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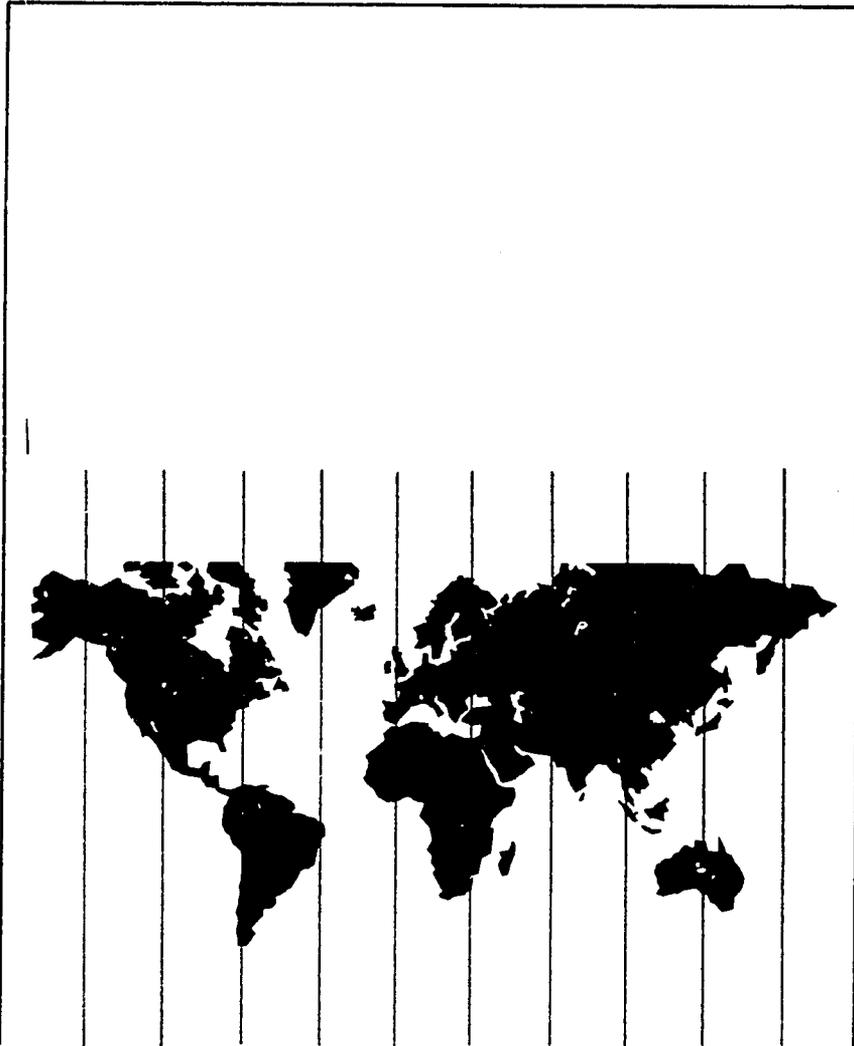
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UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
CAIRO

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A SURVEY OF THE  
HOUSING AND COMMUNITY UPGRADING FOR  
LOW-INCOME EGYPTIANS PROJECT

Project No. 263-0066

Audit Report No. 6-263-81-12

September 30, 1981

This project is in its early stages of implementation and is a comprehensive effort by the Ministry of Housing of the Government of Egypt to provide low-cost housing and home and community improvement services to the low-income population in Helwan and selected neighborhoods of Cairo. As of July 31, 1981, \$80 million was obligated; \$7.8 million was sub-obligated; and, \$3.2 million was expended.

The project has reached the construction phase after encountering several months delay in its implementation schedule. Site offices are now under construction in Helwan; work on construction of model houses is due to commence shortly and work on infrastructure (water, supply, sewerage systems, school, community center, etc.) is in various stages of construction.

This survey report comments on the need for the GOE to improve monitoring of construction contractors, to establish accounting controls, to establish financial plans and to submit required reports. The project has experienced serious implementation delays and the target data established during project design now needs revision.

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## INTRODUCTION

### Background

In August 1978, USAID/Egypt signed an agreement with the Ministry of Housing (MOH) of the Government of Egypt (GOE), granting the MOH \$80 million to implement a low cost housing and community upgrading project. The MOH agreed to contribute another \$80 million in local currency and in kind contributions towards the cost of the project.

The project purpose is to demonstrate the premise of a proposed new housing policy. The premise is that socially acceptable basic housing and community facilities can be provided for low-income families at a price that they are willing to pay, and thus, provide to the GOE a substantial recovery of its investment.

A network of six programs is planned to demonstrate the means to develop housing projects for low income families. The six programs are:

- . Design, construction and sale of minimum dwellings as part of new community plan.
- . Promotion, design and construction of urbanization improvements and improvements to existing dwellings in already established urban communities.
- . Design and introduction of automatic data processing procedures and consumer banking services for low-income families.
- . Promotion and organization of cooperative and community associations made up of housing beneficiaries.
- . Design, testing and market introduction of improved building materials, products, construction methods; and, training and design of conventional and improved building methods appropriate for low-cost housing.
- . Evaluation and analysis of the foregoing programs and technical assistance to the GOE.

In July 1979, MOH established a Project Implementation Unit (PIU) directed by a steering committee under the chairmanship of the Minister of Housing. The PIU is to be staffed by 50 to 60 professionals who will coordinate with U.S. and Egyptian consultants and technical advisors to organize and monitor the implementation of the project. The services of an Egyptian Bank, Credit Foncier d'Egypte (CFE) will be utilized by PIU to provide mortgage financing and home improvement loans to the target population.

In August 1979, MOH engaged a U.S. consulting firm, FCH International, Inc. (FCH) to provide technical assistance to PIU in implementing the project. In January 1980, a joint venture firm, Basil, WBTL Nassar (BWN) was engaged by MOH to provide architectural and engineering services to PIU. Between October 1980 and July 1981, MOH engaged several Egyptian contractors to perform design and construction work at the project sites.

The grant agreement will expire on August 31, 1983. As of July 31, 1981, the financial status of the grant was as follows:

Amount Obligated	\$ 80,000,000
	=====
Expenditures Disbursed	2,368,000
Expenditures Accrued	<u>850,000</u>
Total Expenditures	\$ 3,218,000
	=====
Unexpended Balance	\$ 76,782,000
	=====

#### Purpose and Scope

The survey was performed as a part of RIG/A/Cairo's audit plan for FY 1981. It was not a full scope audit and consequently did not include a detailed examination of project expenditures, implementation procedures or the propriety of costs claimed by the contractors and PIU. The survey was limited to (i) a review of the organizational structure and operations of the PIU and its principal contractors; (ii) identifying existing or potential problem areas; and (iii) accumulating sufficient information and documentation to make a decision about scheduling an audit in our next work plan.

We reviewed project documentation and related files at USAID, interviewed officials in USAID/E, PIU, FCH and BWN, visited the project site in Helwan and examined project financial and activity reports submitted by PIU, FCH, and BWN from August 1978 through July 1981.

## Conclusion

As a result of our survey, we do not see the need for RIG/A/Cairo to schedule a full-scope audit of this project for the fiscal year ending September 30, 1982. However, certain problem areas need to be resolved. Our findings and recommendations are presented in the subsequent section of this report.

## USAID/Egypt Comments

The USAID/E comments on the draft report are appended (Exhibit A). The response requested that all recommendations included in the draft report be closed. One of the four recommendations included in the draft report was deleted on the basis of USAID comments (Exhibit A). Three recommendations are retained pending further progress on actions underway at the time of our audit.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Review and monitoring of construction activity by MOH under Fixed Amount Reimbursement agreements requires improvement

From August 1980 through July 1981, USAID/Egypt processed six Fixed Amount Reimbursement (FAR) agreements with the MOH, totalling LE546,273.\* The agreements were for construction of water supply and sewerage systems, a school, a community center, engineering designs and site offices at Ghoneim, Rashed and Helwan. The work was performed by Egyptian firms under contract with MOH. The amount of reimbursement was fixed in advance based upon cost estimates reviewed and approved by USAID/Egypt. MOH was required to monitor the work and enforce adherence to construction specifications agreed upon by USAID/Egypt. Reimbursement was predicated upon USAID/Egypt receiving written notification from MOH of completion of each stage of the contract and upon USAID/Egypt's inspection and approval of the work.

As of June 30, 1981, MOH had submitted a request to USAID/Egypt for reimbursement of LE123,736 for work completed to date under the FAR agreements. However, the MOH had neither provided notification of satisfactory completion of the work to USAID/Egypt nor evidence of monitoring the performance of the contractors at various stages of construction, although the activity had commenced in October 1980. Consequently, AID withheld reimbursement to MOH, pending evidence of satisfactory completion of the work specified under the contracts.

In the draft report, we recommended that:

"USAID/Egypt arrange for the MOH to monitor the FAR agreements and submit evidence of satisfactory completion of each approved stage of construction along with requests for reimbursements."

The recommendation was deleted because the USAID has stated that payments requested by the MOH under the FAR agreements will be withheld pending satisfactory performance by the MOH. (See Exhibit A)

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\* One Egyptian Pound (LE) was equal to approximately \$1.20 at the time of the audit.

MOH project accounting system does not fulfill the requirements of the grant agreement

The grant agreement between USAID/Egypt and the MOH requires the grantee to maintain accounting records to show the receipt and use of goods and services acquired under the grant. In its Implementation Letter dated March 15, 1981, AID issued detailed instructions to MOH outlining procedures and documentation required for disbursing and reporting of local currency costs incurred by MOH under the project agreement.

We found serious weaknesses in internal controls:

- . Although local currency disbursements had commenced in March 1980, no financial reports were submitted by MOH to AID until August 1981.
- . The books of account were not up-to-date and therefore could not be reconciled to the financial report submitted by MOH to USAID/Egypt.
- . Filing of invoices, bank statements and other supporting documents is haphazard and disorganized. For instance, we were unable to locate all the bank statements for the period under review.
- . AID funds are commingled with MOH funds in the project bank account although the instructions issued by USAID/Egypt requires MOH to establish a restricted account to be utilized solely for disbursement of AID's share of project costs.
- . There is no clear designation or separation of duties and responsibilities among the project Accountant and his three assistants.

It appears that the above deficiencies resulted from (a) the project accountant's limited understanding of USAID/Egypt accounting and financial reporting requirements and (b) the project accountant not delegating responsibilities for routine tasks to his subordinates.

In August 1981, an outside accountant was hired to implement a financial accounting system that would fulfill the requirements of MOH and AID. This task is scheduled for completion by October 1981. The Controllers Office in USAID/Egypt is monitoring implementation of the outside accountants' contract to determine if the project financial accounting system satisfies the requirements of the grant agreement.

MOH has not established a financial plan for recovery and subsidy of the housing project costs

The cost of land, low-income (core) housing construction and the infrastructure (streets, drainage, water supply, sewage, electricity, etc.) is to be recovered from the beneficiaries through the sale of the dwelling units. Prime commercial land and approximately 512 lots will be authorized for sale to higher income groups at market value to subsidize cost of offsite infrastructure, schools, health and community centers.

The following key actions are needed in order to establish a viable plan for sale of core houses and cost recovery:

- . Determine the cost of land of the housing project.
- . Establish a budget identifying each component of the infrastructure costs.
- . Determine a selling price for the core housing units that would be affordable to the target population.

The above actions are required to determine the amount of the subsidy. This information would also facilitate the MOH in allocating its resources to meet the costs of subsidizing the housing project.

The Director, Office of Urban Administration and Development, USAID/Egypt, stated that negotiations are in progress between the MOH and USAID to contract for the services of a U.S. consultant who will conduct studies and recommend a financial plan for sale of core housing units and recovery of project costs.

Various project activities are several months behind schedule

The project is experiencing serious delays in meeting its scheduled implementation dates. Of 15 tasks scheduled for completion between August 1978 and July 1981, six have not been completed; and, revised completion dates have not yet been established. Project activities that are behind schedule are:

	<u>Estimated Date</u>	
	<u>Start</u>	<u>Complete</u>
Purchase of materials	4/79	9/79
Construction of Model houses	5/79	4/80
Bidding for Off-site infra- structure for new community	9/79	4/80
Social/Economic Evaluation	5/80	3/81
Move in first section of model house site with interim utility system	5/80	7/80
Building materials/products Design Evaluation	6/79	6/80

USAID/Egypt project officials and the principal contractors stated that the main reasons for the implementation delays are: (i) protracted negotiations between MOH, USAID/Egypt and the principal contractors prior to finalizing the contracts; (ii) delays by MOH in approval of engineering plans and designs; and (iii) staffing problems at the MOH and FCH International, Inc.

In order to control project implementation it is essential that revised implementation dates be established.

Recommendation No. 1

USAID/Egypt arrange for establishment of realistic completion dates for project activities.

Co-Location of the implementing agencies would facilitate coordination and management

The Project Implementation Unit (PIU) of the MOH and the consulting firm of FCH International, Inc. are housed in an Egyptian government office building near downtown Cairo. The office space appears inadequate. Currently, 25 PIU and 5 FCH personnel are accommodated in six rooms. There are no facilities for a conference room to conduct a seminar or a workshop. The other principal contractor, BWN, has offices in suburban Maadi. Because of a shortage of lines in that locality, the BWN office does not have a telephone. This necessitates the use of a daily courier service between Cairo and Maadi. Implementation of the project requires close coordination between PIU, FCH, BWN and necessitates frequent visits by their employees to the project site at Helwan.

Co-Location of office space for the three organizations would facilitate the coordination and management of the project and also reduce travel time and transportation costs. Construction of project site offices will commence very shortly at Helwan. We believe that USAID/Egypt should elicit a firm commitment from all three entities to expeditiously relocate their offices to Helwan when the site offices are completed.

Recommendation No. 2

USAID/Egypt obtain from the MOH a relocation plan for transfer of PIU, FCH, and BWN field staff to Helwan upon completion of the site offices now under construction.

Required progress reports are not being submitted

By Implementation Letter, USAID/Egypt instructed the MOH to submit monthly reports which should include the following:

- . Narrative description of major activities and events.
- . Progress on social and engineering investigations, planning, design, equipment and material procurements.
- . Staffing patterns in PIU and its principal contractors.
- . Major problems in construction, social programs, sales, credit, etc.
- . Expenditure reports for consultant services and project related activities.

The letter also directed MOH to obtain similar monthly reports from FCH and BWN and submit these to USAID/Egypt.

BWN and FCH have been submitting regular progress reports since January 1980. However, the MOH has not submitted a single report to AID since the inception of the project. This matter was discussed with a senior MOH official who concurred that the PIU was remiss in submitting periodic progress reports to AID. We believe progress reports are a useful management tool in reviewing and monitoring project activities.

Recommendation No. 3

USAID/Egypt arrange for the MOH to submit regular progress reports summarizing all project accomplishments and problems in accordance with the terms of the project agreement and implementation letters.



## UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

29 SEP 1981

MEMORANDUM

TO: Mr. Harold R. Gill, RIG/A/C

FROM: Donald S. Brown, DIR *Donald S. Brown*

SUBJECT: Response to Draft Audit Survey, Housing and Community Upgrading for Low Income Egyptians, Project No. 263-0066

Recommendation No. 1

"USAID/Egypt arrange for the MOH to monitor the FAR arrangements and submit evidence of satisfactory completion of each approval stage of construction along with requests for reimbursements."

Project Implementation Letter No. 11, dated March 15, 1981 outlines the monitoring and payment procedures applicable for FAR agreements. These details are repeated in each agreement and reviewed with the Ministry of Housing as new agreements are issued. To further assist the Ministry, USAID is holding a series of meetings with Ministry personnel to further clarify and improve reimbursement procedures. USAID will make payment under these agreements only upon satisfactory completion by this Ministry of monitoring and reporting requirements.

Recommendation No. 2

"USAID/Egypt arrange for establishment of realistic completion dates for project activities."

The Ministry of Housing and USAID have recognized the need to revise target dates established during the design of the project. Actions have been initiated for the preparation of a revised implementation plan. A revised draft plan was completed in February 1981, and this plan is scheduled to be updated in October 1981 and submitted to USAID for approval prior to the end of the calendar year.

Recommendation No. 3

"USAID/Egypt obtain from the MOH a relocation plan for transfer of PIU, FCH and BWN field staff to Helwan upon completion of the site office now under construction."

Agreement between USAID and the MOH was reached this past year on the establishment of an office on the construction site in Helwan to house the field staff of the contractors and Ministry staff. A temporary office building is now under construction. USAID is currently drafting a letter requesting the Ministry to provide USAID with a list of the field personnel who will be assigned to the construction office.

Recommendation No. 4

"USAID/Egypt arrange for the MOH to submit regular progress reports summarizing all project accomplishments and problems in accordance with the terms of the project agreement and implementation letters".

The Ministry presently conducts weekly coordination meetings which are attended by all contractors and USAID project personnel. Since these meetings cover all aspects of the project, USAID is kept fully informed of the project status. During the life of the project, USAID has been receiving monthly reports from the contractors, but has been unsuccessful in obtaining monthly reports from the MOH. USAID believes that monthly reports from the MOH would be a very useful tool in project monitoring and we are currently drafting a letter requesting the Ministry's consolidated reports beginning with the September reporting period.

Based on USAID's past actions and actions now in progress we request that all recommendations be closed.

LIST OF REPORT RECOMMENDATIONS

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USAID/Egypt arrange for establishment of realistic completion dates for project activities	
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USAID/Egypt obtain from the MOH a relocation plan for transfer of PIU, FCH, and BWN field staff to Helwan upon completion of the site offices now under construction.	
<u>Recommendation No. 3</u>	9
USAID/Egypt arrange for the MOH to submit regular progress reports summarizing all project accomplishments and problems in accordance with the terms of the project agreement and implementation letters.	

LIST OF REPORT RECIPIENTS

<u>USAID/EGYPT</u>	
Director	5
Regional Inspector General for Investigations & Inspections (RIG/II/C)	1
<u>AID/WASHINGTON</u>	
AID Deputy Administrator	1
Assistant Administrator/Bureau for Near East (AA/NE)	5
Office of Egypt/Israel Affairs (Egypt Desk NE/EI)	1
Bureau for Near East (Audit Liaison Officer)	1
Bureau for Program and Management Services (AA/SER/SA)	6
Bureau for Development Support (DS/H)	1
Office of Development Information and Utilization (DS/DIU)	4
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Office of Financial Management (FM/ASD)	1
Bureau for Program and Policy Coordination/Office of Evaluation (PPC/E)	1
Legislative and Public Affairs Office of IDCA	1
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
Office of Executive Management Staff (IG/EMS)	12
Office of Investigations and Inspections (IG/II/W)	1
Office of the Regional Inspector General for Audit/Washington (RIG/A/W)	1
<u>Regional Inspectors General for Audit</u>	
RIG/A/Karachi	1
RIG/A/Karachi--New Delhi	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Panama	1
RIG/A/La Paz Residency	1