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REPORT ON
EXAMINATION OF
UNITED STATES ASSISTANCE FOR
A CENTRAL VEGETABLE MARKET
IN ATHENS, GREECE

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE

BY
THE COMPTROLLER GENERAL OF THE UNITED STATES

DRAFT

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REPORT ON EXAMINATION
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INTRODUCTION

The General Accounting Office has examined into the United States assistance activities related to the Athens Central Vegetable Market, located in Athens, Greece, from inception in 1957 through October 1964, as administered by the Agency for International Development (AID) and its predecessor agency, the International Cooperation Administration.¹ This examination was undertaken at the request of the Honorable Vernon W. Thomson, United States House of Representatives, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our examination was directed principally to review of the planning, implementation, and administration of the market project by AID, and was made at the American Embassy, the AID Area Controller's office, and the site of the project in Athens, Greece. At the time of our examination in October and November 1964, the Ministry of Justice of the Government

¹ AID is used throughout this report to identify the Agency for International Development and the International Cooperation Administration which was terminated on November 3, 1961.

of Greece was conducting a special investigation into project activities and had taken over the contracting and related project documents from the various Greek ministries and agencies involved in construction of the project. Consequently, these documents were not available to us during our review.

The officials primarily responsible for the administration of United States assistance for the Market are listed in the appendix to this report.

BACKGROUND

United States economic aid to Greece began with enactment of the Greek-Turkish Assistance Act on May 22, 1947 (61 Stat. 103), and has since continued under various legislative authorities. The aid program for Greece was administered by an AID Mission in Greece through June 1962 at which time the Mission was abolished and all new economic grant aid was terminated. Since July 1962, all AID activities in Greece have been administered by an AID representative with fiscal functions being provided by the AID Area Controller.

The need for a modern wholesale produce market servicing the Athens-Piraeus area was discussed and studied by AID as early as 1953. In early 1956, AID financed the services of an American marketing expert to perform duties as a marketing specialist for the Government of Greece (GOG), with special emphasis on advice and plans for the proposed wholesale market in Athens. The marketing expert's study, which was developed with the assistance and advice of several GOG agencies, was completed during August 1956 and included the layout plans and preliminary building specifications for a wholesale market which would have a total estimated cost of 103 million drachmas (\$3.4 million); the study suggested, however, an initial project costing an estimated 88 million drachmas (\$2.9 million).

On August 29, 1956, the AID Mission advised the GOG that it was prepared to grant 100 million drachmas (\$3.3 million) from counterpart funds to cover the cost of the proposed market. *The term "counterpart funds,"*
as used in this report, refers to ~~counterpart funds~~
deposits by foreign governments of their currencies in special

accounts in amounts equivalent to or the counterpart of the dollar value of commodities received as United States economic aid. Counterpart funds may be spent only for purposes agreed to by the United States. The rate of exchange for the counterpart drachmas is 30 drachmas to one dollar.

Early in January 1957, the AID Mission requested AID/Washington to approve the release of the 100 million drachmas from counterpart funds and this approval was granted on ~~January~~^{January} 14, 1957. On February 6, 1957, the United States Ambassador to Greece formalized the release of the 100 million drachmas by a presentation to the GOG. The proposed market was stated to be a special gift to the Greek people and because of the preliminary work accomplished by the marketing expert it would be ready for use in three years.

The marketing expert's study and project layout described a market which would include, in part, stores for wholesalers and cooperatives, cold storage facilities, rail spur tracks, and an administration complex. By October 1964, the estimated costs for the market had increased to 250 million drachmas (\$8.3 million) of which 230 million drachmas (\$7.7 million) had been disbursed. The market buildings were complete except for the cold storage facility and poultry slaughterhouse and were considered by Market officials to have been ready for occupancy since February 1964. However, at the conclusion of our field examination, there was no firm date as to when the total facility would be completed, and the latest estimate for occupancy was early 1965.

FINDINGS AND CONCLUSION

LACK OF EFFECTIVE AGENCY ADMINISTRATION OVER PROJECT ACTIVITIES

In January 1957, the AID Mission released to the GOG in a lump sum 100 million drachmas of counterpart funds (value equivalent to about \$3.3 million) for the stated purpose of "acquiring the necessary land and construction of a wholesale agricultural produce market for the city of Athens." The funds were released without the Mission's having executed an agreement with the GOG (1) defining the size and scope of the project and market features for which the funds were to be used, or (2) prescribing administrative control arrangements for the project. The Mission had information on which to base such an agreement and AID policy at that time required that conditions be agreed upon in advance of release of funds.

Shortly after release of the funds, the GOG indicated a willingness to allow the Mission to exercise considerable control over expenditures for the project, and Mission project technicians repeatedly pointed to the need for an enforceable project agreement. It became known to the Mission from time to time that substantial cost increases and plan changes were taking place. Despite these conditions, it was not until June 1961, following an audit of project activities by the Mission Controller, that the Mission attempted to formalize project administrative arrangements. The Mission's attempt in this regard was not pressed and no response was received from the GOG. Since that time, there has been a continued lack of surveillance over project activities by AID.

Mission failed to use project
data available to it

Prior to releasing the funds for the Market, the AID Mission had in its possession a comprehensive feasibility study for the project. The study completed by an American marketing specialist in August 1956, defined needed project facilities based upon an analysis of produce marketing processes in the Athens-Piraeus area. In justifying the ~~project~~ ^{to AID/Washington} to AID/Washington in January 1957, the AID Mission dealt with the completeness and competency of the feasibility study. The Mission stated that the specialist had drawn up the report outlining in detail the facilities needed both for present efficiency and future expansion and that the specialist's proposals were in such detail that working drawings for construction of actual buildings and other facilities could be drawn up.

We reviewed the feasibility study and found that it was devised in such a manner that AID could have easily and readily delineated the size and scope of the project and market features for which the funds were being released. However, the January 30, 1957, letter to the GOG which released the 100 million drachmas merely stated in this respect the following:

"As you know, several years ago, at the request of the Ministry of Agriculture, American Mission specialist working in conjunction with representatives of the Greek Government made a study in the field of marketing, specifically developing plans for a wholesale agriculture produce market in Athens. One of the major purposes of this study was to find ways and means of reducing the wide spread difference in price from producer to consumer. After long and detailed study made by the members of this Mission jointly with interested services of the Greek Government, it has been decided to release 100,000,000 drachmas in counterpart for the construction of this market."

It is not clear whether the study mentioned in the quoted matter is the same as the feasibility study completed by the marketing specialist in August 1956 for the reason that the former was represented to have been made "several years ago," whereas the latter was completed approximately five months before the date of the quoted letter. In any event, the quoted letter did not tie the use of the funds to any specific and identifiable facility or facilities. Not only did the letter fail to delineate the size and scope of the project and the market features for which the funds were being released, but it made no provision for administrative management and control over the project, except to reserve AID's right to review and audit expenditures of the funds.

Agency policy not followed by Mission

AID's operating instructions in effect at the time the 100 million drachmas were released stated that it was Agency policy that an activity to be financed from counterpart funds should not be initiated until all conditions relative to its operations had been established and agreed on. This requirement was designed not only to permit maximum control from inception of the project but also to minimize misunderstandings and the need for later corrections. The instructions provided that the proposed project and the document releasing the counterpart funds should be reviewed by the Mission from a financial management standpoint and that prior to release of the funds, the Mission should assure that the document releasing the funds, among other things:

1. Stresses the cooperating government's duty to arrange for effective management over the use of the funds.

2. Provides that funds are withdrawn from the counterpart account only as needed to meet current requirements.
3. Provides for the cooperating government to submit periodic reports to the Mission regarding its use of the counterpart funds and the progress made.
4. Provides that the cooperating government will refund any funds which are used in an unauthorized or unsatisfactory manner.
5. Clearly establishes AID's right to review, audit, and inspect the uses made of the funds.

As can be seen from the immediately preceding section, AID's policy that a counterpart-financed project should not be initiated until all conditions relative to its operations had been established and agreed on was largely ignored by the Mission in preparing the January 30, 1957, letter releasing the funds for the project. With specific reference to the five points listed above.

1. No arrangements were made for effective management over the use of the funds.
2. The 100 million drachmas were released in a lump sum in January 1957, even though it was then estimated that the project would be carried out over a period of three years.
3. The January 30, 1957, letter provided the GOG would submit periodic financial reports to the Mission, but no mention was made of progress reports.
4. No provision was made for refund of funds which might be used in an unauthorized or unsatisfactory manner.
5. Provision was made for review, audit, and inspection of the uses made of the funds.

Continued lack of surveillance over project activities

Even though AID failed to reserve control or administration prerogatives by a project agreement at the time the funds were released, the GOG on February 8, 1957, stated in internal correspondence, a copy

of which was furnished to AID, that AID would have the right to examine, control, and supervise, at any moment, the use of the counterpart funds. We found no evidence that AID officials attempted to exercise the controls permissively offered by the GOG.

Not only should it have been obvious to Mission officials at the time the funds were released that a definitive project agreement was necessary, but this need became increasingly more acute. In a memorandum dated December 16, 1957, an AID Mission technician advised the Mission Director:

"The so-called gift of 100 million drs. should not have been made until either a comprehensive project agreement or an exchange of letters outlining a comprehensive agreement had been completed. As it is, it has been the responsibility of the Production and Marketing Advisor [AID Mission technician] to reach agreement after the GOG has complete control of the money."

Again on April 22, 1958, the AID Mission technician wrote:

"It has been most difficult to keep the planning of this Market (1) moving forward and (2) moving in the right direction. Unfortunately, financing was turned over to the GOG without a Project Agreement or comprehensive exchange of letters."

From 1958 through the early part of 1961, it became known to the Mission from time to time that considerable cost increases and project plan changes were taking place, and by April 1961 the estimated cost of the project had increased to 211 million drachmas. However, periodic progress reports essential to the Mission's being properly informed on project activities were not submitted by the GOG. During this period the Mission's participation in the project steadily declined to the point where there was practically no Mission involvement in the project whatever. Except for audit activity, this situation prevailed

until late 1964. Also during this period, we found no evidence that the Mission attempted to negotiate a project agreement with the GOG.

A May 1961 audit report on the Market project prepared by the AID Mission Controller disclosed significant project deficiencies including (1) inadequate project documentation (2) divided authority over the project (3) questionable assignment of construction contracts to one contractor (4) need for progress reports to AID, and (5) serious lack of internal controls. The AID Mission Director, by letters dated June 23, and June 24, 1961, transmitted the audit report to the GOG and requested the GOG to agree to certain remedial management measures based upon recommendations contained in the audit report and to concur in instituting management controls and performing certain action including:

1. Making every reasonable effort to complete and open the market for business in 1963, and notifying the Mission of any changes in that plan.
2. ^{Appointing} ~~making~~, a Project Director and notifying the Mission in writing of the appointment.
3. Awarding all future contracts in excess of 100,000 drachmas involving expenditures of United States counterpart funds only after public bidding unless full written justification was submitted to the Mission by the Project Director.
4. Requiring the Project Director to render quarterly reports on progress of the project to the AID Mission.

The Mission Director's letters concerning the May 1961 audit report and suggested remedial measures in which the GOG was requested to concur were not answered by the GOG. Furthermore, the Mission did not follow-up on these letters and the suggested remedial measures were not instituted.

Over the ensuing three-year period while the project was under construction, three additional AID internal audits were performed. Reports on these audits pointed up the Mission's failure to exercise control over and supervision of administration of the project and generally repeated the significant deficiencies disclosed by the earlier audit. Reports prepared on two of the audits which were performed in 1963 were not submitted to the GOG.

The report on the last audit, dated August 31, 1964, was submitted to the GOG on September 10, 1964. This report also showed that the GOG had undertaken an investigation of various aspects of the Market's administration and costs, the results of which are not yet available. In a letter dated October 20, 1964, supplementing the audit report, the AID representative in Greece emphasized the steps that should be taken by the GOG in order to complete the construction of the Market and put it into operation. By letter dated November 12, 1964, the GOG advised that it had initiated action on certain of the matters mentioned in the AID representative's letter and that it would devote its attention to the remaining matters at a subsequent date.

SUBSTANTIAL INCREASE IN
PROJECT COSTS

The feasibility study, which was completed by an American marketing expert in August 1956 and which was used as a basis for the 100 million drachma grant to the project, included the layout plans and preliminary building specifications for a market which was estimated to cost 103 million drachmas; the study suggested, however, an initial project costing an estimated 88 million drachmas. The GOG did not follow the initial plans. The estimated cost of the market has now escalated to about 250 million drachmas with the increased cost being borne by the Government of Greece. In addition to the deviations from the plans set out in the feasibility study the increased costs also reflect certain identifiable price increases. Also, we found that certain construction contract costs incurred for the major Market buildings were substantially greater than the estimated costs incorporated in the original construction contract.

Deviations by the COG from
initial plans

The more important changes in the scope of the project currently planned, as compared with project features set forth in the feasibility study, are as follows:

<u>Project features</u>	<u>Initial Plan</u> (feasibility study estimate- 103 million drachmas)	<u>Current Plan</u> (most recent estimate- 250 million drachmas)
Auction building	None	Separate building with 200 seat capacity
Merchants Office Bldg.	Space in Admin. Bldg.	Separate 2-story bldg
Poultry and egg facilities	None	Two buildings com- prising 20 shops
Farmers produce stalls	None	Two covered sheds com- prising 192 stalls
Unloading ramps for trucks	None	Three covered sheds
Wholesale buildings	14 one-floor buildings with partial second floor con- taining 65 shops of 67 sq. meters each and 384 shops of 42 sq. meters each	10 one-floor buildings with partial second floor containing 50 ground-floor (plus basement) shops of 120 sq. meters each and 400 ground-floor (plus basement) shops of 60 sq. meters each
Cold storage facilities	One cooler (180 cubic meters) in each of the 14 wholesale buildings; separate cold storage building (8,000 cubic meters)	No cold storage in wholesale buildings; separate cold storage building (20,000 cubic meters)

Identifiable price increases

Factors contributing to overall increased project costs, to the extent identifiable, were a substantial increase in the price of land and a moderate increase in general price levels. The feasibility study estimated that about 68 acres of land would be required at an estimated cost of 13.8 million drachmas. However, about 78 acres were acquired for the project at a cost of 45.4 million drachmas. According to data furnished by the AID representative in Greece, the general price level in Greece measured by a wholesale price index increased by 11 percent from 1957, when the project began, through 1963, when the major buildings for the project were completed.

Other cost increases

At the time of our review the Ministry of Justice of GOG was conducting a special investigation into project activities and had taken over the contracting and related project documents from the various Greek ministries and agencies involved in construction of the project. Consequently, these documents were not available to us during our review. However, from the records which were available we obtained information which showed that certain construction contract costs were substantially greater than those incorporated in the original construction contract.

The contract for major Market buildings was awarded on the basis of competitive bidding on October 21, 1960. The contract price based upon estimated quantities of measurable items of work at specific unit prices for the work items was 59.8 million drachmas (\$1.99 million).

Greek records translated by the office of the AID Area Controller in Greece indicate that the buildings and features built under the contract were substantially the same as those for which competitive bids were taken and the contract awarded. The only major differences we could distinguish between project features initially contracted for and those built were an addition of two railroad loading^{unloading} and unloading sheds and a poultry slaughterhouse which was included in the original contract but which has not yet been constructed.

Notwithstanding the similarity between the initial contract features and the features which were actually built, we found that at the time of our review contract costs had escalated to about 99 million drachmas (\$3.3 million) or about 166 percent of original contract price.

Some of the additional cost is explained by the fact that while under construction the project was flooded. However, ^{the} this additional cost resulting from this event was separately identified and priced at 3.2 million drachmas (\$106,000).

A major portion of increased contract costs included large overruns of contract items which were identified in the original contract. Some of the overruns are described in the following table.

Various Items of Work Included in the Major Buildings Contract
for the Athens Market Project (cost in Drachmas)

<u>Description</u>	<u>Unit Price</u>	<u>Unit of Measurement</u>	<u>Original GOG Estimate</u> <u>Of May 1960</u>		<u>Payments to Contractor</u> <u>through Bill No. 54</u>		<u>Percentage of Overrun</u>
			<u>Quantity</u>	<u>Total Cost</u>	<u>Quantity</u>	<u>Total Payment</u>	
General excavation	10.16	Cubic meter	13,920	141,366	50,800	515,904	265
Earth filling	6.02	" "	14,800	89,108	51,650	310,974	249
Transportation	2.10	Cubic meter X Kilometers	21,450	45,124	400,000	841,480	1,765
Wooden forms	162.49	Piece	200	32,498	800	129,992	300
Curved wooden forms	70.58	Piece	340	23,998	5,200	367,023	1,429
Foundation masonry	120.42	Cubic meter	2,420	291,408	4,775	574,988	97
Painting	25.03	Meter	580	14,515	10,280	257,270	1,672

We found no explanation in the Mission's files for the large overruns; neither did we identify conditions which might explain a necessity for the overrun quantities of work.

For the item of work "General excavation", above, we could find no added features which should have so increased excavation. Only two loading sheds were added to contract specifications and there was no indication that the sheds required extensive excavation because they were built entirely above ground, unlike the wholesale buildings which had basements but which were included in initial contract specifications. The overrun in "Wooden forms", which apparently were used in connection with concrete construction, is not explained in relation to the quantity of work performed. The item of "Painting", we were advised, involved an ordinary door paint and we could find no evidence that the quantity of doors provided varied from original specifications in relation to the overrun of the painting.

^R As noted previously, it was not practical for us to review all of the necessary records in order to comment further on the matter of increased construction costs; however, we understand that the GOG's investigation of the project ^{is} ~~was~~ giving attention to escalation of costs. The GOG has informed AID that the investigation is being performed as a result of possible irregularities and the Greek press has alleged that there have been irregularities connected with the project.

ADDITIONAL DIRECT DOLLAR COST
INCURRED BY THE UNITED STATES

Although AID had apparently not anticipated any dollar expenditures for this project when counterpart funds were released in 1957, it later spent \$183,000 for market machinery. At the time of our review in November 1964, none of this machinery was installed and there was little prospect that machinery costing \$12,200 would be used in the Market.

The feasibility study included an estimated cost of 7.9 million drachmas for cold storage machinery but did not include a provision for poultry slaughterhouse machinery. However, subsequent to the release of the 100 million drachmas for the project the GOG made revisions to the Market plan including a provision for poultry marketing and expanded cold storage facilities.

On June 12, 1961, at the request of the GOG, AID authorized \$250,000 of grant aid funds for the purchase of industrial machinery, including but not limited to machinery for the Market. This procurement authorization was issued although the initial release of 100 million drachmas (\$3.3 million) had been intended to cover total Market costs.

The Market machinery purchased under this procurement authorization amounted to \$183,171, composed of \$170,945 for cold storage machinery and \$12,226 for the poultry slaughterhouse machinery. This machinery was ordered in early 1963 and delivered to Greece between June and July 1963. As of the date of our review all of this machinery had been delivered to the Market but it had not been installed. The latest estimate by Market officials is that the cold storage machinery will be installed by late 1965, but because there is some question as to whether the poultry

slaughterhouse will be constructed, neither the GOG nor AID officials in Greece knew at the time of our review whether the machinery for the poultry slaughterhouse would ever be used for the Market. We were informed by the AID representative in Greece that if the slaughterhouse machinery is not required for the Market and an alternate use cannot be found, AID will request a refund of the \$12,226.



CONCLUSION

The difficulties encountered by AID in connection with this project seem to stem primarily from the failure to follow its prescribed policy and operating instructions in effect at the time the 100 million drachmas were released. The absence of an agreement setting forth conditions for implementation of the project in essence deprived the Agency of a basis for effective administration and surveillance over project activities. The Agency's operating instructions which were in effect at the time the counterpart funds were released, and which were designed to permit effective control of a project and minimize misunderstandings and the need for later corrections, have remained substantially unchanged to the present time. If these instructions are complied with and applied in negotiating future counterpart financed projects, many of the difficulties and problems discussed in this report should be avoided.

APPENDIX

OFFICIALS RESPONSIBLE FOR ADMINISTRATION
OF UNITED STATES ASSISTANCE FOR
THE ATHENS CENTRAL VEGETABLE MARKET
STARTING WITH JULY 1956

	<u>Appointed or commissioned</u>
SECRETARY OF STATE:	
John Foster Dulles	Jan. 1953
Christian A. Herter	Apr. 1959
Dean Rusk	Jan. 1961
UNDER SECRETARY OF STATE (note a):	
C. Douglas Dillon	Feb. 1959
George W. Ball	Feb. 1961
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT (formerly International Cooperation Administration):	
John B. Hollister	July 1955
James H. Smith, Jr.	Oct. 1957
James W. Riddleberger	Mar. 1959
Henry R. Labouisse	Feb. 1961
Fowler Hamilton	Sept. 1961
David E. Bell	Dec. 1962
AMBASSADOR TO GREECE:	
George V. Allen	July 1956
James W. Riddleberger	Feb. 1958
Ellis O. Briggs	June 1959
Henry R. Labouisse	Mar. 1962
<u>UNITED STATES AID MISSION TO GREECE (note b)</u>	
DIRECTOR:	
Frank C. Grismer	Feb. 1956
Clark S. Gregory	Mar. 1958
Sidney B. Jacques	Sept. 1959
John J. Haggerty	Jan. 1960
AID REPRESENTATIVE:	
Robert E. McCoy	July 1962

UNITED STATES AID MISSION TO GREECE (continued)

	<u>Appointed or commissioned</u>
DIRECTOR, FOOD AND AGRICULTURE DIVISION:	
Robert W. Hill	May 1956
Hugh K. Richwine	Dec. 1957
Ned G. Mason (Acting)	Feb. 1959
Floyd E. Davis	June 1959

Note: a. On February 3, 1959, the Secretary of State placed the International Cooperation Administration under the direction and control of the Under Secretary of State for Economic Affairs, Mr. C. Douglas Dillon. On June 12, 1959, this responsibility, together with the overall direction and coordination of the mutual security program, was reassigned to Mr. Dillon as Under Secretary of State. On February 2, 1961, Mr. George W. Ball was confirmed as Under Secretary of State for Economic Affairs and assumed the responsibility for the mutual security program formerly carried out by Mr. Dillon. *In November 1961, Mr. Ball was appointed Under Secretary of State.*

b. The Mission was abolished as of July 1, 1962, and the responsibilities for AID activities were transferred to the AID Representative. All other positions except the Program Officer were eliminated. The Program Officer's position was abolished in April 1964 and the AID Representative position was eliminated on September 1, 1964. On November 18, 1964, there was delegated to the principal diplomatic officer of the United States in Greece the appropriate authority for administering the aid program in Greece.