



OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S PROGRAMS IN MOZAMBIQUE

AUDIT REPORT NO. M-000-13-003-P
JANUARY 31, 2013

WASHINGTON, D.C.



Office of Inspector General

January 31, 2013

Mr. Patrick Fine, Vice President
Department of Compact Operations
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Fine:

This letter transmits the Office of Inspector General's report on the "Audit of the Millennium Challenge Corporation's Programs in Mozambique." In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II of this report.

The report contains five recommendations to strengthen the Millennium Challenge Corporation's (MCC's) process for managing Mozambique's compact program. Management comments indicate that MCC has made management decisions on all five and taken final action on Recommendation 1.

We appreciate the cooperation and courtesy extended to our staff during this audit.

Sincerely,

/s/

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

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SUMMARY OF RESULTS

In July 2007 MCC awarded a 5-year, \$507 million compact to the Government of Mozambique to improve the southeastern African country’s economy and the standard of living in select provinces in northern Mozambique. To accomplish these goals, the compact included \$203.6 million in water and sanitation projects and \$176.3 million in road projects.

The water and sanitation projects included constructing or rehabilitating water supply systems (including distribution networks) in eight cities and sanitation systems (for wastewater and storm water) in six cities, rehabilitating the Nacala Dam, and constructing 600 wells in rural areas. The road project included the rehabilitation of 491 kilometers of the Estrada Nacional 1 Highway (EN1), a major part of Mozambique’s transportation network.

The Millennium Challenge Account-Mozambique (MCA-M) is the host-government entity responsible for implementing each project activity. The Mozambican compact entered into force in September 2008 and is to end in September 2013. As of June 30, 2012, MCA-M had spent \$170 million.

The Office of the Inspector General (OIG) conducted this audit to determine whether MCC’s water and road projects in Mozambique were achieving their goals. OIG found they were not.

Between November 2010 and April 2011, MCC approved compact modifications reducing the scope of the water and road projects (Tables 1 and 2).¹ MCA-M made them after it reviewed feasibility studies and designs completed during the third year showing that the costs to finish the projects were higher than planned. The number of water supply projects dropped from eight to three, and the number of water sanitation projects from six to two; the scope of the Nacala Dam and rural wells projects remained the same. The EN1 rehabilitation project was reduced to 253 kilometers from 491 kilometers.

Table 1. Modifications of Water Projects (Audited)

Project Activity	Projects Planned	
	In Compact	In Revision Dated June 30, 2012
Rural wells	600	600
Nacala Dam	1	1
Water supply systems	8 cities (distribution networks included)	3 cities (distribution networks not included)
Water sanitation systems	6 cities	2 cities
Estimated number of beneficiaries by 2015	1.9 million	676,351

¹ OIG conducted a review of all MCC’s compact modifications through September 30, 2011, which included Mozambique (–Review of the Millennium Challenge Corporation’s Compact Modifications,” Report No. M-000-12-006-S). OIG determined that the modifications were approved in accordance with the *Policy on the Approval of MCC Compact Programs*.

Table 2. Modifications of Road Projects (Audited)

Project Activity (Segments of EN1)	Projects Planned (km)	
	In Compact	In Revision Dated June 30, 2012
Namialo-Rio Lúrio	148	150*
Nampula-Rio Ligonha	102	103
Rio Lúrio-Metoro	74	0
Nicoadala-Chimuara	167	0
Total	491	253
Estimated number of beneficiaries by 2015	2.3 million	872,487

* Two segments or lots.

Project activities might not achieve their revised goals because contractors were late in providing studies, designs, and revised cost estimates. These delays meant that MCA-M had less time to hire construction contractors to complete the projects.

In addition, contractors working on three water and two road projects have been slow to acquire the staff, equipment, and materials needed to begin construction. As a result, these projects may not be completed by the end of their contracts or by the end of the compact.

On February 16, 2011, MCC sent a letter to the Mozambican Government establishing strict milestones and deadlines for the road projects. According to the letter, MCA-M was supposed to announce invitations for bids by March 1, 2011; sign contracts by June 30, 2011; and start construction by October 31, 2011. MCA-M met the deadlines for announcing the invitation for bids and signing contracts, but it did not meet the deadline to start construction.

The audit found the following problems:

- Some contractors did not meet deadlines. Contractors for two road and three water projects missed their contractual deadlines because they started late (page 4). Some did not obtain equipment on time, and others did not hire staff promptly.
- Some contractors did not use advance payments properly (page 6). They were slow to mobilize and made limited progress on construction.
- Feasibility studies and designs were completed late in implementation (page 6). MCA-M did not award contracts for feasibility studies and designs for the road and water projects on time, nor did contractors complete the work on time. Studies and designs were not finished until the third year of the 5-year compact, delaying all procurements.
- Branding of infrastructure projects did not comply with MCC's policy (page 7). MCC's logo was not prominent on temporary signs for projects or on wells that the U.S. Government funded.

To address these concerns, the report recommends that MCC's Vice President for Compact Operations:

1. Require MCA-M to address the delays on the infrastructure projects (page 5).
2. Require MCA-M to implement a written plan that identifies other sources of funding to use in completing the projects if they are not done when the compact ends (page 5).
3. Establish procedures for Millennium Challenge Accounts to ensure that contractors use advances for the purpose specified in the contract—for example, mobilization (page 6).

The report recommends that MCC's Vice President for Congressional and Public Affairs:

4. Require MCA-M to implement a branding strategy for the wells in rural areas (page 8).
5. Confirm that MCA-M creates permanent signs for infrastructure projects in accordance with MCC's *Standards for Global Marking* (page 8).

Detailed findings appear in the following section, and Appendix I contains information on the scope and methodology. Our evaluation of management comments is on page 9, and full text of the comments appears in Appendix II.

AUDIT FINDINGS

Some Contractors Did Not Meet Deadlines

Each contractor participating in the Mozambique compact was obligated to complete its contract by the date in Table 3. Although the contract's general conditions allow MCA-M to extend deadlines, they could not go beyond the compact's end date of September 2013. Furthermore, contractors that are behind schedule are required to revise their work programs.² Each program should include the contractor's plan for carrying out the work, sequence and timing of inspections and tests specified in the contract, and a report that includes the methodology and resources needed onsite for different stages of the work.

Table 3. Contract End Dates for Select Road and Water Projects (Audited)

Project	End Date
Nampula to Rio Ligonha	April 2013
Namialo to Rio Lúrio - Lot 1	January 2013
Namialo to Rio Lúrio – Lot 2	January 2013
Nacala water supply – Lot 1	March 2013
Nacala water supply – Lot 2	December 2012
Nampula water supply – Lot 1	March 2013
Nampula water supply – Lot 2	November 2012
Quelimane drainage	February 2013

Contractors working on two road and three water projects did not meet their contractual deadlines.

- Nampula to Rio Ligonha (103 kilometers). The contractor missed deadlines in its revised work program, which was submitted to the supervisory engineer in March 2012. The engineer asked the contractor to submit another revised work program because it had not met the March 2012 deadlines. By June 2012, the contractor had not submitted that revision—and had 10 months left to complete the contract, which was only about 13 percent done.
- Namialo to Rio Lúrio – Lot 1 (75 kilometers). By June 2012, the contractor was 3 months behind the original schedule. In addition, it had not acquired the equipment or purchased the bitumen needed to finish resurfacing the road by the end of December 2012, 1 month before the contract's end. When OIG conducted a field visit in early June 2012, the contractor had completed earthworks and subbase layers for one lane and shoulder along 8 kilometers of the road, but no resurfacing had taken place.
- Namialo to Rio Lúrio – Lot 2 (75 kilometers). By May 2012, the contractor was behind schedule and had not acquired some key staff and equipment. For example, the contractor had not selected a highway engineer, and the approved quantity surveyor had not arrived at

² This is according to Subclause 8.3 of the contract's general conditions.

the project site. The contractor missed the deadlines in its revised program, approved in May 2012, and had completed only about 10 percent of the contract.

- Nacala water supply. As of June 2012, 8 months had elapsed on the 17 month project, but only 2 percent of work had been completed. Despite repeated requests from the supervisory engineer, the contractor had not submitted an updated work program to show how it planned to finish the project on schedule. Despite these problems, MCC and MCA-M were discussing options to provide the contractor with an additional \$10 million for work not included in the scope of the contract. (As of September 12, 2012, MCC had not yet approved the additional work.)
- Nampula water supply. During the first 8 months of the contract, the contractor missed its deadlines and did not build the field office or the laboratory. Additionally the contractor had cash-flow problems and was unable to pay its workers, resulting in a 2-day strike.
- Quelimane drainage. By June 2012, the contractor charged with rebuilding the drainage system for the seaport of Quelimane was about 5 months behind schedule. Although the contract was signed in September 2011, the contractor did not start until May 2012. As of June 2012, the supervisory engineer had not certified the contractor's laboratory because it did not have all the equipment. Given the slow progress, the engineer estimated that the contractor would finish only 70 percent of the project.

MCA-M did not manage the contracts or make prompt decisions when contractors missed their deadlines. For example, it did not send warning letters to the contractors until February and March 2012—2 to 4 months after the deadlines in their work programs. In the letters, MCA-M officials asked the contractors to address the delays and to revise their programs so they would complete the work by the end of the contracts. MCA-M also reminded the contractors that delay damages could be imposed if they did not meet their deadlines.

Realizing that MCA-M had difficulties managing the infrastructure contracts, MCC officials had developed an action plan in November 2011 to address the administration and oversight of the contracts. This plan included tools that MCA-M officials could use to manage contracts efficiently. However, OIG could not determine why MCA-M did not use them.

Nevertheless, the road and water projects might not be completed as planned by the end of the contract term or by the end of the compact. To address these concerns, we make the following recommendations.

Recommendation 1. We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require the Millennium Challenge Account-Mozambique to address the delays on the infrastructure projects.

Recommendation 2. We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require the Millennium Challenge Account-Mozambique to implement a written plan that identifies other sources of funding to use in completing the projects if they are not done when the compact ends.

Some Contractors Did Not Use Advance Payments Properly

Subclause 14.2 of all MCA-M contracts' general conditions section states that an —Employer [MCA-M] shall make an advance payment . . . for mobilization, when the contractor submits a guarantee.” The guarantee must be issued by a local bank in the amount of the advance and must remain valid until the advance is repaid. The guarantee allows MCA-M to invoke the guarantee when it can prove in writing that the contractor did not use the advance to start work.

OIG found that \$29.7 million in advance payments to contractors for two road and four water projects were not used in accordance with the contracts. None of the contractors established camps for workers or acquired key staff and equipment needed to start work until months after they received the advances. In one instance, a supervisory engineer for a water project suggested that MCA-M audit the use of advance payments.

This problem occurred because MCA-M did not have procedures or controls in place to confirm that contractors used the payments for the projects. For example, contractors were not required to report to MCA-M on how they used the advance payments. In addition, the contracts did not explain what expenses the advance could be used for—for example, hiring staff, setting up camps, and acquiring equipment. Therefore, the term —mobilization” was open to interpretation.

As stated above, the guarantee requires that the employer prove in writing that the contractor did not use the advance to start work. Without a defined mobilization scope of work / timeline linked to the advance, the employer may be unable to —prove in writing that the contractor did not use the advance to start work.” This lack of specificity may inhibit the employer's ability to call the guarantee on a timely basis. A monitoring system that provides immediate feedback on the contractor's progress, or lack thereof, would strengthen the MCA's management of its contracts, and reduce delays caused by the lack of timely mobilization.

Recommendation 3. *We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations establish procedures for Millennium Challenge Accounts to ensure that contractors use advances for the purpose specified in the contract (for example, mobilization).*

Feasibility Studies and Designs Were Completed Late in Implementation

The contractors were required to complete the feasibility studies and designs about 1 year after their contracts were awarded. However, the contractors took almost 2 years to complete both the feasibility studies and designs. At that point, MCA-M had entered its third year of implementation of the compact and had less time to procure construction contracts.

MCA-M officials did not award the feasibility studies and designs or supervise the work done under the contracts until almost the end of the first year of implementation. The contractors did not deliver the feasibility studies on time, causing further delays. In addition, MCA-M officials spent several months reviewing, revising, and approving the documents, again adding to the delays.

The feasibility studies and designs were an integral part of the bid package; without them, the procurement process could not take place.

Completing feasibility studies and designs after implementation is a problem that OIG has seen in previous audits of MCC's programs. In response to that, MCC issued the revised *Compact Development Guidance* in January 2012, which includes requirements for completing feasibility studies and designs before implementation. Therefore, OIG is not making a recommendation on this matter.

Branding on Infrastructure Projects Did Not Comply With MCC's Policy

MCC's branding and marking policy states that all infrastructure projects should include signs with the logos for MCC and the relevant Millennium Challenge Account. Branding must communicate that the grant is made possible through the generosity of the people of the United States.

According to its branding guidelines, MCC reserves the right to have its logo be the dominant element on signs. No other logo, seal, or signature can be bigger than MCC's. In addition, the guidelines do not permit contractors to include their logos on the signs.

During fieldwork, OIG found that the Mozambican Government's logo and signature dominated the temporary signs at two road project sites, one of which is shown below. In addition, the signs included the contractors' and supervisory engineers' logos.



MCC's logo is hard to see on this road project sign near Nampula. (Photo by OIG for MCC, June 2012)

MCA-M officials said they designed the templates for the temporary signs at the project sites to be consistent with the Mozambican Government's standards, which make the government's logo dominant. As a result, it may not be clear to Mozambicans that the American people paid for the projects.

In addition to the road project sites, OIG visited 2 of the 270 wells that MCA-M installed in rural areas. Neither had any signs that said the American people provided the wells. MCA-M officials said they did not have a branding strategy for the wells.

To address this concern, we make the following recommendation.

Recommendation 4. *We recommend that the Millennium Challenge Corporation's Vice President for Congressional and Public Affairs require the Millennium Challenge Account-Mozambique to implement a branding strategy for the wells in rural areas.*

Replacing the existing temporary signs would not be a worthwhile investment with only 1 year left in the compact. Therefore, we make the following recommendation for the permanent signs.

Recommendation 5. *We recommend that the Millennium Challenge Corporation's Vice President for Congressional and Public Affairs confirm that the Millennium Challenge Account-Mozambique creates permanent signs for infrastructure projects in accordance with Standards for Global Marking.*

EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in their entirety in Appendix II of this report. MCC agreed with all five recommendations.

Recommendation 1. MCC agreed to require MCA-M to address the delays on infrastructure projects. MCC and MCA-M continue to monitor work programs for each contract and identify steps to reduce delays. In addition, senior U.S. Government, Government of Mozambique officials, and senior MCC officials are working to address the delays. OIG acknowledges MCC's management decision and final action on this recommendation.

Recommendation 2. MCC agreed to implement a written plan that identifies other sources of funding to use in completing the projects if they are not done when the compact ends. MCA-M is developing the compact closure plan, which will include a strategy for funding any projects not completed by the end of the compact. OIG acknowledges MCC's management decision on this recommendation. Final action will occur when MCC approves MCA-M's closure plan, due to MCC on March 29, 2013.

Recommendation 3. After initially disagreeing with the finding and recommendation that led to this recommendation, MCC issued a revised comment agreeing with the revised recommendation. It committed to establish procedures for MCAs to ensure contractors use advances for the purpose specified in the contract (for example, mobilization). MCC will provide MCAs with guidance on monitoring compliance with the use of advances. OIG acknowledges MCC's management decision on this recommendation. Final action will occur when MCC issues the guidance to the MCAs.

Recommendation 4. MCC agreed to implement a branding strategy for the wells in rural areas. MCA-M began placing plaques on rural wells and will continue this process through July 2013. OIG acknowledges MCC's management decision on this recommendation. Final action will occur when MCA-M places plaques on all rural wells.

Recommendation 5. MCC agreed to confirm that MCA-M creates permanent signs for infrastructure projects in accordance with *Standards for Global Marking*. MCC will work with MCA-M to see that durable plaques are installed at the infrastructure project sites by September 2013. OIG acknowledges MCC's management decision on this recommendation. Final action will occur when MCC verifies permanent signs are in place.

SCOPE AND METHODOLOGY

Scope

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

OIG audited road and water projects totaling almost \$380 million, which represented 75 percent of the compact. We conducted our fieldwork at MCC headquarters in Washington, D.C., from May 14 to September 12, 2012. We also conducted site visits in Mozambique at MCA-M in Maputo, a water project in Quelimane, two road projects in Nampula, and four water projects in Nampula and Nacala, and 2 boreholes in Nampula from June 4 to June 22, 2012.

In performing and planning the audit, we reviewed supporting documentation for the projects, such as the Mozambican compact, contracts, progress reports, implementation letters, condition's precedent, monitoring and evaluation plans, indicator tracking tables, and detailed financial plans.

We examined the internal control environment and reviewed relevant controls for project oversight of the road and water projects. Controls included a review of procurement documents to verify the eligibility of the bidders and ensure approvals were in accordance with MCC's procurement policies. We conducted site visits of the water projects sites and interviewed contractors and supervisory engineers to verify contractor performance. We also reviewed the controls over the payment of advances to contractors, including performance guarantees and the approvals authorizing payment of the advances.

Methodology

To answer the audit objectives, we performed the following activities:

- Interviewed MCC, MCA-M, and Mozambican officials implementing or overseeing the road and water projects to gain an understanding of the projects and their progress and to assess controls over the implementation of the projects.
- Reviewed and analyzed project documents to understand the projects' design, implementation, and progress.
- Conducted site visits at the two road projects and six water projects (including 2 boreholes) to assess their progress.

MANAGEMENT COMMENTS



DATE: December 7, 2012

TO: Richard Taylor
Deputy Assistant Inspector General
Office of Inspector General
Millennium Challenge Corporation

FROM: Andrew Mayock, Deputy Vice President /s/
East and Southern Africa
Department of Compact Operations
Millennium Challenge Corporation

SUBJECT: MCC's Response to the Office of Inspector General's (OIG) Report "Audit of the Millennium Challenge Corporation's Programs in Mozambique"

Dear Mr. Taylor:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the OIG' report entitled "Audit of the Millennium Challenge Corporation's Programs in Mozambique," dated November 27, 2012.

MCC's specific responses to the five recommendations in the report are detailed below.

***Recommendation 1:** We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations require the Millennium Challenge Account-Mozambique to address the delays on the infrastructure projects.*

MCC Response: MCC agrees with this recommendation, and MCC actions on this front are underway. MCC's independent engineers, MCC staff, MCA-Mozambique (MCA-M) staff and MCA-M's independent engineer make regular site visits to monitor contractor and supervisory engineers' performance based on work programs established for each contract in accordance with the industry standard of the Federation Internationale des Ingenieurs – Conseils (FIDIC).

Each work program, once approved, is an “action plan” for each specific infrastructure activity, and is modified as appropriate to account for project delays. MCC and MCA-M continue to monitor the status of the approved work programs for each contract and to identify steps to reduce delays in coordination with MCA. In addition to the day-to-day management of these programs by the MCC resident mission and MCA-M management, senior United States Government (USG) and Government of Mozambique (GOM) officials are also working on addressing the delays, including GOM ministers and MCC senior officials.

Recommendation 2: *We recommend that the Millennium Challenge Corporation’s Vice President for Compact Operations require the Millennium Challenge Account-Mozambique to implement a written plan that identifies other sources of funding to use in completing the projects if they are not done when the compact ends.*

MCC Response: MCC agrees with this recommendation, and MCC actions on this front are underway. In accordance with MCC’s Program Closure Guidelines (dated May 9, 2011), MCA-M is in the process of developing a closure plan that describes the closure strategy for each compact project. The closure plan will include a strategy for funding the completion of any projects that will not be completed by the end of the compact term, and it will identify any potential funding sources. This plan will be completed by March 29, 2013.

Recommendation 3: *We recommend that the Millennium Challenge Corporation’s Vice President for Compact Operations establish procedures for Millennium Challenge Accounts to monitor contractors’ use of advances.*

MCC Response: MCC disagrees with this recommendation. The purpose of the advance is to assist the contractor with the cash flow required during the early phases of the project. Cash flow requirements are dictated by the contractor’s schedule over which the client, and ultimately MCC, has little control except to validate its reasonableness. Monitoring how the contractor used his advance would be costly in terms of effort required and would present a low return because payments are made against delivered items and rates in the Bill of Quantities. The terms of the advance are clearly defined in the Standard Bidding Documents and under FIDIC (Section 14.2) and MCC Conditions of Particular Application (COPA). These documents require a guarantee and that the advance payment be repaid according to a defined schedule. This is an industry standard practice.

MCC would also like to note that on page 8 of the OIG’s report, the OIG references sub-clause 14.2 of the General Conditions of Contract (one of the form construction contracts used by MCAs) noting that it states that an “Employer (MCA-M) shall make an advance payment, as an interest-free loan for mobilization, when the contractor submits a guarantee.” However, MCC’s COPA amends various sections of the General Conditions of Contract, including sub-clause 14.2. MCC’s amendment to sub-clause 14.2 deletes the phrase “as an interest-free loan” from the first sentence of the paragraph so that advance payments are not considered interest-free loans but in fact must be supported by an unconditional security guarantee or bond from a reputable commercial bank in an amount equal to the advance payment.

Recommendation 4: *We recommend that the Millennium Challenge Corporation's Vice President for Congressional and Public Affairs require the Millennium Challenge Account-Mozambique to implement a branding strategy for the wells in rural areas.*

MCC agrees with this recommendation. In January 2012, MCC released new Standards for Global Marking which requires MCAs to brand works projects during construction and when completed. MCC will continue to provide technical assistance and guidance to MCAs as they implement the new branding policy and guidance. This issue has already been addressed in Mozambique by placing plaques on all rural water points, including signs on the Small-Scale Solar Systems. This process is ongoing through the end of works on rural water points and will be fully implemented by July 2013.

Recommendation 5: *We recommend that the Millennium Challenge Corporation's Vice President for Congressional and Public Affairs ensure the Millennium Challenge Account-Mozambique creates permanent signs for infrastructure projects in accordance with Standards for Global Marking.*

MCC agrees with this recommendation. MCC's new Standards for Global Marking require that MCAs erect a durable plaque when infrastructure and works projects are completed. The plaque must be made of sturdy, weather resistant material, include the MCC brand signature acknowledging the support of the United States of America, and be placed in a location that is visible to vehicular and pedestrian traffic, whenever possible. MCC will work with MCA-M to ensure that durable plaques are installed at the infrastructure project sites by September 2013. In fact, this issue has already been addressed in Mozambique by placing plaques on all rural water points, including signs on the Small-Scale Solar Systems, and by placing billboards in Nampula.

This constitutes MCC's formal response to the draft report as well as Management Decision for each of the above recommendations. If you have any questions or require anything additional, please contact Pat McDonald, Compliance Officer at 202-521-7260.



DATE: January 17, 2013
TO: Richard Taylor
Deputy Assistant Inspector General
Office of Inspector General
Millennium Challenge Corporation

FROM: Andrew Mayock, Deputy Vice President /s/
East and Southern Africa
Department of Compact Operations
Millennium Challenge Corporation

SUBJECT: MCC's Response to the Office of Inspector General's (OIG) Draft Report
entitled "Audit of the Millennium Challenge Corporation's Programs in
Mozambique"

Dear Mr. Taylor:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to provide a revised response to recommendation number 3 in response to your transmittal letter dated January 14th, 2013.

MCC's specific response to the recommendation is detailed below.

***Recommendation 3:** We recommend that the Millennium Challenge Corporation's Vice President for Compact Operations establish procedures for Millennium Challenge Accounts to ensure that contractors use advances for the purpose specified in the contract (for example" mobilization).*

MCC Response:

MCC agrees with this recommendation. The purpose of the initial advance is to assist the contractor with the cash flow required during the early phases of the project. Cash flow requirements are dictated by the contractor's schedule over which the client and ultimately MCC validate the reasonableness. Advance payments are monitored against delivered items and rates

in the Bill of Quantities. The terms of the advance are clearly defined in the Standard Bidding Documents and under FIDIC (Section 14.2) and MCC Conditions of Particular Application (COPA). These documents require a guarantee from an acceptable financial institution and that the advance payment be repaid according to a defined schedule. MCC will provide MCA's with guidance about monitoring compliance with the use of the advances by:

- 1) Ensuring that the Standard Bidding Documents and the Works contract (a) properly and clearly define the mobilization and related advance, (b) provide a clear timeline for mobilization and (c) provide remedies and protections for delays in such mobilization such as increases in the performance bond or retention amounts
- 2) Reiterating the role of and involvement of the supervisory engineer in tracking, monitoring and reporting on mobilization of the contractor to MCA
- 3) Requiring enforcement of the terms of the contract as it relates to advances including the call on the guarantee
- 4) Requiring MCA to provide MCC with update on mobilization on large works contracts as part of the MCA project management reporting.

This constitutes MCC's formal response to the revised recommendation as well as Management Decision. If you have any questions or require anything additional, please contact Pat McDonald, Compliance Officer at 202-521-7260.

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