

AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL/EAST ASIA

MEMORANDUM AUDIT REPORT

UNITED STATES A.I.D. MISSION TO VIETNAM (USAID/VN)

CONTRACT NO. AID 730-3632 WITH

DANIEL, MANN, JOHNSON & MENDENHALL

(PROJECT NO. 730-11-610-322, VOCATIONAL EDUCATION)

Period covered: November 15, 1973 through March 31, 1974
Audit Report No. 9-730-74-92
Date report issued: April 19, 1974

MEMORANDUM AUDIT REPORT FOR THE USAID/VN DIRECTOR

FROM : *W D. Austin*
William D. Austin, Area Auditor General/EA

SUBJECT: Examination of Contract No. AID 730-3632
with Daniel, Mann, Johnson & Mendenhall.

PART I - PURPOSE AND SCOPE

We have made an initial review of the fixed-rate and cost reimbursable Contract No. AID 730-3632 between USAID/VN and Daniel, Mann, Johnson & Mendenhall (DMJM) of Los Angeles, California. Our audit was conducted in conjunction with four other USAID/DMJM contracts. The review was made at the Contractor's Saigon office and covered the period from inception on November 15, 1973 through March 31, 1974.

There have been no costs claimed to date under the contract. Accordingly, our review was limited to evaluations of USAID/VN's management of the contract and contractor accomplishments. The review included discussions with contractor and USAID/VN officials in addition to tests of appropriate documents.

PART II - BACKGROUND

Contract No. AID 730-3632 is funded under Project No. 730-11-610-322, Vocational Education, which had, in part, provided funds of about \$3 million for the construction of 4 Technical Junior High Schools at Can Tho, Long Xuyen, Vinh Long and Phuoc Le. Upon completion of construction it was found that the electrical systems had not been fully installed in accordance with a USAID/VN design change which called for a 380/220V instead of 208/120V capability. This was discussed in our Audit Report No. 9-730-73-27, dated October 30, 1972. Briefly, Recommendation No. 11 of that report suggested that USAID/VN obligate the funds to convert the electrical systems in the 4 schools and correct any other electrical construction deficiencies. The cost for correction was estimated at \$50,000.

In August 1973, USAID/VN finalized PIO/T No. 730-322-3-(31) 30461 providing for \$45,000 to fund a contract for engineering services and purchase of material, and VN\$11,700,000 to fund (1) piaster costs of the engineering contract, and (2) a contract or subcontract for construction services. On November 15, 1973, the contract was awarded to Daniel, Mann, Johnson & Mendenhall (DMJM) to provide design and engineering services, and material purchases. The estimated cost of the contract was established at US\$42,650 and VN\$1,934,000. USAID/VN deobligated the \$2,350 remaining in the dollar portion of the PIO/T. The construction contract has not yet been awarded.

The specific objectives of the contract in regard to the 4 schools are (1) the redesign of the electrical systems, (2) the preparation of a bill of materials and subsequent procurement, (3) preparation of work scope to complete the conversion, (4) evaluation of bids for the construction contract, (5) on-site inspection and acceptance of the project, and (6) modification of contract drawings into as-built drawings.

USAID/VN responsibility for contract management is assigned to the Construction Branch of the Engineering and Technical Assistance Division, located organizationally under the Associate Director for Commercial and Capital Assistance (ADCCA).

PART III

STATEMENT OF FINDINGS

At the time of our review redesign of the electrical systems had almost been completed. The drawing technique employed in developing the redesign package consists of the existing electrical system drawn in vague relief, with the redesigned system superimposed in bold line. In addition to these drawings which will provide the construction contractor with multiple points of reference, the DMJM engineer is preparing construction specifications for the work involved. These specifications will give details on what and how the equipment and material is to be installed. Thus the drawings and specifications will provide the construction contractor with guides which should leave nothing to guesswork or innovation that could lead to additional mistakes or technical error.

The dollar portion (\$42,650) of the estimated contract price consists primarily of a \$30,000 provision for the materials required on the project. In December 1973 a bill of materials was completed by the contractor. The significant and more costly items to be replaced were inspected by the DMJM electrical engineer. Therefore, the bill of materials should reflect fairly accurate requirements.

Price quotations for project materials were solicited from three U.S. suppliers. Two were non-responsive, and negotiations were entered into with the third, Connell Brothers Company. These discussions resulted in price quotations (delivered in Saigon) that were

approximately 50 percent less than published prices. Total estimated material cost has thus been revised to \$18,000; therefore, this transaction should constitute a saving of about \$12,000 under the contract. A purchase order for the electrical material was accordingly placed with the supplier on January 19, 1974.

The contract designates May 15, 1974 as the contract completion date. Due to underestimates of procurement lead-time, however, project completion is now not expected before September 1974. This presumes the supplier will meet its estimated delivery of the material during April 1974 and that construction activity can begin immediately thereafter. In view of the four month estimated delay there is an important factor to consider. The contract provides for 75 man-days of actual work on the project by the DMJM electrical engineer. Currently, the electrical engineer charges only a small portion of his time to the contract. Most of his activity involves another project to which his time charges are presently apportioned. This other project is due to be phased-out in mid-1974. Consequently, there may be no other alternative than to assign the engineer full-time to this contract. Coupled with this, if slippage in delivery dates and construction is experienced, the contractor would far exceed the 75 man-day allotment of the contract and without doubt request an upward price adjustment.

During our review we were informed that the 75 man-day allotment in the contract is more than sufficient to cover the direct technical supervision requirements on the project. Therefore, given the above

circumstances, we suggest that USAID/VN ensure that the 75 day limitation is not exceeded.

In commenting on our draft report USAID/VN stated that they will monitor the project and will stay within the 75 day limitation.

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