the effectiveness and exposure to risk of USAID's internal control structure over its closeout function.
- Determined what guidance dictates the closeout process and the consequences of not complying with them. The guidance considered included federal regulations, Agency policy, and contracting best practices from other federal entities.
- Determined the type of awards that are in the backlog and obtained documentation to support the number of awards that need to be closed out.
- Interviewed Agency officials regarding the effectiveness of and resource levels for the closeout function, the history of the backlog, and the constraints that make timely closeouts difficult.
- Determined the sufficiency of the actions USAID planned to take to address this problem.
- Researched possible alternatives that could accelerate the closeout process and discussed them with USAID officials.

To carry out these steps, we interviewed USAID officials and DB Consulting Group Inc., the Agency's closeout contractor that provided us with information used in Table 1. Our interviews focused on reviewing the backlog as it was reported in the FY 2010 Federal Managers' Financial Integrity Act Report as a significant deficiency. We relied on data that the Agency provided and did not test individual awards for compliance with regulations, timeliness, or the effectiveness of the closeout process. The survey fieldwork was performed in Washington, D.C.

MANAGEMENT COMMENTS



September 6, 2012

MEMORANDUM

FOR: Steven Ramonas, IG/A/PA, Director

FROM: Aman S. Djahanbani, Director, Office of Acquisition and Assistance

SUBJECT: Survey of USAID's Efforts to Address Its Backlog of Expired Awards
Report Number 9-000-12-00X-S

The Bureau for Management, Office of Acquisition and Assistance (M/OAA) has reviewed the subject survey and appreciates the time and effort that the Office of the Inspector General (OIG) put forth on this review. We are presenting the following comments for recommendations 1 through 4 under the subject audit report.

Recommendation 1

The auditors recommend that the Office of Acquisition and Assistance conduct a feasibility review of alternative closeout actions to improve the timeliness of award closeout based on guidance issued by The Office of Federal Procurement Policy and other best practices.

Response

The M/OAA has already implemented most of the suggestions in the referenced Guide, but agrees to conduct a feasibility study to determine if there remain any alternative closeout actions that can be effectively utilized.

Recommendation 2

We recommend that USAID's Management Bureau implement a plan to prioritize conducting incurred cost audits.

Response

Funding decisions for fiscal year 2012 are still being finalized but as of this writing, USAID's Management Bureau has requested \$5 million to help with the backlog of incurred cost audits. It is anticipated that \$2.5 million will be obligated on the Memorandum of Understanding with the Defense Contract Audit Agency and another \$2.5 million will be put on a Blanket Purchase Agreement under which the services of CPA firms will be used to further address the backlog of audits. As we move forward, USAID is proposing to create a Working Capital Fund (WCF) resourced from program funds obtained via a fee-for-service (FFS) model of up to a one percent

charge on estimated annual acquisition and assistance (A&A) obligations worldwide. Under this FFS model, the Bureau for Management's Office of Acquisition and Assistance (M/OAA) will charge an internal fee to bureaus, offices, and missions for all A&A awards. USAID expects to collect the fee against each A&A award as it is obligated. The Agency plans to use a portion of the requested Working Capital Fund to support incurred cost audits in the future. The WCF would also fund the estimated annual cost of incurred cost audits (\$3 million) and funding for expanding the close-out team (\$1 million) as part of the total estimated annual cost of all the activities related to procurement reform. The request for the WCF was included as part of the President's FY 2013 budget.

Recommendation 3

We recommend that the Office of Acquisition and Assistance reduce the backlog of incurred-costs audits awaiting closeout by developing and implementing a plan to contract with certified public accounting firms to supplement the Defense Contract Audit Agency's efforts to perform incurred-cost audits when feasible.

Response

The M/OAA has a robust plan to address the backlog of audits, which includes contracting with certified public accounting (CPA) firms to supplement the Defense Contract Audit Agency's efforts to address the Agency's backlog of audits. Specifically, it is expected that M/OAA will receive \$2.5 million in funds to be obligated by September 30, 2012 to fund a Blanket Purchase Agreement (BPA) under which the services of four CPA firms will be available to help address the backlog of audits. In fact, the BPA was posted on August 21, 2012 and an award is expected by mid-September. In totality, it is expected that this \$5 million in funds will result in the completion of approximately 152 audits by September 30th, 2013.

Recommendation 4

We recommend that the Office of Acquisition and Assistance document actions to enforce its procedures for agreement and contracting officer's representatives to conduct adequate reviews of excess and unneeded funds prior to the closeout process.

Response

The M/OAA will reinforce the importance of conducting adequate reviews of excess and unneeded funds prior to the closeout process through the following methods:

- (1) highlight in the COR/AOR closeout training modules the steps and timeframes for reviewing awards prior to expiration and the process for determining excess funding; and
- (2) send a reminder notice to the Acquisition & Assistance community stressing the importance of excess funds reviews prior to the closeout process.