



OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S CONTRACT MANAGEMENT PROCESS

AUDIT REPORT NO. M-000-12-006-P
September 18, 2012

WASHINGTON, D.C.



Office of Inspector General

September 18, 2012

Ms. Chantale Wong
Vice President of Administration and Finance
Millennium Challenge Corporation
1401 H Street, NW
Washington, D.C. 20005

Dear Ms. Wong:

This letter transmits the Office of Inspector General's report, "Audit of the Millennium Challenge Corporation's Contract Management Process." In finalizing the report, we considered your written comments on our draft report and included them in Appendix II of this report.

The audit report contains three recommendations to strengthen the Millennium Challenge Corporation's management of contracts. We consider that final actions have been reached on all three.

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

Sincerely,

/s/

Richard J. Taylor
Deputy Inspector General for Audit
Millennium Challenge Corporation

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Abbreviations

The following abbreviations appear in this report:

COR	contracting officer’s representative
CGM	Contracts and Grants Management
FAR	Federal Acquisition Regulation
MCC	Millennium Challenge Corporation
OIG	Office of Inspector General
PM	project monitor
PPLC	Priorities Procurement Action Log and Active Contract Listing

SUMMARY OF RESULTS

The Millennium Challenge Corporation's (MCC's) Contracts and Grants Management (CGM) Division¹ includes contracting officers who, according to the Federal Acquisition Regulation (FAR) Part 2.1, have the "authority to enter into, administer, and/or terminate contracts."² The FAR further states that the contracting officer designates and authorizes in writing a contracting officer's representative (COR) "to perform specific technical or administrative functions" on contracts assigned to them. In addition, MCC's *Contracts Operating Manual* states that "the contracting officer may further delegate duties to a project monitor [PM] to provide assistance in performing COR duties." Designation letters delegate authority to CORs and PMs from the contracting officer and describe their duties and responsibilities as a COR or PM.

The objective of this audit was to determine whether MCC's contract management process ensured that contractors provided quality deliverables. The Office of Inspector General (OIG) found that MCC designed and implemented a process to ensure quality deliverables were received from its contractors. The process involved selecting qualified CORs and PMs and formally delegating authority for contract oversight. The delegations identified the specific responsibilities of the CORs and PMs and provided them, for example, the authority to withhold payment from contractors until they produced acceptable deliverables.

CORs and PMs were appointed to specific contracts because they had educational and work experience backgrounds on the subject-matter related to the contract. Therefore, they were able to determine whether the contractor provided quality deliverables.³ For example, when MCC procured independent engineering services for an energy project in Tanzania, it assigned a PM who was an electrical engineer and economist who had worked on Tanzanian infrastructure projects. This combination of education and work experience put the PM in a unique position to understand the energy project and country context, and with the opportunity to use this understanding to ensure that the independent engineer provided a quality deliverable.

MCC issues a delegation letter to the COR and PM setting forth their responsibilities for contract oversight. The responsibilities include monitoring the contractor's performance and verifying whether deliverables meet contract requirements. Each COR and PM is required to sign the designation letter acknowledging that they accept the responsibilities set forth in their letters. Their acknowledgement becomes part of the permanent contract files maintained by MCC. As an example of discharging this responsibility, a COR withheld payment from a contractor who had submitted a land use analysis of Malawi that did not meet contract requirements. In another instance, a COR withheld payment from a contractor until a better quality situational analysis on game management in Zambia was produced. Ultimately, acceptable analyses were submitted to MCC by the contractors and payment made for their services.

¹ Section 614 of the Millennium Challenge Act of 2003 states that MCC "may make and perform contracts, grants, and other agreements . . . as may be necessary for carrying out the functions of MCC."

² FAR, Part 46, "prescribes policies and procedures to ensure that supplies and services acquired under Government contract conform to the contract's quality and quantity requirements."

³ The deliverables in the audit team's sample were usually written reports.

OIG found that the CORs and PMs reviewed had taken the required training. The designation letter states that the COR must have a minimum of 40 hours of training and must maintain their skills through continuous learning. PMs are required to complete 17 hours of training. CGM tracks the training that CORs and PMs complete.

Nevertheless, OIG found that CGM needs to improve its management over hard copy contract files and to confirm that all CORs are monitoring their contracts properly and not relying too much on the PMs. The audit found the following:

- Required documents that would provide a complete history of contract transactions were missing in the official files (page 3).
- A few CORs were minimally involved in contract management (page 4).

To address these concerns, the report recommends that the CGM managing director:

1. Develop written procedures to ensure contract files are updated and maintained to provide a complete history of contract transactions (page 3).
2. Develop written requirements to provide a cross-reference to electronic documents that are not maintained in the hardcopy contract files (page 4).
3. Emphasize in writing that contracting officer's representatives are primarily responsible for monitoring the performance and progress of their assigned contracts (page 4).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Appendix II presents MCC's comments; the exhibits provided are available upon request. Our evaluation of management comments is on page 5.

AUDIT FINDINGS

Contract Files Were Not Complete

FAR Subpart 4.8 states that the head of each office performing contracting “shall establish files containing the records of all contractual actions.” It further states that the files contain “a current chronological list identifying the awarding and successor contracting officers, with inclusive dates of responsibility.”

Subpart 4.8 also states that if the contract files or file segments are decentralized to various organizational elements or to other outside offices, “a central control and, if needed, a locator system should be established to ensure the ability to locate promptly any contract files.”

The FAR Part 2.1 states that contracting officers designate and authorize in writing contracting officer’s representatives to perform specific technical or administrative functions on contracts.

MCC’s hard copy contract files did not contain some records of contractual actions. Some documents were maintained in MCC’s electronic repository, and others could not be found in either hard copy or electronic files. The designation letters in 10 of the 16 contract files in the audit sample (about 63 percent) were either missing or incomplete. For example, for one contract, two designation letters were not signed by the PMs and another was not signed by the COR.

CGM also did not have a system in place to ensure that the lists in contract files were updated when new contracting staff members were appointed as CORs and PMs. Additionally, CGM did not have a cross-reference in the official hard copy contract files to the electronic repository.

According to MCC, the problems with incomplete contract files occurred because 80 percent of its contract management staff changed. CGM had 20 employees in October 2010; by May 31, 2012, only 4 of them remained in the division. According to a CGM official, the turnover occurred because of the career opportunities available elsewhere as a result of a shortage of contract specialists.

As a result, the files did not show who currently has contracting authority over the contracts. Also the inability to locate contract files promptly could cause delays in making decisions on contract actions. To address these concerns, this audit makes the following recommendations.

Recommendation 1. We recommend that the Millennium Challenge Corporation’s managing director, Contracts and Grants Management Division, develop written procedures to ensure contract files are updated in accordance with the Federal Acquisition Regulation to provide a complete history of contract transactions.

Recommendation 2. *We recommend that the Millennium Challenge Corporation's managing director, Contracts and Grants Management Division, develop written requirements to require a cross-reference from the hard copy contract files to its electronic document repository.*

Some Contracting Officer's Representatives Were Minimally Involved

FAR Subpart 1.6 states that the COR "assists in the technical monitoring or administration of a contract" and "shall maintain a file for each assigned contract," which "includes documentation of COR actions taken in accordance with the delegation of authority."

According to the *Contracts Operations Manual*, Section 1.3, "The COR is the primary party responsible for monitoring performance and progress of assigned contracts." However, the contracting officer may further delegate a PM to assist the COR in monitoring the contractor's performance. The manual further states that "the PM is considered a vital assistant to the COR in performance of his [or her] delegated duties." The COR's designation letter states that "the ultimate responsibility for any actions taken by others assisting the [COR] remains with the [COR]" for the contracts assigned to them.

Some CORs were minimally involved during contract management. During interviews the team had with 10 PMs, 3 (30 percent) said they seldom interacted with the COR, if at all. One PM said the COR depends on the PM, and he only interacted with his COR when a contract needed to be modified. One COR said he did not resolve problems himself, but trusted his PMs to resolve them. In one contract, the team found evidence that a PM, contracting officer, and payor discussed whether to reject a contractor's invoice, but could not find any evidence that the COR was involved.

CGM reduced the number of CORs used to manage MCC's contracts because of increased COR training requirements in 2011. A CGM official said that reducing the number of CORs alleviated a significant burden on providing required COR training. As a result, PMs have undertaken more responsibility in monitoring contracts than what is delegated to them in their designation letters. However, unless CORs perform their delegated responsibilities of monitoring their contracts, they risk not being aware of problems that could affect the quality of the deliverables. To address this concern, this audit makes the following recommendation.

Recommendation 3. *We recommend that the Millennium Challenge Corporation's managing director, Contracts and Grants Management Division, emphasize in writing that contracting officer's representatives are primarily responsible for the monitoring performance and progress of their assigned contracts.*

EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in Appendix II of this report; the exhibits provided are available upon request. MCC agreed with all three recommendations, and final actions have been reached on them.

In agreeing with Recommendation 1, MCC provided detailed file indices it established that described the documents to be included in the contract files. MCC held a training session in June 2012 for contracting staff that highlighted the importance of following established practices and reinforced the understanding and use of detailed file indices.

MCC will also ensure that contract file management reviews are conducted as planned. In addition, MCC plans to include an element in individual performance plans for contracting staff that sets expectations for maintaining complete contract files no later than April 30, 2013.

Finally, MCC officials said they would update the file indices to remove any outdated information no later than December 31, 2012. OIG considers that a management decision and final action have been reached on this recommendation.

In agreeing with Recommendation 2, MCC developed a standard operating procedure that describes how contract specialists, contracting officers, and procurement assistants are to store files and documents in the electronic repository.

MCC also implemented a contract management system with well-developed search capabilities that provides effective cross-referencing. It also developed a tracking Web site to further coordinate and capture any COR turnover or information regarding CORs assigned to certain contracts who are no longer involved.

Finally, MCC now stores CORs' designation letters with the most recent contract action for a given contract instead of storing the letters by the COR's name. OIG considers that a management decision and final action have been reached on this recommendation.

For Recommendation 3, MCC revised its COR and PM designation letters to require PMs to provide CORs with regular status updates and, correspondingly, require CORs to demand regular status from PMs. MCC provided the new designation letters, and they are being distributed with new contract awards or with changes to CORs and PMs. OIG considers that a management decision and final action have been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

OIG conducted this audit of MCC's contract management process in accordance with generally accepted government auditing standards. These standards 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 objectives. We believe that the evidence obtained provides that reasonable basis.

MCC awards contracts, grants, and agreements, as necessary, to carry out its functions. This audit focused on contract amounts worth about \$28 million (about 13 percent) from a universe of about \$223 million in contracts that were active from February 2010 through February 2012.

To answer the audit objective, we met with MCC officials to gain an understanding of the contract management process and to identify any concerns. We analyzed documents and reports to determine whether MCC's contracting staff members were monitoring contractors' performance and whether deliverables met contract requirements. We conducted our fieldwork from February 8, 2012, to June 25, 2012, at MCC headquarters in Washington, D.C.

We relied on MCC's workload database, which was derived from the Priorities Procurement Action Log and Active Contract Listing (PPLC) system,⁴ to select the audit sample. We verified the data related to those sample contract actions. We traced the amounts shown in supporting documents to the amounts shown in the database.

We examined the internal control environment by identifying and assessing the relevant controls on oversight of contract actions. We tested the controls in place for monitoring contractor performance. In particular, we reviewed CORs' and PMs' training records, designation letters, and certifications to determine whether they were knowledgeable about contracting guidelines and were authorized to manage contracts and approve contractors' invoices.

Methodology

To answer the audit objective, we established audit steps to determine whether MCC was receiving quality deliverables from contractors. Specifically, we performed the following:

- Interviewed MCC officials in CGM.
- Judgmentally selected and tested 16 ongoing contracts, valued at about \$28 million, out of a universe of 2,044 contracts (about 1 percent), valued at about \$223 million.

⁴ PPLC is a custom-developed database that CGM used to track workload data on contracting actions. Its primary purpose is for entering pending contract actions, tracking all awarded contract actions, and collecting performance metrics for MCC reports.

- Reviewed and analyzed documentation that supported appointing CORs and PMs, that they received training, verified and approved contractors' invoices, and conducted oversight of the contract.
- Reviewed official hard copy contract files for completeness.

MANAGEMENT COMMENTS



August 28, 2012

MEMORANDUM

TO: Richard Taylor
Assistant Inspector General
Millennium Challenge Corporation

FROM: James R. Blades /s/
Managing Director, Contracts and Grants Management
Millennium Challenge Corporation

SUBJECT: MCC Comments and Management Decision on the Audit
of the Millennium Challenge Corporation's Contract
Management Process

This memo serves as the Millennium Challenge Corporation's comments on the final draft audit report, as well as the notice of Management Decision (Recommendations 1, 2, and 3) and notice of Final Action (Recommendations 2 and 3), associated with the Audit of the Millennium Challenge Corporation's Contract Management Process.

We consider your role vital in helping us to achieve and sustain an effective contract management process.

Our Management Responses to your recommendations are as follows.

Recommendation No. 1: "We recommend that the Millennium Challenge Corporation's Managing Director, Contracts and Grants Management Division, develop written procedures to ensure contract files are updated in accordance with the Federal Acquisition Regulation to provide a complete history of contract transactions."

Management Response: We agree with the recommendation. The MCC Contracts and Grants Management Division (CGM) has a detailed file index describing the documents to be included in the contract file for action types. These are included as Exhibits 1-4.

The report noted and MCC acknowledges that some documents required by the detailed indices were not included in every contract file and for every modification. In response, MCC has taken or will take the following actions:

- CGM held a training session on June 7, 2012 to highlight to contracts staff the importance of following established practice and to reinforce the understanding and use of the exhibits referenced above.
- CGM will ensure contract file maintenance reviews, which are required in COM Chapter 4 (Exhibit 5), are conducted as planned.
- CGM will include an element in individual performance plans for CGM staff that sets expectations for maintenance of complete contract files no later than April 30, 2013.
- CGM will update the indices to remove any outdated information no later than December 31, 2012.

This constitutes MCC's management decision for this recommendation. We anticipate final action will be complete by April 30, 2013.

Recommendation No. 2: "We recommend that the Millennium Challenge Corporation's Managing Director, Contracts and Grants Management Division, develop written requirements to require a cross reference from the hardcopy contract files to its electronic document repository."

Management Response: We agree with the recommendation. Many of the issues related to this Recommendation were due to the fact that CGM stored Contracting Officer Representative (COR) designation letters by COR name as opposed to by contract action. This was due to the large volume of data calls CGM often receives related to naming all contracts a COR has assigned to them, rather than what COR is assigned to a specific contract.

In response, MCC has taken the following actions:

- As of the date of this letter, CGM has developed a Standard Operating Procedure (SOP), included as Exhibit 6, to address this concern. The SOP describes how Contract Specialists, Contracting Officers, and Procurement Assistants are to store files and documents in the electronic repository.
- Many of the issues cited are due to CGM's reliance on a complex shared drive system. In recognition of these issues, CGM implemented the CGM Contract Management System (CCMS), a Commercial Off the Shelf (COTS) product developed by Distributed Solutions, Inc. in February 2012. As an electronic contract repository, CCMS has well-developed search capabilities that provide effective cross referencing.

- As of the date of this letter, a COR Tracking and COR Training SharePoint website has been developed between CGM and ASHR to further coordinate and capture any COR turnover or information regarding outdated CORs assigned to certain contracts.
- As of the date of this letter, CGM already has moved to storing COR designation letters with the most recent contract action for a given contract as opposed to storing by COR name.

Given the clarity provided by these actions and the improved capabilities of the new CCMS, we do not think further cross references included in every contract file and every action specifying the location are necessary.

This constitutes MCC's Management Decision and Final Action for this recommendation.

Recommendation No. 3: "We recommend that the Millennium Challenge Corporation's Managing Director, Contracts and Grants Management Division, emphasize in writing that contracting officer's representatives are primarily responsible for the monitoring performance and progress of their assigned contracts."

Management Response: We agree with the recommendation. Project Monitors (PMs) are critical for the success of MCC's Contract Management Process, and fulfill a vital role in the acquisition team as defined in FAR 1.102-3 and 1.102-4. Project Monitors provide indispensable sector and country expertise, so it is both necessary and essential for CORs to involve them in critical decision-making and, in areas where the PMs possess substantial expertise, rely on the PM's knowledge and judgment.

Nevertheless, CGM recognizes that it should be explicit that PMs have a responsibility to report to their CORs and likewise that CORs have a responsibility to oversee both the contractor and their subordinate PMs. Thus, CGM has revised its standard COR and PM designation letters, included as Exhibits 7 and 8, to require PMs to provide CORs with regular status updates and, correspondingly, require CORs to demand regular status updates from PMs. As of the date of this letter, the new designation letters are currently being distributed to CORs and PMs with new contract awards or with changes to CORs/PMs.

This constitutes MCC's Management Decision and Final Action for this recommendation.

Listing of Exhibits:

1. Exhibit 1 – Folder Structure – Contracts
2. Exhibit 2 – MCC Checklist for Contract Award File – IAA
3. Exhibit 3 – MCC Checklist for Contract Award File – MBO
4. Exhibit 4 – MCC Checklist for Contract Award File – PSC
5. Exhibit 5 – MCC COM Chapter 04 – Administrative Matters – July 2012

6. Exhibit 6 – CCMS – Standard Operating Procedures – Electronic Contract Files
7. Exhibit 7 – COR Designation Letter – Final
8. Exhibit 8 – PM Designation Letter - Final

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