

A SURVEY OF THE
URBAN HEALTH DELIVERY SYSTEM PROJECT

PROJECT NO. 263-0065

AUDIT REPORT NO. 6-263-81-9

MARCH 30, 1981

This project is in its early stages of implementation and represents a comprehensive demonstration activity to address needed improvements in the Cairo urban health system. As of October 31, 1980, \$25.0 million was obligated; \$6.1 million had been sub-obligated through four contracts; and \$834,488 was expended.

Twelve vehicles have been furnished by AID for this project. Present procedures give no assurance that the vehicles are used only for project purposes. Seven cars have private licenses in lieu of government licenses, thus weakening control over usage. Assignment of these vehicles indicates that some may be excess to project needs. Six of the cars are luxury-equipped Chevrolet Citations purchased locally. The urgency of this local procurement is not clear. Two of Citations have been exchanged for two foreign cars; the Citations are used by high GOE officials and not solely for the project. The foreign cars (Peugeots) are being used to replace the two Citations in project implementation.

The project is exempt from payment of taxes to the GOE. However, the survey showed that customs duties are being paid on furniture and equipment purchased locally.

The establishment of a system to account for non-expendable property is essential for effective control over project assets and resources.

Fourteen consultants are retained for the project and disbursements are made automatically. Nine do not have signed contracts and payments are not supported by statements on level of effort.

Procedures for reimbursing contractor costs need to be strengthened.

Several functional audits will be planned as well as an in-depth audit of this project.

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EXECUTIVE SUMMARY

Introduction

The Urban Health Delivery System Project has just begun the implementation phase. It represents a comprehensive demonstration activity intended to address the key areas in the Cairo urban health system requiring improvement. The target group is the low-income population that is concentrated in an area encompassing Helwan, South Cairo and West Cairo health zones of the Cairo Governorate. The project will utilize facilities and resources of the existing urban health care delivery system in an attempt to increase its effectiveness and accessibility for the Egyptian population. Project plans include: a health sector assessment of the project area; institutionalization of the planning process of the MOH; renovation of existing Maternal Child Health (MCH) Clinics; new construction of General Urban Health Centers and additional MCH Clinics; construction of a Center for Preventive and Social Medicine; introduction of innovative interventions into the health systems to improve the delivery services; and the availability of training for health professionals, outreach workers, community leaders and other health related personnel.

The Grant Agreement requires the establishment of an implementation organization acceptable to AID under the jurisdiction of the MOH. This organization includes an Executive Board, Executive Director and adequate staff for the implementation of the project.

As of October 31, 1980, the financial profiles of this project showed the following: Funds obligated-\$25.0 million; funds sub-obligated-\$6.3 million; funds expended-\$834,488; and remaining balance-\$24.2 million. Four contracts have been signed under this project. The project contractors were Westinghouse Health Systems (Westinghouse); Daniel, Mann, Johnson & Mendenhall and Kidde Consultants Inc. (DMJM & KC); Experimental Center for Training on Evaluation of Social Programs (ECTOR); and Alemara-Architecture Consultants (ALEMARA).

Survey Purpose and Scope

This review was a limited survey of this project and should not be construed as a full scope audit. It was performed at the specific request of the USAID/E and our scope was generally limited to the areas of expressed concern, primarily in (a) cash management procedures of the MOH Project Director and contractors; and (b) procedures used by the MOH regarding local procurement and utilization of equipment. The survey also surfaced potential problems beyond the scope of this limited review and this single project; such areas are discussed briefly in this report.

Conclusions

Our limited review showed three types of problem areas. Some of the problems are limited to this specific project and require immediate corrective action on the part of the USAID/E; in these cases, a recommendation is included in this report or the USAID/E has taken the necessary action to correct the problem. In some instances, the problem indicates a need for further analysis in greater detail. We are, therefore, proposing a full scope audit of this project for inclusion in the next audit planning schedule. Some problem areas are not restricted to this project and may represent a condition that applies on a broader scale; accordingly, we are planning to review these problems at a future date from a functional standpoint.

There is no assurance that vehicles procured for this AID-financed project are being used for project purposes and not for private use. Effective controls over vehicle use have not been established; the use of private license plates on seven of these vehicles facilitates unauthorized private use and permits circumvention of GOE controls and checks applicable to GOE-licensed vehicles. Assignment of AID-financed vehicles indicates that some may be excess to project needs. We are recommending that the USAID/E study the vehicle needs of this project and transfer any that are excess to needs; also, that the USAID/E determine actual use of all vehicles, assess controls over vehicles, and take steps to assure proper control and use of these resources for project purposes. Private license plates should be replaced with Government of Egypt plates on all project vehicles with licensed GOE drivers (page 4).

Two new luxury-equipped Chevrolet Citations purchased with project funds were exchanged for two foreign vehicles (Peugeots) to be used in place of the U.S. vehicles in project implementation. We are recommending that the Agency General Counsel determine (a) whether vehicles procured with project funds can be exchanged under the circumstances involved in this project, and (b) whether U.S. vehicles procured with project funds can be exchanged for foreign vehicles to be used in implementation of this AID-financed project (page 7).

Six new luxury-equipped Chevrolet Citations were procured locally for use in the project. While the IFBs did not request these luxury options, the USAID/E noted that these are few or no standard models on the local market. The USAID/E further noted that local procurement was necessary to have the vehicles available by the time the four contractors were mobilized and all were purchased in connection with contract documents specifying the exact number of vehicle provided. However, the urgency of procuring these vehicles locally is not clear. One of four contractors did not receive any of these vehicles; only three of these Citations were assigned to contractors. In addition, two of these new Citations were exchanged for foreign vehicles (Peugeots) and these Peugeots have been assigned in place of these two new vehicles for use in project implementation. The USAID/E is reviewing local vehicle procurement policy. We are proposing a review of local procurement procedures and practices during the upcoming audit schedule (page 7).

Custom duties (taxes) are being paid to the GOE on furniture and equipment procured for this project. The Grant Agreement provides that duties and taxes are to be paid by the MOH. We are recommending that the USAID/E determine the amounts of taxes and duties paid on items costing over LE 500 and obtain a refund from the GOE (page 9).

Non-expendable property procured for this project is not being recorded on MOH inventories. At the present time, the project is getting underway and transactions can be reconstructed. The establishment of a system to account for non-expendable property is essential for effective control over project assets and resources. We are recommending that the USAID/E require the MOH to establish such system (page 11).

A clear determination regarding the need for and work to be performed by consultants is needed. Nine consultants retained by ECTOR and paid from project funds have not been approved by the USAID/E. These nine consultants do not have formal contracts with ECTOR and their scope of work is not defined. Neither have they submitted monthly reports of time spent on the project and work accomplished. The USAID/E has taken action to have ECTOR document and control the activities of these consultants. Since at least some payments (about \$1,000) were made to individuals for services not related to this project, we intend to examine this area closely in the full-scope audit to be proposed for the next audit planning period (page 11).

Procedures used by USAID/E to reimburse costs incurred by the different contractors under the project need to be strengthened. In the case of one contractor (Westinghouse), reimbursements were made for costs incurred which were contrary to U.S. travel regulations as well as contract terms. We are recommending USAID/E recover reimbursements for unallowable airfare and baggage handling costs totaling \$1,160 identified during this survey (page 13).

Egyptian firms do not maintain cost accounting data and records to support overhead costs. This area is not limited to this project but is of interest Mission-wide from a functional standpoint. Our limited survey indicates a need for scheduling an in-depth functional audit of procedures and practices followed in negotiating, reviewing, and approving host country contracts.

Recommendations

This report contains 9 recommendations listed in Appendix II.

INTRODUCTION

1. Background

In November 1978, the Ministry of Health (MOH) and USAID/E signed Project Agreement No. 263-0065, granting the GOE \$25.0 million to improve health services in urban areas. The GOE agreed to contribute the local currency equivalent of \$10.7 million. The Urban Health Delivery System Project represents a comprehensive demonstration activity intended to address the key areas in the Cairo urban health system requiring improvement. The target group is the low-income population that is concentrated in an area encompassing Helwan, South Cairo and West Cairo health zones of the Cairo Governorate. The project will utilize facilities and resources of the existing urban health care delivery system in an attempt to increase its effectiveness and accessibility for the Egyptian population. Project plans include: a health sector assessment of the project area; institutionalization of the planning process of the MOH; renovation of existing Maternal Child Health (MCH) Clinics; new construction of General Urban Health Centers and additional MCH Clinics; construction of a Center for Preventative and Social Medicine; introduction of innovative interventions into the health systems to improve the delivery services; and the availability of training for health professionals, outreach workers, community leaders and other health related personnel.

The Grant Agreement requires the establishment of an implementation organization acceptable to AID under the jurisdiction of the MOH. This organization includes an Executive Board, Executive Director and adequate staff for the implementation of the project.

The MOH, with advice and assistance from the Executive Board, is responsible for carrying out the project. An Executive Director, appointed by the MOH, is in charge of day-to-day operations, coordination and timely utilization of inputs from the various participants and assurance of project implementation in accordance with the established schedule. The Executive Board, chaired by an Undersecretary of the MOH, will provide inter-agency policy and managerial guidance to the Executive Director.

As of October 31, 1980, four contracts had been signed under the grant agreement; these contracts sub-obligated a total of \$6.1 million, payable either in US Dollars or in Egyptian Pounds (converted from US Dollars), as stated in the terms of the separate contracts discussed later. In addition, nearly \$162,000 had been sub-obligated for procurement of vehicles, excess property and other type equipment. The following overall status of project funding shows these sub-obligations:

	<u>Obligated</u>	<u>Expended</u>	<u>Remaining Balance</u>
Project (Uncommitted)	\$ 18,689,398	\$ -	\$ 18,689,398
Sub-obligated for contracts:*			
Westinghouse Health System	3,796,570	538,672	3,257,898
DMJM/Kidde Co.	1,871,437	35,714	1,835,723
ECTOR	387,790	98,154	289,636
Alemara Architectures	92,857	-	92,857
Sub-obligated for vehicles and Others	<u>161,948</u>	<u>161,948</u>	<u>-0-</u>
	\$ 25,000,000	\$ 834,488	\$ 24,165,512
	=====	=====	=====

* Portion of the contract costs (LE 1,172,875) will be reimbursed in Egyptian Pounds.

A brief description of the objectives of each of the contracts follows:

Westinghouse Health Systems. This contract, signed on January 27, 1980, totals about \$3.8 million reimbursable to the contractor in both US Dollars (\$2,986,305) and Egyptian Pounds (LE 360,028). The purpose of the contract is to assist the MOH in making urban health services more accessible and effective, particularly to upgrade and strengthen the existing Maternal and Child Health (MCH) and family planning delivery systems so that it is more responsive to the needs of the low-income, most vulnerable segments of the population; i.e., children and women of childbearing age, who are the chief targets to be reached by the project.

Daniel, Mann, Johnson & MendeHall and Kidde Consultants Inc. (DMJM & KC). This contract was signed on July 13, 1980 and has a ceiling of close to \$1.9 million. Costs are reimbursable to the contractor in both US Dollars (\$1,021,160) and Egyptian Pounds (LE 476,394). The contractor is to provide the necessary services for the development of final design, drawings, specifications, cost estimates, construction schedules and bid packages for the construction of nine General Urban Health Centers and one Center for Social and Preventive Medicine. The contractor is also responsible for administration and inspection services during the construction of these facilities.

Experimental Center for Training on Evaluation of Social Program (ECTOR). This contract, signed on February 7, 1980, totals the equivalent of \$387,790 and costs are reimbursable to the contractor in Egyptian Pounds (LE 271,453). The contractor will undertake an assessment of the health sector. This will include the necessary services for the planning, implementation, supervision, follow-up analysis, as well as reporting of the results.

Alemara-Architecture Consultants. This contract, signed on April 2, 1980, provides reimbursement in Egyptian Pounds (LE 65,000), equivalent to \$92,857. The contractor is to provide the MOH with the necessary design, drawings, specifications, cost estimates, rehabilitation renovation schedules and invitation for bid (IFB) packages for the rehabilitation and renovation of 22 Maternal Child Health (MCH) Centers. The contractor is also responsible for administrative and inspection services during the rehabilitation and the renovation of the 22 MCH Centers.

2. Purpose and Scope

This survey was requested by the USAID/E and represents a limited review of the Urban Health Delivery System Project. It is not a full-scope audit of the project and did not include a detailed examination of project transactions, project implementation procedures or the propriety of costs claimed by contractors and the MOH Project Office. The scope of the survey was limited to an assessment or evaluation of: cash management procedures of the MOH Project Offices and contractors; procedures used by the MOH regarding local procurement and utilization of equipment and vehicles; and, selected contractual and financial procedures. The survey did surface some potential problem areas that are not limited to this specific project. We plan to propose future coverage of these areas through a functional approach. An in-depth audit of this project will also be planned.

3. USAID/E Comments

Our survey conclusions were discussed with the USAID/E Director and the project management staff on December 17, 1980 and the draft audit report was submitted for comments before issuance. All comments received from the USAID/E were considered in finalizing this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

1. Use of Project Vehicles

There is no assurance that vehicles procured for the project are being used for project purposes and not for private use. USAID/E has furnished 12 vehicles to carry out the purposes of this project. These vehicles, contrary to AID regulations, are equipped with luxurious accessories such as FM/AM stereo, power brakes and power steering. Most of these vehicles have private license plates which weakens controls over proper use and facilitates use for private purposes. USAID/E has not required the MOH to establish procedures to control these vehicles nor required that these vehicles have GOE license plates. A listing of vehicles purchased by AID and donated by USAID/E to the MOH showed the assignment of the vehicles to either individuals or contractors. However, vehicle usage records are being maintained only for those two AID vehicles assigned to the Project Director's Office. No records are available to show the use of the other ten project vehicles furnished by AID.

Our review showed the following assignment of vehicles:

<u>Type of License Plate</u>	<u>Type of Vehicle</u>	<u>Vehicle Assigned to</u>
1. Not available	Chevrolet Nova	Minister of Health
2. Private	" Citation	" " "
3. "	" Nova	1st Undersecretary MOH
4. "	" Citation	" " "
5. "	" Citation	ECTOR
6. Government	" Microbus ^{1/}	"
7. "	" " ^{1/}	"
8. Private	" Citation	Westinghouse
9. "	" "	ALEMARA
10. Government	" Chevette	"
11. Private	" Citation	Project Director
12. Government	Dodge Microbus	Project

^{1/} Donated by USAID from Afganistan.

Based on the manner in which the vehicles are assigned, we believe that some may be excess to needs and that not all cars are being used for project purposes. To illustrate:

- The Minister of Health and 1st Undersecretary have been assigned two vehicles each; i.e., each official has been assigned one Chevrolet Nova and one Chevrolet Citation. The Minister has the same driver assigned to his two Chevrolets. Since these two officials are only minimally involved in the project, the need for assigning four vehicles to them is not clear. According to USAID/E, the MOH has provided two Peugeots to the project office as replacements for the two Chevrolet Citations assigned to the Minister of Health and the 1st Undersecretary of the MOH. If so, this further illustrates the lack of controls over project vehicles--the Peugeots are not on any control records and project vehicles are diverted from project use and control. One of these Peugeots is assigned to general project headquarters and one to DMJM/Kidde as the Chevrolet Citations were supposed to be. We do not believe that project funds should be used to procure vehicles to be exchanged for foreign vehicles not wanted by the MOH. Vehicles procured for the project should be used for project purposes.

- At least seven of the vehicles have private license plates. This results in a lack of control because GOE regulations for the use of official vehicles do not apply to these vehicles. Since they have private licenses, these vehicles are not subject to detention by the police to determine purpose of trips or usage of the vehicles. Vehicles with Government license plates are subject to detention by the police and proof must be shown that the vehicles are being used for official business. According to USAID/E, government plated cars may only be driven by a licensed government driver employee, but there is a severe shortage of these in the different ministries and the MOH in particular. For this reason, the MOH was allocated seven private plates so the project would not be held up by the non-availability of MOH drivers. Records reviewed by us, however, dispute this contention. For instance, the records show that MOH drivers are driving vehicles assigned to the Minister of Health, Undersecretary of Health and the Executive Director of the Project. At least four of these vehicles have private license plates. Since there are MOH government drivers for these vehicles, there is no apparent need for the use of private license plates.

- The contractor engineer (ALEMARA) has been assigned two vehicles to carry out a contractual level of effort of 1,400 manhours over an 18-month period. This level of effort deals only with the survey and A&E supervision; the remaining hours deal with design and preparation of tender documents. The assignment of two vehicles to such a low level of effort would seem uneconomical.

- Our review of trip report for the Project Director's car for a six-day period shows that the Director visited the same locations for the six days. At least one of the trip reports is an exact duplicate of another trip during this period. It appears that the original trip report was used to justify the trips made in one-day and the carbon copy was used to justify the following day trips.

Based on the assignments and usage of vehicles, this project may have vehicles on hand that are excess to needs. The MOH was unable to locate documentation to justify the actual project vehicle requirements. Moreover, we believe that better utilization of project vehicles can be obtained if proper vehicle control procedures are established and if Government license plates are assigned to project vehicles.

Recommendation No. 1

USAID/E (a) determine actual usage of all these vehicles, and (b) if vehicles are not fully utilized for project purposes, USAID/E (i) require their return to the project, (ii) take steps to assure project control and use of these vehicles, and (iii) obtain a refund for the value of any non-project usage.

Recommendation No. 2

USAID/E study the vehicle needs of this project and transfer to other projects any vehicles considered excess to needs.

Recommendation No. 3

USAID/E assess vehicle controls, and, if needed, require the MOH to establish adequate vehicle controls.

Recommendation No. 4

USAID/E assure that the MOH replaces private license plates with Government of Egypt plates on all AID-financed project vehicles with licensed MOH drivers.

As discussed earlier, two new Chevrolet Citations were purchased with project funds and exchanged for two Peugeots. The Citations are assigned to the Minister of Health and the First Undersecretary, MOH. The two Peugeots are being used on the project. The handbooks do not provide guidance for such exchanges, and the legality of this procedure is not clear.

Recommendation No. 5

The AID General Counsel render a legal determination on these two inter-related, yet different points: (a) whether vehicles procured with project funds can be exchanged for foreign vehicles to be used in place of the U.S. vehicles in project implementation; and, (b) whether vehicles procured with project funds may be exchanged, as in the case of these Chevrolet Citations, and assigned to GOE high officials and not used solely for project purposes.

Recommendation No. 6

Based on the legal determination resulting from Recommendation No. 5, the USAID/E initiate the required actions consistent with such determinations.

USAID/E response to the draft report

In responding to the draft audit report, the USAID/E agreed to comply with recommended actions (now Recommendations No. 1 through 3) and will be conducting an end-use survey to determine actual vehicle use and to assess vehicle controls. However, after considering USAID/E comments and the additional information provided to us, Recommendations No. 4, 5 and 6 were added to address the issues that are involved.

2. Luxury equipment in vehicles

During our review, we were able to examine four of the six vehicles equipped with luxury equipment such as FM/AM stereo, power brakes, and power steering. These four vehicles were assigned to ECTOR (1), Westinghouse (1), Alemara (1), and Project Director (1). The other two were assigned to the Minister of Health and the 1st Undersecretary of the MOH.

The USAID/E response to the draft report stated:

"Since it was not possible to estimate vehicle requirements for the contractors prior to negotiating the level of effort, the vehicles could not be procured in advance of contract signings. Local procurement was required in order to have the vehicles available by the time the four contractors were mobilized. All six Chevrolet Citations in question were purchased in connection with contract documents which specified the exact number of cars to be provided. Some of the Chevrolets were to be directly assigned to the contractors and some were to replace existing project vehicles, such as the microbus, where proper management indicated the contractor's need for a large vehicle was greater than the central project's.

The IFB which went to local suppliers asked for bids for a fleet of six five to six passenger vehicles. Options such as radios and power brakes and power steering were never requested.

There are few or no standard models on the local market. USAID agrees that the inclusion of such options is not desirable, but is faced with the problem that the local dealers import cars for the market here, which desires such options, and not for USAID. We are discussing approaches to encouraging the local vendors to import sufficient stripped down models for AID's needs, and we will advise RIG/A/C of our consultations. We are also reviewing Mission policy with regard to local vehicle procurement and will similarly advise RIG/A/C of our findings."

The USAID/E response indicates that project vehicle requirements were based on level of effort of the contractors and these six luxury-equipped Chevrolet Citations were procured locally to meet contractor needs and contractor mobilization dates. However, we note that all of these luxury-equipped Chevrolet Citations were purchased in September, 1980--well after contractors were mobilized and one of the four contractors (DMJM-Kidde) did not receive any of these Chevrolet Citations. In fact, only three of these Citations were assigned to contractors; the remaining three were assigned to the MOH. As discussed in the previous section, two top MOH officials were each assigned these new luxury-equipped Chevrolet Citations in addition to project-financed Chevrolet Novas for a total of two project vehicles for each. The urgency of local procurement of 6 luxury-equipped Chevrolet Citations is questionable from another standpoint: Two of these new Chevrolet Citations were exchanged for foreign vehicles (Peugeots) and these Peugeots have been assigned for use in place of these two new U.S. vehicles in project implementation. In view of USAID/E comments above and the previous section, the actual need for local procurement of six luxury-equipped Citations is not clear.

The following table shows that vehicles were not immediately required for project implementation or for contractor vehicle requirements:

<u>Assigned to</u>	<u>Date Contract/ Project Signed</u>	<u>Date Vehicles Procured</u>
Minister of Health	11/78	9/80
Undersecretary of Health	11/78	9/80
Project Manager MOH	11/78	9/80
Westinghouse	1/80	9/80
ECTOR	2/80	9/80
ALEMARA	4/80	9/80

As shown in this table and preceding discussion, procurement of vehicles could have been scheduled in a different manner. Vehicles were not required on an emergency basis. Also, the files do not show whether the USAID/E or the MOH made an attempt to procure vehicles without luxury accessories. Regulations governing the procurement of luxury items are clear and in this instance the additional cost might have been avoided.

The USAID/E response points out that local vehicle procurement policy is under review. We plan to schedule a review of USAID/E procedures and practices for local procurement. For this reason, we are not making a recommendation in this section.

3. Local Procurement of Commodities and Non-Expendable Property

The MOH has financed, with project funds, the procurement of about LE 55,000 of different types of non-expendable property and other expendable commodities (water jugs, paper, soap, wire, napkins, trays, etc.). The non-expendable property bought with project funds can be categorized as (a) vehicles (cars, vans, etc.) and (b) furniture and equipment (desks, chairs, sofas, refrigerators, typewriters, file cabinets, tables, etc.). Our review showed that custom duties are being paid to the GOE in procurements of furniture and equipment. Moreover, our review showed that the MOH is not recording any of the non-expendable property into its inventories.

We reviewed procurement totaling about LE 42,612 (US \$50,700) and found that high prices were being paid for this furniture because the cost included Customs duty paid to the GOE. Payment of taxes to the GOE is contrary to Section B-4 of the Grant Agreement. Documentation approving the procurement of this equipment by USAID/E was on file, but the files did not show whether the USAID/E had determined if all equipment was needed or the reasonableness of cost.

We visited one of the suppliers of office equipment from which the MOH had procured about LE 13,000 worth of equipment. Prices quoted us were the same as paid by the MOH for the same type of equipment. However, we were informed that this British made equipment was the most expensive equipment in Cairo. We were also informed that prices included Custom duties and taxes. For example, the MOH bought an 18-foot Westinghouse refrigerator with project funds for LE 1,435 (US \$2,050 at official rate of LE .7 to 1). The price at that time was approximately LE 1,000 for the refrigerator and approximately LE 500 for duty tax.

Section B-4 of the Grant Agreement states "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

"To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant."

Based on this section of the Grant Agreement, any duties and taxes must be paid by the MOH. Therefore, the amount paid for duties on the procurement of office equipment must be refunded to AID.

Recommendation No. 7

USAID/E (a) determine the amount of Customs duties and taxes paid for items costing more than LE 500 and
(b) obtain a refund from the MOH of these Customs duties and taxes.

In response to our draft report the USAID/E stated:

"Unlike the refrigerator cited, the majority of items purchased cost less than LE 500. For such items, the duty is not identifiable or separable, even where it is identifiable, the administrative burden of separating out the duty and going through customs to procure it is greater than the benefit obtained. The Mission is supported by the comprehensive CC opinion on local taxation issues (Stevenson/Gardiner dated April 10, 1973), citing the DOD standard which yields the same result as AID policy. The opinion notes at pg. 72 that tax relief need not be sought; if the economic burden of a non-readily identifiable tax is small enough to be considered de minimis, or if the administrative burden is 'out of

proportion' to obtainable relief. It is likely that most prior included taxes would meet either or both of these tests and that therefore in most cases relief from prior included taxes would not be sought. The Mission will issue an Order incorporating the Stevenson opinion and establishing appropriate standards. Upon issuance, the Mission will request that the recommendation be closed."

The refrigerator mentioned in our discussion is just one example of procurement in which duties were paid. Our workpapers show that at least LE 22,000 represents items which cost over LE 500. It is understandable that it may be difficult to identify custom duties on low-cost items. However, in the case of high-cost items, the identification of customs duties is not difficult.

As noted in the opening paragraph of this section, non-expendable property is not being recorded in the inventories of the project. At the present time, the project is getting underway--purchases have been small and transactions can be reconstructed. However, this will become more difficult as the project progresses and time passes with accumulated expenditures and equipment purchases. Consequently, we feel that the establishment of a system to account for non-expendable property is essential for effective control over project assets and resources.

Recommendation No. 3

USAID/E require the MOH to establish an inventory system to account for non-expendable property procured and financed under the project.

The USAID/E agreed to take action on this recommendation.

4. Payments to consultants are not clear or adequately supported

A clear determination regarding the need for and work to be performed by consultants is needed. The services of 14 different independent consultants are used or retained under this project at a monthly total cost of about \$5,100. The MOH has 5 consultants and their monthly pay is LE 1,200; ECTOR has 9 consultants and pays them LE 2,362. The services rendered by the consultants in return for these automatic monthly disbursements are not clear since nine are not adequately supported by signed contracts, approved by USAID/E or by monthly progress reports. To illustrate:

The services of the five consultants retained by the MOH have been approved by USAID/E. However, the USAID/E has not approved the nine consultants retained by ECTOR. In turn, ECTOR has not signed a formal contract with these consultants and consequently the scope of work for these technicians has not been defined.

- The agreement between the MOH and the five consultants requires them to submit a monthly report of their activities as well as the time spent on the project. To date, however, none of the 9 consultants to ECTOR has submitted a monthly report stating the number of hours spent on the project or their accomplishments during the month.

The basis and justification for disbursing monthly payments to the ECTOR consultants need to be documented. These nine consultants do not have a formal contract and have not submitted required monthly reports. Neither the MOH nor ECTOR has a record on the level of effort of these consultants. We were told that these consultants assist the project by being available in case they are needed, but the need for and propriety of the consultants' costs are not readily determinable.

In our draft audit report, we included the following recommendations:

"Prior to any further disbursements, USAID/E (a) make a thorough study of need and work to be performed by the nine consultants, (b) approve the services of those consultants that are clearly needed for the project; (c) require formal contracts to be signed between the approved consultants and the MOH or its contractors under the project; and (d) require compliance with contractual terms, particularly as they relate to submission of monthly reports, accounting for time spent on the job, and monthly or periodic payments."

In responding to the draft report, the USAID/E generally concurred with the recommendation as applied to ECTOR consultants but offered an alternative to specific formal contracts. The USAID/E response stated that "...ECTOR has agreed to provide statements of work completed and level of effort signed by the consultants, both those already used and those in the future. Voucher payments will be certified on this basis in the future. Since these are short-term consultants brought in for specific tasks in the survey work and represent a very small percentage of the overall effort, USAID/E feels this should be sufficient documentation and that specific consultant contracts with monthly reports are not required."

Based on the USAID/E response, we are not including a formal recommendation in this report. However, since at least some payments (about \$1,000) were made to individuals for services not related to this project, we intend to examine this area closely in the full-scope audit to be proposed for the next audit planning schedule.

5. Reimbursement Procedures for Contract costs

Procedures used by USAID/E to reimburse costs incurred by the different contractors under the project need to be strengthened. In the case of one contractor (Westinghouse), reimbursements were made for costs incurred which were contrary to U.S. travel regulations as well as contract terms. Examples follow:

- Airfare cost of \$1,130 for a trip from Cairo-London-New York and return. The trip portion between Cairo-London was on a foreign carrier which is not reimbursable under the Fly American Act No. justification for approval to fly a foreign carrier was submitted by Westinghouse.
- Payments for baggage handling totaling \$30 was reimbursed to the contractor. This type of expenditure is covered by the per diem received by the traveler.

Recommendation No. 9

USAID/E recover reimbursements made for the unallowable airfare and baggage handling costs totalling \$1,160 identified during this survey.

Response by the USAID/E

The USAID/E agreed with the recommendation and has begun investigating the questioned amounts. Upon notification of the completion of the USAID/E review and amounts recovered, we will review the results and consider closing this recommendations.

6. Salary Payments are not Adequately Supported

Adequate documentation to support the accumulation of salary costs is not being prepared by ECTOR. Documentation submitted to support claims for reimbursement showed the name of the individual and the amount of days worked during the period. ECTOR personnel were not able to show how this information was accumulated. Some attempts were made to support the claim for salary payment by having individuals sign a receipt when salary payments were made. However, the receipts showed only the signature--not the printed name--of the person receiving payment. The signatures were most times illegible and identification of recipient of the amounts was not possible. Also, the condition of the records were such that reconciling the total amount of the receipts with the amount claimed was not possible. We totaled one month's receipts, but the total obtained did not agree with the amount claimed for reimbursement. We were told that some receipts were missing and that was the reason the payments could not be reconciled.

In sum, the present procedures used by ECTOR do not result in salary expenditures being properly supported or assurances that the recipients worked on the project.

In our draft survey report we had recommended that, prior to any further disbursements to the MOH, the USAID/E require ECTOR to establish and maintain adequate procedures and controls to support the accumulation of labor costs. USAID/E in response to the draft survey report stated that ECTOR has agreed to print each individual's name below his signature and to add a sentence indicating the number of hours of worked to the recipients for payment. They will also maintain the receipts on a monthly basis which lies exactly with the personnel payment lists which are already filed as part of their voucher back up data.

Based on the actions taken by USAID/E and ECTOR a recommendation is not deemed necessary.

7. Contract review and approval practices

Egyptian firms do not maintain cost accounting data and records to support overhead costs. This area is not limited to this project but is of interest Mission-wide from a functional standpoint. Our limited survey indicates a need for scheduling an in-depth functional audit of procedures and practices followed in negotiating, reviewing, and approving host country contracts.

In the ECTOR contract, a fee is being paid to a non-profit GOE entity. This fee was actually intended to cover overhead costs. The files do not explain the basis for this fee which is equivalent to 15% of personnel costs.

Negotiations for the Alemara contract show that a 1.3 "addition multiplier" was applied to establish "overhead/profit" rather than an indirect cost rate, supported by detailed cost accounts and records. The 1.3 additive multiplier, then, is not based on historical cost data nor can it be adjusted to actual costs incurred because of the non-availability of cost accounting data.

The USAID/E response noted, "...As documented, the contract file, the use of an additive multiplier is a widely accepted practice for establishing overhead and fee amounts in negotiated contracts with Egyptian firms."

This method is used because of the inability to obtain data which would permit the negotiation and setting of provisional and final overhead rates for contractors as is the practice in the U.S.

The Alemara contract total includes a "contingency" factor of 33% of total contract costs negotiated (after adding the 1.3 multiplier amount for overhead/profit). This basis for this relatively high contingency amount is not documented in the files.

Regarding this contingency factor, the USAID/E response stated:

"Payment provisions relating to possible misestimates of level of effort and time were negotiated and set at fixed amounts to avoid a "contingency" type situation."

The negotiation of a fee to cover overhead costs and the use of an additive multiplier in lieu of indirect cost rates supported by accounts and records are areas which apply to local contracts in other projects Mission-wide and cannot be adequately reviewed within the limited scope of a single project survey. The lack of complete explanatory documentation in files reviewed for this project indicates the usefulness of scheduling a functional audit of this area.

LIST OF RECOMMENDATIONS

<u>Recommendation No. 1</u>	<u>Page</u>
USAID/E (a) determine actual usage of all these vehicles, and (b) if vehicles are not fully utilized for project purposes, USAID/E (i) require their return to the project, (ii) take steps to assure project control and use of these vehicles, and (iii) obtain a refund for the value of any non-project usage.	6
<u>Recommendation No. 2</u>	
USAID/E study the vehicle needs of this project and transfer to other projects any vehicles considered excess to needs.	6
<u>Recommendation No. 3</u>	
USAID/E assess vehicle controls and, if needed, require the MOH to establish adequate vehicle controls.	6
<u>Recommendation No. 4</u>	
USAID/E assure that the MOH replaces private license plates with Government of Egypt plates on all AID-financed project vehicles with licensed MOH drivers.	6
<u>Recommendation No. 5</u>	
The AID General Counsel render a legal determination on these two interrelated, yet different points: (a) whether vehicles procured with project funds can be exchanged for foreign vehicles to be used in place of the U.S. vehicles in project implementation; and (b) whether vehicles procured with project funds may be exchanged, as in the case of these Chevrolet Citations, and assigned to high GOE officials and not used solely for project purposes.	7
<u>Recommendation No. 6</u>	
Based on the legal determination resulting from Recommendation No. 5, the USAID/E initiate the required actions consistent with such determinations.	7
<u>Recommendation No. 7</u>	
USAID/E (a) determine the amount of Customs duties and taxes paid for items costing more than LE 500 and (b) obtain a refund from the MOH of these Customs duties and taxes.	7

Recommendation No. 8

Page

USAID/E require the MOH to establish an inventory system to account for non-expendable property procured and financed under the project.

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Recommendation No. 9

USAID/E recover reimbursements made for the unallowable airfare and baggage handling costs totaling \$1,160 identified during this survey.

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LIST OF REPORT RECIPIENTSUSAID/EGYPT

Director	5
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Regional Inspector General for Investigations & Inspections (RIG/II/C)	1
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AID/WASHINGTON

AID Deputy Administrator	1
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Assistant Administrator/Bureau for Near East (AA/NE)	5
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Office of Egypt/Israel Affairs (Egypt Desk NE/EI)	1
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Bureau for Near East (Audit Liaison Officer)	1
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Bureau for Program and Management Services (AA/SER/SA)	6
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Assistant Administrator/Bureau for Development Support	1
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Office of Development Information and Utilization (DS/DIU)	4
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Office of Legislative Affairs (LEG)	1
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Office of the General Counsel (GC)	1
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Office of Financial Management (FM)	1
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Bureau for Program and Policy Coordination/Office of Evaluation (PPC/E)	1
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Legislative and Public Affairs Office of IDCA	1
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Office of the Inspector General (IG)	1
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Office of Policy, Plans and Programs (IG/PPP)	1
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Office of Executive Management Staff (IG/EMS)	12
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Office of Investigations and Inspections (IG/II/W)	1
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Office of the Regional Inspector General for Audit/Washington (RIG/A/W)	1
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Regional Inspectors General for Audit

RIG/A/Karachi	1
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RIG/A/Karachi--New Delhi	1
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RIG/A/Manila	1
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RIG/A/Nairobi	1
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RIG/A/Panama	1
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RIG/A/Panama--La Paz	1
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