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Inspector General

AUDIT REPORT
ON
INTERNAL OPERATING PROCEDURES
APPLICABLE TO NON-DURABLE AND DURABLE COMMODITIES
OF THE COMMODITY IMPORT PROGRAMS OF EGYPT
AID LOANS NO. 263-K-(026),(027),(029),(030),(306)
(038),(045A),(045B),(052)
AND
GRANT NO. 263-0119

Audit Report Number 6-263-81-3

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REGIONAL INSPECTOR GENERAL/CAIRO
AGENCY FOR INTERNATIONAL DEVELOPMENT

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EXECUTIVE SUMMARY

Introduction

At the time of our review, there were nine loans and one grant signed that obligate $1.54 billion for the Commodity Import Program (CIP) in Egypt. A significant part of total U.S. economic assistance to Egypt, the CIP was initiated during 1975 to address the short-term needs of Egypt. To assist Egypt in meeting hard currency costs of imported commodities and commodity-related services as needed, the program is designed to (a) relieve the serious foreign exchange shortage, (b) achieve development objectives, (c) improve the standard of living, and, (d) maintain political stability.

Of the $1.54 billion obligated, about 95.5% (over $1.4 billion) has been allocated to Egypt's public sector. The remaining balance, about $68.5 million, has been allocated to Egypt's private sector, and is the subject of AAG/E Audit Report No. 80-10 dated August 10, 1980. This report covers the internal operating procedures used by the USAID/E and the GOE in financing the importation of about $1.0 billion of durable and non-durable commodities under the CIP. This is the fourth report in a series of seven to be issued covering the results of the comprehensive review of the CIP. The seventh report in the series will cover issues applicable to the overall CIP, both public and private sectors, and present overall program conclusions. For better perspective, the reader may wish to obtain this entire series of CIP reports (see page 2 of this report).

Audit Purpose and Scope

We reviewed the procedures used to import $1.0 billion of durable and non-durable commodities under the CIP from inception, February, 1975, through July 31, 1980 with emphasis on procedures in effect at the most current time. In problem cases, studies were made of all available material on the subject. Primary audit purposes for this specific review were to. (a) determine and evaluate procedures followed in advertising, bidding, and contracting; (b) examine types of commodities imported and determine adequacy of accounting procedures; (c) evaluate effectiveness of distribution procedures and determine actual locations or uses of imports; (d) evaluate GOE and USAID/E management procedures, including monitoring; and (e) determine compliance with Agency regulations and the Foreign Assistance Act (FAA) as amended. To accomplish these objectives we examined procedures and systems in place and planned, reports, activity files, transaction support data, cables, correspondence, advertisements, planning and implementing documents, contracts, letters of credit, and referred to pertinent regulations, handbooks, laws, and other criteria. We also examined bids and bidding procedures, including attendance at a bid opening. We coordinated with the Area Auditor General/Washington (AAG/W) to obtain information generated in AID/Washington and in the United States.

Conclusions

Our review covered $193.6 million in durable commodities (buses, tractors, trailers, jeeps, power equipment, electrical equipment, dredgers, etc.) and $816.9 million in non-durable commodities (tallow, corn, frozen poultry, fishmeal, soybean, etc.). We found no significant problems related to the importation of $44.1 million in durable commodities and $291.6 million in non-durable commodities.

For the remaining durable and non-durable commodities, our review of sampled transactions disclosed areas where management attention should be focused and corrective actions should be taken. A summary discussion follows with more details included in the body of the report.

As noted above, our review surfaced different types of problems with the importation of durable commodities which have a value of about $149.5 million. The nature of the problems indicates a need to reassess the managerial role and management concepts used when these types of commodities are imported. USAID/E has been managing high visibility durable commodities financed through the CIP as routine commodity imports. Consequently, critical stages of the procurement, delivery, and/or use process were not given the management attention that the importation required. As a result, the specifications for 1,600 buses and 2,400 tractors were not compatible with the actual needs of the country or end-user; performance guaranty documents did not conform to contractual requirements; the accounting system of one GOE organization did not meet the criteria established by regulation and the commodities were not properly accounted for; and, vehicles and tractors have been sold or transferred to entities for uses prohibited by the FAA. In the case of the buses, for example, the importations have resulted in adverse publicity to the assistance being provided by the Agency, the quality of U.S. products, and the ability of suppliers to guarantee their products. Some details of our observations on the durable commodities follow:

--The Egyptian Electric Authority (EEA) is administering about $77.6 million of equipment financed through the CIP. Its accounting system, however, does not meet the criteria established by AID Regulation 1. Procurement policies are generally effective. But, problems start at the time commodities arrive in-country and continue as they are transferred by EEA to its divisions and distribution companies. EEA was not able to identify the location and use being made of the purchased equipment. Our review identified 16 vehicles (valued at $116,408) which had been distributed and were being used by the National Police; this is expressly prohibited by the FAA. We are making four recommendations on this subject matter intended to (a) effect a refund from the GOE related to the diverted commodities; (b) motivate EEA to institute needed changes in its accounting system; (c) obtain a report from the GOE accounting for the commodities; and (d) ensure end-use reviews by USAID/E (page 5).

--The Ministry of Industry (MOI) imported 2,400 Massey Ferguson (MF-265) tractors and spare parts at a cost of $17.2 million. The tractors were to be used to increase agricultural production. The specifications were not the best suitable for use on Egyptian farms. The tractors were also priced beyond the reach of the average farmers and not competitive with tractors imported with other countries. As a result, demand was low and sales were slow. In effect, they were not sold within the one-year period stipulated in the regulations and a number were still in stock at the time of our audit (nearly 2 1/2 years since their importation). Sales records for one year (1978) were in no condition to enable an accurate accounting. Nevertheless, available records showed that a large number of tractors were not sold to Egyptian farmers, but either sold or distributed to various GOE organizations. Additionally, we found that forty-nine (valued at $312,816) of the tractors were sold to the GOE Police Authority; such a transfer is also expressly prohibited by the FAA. We are making three recommendations intended to (a) obtain a refund from the GOE for the diverted commodities; and, (b) effect a final accounting and end-use review for imported tractors (page 9).

--The GOE imported 1,600 buses at a cost of $79.8 million. As in the case of the tractors, these highly visible items were handled as a routine commodity under the CIP. In retrospect, a different managerial role and management concept on the part of the USAID/E might have avoided the complex problems that now exist with this commodity. The technical specifications of the buses were not compatible with the needs of the country or the demands later placed on the equipment. The performance guarantees, submitted by the U.S. Supplier, were not in accordance with the terms of the contract and, in effect, were not collectible by the GOE. Workmanship by the supplier was not of the highest quality and problems developed soon after arrival of the equipment in Egypt. The way the equipment was operated and maintained complicated matters. After we had submitted our RAF to the USAID/E for comments, the U.S. Supplier declared bankruptcy. For this reason, we were required to delete a recommendation that had initially been included in the RAF. This report includes two recommendations which are intended to (a) initiate a reassessment of the management concepts used in connection with importation of high visibility durable commodities, and (b) compile a list of all costs by the three Egyptian companies to refurbish and rebuild the buses as appropriate (page 13).

Our review of the non-durable commodities imported through the CIP showed the potential for statutory violations in supplying about $238.1 million in tallow; a separate, internal review addressed this aspect. Our review of the remaining commodities, on a sample basis, showed the following areas where management needs to focus some attention:

--A total of $111.5 million of CIP funds have been used to import tobacco and acetate tow paper. Actual practices of importing tobacco exclusively through the CIP rather then primarily through the P.L. 480 program seems contrary to policy. Since 1976, tobacco has been imported into Egypt through CIP financing. But, AID Handbook 15 regulations stipulate that P.L. 480 funding will be the preferred method of supply, except that AID will consider making additional quantities available when P.L. 480 amounts are deemed inadequate and there are no reasons for excluding the commodity from the AID loan or grant. Since 1978, 'there has been no P.L. 480 funding for tobacco imports by Egypt.

--Blends of tobacco, imported by Egypt from the U.S. and other countries, are being re-exported. AID Regulation No. 1 prohibits the re-export of AID-financed commodities in the same or substantially the same form from the cooperating country. Two recommendations are included in this report intended to (a) re-evaluate the emphasis being given to the importation of tobacco and paper through the CIP; and (b) elicit the opinion and guidance of the Agency General Counsel regarding re-exportation of blends of tobacco (page 23).

--The GOE requirements for corn, tallow, and frozen poultry are extremely high. These high volume requirements seem to be having a series of adverse reactions. First, the Agency is incurring high administrative and advertisement costs to disseminate the IFB information and stimulate wide competition; yet, the high volume requirements are discouraging wide competition. In fact, responses from prospective suppliers have been minimal in the past. Bid bonds are extremely high because they are based on a percentage of the total possible contract, which, in turn, is based on volume of procurement; as a result, many suppliers are not submitting bid bonds and are thereafter disqualified from contract awards. Pertinent also, the Agency has a commitment, under Section 602 of the FAA, to stimulate participation of small businesses. The USAID/E and the Agency are meeting this commitment by providing information to U.S. suppliers and prospective buyers in line with provisions of Chapter 23, of AID Handbook 1. But the high volume is annulling these efforts: small businesses are being effectively excluded from participating or even attempting to participate in providing fungible commodities to Egypt--they simply cannot meet the high demand or provide the bid bond. In our opinion, then, there are signs which indicate that a condition either already exists or is fast developing to a point where the Egyptian market for non-durable commodities will be monopolized by a relatively few large U.S. companies. Moreover the high volume of requirements is also affecting compliance with the shipping requirements of the FAA and resulting in high demurrage costs. During the audit, through a Record of Audit Finding (RAF), we recommended that the USAID/E form a committee to find an appropriate resolution to the problems that are being created as a result of the huge volume requirements for these types of commodities of the GOE. In its response to the RAF, the USAID/E stated that the problem was not as severe as the RAF made it appear and requested that we omit or modify the recommendation. In view of the USAID/E position, and considering all known factors, we can make no other useful recommendation in view of normal procedures involved in transactions for these types of commodities (page 25).

Recommendations

This report contains 11 recommendations listed in Appendix II.

INTRODUCTION

1. Description of the CI Program

Since resuming diplomatic relations with Egypt, in 1973, the U.S. Government has been providing assistance programs which are directed towards promoting economic and political stability of the country. From a development point-of-view, AID has followed, according to stated policy documents, an economic strategy which encompasses dual objectives:

(a) to maintain a large net inflow of U.S. and other foreign resources in the short-run; and,

(b) to achieve a lower need for foreign resources inflows over the medium and long-run through expansion of Egypt's productive capacity.

Two of AID's programs, the Commodity Import Programs and the P.L. 480 Programs, are designed to address the short-term needs of Egypt. The medium and long run requirements are being addressed through numerous bilateral projects and programs.

This report limits its coverage to the Commodity Import Program (CIP) and more restrictively to the internal operating procedures and controls implemented in the different phases and systems involved in imports of durable and non-durable commodities through the CIP. Background information on the CIP is treated in greater detail in Appendix 1.

In brief, there have been nine CIP loans and one grant signed since 1975 when economic assistance was initiated. Through the time of the audit, these agreements obligated $1.54 billion for the CIP. The funds are appropriated through the Economic Support Fund (ESF) as authorized under Section 532 of the Foreign Assistance Act (FAA).

Of the total $1.54 billion obligated funds, about $1.472 billion was allocated to Public Sector organizations (Ministries and Ageucies) of the GOE. A small percent ($68.5 million) was allocated to the Private Sector to encourage free enterprise and private participation as part of AID's continuing commitment to comply with the intent of Section 601 of the FAA. Reviews have been made covering the procedures used in managing the funds processed by both the Public and Private Sectors. The results of this comprehensive CIP audit coverage are being reported in series. For better perspective, the reader may wish to obtain this entire series of seven reports, identified below:

Audit Report No.	Date	Title
6-263-80-10	August 10, 1980	The Private Sector Allocations of the Commodity Import Programs of Egypt.
6-263-81-1	November 30, 1980	The Financial Procedures and Controls of the Commodity Import Programs of Egypt.
6-263-81-2	December 21, 1980	Internal Operating Procedures. Applicable to Project-Like Activities of the Commodity Import Programs of Egypt.
6-263-81-3	January 29, 1981	Internal Operating Procedures. Applicable to Non-Durable and Durable Commodities of the Commodity Import Programs of Egypt.
6-263-81-5	December 30, 1980	Internal Operating Procedures for Arrival Accounting and End-Use as related to the Commodity Import Programs of Egypt.
6-263-81-6	o/a Jan. 31, 1981	Financing of Agents' Commissions under the Commodity Import Programs of Egypt.
6-263-81-7	o/a April 15, 1981	An Overview of the Commodity Import Programs of Egypt.

The Overview report on the CIP was initially scheduled for publication in January 1981, as the final wrap-up report based on earlier reports in the series covering the comprehensive audit of the CIP. Since a number of complex and difficult issues were raised in earlier reports, agreement was reached to defer issuance of the Overview report to enable taking into account USAID/E responses to all final reports issued earlier; consideration of all USAID/E final responses should result in a more useful Overview report.

Exhibits A and B show the breakdown of the CI Program loans and grants with allocations, as approved by the GOE. The financial information contained in the exhibits is not exact, as stated in the foot-note on Exhibit A. The figures in Exhibit A, and in other Exhibits appended, should not be considered a measure of actual CIP expenditures. To illustrate, under Agency accounting definitions, disbursements include advances; but, advances are not actual expenditures. Audit Report No. 81-1 covers advances and progress payments and adds perspective on this. The accounting and information system section of Audit Report 81-1 also addresses difficulties encountered during the audit in attempting to determine the actual disbursement and expenditure status of these CIP obligations. For this reason, the figures should not be considered as a true measure of impact on the Egyptian economy.

2. Scope of Audit and Purpose

Our review covered imports through the CIP by seven Ministries of the GOE. We also examined selected imports of about $193.6 million of durable commodities and about $817.0 million of non-durable commodities. Exhibit B presents a complete listing of commodities included in our review, showing GOE Ministries and Agencies, dollar amounts, and types of commodities.

This is the fourth audit report by the AAG/E of the CIP. The series of seven reviews contribute, individually or collectively towards attaining comprehensive audit objectives listed in Appendix 1. For this review, our audit objectives were to: (a) determine and evaluate advertising, bidding, and contracting procedures for commodities under review; (b) examine types of commodities imported and determine adequacy of accounting procedures; (c) evaluate effectiveness of distribution procedures and determine actual locations or uses of imports; (d) evaluate GOE and and USAID/E management procedures, including monitoring; and (e) determine compliance with Agency regulations and the Foreign Assistance Act (FAA), as amended.

Our examination covered the procedures followed by the USAID/E, AID/W, and some of the GOE ministries. The period covered in this audit was from program inception February, 1975, to July 31, 1980 for financial data. CIP management policies and practices were reviewed up close to report issuance. Although our examination placed emphasis on procedures in effect at the most current time, historical transactions were examined to gain perspective and to analyze origins of problems. The review was conducted in accordance with generally acceptable auditing principles and standards. Accordingly, we examined, to the extent deemed necessary, historical files, transaction support data, cables, correspondence, advertisements, bids, contracts, arrival accounting information, related files, and pertinent statutes, regulations and other criteria. We visited various GOE Ministries, public sector firms, agents of importers, agents of suppliers, and involved USAID/E offices. We also held meetings and interviews with various officials and employees of GOE entities and with cognizant managers and involved USAID/E personnel, including top USAID/E management.

We coordinated with the Area Auditor General, Washington (AAG/W) to obtain information generated in AID/W and the United States.

3. USAID/E Comments

During the audit, Record of Audit Finding (RAF) procedures were followed. RAFs were prepared and submitted to allow USAID/E written response and further discussion, if desired, before submission of the total draft report for written comments to be considered in the final report issued. The USAID/E was furnished the draft of this rep rt and an extension of time was agreed to by the AAG/E. We were advised that the report raised fundamental issues which the USAID/E found difficult to resolve within the extended time frame. During processing and assembly of the final report, we received a draft response from the USAID/E and considered these comments in the final report. While these draft USAID/E comments are considered herein, they are general; more detailed comments were those responses received to RAFs during the audit. The draft USAID/E comments of general nature indicate the USAID/E is completing further internal study on several issues which will result in more comprehensive comments to the final report. The many issues involved in the internal operating procedures segment of the CIP audit were presented in a single drafr report; for the best presentation, these issues are separated into three shorter final audit reports covering segments of internal operating procedures, as identified on page 2 of this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

1. Durable Commodities

Commodities imported under the CIP can be grouped into three distinct categories: project-like; durable; and non-durable. In Audit Report No. 6-263-81-2 we highlighted the problems resultant from managing project-like activities as routine commodity imports financed through the CIP. This management concept was the major cause for inadequate planning of activities and problems such as inaccurate cost estimates, uncontrolled cost escalations, overcontrol by contract suppliers, and insufficient monitoring--all of which contributed to inefficient and untimely program implementation. In short, although the imports were projectized in character, project requirements for management controls and monitoring were not applied because the source of funds--the non-project assistance CI Program--was the determining factor for management needs rather than the actual project nature of the activities.

The USAID/E also manages durable commodities financed through the CIP as routine commodity imports; and again, this management concept has been the major cause for inadequate planning and insufficient monitoring. The nature of durable commodities--high visibility products such as buses, jeeps, trucks and trailers--requires the application of management and monitoring concepts that ensure that these imports are (a) quality products, (b) suitable for in-country use, and (c) properly used for program purposes.

Of $193.6 million in durable commodities included in our sample review, we found no significant problems related to about $44.1 million. For the remainder, our review of a sampling of GOE importing agencies and of commodities surfaced areas where management attention should be focused and corrective measures are needed. Succeeding sections highlight the most significant cases.

A. The GOE Ministry of Electricity

The Ministry of Electricity imported about $77.6 million through the CIP (See Exhibits A and B) which has been managed by the Egyptian Electric Authority (EEA). The accounting system of the EEA does not meet the criteria established by AID Regulation 1 and some commodities sampled during our audit had been diverted to uses prohibited by the FAA. Our examination of procedures relative to about $46.5 million of these imports showed that EEA procurement policies generally are effective. But, problems start at the time the commodities arrive in-country and continue as they are transferred by EEA to its divisions and/or distribution companies. EEA does not have adequate controls at its main office to identify distribution and location of imported equipment. This same situation extends to division levels, to electric companies and to the involved governorates. To illustrate, during our sample review we found 16 vehicles, valued at $116,408, imported by EEA under the CIP and distributed to the National Police; police use of these vehicles is prohibited by AID regulations and the FAA. In another example, we were unable to determine the use of about $1.2 million of street lighting equipment; i.e., EEA officials were not able to show the location of this equipment or its actual use--there were no records or controls.

Our evaluation of USAID/E management involvement and monitoring showed that files of the USAID/E CI Office were in disarray; also end-use reviews by the USAID/E Office of the Controller had covered some commodities of EEA, but had not covered these two types of commodities. Details are presented in following paragraphs.

EEA central office records do not reconcile with divisional office records for vehicles. Our review of $10.0 million worth of vehicles showed that the EEA central office did not maintain location nor maintenance records for the vehicles it has procured. In effect, EEA managers did not know how this equipment was being used after it was distributed to its divisions. Their only records are those used when the vehicles are transferred to the divisions. We requested EEA officials to furnish us from their records, the actual locations and usage of this equipment. The only information we were able to obtain from EEA was a list showing distribution of this equipment to the divisions. No records were available to indicate the present location of the equipment and how it was being used.

Our review of the EEA divisional offices, in turn, disclosed operating and record control procedures almost identical to those of the central office. Our review of four EEA divisions showed: two divisions had received all vehicles that were supposedly transferred to them; officials of two divisions said that they had not received all the vehicles suppposedly transferred to them. Officials of one division stated that only five buses had been received instead of six; the other division did not receive one jeep and one pick-up truck supposedly transferred to them. We could not determine from available records or through interviews the location of the missing vehicles.

In sum, the records and internal controls at both levels---the EEA central office and the divisional offices---are not adequate to control vehicles that have been purchased through the CIP.

Vehicles were transferred to the National Police in violation of the Foreign Assistance Act (FAA) and AID regulations. EEA distributed 16 vehicles valued at $116,408 to the National Police without approval from USAID/E (See Exhibit D). These vehicles are not assigned to any division within EEA, but are assigned to the Ministry of Interior. This is in violation of Section 660 of the FAA which states, in part, "None of the funds made available to carry out this act... shall be used to provide training or advice, or provide any financial support, for police, prisons, or other law enforcement agencies..." EEA officials informed us that these vehicles were assigned to the police for the purpose of protecting EEA installations. These vehicles have regular police tags and are driven and maintained by the National Police. In one instance, we were able to determine that one of the vehicles was being presently used for undercover work.

Our review also showed that some jeeps have private license plates. We were informed by EEA that each division determines what type of license plates should be used. However, if private tags are used, these tags should have the government insignia as well as the code No. 84 which designates an EEA vehicle. Our review of 12 vehicles either located at the Motor Pool or in front of the EEA Office showed that all had private license plates and that two of these jeeps did not have the 84 code or the government insignia. It is difficult to control the use of vehicles with private license plates and assure proper, official use.

Control over street lighting equipment is similar to those of vehicles. EEA records show that the lighting equipment was distributed to six electric distribution companies. These public companies redistributed the lighting equipment among eight Egyptian governorates. We visited the Governorate of Cairo to determine if they had received about $1.0 million worth of lighting equipment supposedly distributed to them by the Cairo Electrical Distribution Company. We were informed by a high official of the Cairo Governorate that they had rejected the first six items of the list which totaled about $475,000, and had made a payment on the remaining six items totaling about $525,000. These items had not been received as of July 30, 1980. We were informed by personnel of the distribution company that the items rejected by the Cairo Governorate had been redistributed to other electrical distribution companies and that the items accepted by the Cairo Governorate had been shipped to them. Records at the Cairo Governorate and at the distribution company are not adequate to determine how the lighting equipment was distributed.

USAID/E project files in the CI Office were in disarray. The USAID/E project files maintained by the CI Office on commodities imported for EEA as well as for other ministries were in such a state of disarray that reconstructing the history of the transactions was a most arduous task. Filing of documents was often not in any chronological order and documents had been haphazardly placed in the files. In many cases sampled, the procurement action was started under one IFB or as part of a group of equipment, only to be later separated and a new IFB issued; there was no memo or note in the files to provide continuity of the actions that were taken. Many files did not contain a copy of the contract for the equipment.

We acquainted officials of the CI Office with our observations on the files. We were told that the project files are not the official files--that the official files are maintained in AID/W. On the other hand, our AAG/W staff posed the same question at SER/COM and were given a different answer: i.e., the official files are maintained at the USAID/E.

Before the completion of this report, we were informed that a great deal of work had been done by the CI Office to straighten out the USAID/E files. For this reason, no recommendation is made in this report.

End-Use reviews by USAID/E have not covered vehicles and street lighting equipment. USAID/E made three end-use reviews of commodities imported under CIP during the period January 1, 1979 thru July 30, 1980. Reviews were made of 4 truck mounted cranes, $10.7 million of cables and transformers, and 2 truck-tractors with trailers and spare parts. These USAID/E reviews did not disclose any adverse conditions. No reviews had been made for vehicles and street lighting equipment.

Conclusions and Recommendations

The sixteen vehicles are being used for purposes explicity prohibited by Section 660 of the FAA and applicable sections of AID Regulation 1. These vehicles were transferred close to one year ago and they would be in no condition to revert back to EEA. Accordingly, the following specific recommendation is applicable.

Recommendation No. 1

USAID/E obtain from the GOE, in accordance with Section 201.81 of Regulation No. 1, a refund of $116,408 which represents the cost of 16 vehicles transferred by EEA to the National Police.

We believe that the controls and records of EEA are not adequate to meet the requirements of Section 201.41 of Regulation No. 1. They cannot give assurance that commodities are being used only on authorized purposes. Consequently, we are of the opinion that the USAID/E should no longer finance commodity imports for EEA until adequate controls and records have been established and are being maintained.

Recommendation No. 2

USAID/E inform the EEA that AID will not finance additional equipment procurement through the CIP until an effective equipment control system is established by EEA to assure compliance with requirements of AID Regulation No. 1 and the FAA. This system should include control mechanisms at all levels of the EEA organizational structure.

In connection with all $77.6 million imported by EEA through the CIP, our sample of vehicles and street lighting equipment showed gaps in the information that is available. A complete accounting of the arrival and disposition of all equipment must be made.

Recommendation No. 3

USAID/E require EEA to render a report to the USAID/E on location and utilization of equipment financed under the CIP program.

Regarding end-use verification reviews, we believe that all commodities which are subject to abuse, such as vehicles, should be systematically reviewed to determine if these commodities are properly controlled. Also, specific reviews should be made when problems have surfaced in the control of these commodities; e.g.,the case of the $1 million of street lighting equipment. Although CI Office personnel were aware of property control problems with the street lighting equipment, they did not request an end-use review to determine the extent of the problem. Although Audit Report No. 81-5 (See page 2) covers end-use reviews in a broader context, we believe the following specific recommendation is warranted here.

Recommendation No. 4

USAID/E schedule and make a complete end-use review covering all equipment imported by EEA under CIP.

B. Tractors

The GOE Ministry of Industry (MOI), through the El-Nasr Automobile Company (NASCO), imported 2,400 Massey Ferguson (MF-265) tractors and spare parts through the CIP at a cost of about $17.2 million. These tractors were imported to address one of the overall objectives of the CIP; i.e., to increase agricultural production. In short, the intended uses for the CI-financed tractors were for farming. Our examination showed that the specifications for these tractors were not the best suitable for use on Egypt farm terrain. They were also priced beyond the reach of the average Egyptian farmers and not competitive with tractors imported from other countries. Consequently, farmer demand for these tractors was low and sales were very slow; they were not sold within the one-year period stipulated in the regulations. Sales records were in no condition to enable an accurate accounting; a complete reconciliation of all tractors in-country with the total number imported could not be made. But, available sales data showed that a large number of these tractors were not sold to Egyptian farmers; rather, they were distributed to various GOE agencies and companies ranging from oil companies to metal furniture companies, contracting companies, brick companies, air-conditioning companies, the Nuclear Energy Authority, a Governorate City Council, a Governorate Health Unit, Cairo Water Authority, and various Governorates. Additionally, we found that forty-nine of these tractors were sold to the GOE Police Authority although this is prohibited by the Foreign Assistance Act (FAA) and AID regulations.

Tractor sales were slow. Two USAID/E Controller end-use reports indicated that the tractors were too costly compared to competitive imports and not compatible with the farm terrain. Specifications of the tractors were not the best for farmer needs in Egypt--the wheels were too small for the terrain. The end-use report of the Controller cited the following cost comparisons:

Make	Origin	Price (LE)
MF-265	U.S.A. (AID)	5,750
IMR	Yugoslavia	4,200 & 4,950 a/
Univers	Rumania	3,873 & 5,100 b/
Ballors	USSR	3,100
Zeitor	Czechoslovakia	2,800 & 3,267 a/

Notes: a/ First price for COOPS; second price for individuals.
b/ First price cash; second price credit.

Thus, the MF-265 was virtually priced out of the market; i.e., farmers, for whom the tractors were intended, could not afford them. Competitive tractors were not only substantially cheaper, but designed with large wheels. Sales of MF-265 were slow. According to the end-use reports, on August 31, 1979, one year after the arrival of the final shipment of tractors, only 1,089 (45%) had been sold.

AID Regulations require that commodities imported under the CIP be used within one year unless a longer period can be justified to the satisfaction of AID. Accordingly, by a letter dated January 2, 1980, the USAID/E was informed that the tractors had not been sold because:

- strong competition existed from importation of Eastern Bloc tractors that were cheaper: and

- buyers preferred tractors with larger wheels than that of the MF-265.

The letter also contained statements that: measures had been taken to make U.S. tractors more competitive; only 700 tractors were on hand as of December 31, 1979; and, sales of the remaining tractors were expected to take place within four months. Based on these justifications, USAID/E extended the commodity use date from August 1979 to June 1980. However, available records for 748 of these tractors sold during 1980 indicate that many sales were made to users other than farmers. Importer records show, for example, sales to: Cairo Water Authority; Fayoum Governorate Health Unit; Cairo Governorate; the Sewage and Drainage Authority; Ismailia Governorate City Council; Nuclear Energy Authority; Ministry of Education; Red Sea Governorate; and Dakahlia Governorate. Records show others sold to GOE agencies and companies ranging, for example, from oil companies, to metal furniture companies, contracting companies, brick companies, air-conditioning companies.

Some tractors were sold to the Police Authority(see Exhibit E). According to the importer's sales records, 19 of the MF-265 tractors were sold to the Central Security Division of the Ministry of Interior during calendar year 1979 and 30 more during 1980. In addition, on two occasions during this audit, we observed MF-265 tractors being used by the police. The cost (less freight) of a tractor unit follows:

Tractor	US $ 6,043
Battery	55
Tires	286
	US $ 6,384

A total of 49 tractors valued at $312,816 have been transferred for police work. Sections 607 and 660 of the Foreign Assistance Act and AID Handbook No. 1 specifically prohibit AID from financing commodities for the training, support, administration, or operation of any police or other law enforcement forces or for any program of internal intelligence or surveillance. Corrective action needed is addressed in Recommendation No. 5 in this section.

Records of the GOE importer do not adequately identify the sales of these 2400 tractors reviewed. AID Loan agreements with the GOE require that records be maintained in accordance with sound accounting principles and practices. In the case of tractors, one element of such principles and practices would be a system that adequately identifies sales. However, the importer's records of sales of MF-265 tractors for one calendar year (1978) were commingled with sales of the MF-165 tractor--a non-AID, British export. As a result:

- purchases of MF-265 tractors by one major distributor were understated;

- the total number of tractor sales exceeds the number imported and a reconciliation cannot be made;

- USAID/E Controller end-use reports contain a discrepancy in the change in inventory for 296 tractors.

The importer's sales records showed that 194 tractors had been sold to a private firm that is the in-country agent for all (AID and non-AID) Massey-Ferguson (MF) imports and also the major distributor of MF tractors. Based on our interview with the responsible representative of the firm, there were purchases of 484 MF-265 tractors from the importer at a price of LE 5,700--300 of which were sold directly to companies and individuals at LE 5,750; and 184 of which were sold to clients (also at LE 5,750) through the representative's name.

In another analysis, we reviewed workpapers of the USAID/E Controller to obtain sales for calendar year 1977; analyzed commingled sales records of the importer for calendar year 1978; and obtained sales records for calendar years 1979 and 1980. The records for the latter two years appropriately segregated AID-financed MF-265 tractor sales from those of other models.

For the commingled sales year (1978), the importer's records were deemed inconclusive. Some MF-265 sales could be identified from invoice description and engine/chassis numbers. But, the cumulative amount of MF-265 tractor sales (taking into account our qualification as it pertains to the commingled sales year) exceeds the total amount imported by 23 tractors as follows:

Calendar Year	No. of Sales Transactions
1977*	225
1978**	534
1979***	916
1980 (as of 8/80)***	748
Amount	2,423
Amount Imported	2,400
Difference	+ 23

* per USAID/E Controller workpapers.
** per Audit analysis of commingled records.
*** verified according to records.

In addition, the importer informed us that some 10 to 15 tractors had not been sold as at August 1980, because some parts were either missing or broken. Thus, the discrepancy could be in excess of 35 tractors (a value of over $227,395).

Finally, the two USAID/E Controller end-use reports contain a discrepancy in the change in inventory of unassembled and assembled figures for 296 tractors. In our discussions with appropriate Controller personnel, it was determined that the first end-use review included an actual inventory of tractors on-hand in various states of assembly while the second end-use review was limited to use of the importer's sales records. As pointed out earlier, some of the importer's sales records were not reliable and thus the potential for error becomes greater.

The USAID/E needs to pursue collection for the tractors that were transferred for police work in violation of the FAA and Agency regulations. Measures also need to be taken to improve accountability for the MF-265 tractors and further ensure the integrity of sales. The following three recommendations address these areas.

Recommendation No. 5

The USAID/E obtain from the GOE, in accordance with Section 201.81 of Regulation No. 1, a refund of $312,816 representing the cost of 49 AID-financed MF-265 tractors sold to the Ministry of Interior and being used by the police.

Recommendation No. 6

The USAID/E require that the MOI and the importer (NASCO) segregate sales of AID-financed MF-265 tractors from those of non AID-financed MF-265 tractors for calendar year 1978.

Recommendation No. 7

The USAID/E Controller (a) implement a final end-use review that corrects discrepancies and that accounts for total sales of AID-financed MF-265 tractors, (b) determine that tractors sold to non-farmer organizations are being used for purposes authorized by the FAA, and (c) take any additional action deemed necessary.

C. Ward Buses

This import through the CIP had highly visible results which reflect unfavorably on U.S. competence in manufacturing a quality product and U.S. supplier sincerety in honoring the product guarantee. The type of problems encountered, from initial specifications to operating breakdowns and related problems and through eventual bankruptcy of the U.S. supplier, illustrate the need to address the issues of (a) the proper extent of USAID and AID involvement in assisting the host government in CIP procurements and contracting, and (b) the management concepts applicable to CIP imports of highly visible products which publicize U.S. products and AID assistance.

The procurement of 1,600 buses for Egypt at a cost of $79.8 million (including spare parts) was handled as a routine commodity under the CIP. But, these buses involved detailed technical specifications for use under operating conditions in Egypt (much different than in the U.S.), participant and in-country training, and are highly visible imports, publicizing for quality of U.S. products and effectiveness of AID assistance. Routine CIP managerial controls employed were not the most effective; i.e., problems were encountered from the initial planning stages and continued after delivery in Egypt; but, there was no evidence that involved program managers used all the various in-house expertise, e.g., technical experts and engineers, available. The development of specifications was left, in the main, to a group of Egyptian representatives and U.S. suppliers visited by them. None of the bidders,including the successful bidder, met the initial specifications in the IFBs. There was no evidence that the GOE effectively benefitted from information developed by the USAID/E; for example, cognizant GOE Ministry officials were not informed of irregularities in the performance guarantee provided by the U.S. supplier although the USAID/E was aware of the situation. Other areas of concern involved the effectiveness of training and realistic bus specifications to meet actual in-country operating conditions--much more difficult and demanding than for use in the U.S.

The Ministry of Transportation and Communications (MOT) purchased 1,600 buses from the Ward Industries Inc. at a cost of about $79.8 million (including spare parts). Two types of buses were procured: 1,000 inter-city (smaller, with front engine) and 600 city buses (larger with rear engines). The buses were purchased in 1976 and early 1977 through the CI Program.

Two significant purposes of these high visibility buses were: (a) to alleviate the serious transportation problems faced by the vast poor population throughout Egypt, particularly in the urban areas; and (b) to provide positive publicity of U.S. friendship toward Egypt and of the economic assistance being provided by the United States.

Soon after delivery of the 1,600 buses, there were reports of breakdowns such as broken springs, noisy mufflers, split wheelrims, faulty electrical wiring that allegedly caused fires, and other serious charges that were directly attributable to less than satisfactory construction of the buses. For example, an end-use review by the USAID/Controller during December 1977, confirmed that over one-third of the inter-city buses test-checked had suffered broken springs and steering bracket failures. Another end-use report confirmed that poor workmanship occurred in installing the electrical wiring. Even U.S. personnel in Alexandria made formal complaints to the U.S. Embassy concerning the noise level of the Ward city buses operating there. As a result, the initial optimistic publicity soured. Subsequently, adverse publicity became a source of embarrassment to the U.S. Government as criticisms were vetted from the highest levels of the GOE.

Contributing to this situation, but largely deemphasized, were the general day-to-day conditions under which these buses were forced to operate. The buses were loaded 3 to 4 times, or more, over capacity; bus drivers were erratic and reckless, often ignoring the harsh terrain and other traffic; and preventive maintenance on the buses was often not carried out according to a systematic plan.

The combination of less than satisfactory workmanship was the result of (a) selection of a supplier that had no proven track record in complete bus construction, (b) an easing of specifications that enabled the selected supplier to better meet the specifications but that weakened bus design and strength, and (c) less than full coordination between the U.S. supplier and the GOE transit authorities responsible for bus operation and maintenance. To illustrate:

The original IFB submitted to the USAID during February 1976, was modified extensively to obtain specifications that could be met by U.S. suppliers. During June 1976, AID/W, on behalf of the MOT, issued IFB No. 3 which represented the second amendment to the original IFB. Later that month, one of the competing U.S. suppliers, Ward Industries (Ward), wrote to the MOT requesting certain further modifications to specifications contained in the IFB. Although it appears that further adjustments were made prior to award, there is evidence that competing suppliers received notification to enable adjustments of their bid submissions also. However, at least one known supplier refused to bid on the premise that specifications were unrealistic and would result in unreasonably high costs to the GOE.

We could not locate any evidence that specifications were submitted for review by AID/W Office of Engineering or that the demanding conditions of in-country operation of the buses was considered in specifications required.

Eventually during August 1976, bids on the 1,600 buses were opened; but five of the six bids furnished by a total of four U.S. suppliers were solely addressed for the inter-city buses. Ward Industries submitted the only bid for city buses. Bids received follow:

Bidder	Type	FAS Unit Bid U.S. $
General Motors	Inter-City	20,472
U.S. Truck Export	"	20,500
International Harvestor (Bid A)	"	22,900
International Harvestor (Bid A)	"	21,736
Ward Industries	"	24,904
Ward Industries	City	41,826

On October 9, 1976, the MOT furnished a letter to the USAID that requested clarification as to whether or not some bid deviations were deemed minor or material in nature. At issue was the possibility that the entire bid selection be cancelled. Some of the deviations:

(a) Concerned the Inter-City buses, as follows:

- offers of "dry type" airfilters when IFB specifications called for "oilbath" airfilters;

- lack of information in supplier bids about the types of wheels and numbers of holes in each; and types of tires and their manufacturer; and

- lack of details about training programs including whether estimates of training costs were included in the unit price of the buses.

(b) Concerned the City buses, as follows:

"...A single offer was received from Messrs. Ward for the supply of 600 city buses. The specifications of the offered buses seriously deviate from the IFB such as:

"...The axle load on the rear axle...exceeds the permissible load according to the Egyptian Traffic Act, ...

"...The offer specifies that the maximum load that the suspension can stand is 20.114 MT...the gross vehicle weight is 22.181 MT ...

"...fuel consumption is...considered extremely high."

The MOT concluded:

> "...To decide on such offer, negotiations are needed which will lead to a material modification of the IFB..." (Underscoring supplied.)

AID/W's response to the USAID recommended that the award should be made to Ward Industries because, based on information made available to AID/W, Ward was the only responsive bidder. AID/W further suggested that:

> "...the GOE explore with Ward such alternatives and endeavour to determine whether such modifications can be made within Ward's offered price."

Upon notification of their non-responsiveness, competing U.S. suppliers offered protests and arguments that were not supported by either AID or the MOT. One point of the competing U.S. suppliers was that Ward Industries had no experience in manufacturing buses--it only manufactured bodies. Thus Ward would have to subcontract for most other parts and services, and coordinate installation and assembly of the final product.

Irrespective of the valid concerns voiced by competing U.S. suppliers, the MOT, based on AID advice quoted earlier, awarded a contract to Ward Industries on November 29, 1976, for the procurement of 1,000 inter-city buses although Ward Industries had submitted the highest bid; the MOT also awarded subsequent contracts to Ward Industries for the total requirement of 600 city buses for which Ward was the only bidder.

Upon receipt of bid awards U.S. suppliers generally are required to furnish a performance guaranty protecting the host government (buyer) when CIP funds are used. Normally, the amount of required collateral is ten percent of the price of the product or services; i.e., the required collateral provides reasonable incentive for the supplier not to deviate from the agreed terms. The types of collateral that are commonly used as performance guarantees are (a) certified checks; (b) cashier's checks; and, (c) irrevocable letters of credit. Terms set forth in the contractual agreements between Ward Industries and the GOE stipulated:

> "(a) The contractor shall furnish to the corresponding bank in Egypt within 15 days after confirmation of award, a Guaranty fully protecting the Ministry of Transport against any loss incurred by it as a result of any failure of the Contractor to perform any of its obligations under this agreement.
>
> "(b) Said performance guaranty shall be satisfactory to the Ministry of Transport and shall be in the form of a certified check, cashier's check or irrevocable letter of credit in an amount equivalent to 10% of the total amount of the contracted value drawn in favor of the Ministry of Transport, Arab Republic of Egypt, and collectible upon receipt by the holding bank of the Ministries' written certification of Contractor's default hereunder..." (Underscoring added.)

Ward Industries provided a performance guaranty in the form of three irrevocable letters of credit applicable to buses allocated to the three transit authorities as follows:

- One irrevocable letter of credit in the amount of $2,490,400 applicable to the 1,000 inter-city buses;

- An irrevocable letter of credit in the amount of $1,831,840 applicable to 400 city buses to be used in Cairo; and

- An irrevocable letter of credit in the amount of $915,920 applicable to the 200 city buses to be used in Alexandria.

Our review of the preceding transactions disclosed questionable procedures that, in our opinion, rendered the performance guaranty practically useless and uncollectible because the irrevocable letters of credit were "advised" but not "confirmed" for payment through the corresponding bank in Egypt. As a result, the corresponding bank in Egypt could not be held responsible for the payment to the GOE in the event of supplier default. To illustrate, the National Bank of Egypt on December 18, 1976 and January 23, 1977, informed (advised) the MOT of the irrevocable letters of credit but without any commitment or responsibility (unconfirmed) on its part. Thus, the MOT would not be able to collect from the holding bank in case of supplier default. Apparently, this was not an acceptable arrangement because on May 27, 1977, Ward obtained irrevocable letters of credit from the Bank of Credit and Commerce International S.A., London, that replaced, but contained identical terms as, the initial irrevocable letters of credit. Again, on June 2, 1977, the National Bank of Egypt informed the MOT of the irrevocable letters of credit but without any commitment or responsibility on its part. In short, although Ward's issuing bank had changed, the conditions were the same; i.e., the MOT would not have been able to collect from the holding bank in the event of supplier default.

Related to this situation, the U.S. supplier, without AID consent, instructed its issuing bank to designate the Agency as a countersignator to any claims made by the GOE against the performance guaranty. This unilateral action had two effects: (a) it further reduced the GOE's control over supplier performance by making it more difficult to collect against the performance guaranty, and (b) it involved AID in the contracts although B/C-type agreements are between the GOE and U.S. supplier and AID is not a party. Another potential: the GOE could have assumed that any payments for claims made due to supplier default would be more fully ensured with an AID countersignature. However, in an October 2, 1978 memorandum USAID/LEG expressed the opinion that although the countersignature requirement was undesirable, AID would not (legally) be involved in the substance of a claim. The opinion also contained information that:

- the practical effect of the countersignature was minimal and that there probably was little point in seeking to have it removed from the guarantees (i.e., the three irrevocable letters of credit);

- if for some reason it was considered desirable to remove the requirement, it would be useful to know if the Ministry formally approved the performance guarantees when they were submitted;

- if not, the Ministry would be in a position to tell the U.S. supplier that the guarantees were not in compliance with the contract and should be amended; and

- if the Ministry had formally approved the guarantees, it was in a much weaker position; but could still attempt to obtain an amendment to the guarantees realizing that the guarantees did not conform to the contract and that the U.S. supplier might conform to such a request in view of future relations.

We found no evidence in either CI or MOT records indicating that USAID/E informed the MOT of the above conditions and alternatives; rather, it appears that the USAID did not ensure that the MOT was aware that the U.S. supplier had circumvented contract terms. Coupled with the MOT's apparent false assumption that it might be more fully protected, the irrevocable letters of credit remained unchanged until their dates of expiration.

Yet another element contributed to the less than satisfactory management and coordination of this procurement. Rather than negotiating with the MOT, the U.S. supplier had to deal with three separate transit authorities of the MOT. Each authority presented different complaints and, at one time, obtained independent agreements with the U.S. supplier to correct reported deficiencies. For a time, Ward Industries complied with certain of the demands; but, the complexity and expansion of problems over a year and a half period, coupled with poor maintenance procedures, brought about ambiguities in the extent of supplier warranty and buyer responsibility. As a result, corrective measures agreed to between the U.S. supplier and the transit authorities were not fully implemented; the U.S. supplier withdrew its field representative from Egypt; communications between buyer and supplier deteriorated to where it is now virtually nonexistent; the performance guaranty expired and the supplier refused to reinstate the guaranty as requested; litigation by the GOE against the supplier was initiated; and, the U.S. supplier reportedly has claimed bankruptcy.

The current state of Ward buses operating in Egypt generally appears to be less than satisfactory. The buses continue to be overloaded, poorly maintained and overused. For example, according to one transit authority, in order to break-even the buses are operated on 16-hour daily shifts. However, there is evidence that the GOE intends to salvage as many of the buses as feasible through a rehabilitation program.

We visited the Chairmen having responsibility for over 400 (of 600) city buses and 328 (of 1,000) inter-city buses. In addition, we visited garages located in Shubra and Giza, Egypt, and obtained information on one garage located in Helwan, Egypt. The MOT requires each garage to maintain a daily status report on the condition of all buses.

Exhibit C illustrates the status of Ward buses on the dates of our visits to the garages during June 1980.

MOT officials, transit authorities and representatives that we visited expressed a high degree of criticism, bordering on animosity, towards Ward Industries for a product that, in their opinion, was not of normal U.S. quality; and, for the apparent failure of Ward Industries to follow up some of its promises made to the various transit authorities. The individuals also were of the general opinion that it would not be in the best interests of all parties if Ward returned to Egypt to actively work on the bus problem; and that it would be doubtful if Ward and/or any other U.S. bus builder could ever obtain future contracts from Egypt or in Arab-speaking nations.

At the various garages we observed activities related to improving the condition of Ward buses that also included the complete rebuilding of some of them. Some of the activities included installations or modifications of: heavier wheelrims, springs and modified suspension; strengthened chassis and engine framework; reconstructed flooring and body parts; barrier installations to rear windows and to drivers areas; rewired electrical units; modified and strengthened motor mounts; rebuilt engines; and other improvements such as refurbished interiors and newly painted bodies. We viewed another modification developed by MOT engineers that has reportedly, improved engine performance and reduced the need for oil changes from once per week to once per month. The modification was accomplished by extending the air intake hose to outlets located at the rear side windows of the Ward buses. The effect is increased airflow to the engine for cooler temperature and improved fuel-to-air mixture. As a result, about 50 percent and about 70 percent of the Ward city and inter-city buses, respectively, that we reviewed were in minimum operating condition; i.e., they were being used. Many of the spare parts had been procured locally. Training of mechanics and garage workers largely has been done on-the-job. Some assistance has been offered by U.S. firms that were subcontractors under the Ward contract. The U.S. firms are offering their services at no charge to the MOT and are contributing toward reducing the adverse view of U.S. industry by MOT officials.

MOT officials, representing the various transit authorities, furnished varying estimates of from $4 to $10 million as the cost of reconditioning all Ward buses. In our opinion, the range of estimates is not reliable at the present time because each Authority is concerned only with the buses under its immediate purview. Some of the estimates included different cost estimates for the identical spare part. In addition, the separate transit authorities have individually approached the USAID with their estimates and proposed source of funding (i.e., loan, grant, local currency). We believe that the MOT should assume a greater role in consolidating these various estimates and requests prior to release of information to prospective donors. In short the MOT should be the focal point and ultimate decision-maker for any future transactions involving financing for the refurbishing of Ward buses.

Audit Conclusions and Recommendations

The manner in which specifications were finally developed led to a submission of bids by only one supplier for city buses. The same supplier, although submitting the highest bid on the inter-city buses, was declared the most responsive; and, based on the recommendation of AID/W, the GOE awarded the total requirement of 1,600 buses to Ward Industries, Inc.

The supplier appears to have met minimum specifications, even though the quality of the work and material used was less than satisfactory. But, the agreed-to specifications were inferior for the kind of passenger traffic under which the buses would be used. Additional complications resulted from the manner in which the buses were driven and maintained.

The buses developed problems very early after delivery, indicating that corners may have been cut wherever possible. For instance, unsatisfactory mufflers, wheelrims, and battery housings were supplied. Actions of the U.S. supplier beginning during late 1979 and to the present time raise questions about the supplier's sincerity towards seeking a final settlement of the matter. By ignoring both AID and GOE attempts to establish a dialogue, the U.S. supplier has further antagonized the GOE at high levels. Also at issue is whether the U.S. supplier provided a product and service in accordance with contract terms and whether the product was representative in quality of U.S. technical ingenuity and the ability to stand behind it.

The supplier did not comply with the terms of the agreement in relation to the performance guaranty. We believe the host country government never had complete control over the three guarantees nor were they collectible at any time.

The entire costs to correct operational problems related to the buses are not clear, primarily because there are three different Transit Authorities who are experiencing different problems with the two types of buses (City and Inter-City). The MOT needs to consolidate the problems and the costs.

AID, in our opinion, was involved in decisions that led to, the selection of this supplier. It was aware that the irrevocable letters of credit representing performance guarantees were not in accordance with contract terms. AID's continued neutral stance has only complicated the issues and prolonged the problem of adverse publicity being suffered by the U.S. Government and other more responsible U.S. suppliers. It is apparent that the host country does not want Ward Industries back in-country; however, a "Cash Settlement" from the supplier as previously promised, would probably ease the situation. In our opinion, the Agency should have actively and expeditiously moved in this direction. Leverage should be applied to Ward to reach an amicable "Cash Settlement" with the Government of Egypt. This settlement should take into account all the collective grievances of the three Transit Authorities. Accordingly, we feel that AID should initiate formal refund action against the supplier, under Clause 2 (b) of AID Form 282 "Invoice-and-Contract Abstracts" signed by the supplier, designed to achieve a final cash settlement for all grievances.

The cash settlement of the supplier can then be combined with any additional local currency grant the Agency may wish to make in order to counteract the adverse publicity.

Recommendation No. 8

> USAID/E request and assist the Ministry of Transportation (MOT) to accumulate lists of all problems of the buses held by the three Transit Authorities, which can be attributed to the supplier, and the approximate cost to correct all such problems, individually and collectively.

The Ward Buses are high visibility imports which have had wide adverse publicity for the U.S. and a negative image on U.S. quality and the effectiveness of AID assistance. This experience highlights the need for management to review the extent of USAID and AID/W involvement in assisting the host government in such CIP procurements. In the case of these Ward buses, for example, the extent of USAID and/or AID involvement at various stages of the procurement had a bearing on the resultant publicity generated; to illustrate:

--final specifications of the buses procured were not sufficient to meet the actual operating conditions in Egypt. There is no evidence of review by the AID Office of Engineering or of USAID or AID involvement to influence more stringent specifications.

--the bus contract was awarded to the supplier with no prior experience in manufacturing a complete bus. It appears that the selection of Ward as the only responsive bidder was influenced by AID's recommendations.

--the performance guarantees did not conform to the contract and did not protect the GOE but were never amended. There is no evidence that the USAID/E informed the GOE of this situation although action may have precluded the unfavorable publicity from poor quality buses.

--the AID countersignature requirement, unilaterally given the issuing bank by Ward, was not in the best interests of AID and may have misled the GOE. There is no evidence that this situation was explained to the GOE.

Based on the experience with the buses, we believe that the management concepts applicable in the case of high visible imports--particularly where so many factors are involved and where experience has shown a high incidence of possible problems--must be necessarily different than for normal or routine CIP importations. The guidelines used for highly visible imports should be scrutinized to ensure that managerial procedures are prescribed to cover the many phases of the importations. Particular attention should be given to such crucial phases as the writing and reviewing of specifications, contractual terms, guarantees, implementation schedules, delivery, maintenance, use, etc.

Recommendation No. 9

USAID/E, in conjunction with AA/SER and AA/NE, (a) review procedures currently followed in managing and assisting the GOE with CIP procurements and, (b) as determined necessary, revise and/or establish procedural guidelines for procurement assistance which will assure the import of high quality, guaranteed products that meet in-country needs and conditions.

USAID/E Comments

The USAID/E response indicated that the submission last March of detailed statements of liquidated damage claims by the GOE buyers effectively answered the second draft report recommendation. Regarding a recommendation to either obtain a refund or seek an immediate cash settlement, the USAID/E felt it was not implementable, given the bankrupt condition of the U.S. supplier.

Response to USAID/E Comments

The request for refund should have been filed much earlier. While we are not certain that the mere act of filing a Chapter II reorganization petition renders the draft recommendation not implementable, we have deleted it since the ruling of the Court may take several years. We have, however, retained the first draft recommendation (Recommendation No. 8). The lists obtained in March 1980, are from two GOE bus companies only, and not from the major one that has the most (1000--intercity) buses. The discrepancies between parts cost estimates discussed earlier, combined with the lack of firm knowledge on repair costs, and actual operational buses underscore the need for full and accurate information to support valid claims.

2. Non-Durable Commodities

We reviewed $816.9 million of non-durable commodities imported through the CIP. In the case of tallow imports ($238.1 million), our review showed potential for statutory violations in the U.S. and a separate, internal review focused on this aspect. We found no substantive problems in the processing of about $291.6 million of these selected commodities--tin-plate, coking coal, woodpulp, fishmeal, soybean seed, and soybean oil. Our review of the remaining commodities, on a sample basis, showed several areas involving substantial commodity imports which need management attention, in varying degrees, to assure Agency policy is carried out. Two of these areas involve the import of tobacco under the CIP.

--Actual practices of importing tobacco exclusively through the CIP rather then primarily through the P.L. 480 program seems contrary to policy. Since 1976, tobacco has been imported into Egypt through CIP financing. But, AID Handbook 15 regulations stipulate that P.L. 480 funding will be the preferred method of supply, except that AID will consider making additional quantities available when P.L. 480 amounts are deemed inadequate and there are no reasons for excluding the commodity from the AID loan or grant. Since 1978, there has been no P.L. 480 funding for tobacco imports by Egypt.

--Blends of tobacco, imported by Egypt from the U.S. and other countries. are being re-exported. AID Regulation No. 1 prohibits the re-export of AID-financed commodities in the same or substantially the same form from the cooperating country. An opinion by the Agency's General Counsel should be obtained regarding whether or not tobacco products (cigarettes) exported constitute commodities in substantially the same form as imported--tobacco and acetate tow (cigarette paper).

Our review surfaced two other areas which the USAID/E and AID/W management should remain aware of and monitor to assure that Agency policy is carried out. In brief, these areas involve (a) the effect of high volume requirements on participation by small businesses, and (b) indications that the Egyptian market for high volume non-durable commodities may be monopolized by a relatively few large U.S. companies because of limited competition, including competition by small business firms.

A. Tobacco and Related Products

Over $85.4 million of CIP funds have been committed for importation of tobacco and another $26.1 million for import of acetate tow paper, used in the manufacture of cigarettes. Our review showed that these commodities generally flow into the economy in a short period. Competition between U.S. suppliers is intense. Only minor problems have been experienced in the past. However, there are two areas which warrant management attention. The first relates to the high priority given to these importations through the CI Program; the second relates to the reexportation of tobacco to other countries as a finished product.

The priority given to the importation of tobacco through the CI Program should be re-evaluated. In late 1976, the USAID/E was faced with the alternative of financing tobacco imports through the CIP. The USAID/E made the decision, which was approved by AID/W, to finance this type of commodity through the CIP. But, since 1978, there have been no tobacco imports into Egypt under the P.L. 480 Program--only CIP funds have been used.

AID Handbook 15 regulations stipulate that P.L. 480 "...will be the preferred means of supply, except that AID will consider making additional quantities of the commodity available when the P.L. 480 amount is deemed inadequate and there are no other reasons for excluding the commodity from the AID loan or grant."

Actual practices of importing tobacco exclusively through the CIP rather than primarily through the P.L. 480 Program seems contrary to policy.

This commodity is a fast moving product. Orders can be placed rapidly and the quick disbursement features of the CI Program implemented. However, the priority ($111.5 million) being given to tobacco importation under the CIP does not appear to be sound. First, according to HB 15, CIP financing should be used primarily to make "...additional quantities of commodity available..." - not as the only source of financing. Second, the role that this commodity plays, if any, in the eventual development of a country is not altogether clear. It appears to us, then, that AID could de-emphasize importations of this commodity into Egypt through the CIP and apply such funding resources to higher priority CIP importations.

Recommendation No.10

The USAID/E, in coordination with SER/COM, (a) re-evaluate the heavy emphasis being given to the importation of tobacco and acetate tow (cigarette paper) under the CIP, and (b) formulate USAID/E policies and procedures, as necessary, to assure compliance with HB 15 requirements for financing most tobacco importations through the P.L. 480 program and only additional quantities through the CIP when P.L. 480 amounts are deemed inadequate.

Tobacco products are being re-exported by Egypt and a determination by the Agency's General Counsel should be obtained. During our visits to the MOI, we were informed that tobacco products (e.g., cigarettes) were being exported in small quantities to other Arab-speaking countries. The tobacco products, both domestically consumed and exported, are blends of tobaccos imported by Egypt from the U.S., Turkey, Greece, China, and other countries. Thus, accountability for U.S.-financed tobacco becomes lost at the point of blending.

Section 201.42 of Regulation No. 1 prohibits the re-export of AID-financed commodities in the same or substantially in the same form from the cooperating country. Whether the regulation applies to tobacco products is difficult to determine especially with the added condition that U.S. tobaccos are commingled with those from other countries. On the other hand, over $26 million of CIP funds involve the import into Egypt of acetate tow (cigarette paper); the use of CIP-financed cigarette paper in re-exported cigarette products does seem to be covered by Section 201.42 proscriptions; i.e., the cigarette paper seems to fit the definition of a re-exported commodity in the same or substantially the same form. We believe the following recommendation addresses clarification needed in CIP administration.

Recommendation No.11

The USAID/E (a) obtain a determination from the Agency General Counsel regarding whether or not re-exported tobacco products constitute commodities in the same or substantially the same form, and (b) based on such legal determination, formulate policies and practices for assuring compliance with AID Regulation 1 requirements.

B. High Volume Requirements and Competition

As shown in Exhibit B, imports of non-durable commodities through the CIP, such as tallow, corn and frozen poultry, have totaled about $413.6 million: these are recurring requirements of the host country and will be increasing in the future. The principal importer for these type commodities is the GOE Ministry of Supply (GASC).

We found no substantive problems in the processing of these selected commodities except for tallow which has been the subject of a separate, internal examination. We did note, however, two areas which the USAID/E and AID/W should remain aware of and monitor to assure Agency policy is carried out.

In brief, these areas involve (a) the effect of high volume requirements on participation by small businesses, and (b) indications that the Egyptian market for high volume non-durable commodities may be monopolized by a relatively few large U.S. companies because of limited competition, including competition by small business firms.

--Tallow is a derivative of animal fat normally used in the production of soap. A total of 374,900 m/t of tallow were financed through the CIP between 1975 and March 1980. Six suppliers/brokers received over 87% of the awards.

--Requirements for corn by the GOE amounted to 640,000 m/t in 1979 and will amount to 930,000 m/t in 1980. Of the amount financed through the CIP, two suppliers received 58.8% of all awards.

--Importation of frozen poultry first took place in 1977, and is now a recurring item; 40,000 m/t have been financed under the CIP. As in the case of tallow, there is not much competition in providing poultry. In effect, only four suppliers have received the awards. Two of the suppliers account for $32.1 (of $38.5) million.

The review showed an unusual situation related to the bidding and awards for frozen poultry. For instance, there had been eight separate IFB's issued and the documents either issued or picked up by over 290 companies. Yet, the number of bidders submitting bids ranged between 3 to a maximum of 11, a very poor response. Moreover, there was an unusually high incidence of suppliers who did not submit bid bonds and were consequently disqualified: in one bid, 11 suppliers submitted quotations, but 10 were disqualified because they did not sumbit bid bonds. After noting the very low response, USAID/E had submitted a suggestion to AID/W on the possibility of charging $50 per IFB to discourage truly uninterested bidders and thus reduce administrative and advertising costs of the Agency.

Because of these situations, we requested the Office of the Area Auditor General in Washington (AAG/W) to contact SER/COM and bidders who did not receive an award and to make an assessment of the potential problem.

The AAG/W tried to contact 19 different companies who received IFB documents under three separate bids. They could not locate nine companies; these are probably small companies or companies that are no longer in operation. Of the ones that were contacted, two did not submit bids because the bid bonds (set on basis of requirements) were too high; four did not receive the IFB document--they learned of GOE requirements from friends--and did not know a bid bond was required; one company could not meet the supply requirements.

In sum, indications are that lack of capacity to supply the large requirements of frozen poultry accounted for most failures to submit bid bonds. As long as the frozen poultry requirements are large (about 5,000 m/t per bid), smaller firms will not submit bid bonds; some said that the bid bond premiums (based on requirements) are too high and they would not submit a bond unless they received the awards. On the other hand, SER/COM officials said smaller firms submit bids without bid bonds in the hope that their price is so low the GOE will somehow waive the requirements. However, we believe that the high volume of requirements--tallow (374,900 m/t), corn (930,000 m/t) and frozen poultry (40,000 m/t)-- is the primary reason for the concentration of contract awards among only a few suppliers.

Conclusions

The Agency is incurring high administrative and advertisement costs to disseminate the IFB information and stimulate wide competition: yet, the high volume requirements are discouraging wide competition. In fact, responses from prospective suppliers have been minimal in the past. Bid bonds are extremely high because they are based on a percentage of the total possible contract, which, in turn, is based on volume of procurement; as a result, many suppliers are not submitting bid bonds and are thereafter disqualified from contract awards. Pertinent also, the Agency has a commitment, under Section

602 of the FAA, to stimulate participation of small businesses. The USAID/E and the Agency are meeting this commitment by providing information to U.S. suppliers and prospective buyers in line with provisions of Chapter 23, of AID Handbook 1. But the high volume requirement is annulling these efforts; small businesses are being effectively excluded from participating or even attempting to participate in providing fungible commodities to Egypt---they simply cannot meet the high demand or provide the bid bond. In our opinion, then, there are signs which indicate that a condition either already exists or is fast developing to a point where the Egyptian market for non-durable commodities will be monopolized by a relatively few large U.S. companies. Moreover the high volume of requirements is also affecting compliance with the shipping requirements of the FAA and resulting in high demurrage costs.

During the audit, through a Records of Audit Finding (RAF), we recommended that the USAID/E form a committee to find an appropriate resolution to the problems that are being created as a result of the huge volume requirements for these types of commodities of the GOE.

In its response to the RAF, the USAID/E stated that the problem was not as severe as the RAF made it appear and requested that we omit or modify the recommendation. In view of the USAID/E position, and considering all known factors, we can make no other useful recommendation in view of normal procedures involved in transactions for these types of commodities.

However, documents reviewed show that high administrative expenses are involved in the bidding process with few valid responses; e.g., 290 IFBs mailed out with only 11 responses, of which 10 were disqualified because bid bonds were not submitted. At least one case is documented of a small business firm complaining that it could not compete against "cartels" with an allegation that the U.S. Government agencies are favoring the large cartels.

Considering audit work in the U.S. and Egypt, and the existence of the documents referred to above, we believe the USAID/E and AID/W offices involved should closely monitor these areas on a continuing basis to assure Agency policy is carried out with respect to competition and small business participation.

EXHIBIT A

USAID/EGYPT
AUDIT OF THE INTERNAL OPERATING PROCEDURES OF THE COMMODITY IMPORT PROGRAM
IMPORTATIONS AND/OR FUNDS COMMITTED BY MINISTRIES AND LOANS AND GRANTS AS OF JULY 31, 1980

Ministry or GOE Organization	Importations 026	In 027	U S 029	$000 030	BY 026	LOANS 038	(263-K-XXX) 045	052	AND GRANT 263-0119	TOTAL
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	25,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5,000	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24,157	50,000	[illegible]	[illegible]
[illegible]	1,500	10,900	[illegible]	[illegible]	-	-	19,000	-	9,500	[illegible]
[illegible]	-	[illegible]	[illegible]	-	[illegible]	25,000	25,000	-	-	[illegible]
[illegible]	-	-	-	[illegible]	-	[illegible]	5,000	-	10,000	[illegible]
[illegible]	-	-	-	[illegible]	[illegible]	[illegible]	10,000	-	-	[illegible]
[illegible]	-	-	-	-	[illegible]	-	-	9,000	-	[illegible]
[illegible]	-	-	-	[illegible]	[illegible]	2,000	9,900	-	-	[illegible]
[illegible]	[illegible]	[illegible]	-	-	[illegible]	1,602	-	-	-	[illegible]
[illegible]	-	-	6,000	-	-	3,613	-	-	-	9,613
[illegible]	-	[illegible]	-	-	-	-	840	1,000	-	[illegible]
[illegible]	-	-	-	-	-	-	-	7,500	-	7,500
[illegible]	-	-	-	[illegible]	[illegible]	317	-	-	17,000	[illegible]
[illegible]	-	[illegible]	-	[illegible]	[illegible]	-	-	500	-	[illegible]
[illegible]	-	-	-	-	-	2,000	-	-	-	[illegible]
[illegible]	-	-	-	-	-	-	600	-	-	[illegible]
[illegible]	-	-	-	-	-	-	-	500	-	[illegible]
[illegible]	1,200	-0-	-	-	-	-	-	-	-	[illegible]
[illegible]	-	-	-	-	79	-	-	-	-	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	425,000	290,000	[illegible]	76,500	[illegible]
[illegible]	-0-	-0-	-0-	-	[illegible]	15,000	10,000	25,000	8,500	[illegible]
								.500		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$300,000	[illegible]	[illegible]	[illegible]

Note: The financial information contained in this exhibit is not exact. It represents a combination of earmarked (committed) funds, which may or may not be used: and issued Letters of Credit. In the case of issued Letters of Credit, moreover, the data includes both completed transactions and items in process; the completed transactions may not have been reduced for unused amounts; and the items in process represent a maximum amount which again may or may not be used. But the information is the best available at the current time and it represents reasonably good approximations as indicators of volume of importations to the different ministries and commodities.

BEST AVAILABLE DOCUMENT

Audit of the Commodity Import Programs of Egypt
Statement of Importations By Different Ministries and Authorities
Together With Our Audit Coverage
U.S. $ (000) as of July 31, 1980

Ministry of and Commodity	Commodity Audited - Type of Problem: Project-Like Activity	Other Specific	Non-Durable Items	No Significance Noted	Total Audited	Not Audited	Total Importations
Supply							
Tallow	$ -	$ -	$ 238,086	$ -	$ 238,086	$ -	$ 238,086
Corn	-	-	137,194	-	137,194	-	137,194
Edible Oil	-	-	96,701	-	96,701	-	96,701
Frozen Poultry	-	-	38,351	-	38,351	-	38,351
Automatic Bakeries	18,126	-	-	-	18,126	-	18,126
Ice Making Plants	1,885	-	-	-	1,885	-	1,885
Others	-	-	-	-	-	42,227	42,227
Sub Total	$ 20,011	$ -	$ 510,332	$ -	$ 530,343	$ 42,227	$ 572,570
Industry							
Tinplate	$ -	$ -	$ -	$ 62,831	$ 62,831	$ -	$ 62,831
Coking-Coal	-	-	-	95,026	95,026	-	95,026
Cigarette Tobacco	-	-	85,433	-	85,433	-	85,433
Wood-Pulp	-	-	-	20,705	20,705	-	20,705
Acetate Tow+Cigarette Paper	-	-	26,183	-	26,183	-	26,183
Tractors	-	17,200	-	-	17,200	-	17,200
Others	-	-	-	-	-	50,763	50,763
Sub Total	$ -	$ 17,200	$ 111,616	$ 178,562	$ 307,378	$ 50,763	$ 358,141

Ministry of and Commodity	Commodity Audited - Type of Problem: Project-Like Activity	Other Specific	Non-Durable Items	No Significance Noted	Total Audited	Not Audited	Total Importations
Transport & Communications							
Traffic Control Centers	$ 9,690	$ -	$ -	$ -	$ 9,690	$ -	$ 9,690
Trucks and Trailers	-	-	-	28,750	28,750	-	28,750
Ward Buses	-	79,801	-	-	79,801	-	79,801
Micro-Wave System I	20,000	-	-	-	20,000	-	20,000
Micro-Wave System II	16,920	-	-	-	16,920	-	16,920
Others	-	-	-	-	-	46,792	46,792
Sub Total	$ 46,610	$ 79,801	$ -	$ 28,750	$ 155,161	$ 46,792	$ 201,953
Suez Canal Authority							
Mobile Compressors	$ -	$ -	$ -	$ 850	$ 850	$ -	$ 850
Navigational Control System	17,060	-	-	-	17,060	-	17,060
Dredger No. 1	-	-	-	2,000	2,000	-	2,000
Dredger No. 2	-	-	-	2,500	2,500	-	2,500
Telephone Cable & Equipment	-	-	-	2,000	2,000	-	2,000
El-Raswa Power Plant	-	6,000	-	-	6,000	-	6,000
Others	-	-	-	-	-	25,960	25,960
Sub Total	$ 17,060	$ 6,000	$ -	$ 7,350	$ 30,410	$ 25,960	$ 56,370

Ministry of and Commodity	Commodity Audited - Type of Problem: Project-Like Activity	Other Specific	Non-Durable Items	No Significance Noted	Total Audited	Not Audited	Total Importations
G.O.F.I.							
Boilers & Sugar Mills	$ 22,000	$ -	$ -	$ -	$ 22,000	$ -	$ 22,000
Rotary Hearth	6,675	-	-	-	6,675	-	6,675
Textile Machinery	-	-	-	2,350	2,350	-	2,350
Others	-	-	-	-	-	20,801	20,801
Sub Total	$ 28,675	$ -	$ -	$ 2,350	$ 31,025	$ 20,801	$ 51,826
Agriculture							
Soybean Seeds & Innoculent	$ -	$ -	$ -	$ 1,220	$ 1,220	$ -	$ 1,220
Fish Meal	-	-	-	4,630	4,630	-	4,630
Insecticide Spraying Units	-	-	-	2,245	2,245	-	2,245
Pick-Up Trucks	-	-	-	3,127	3,127	-	3,127
Utility Vehicles	-	-	-	272	272	-	272
Soybean Meal	-	-	-	10,636	10,636	-	10,636
Others	-	-	-	-	-	870	870
Sub Total	$ -	$ -	$ -	$ 22,130	$ 22,130	$ 870	$ 23,000
Electricity							
R.E.A. Transformers, Cable, Generators	$ -	$ 12,000	$ -	$ -	$ 12,000	$ -	$ 12,000
EEA-Bus, Jeeps, Fire Trucks, Cranes	-	10,000	-	-	10,000	-	10,000
Forklifts, Generators	-	10,350	-	-	10,350	-	10,350
Cairo West spare parts	-	4,650	-	-	4,650	-	4,650

Ministry of and Commodity	Commodity Audited - Type of Problem Project-Like Activity	Other Specific	Non-Durable Items	No Significance Noted	Total Audited	Not Audited	Total Importations
Electricity (cont.)							
Gas Turbine Generator	$ -	$ 4,500	$ -	$ -	$ 4,500	$ -	$ 4,500
Mobile Diesel Generator	-	5,000	-	-	5,000	-	5,000
Others	-	-	-	-	-	31,130	31,130
Sub Total	-	46,500	-	-	46,500	31,130	77,630
Other Public Ministries	-	-	-	-	-	129,510	129,510
Sub Total Public Sector	112,356	149,501	621,948	239,142	1,122,947	348,053	1,471,000
Un-Sub-Obligated	-	-	-	-	-	500	500
Private Sector	-	68,500	-	-	68,500	-	68,500
Grand Total	$112,356	$218,001	$621,948	$239,142	$1,191,447	$348,553	$1,540,000

EXHIBIT C

STATUS OF WARD BUSES
AS OF JUNE, 1980

STATUS	NO	%	
PORT SAID GARAGE (WARD CITY BUSES)			
Total Ward Bus Inventory			240
Working	144	60.0	
Not working due to:			
--kit modifications (suspension)	27	11.2	
--periodic maintenance	13	5.4	
--engine and head cylinder	13	5.4	
--steering pump	9	3.8	
--accidents	9	3.8	
--license renewal	9	3.8	
--cross members	7	2.9	
--complete renewal	7	2.9	
--fire	2	.8	
HELWAN GARAGE (WARD CITY BUSES)			
Total Ward Bus Inventory			160
Working	60	37.5	
Not working due to:			
-- accidents	50	31.3	
--engine and head cylinder	30	18.8	
--kit modifications (suspension)	10	6.2	
--periodic maintenance	10	6.2	
GIZA GARAGE (WARD INTERCITY BUSES)			
Total Ward Bus inventory			25
Working	17	68.0	
Not working due to:			
--engine and head cylinder	3	12.0	
--periodic maintenance	2	8.0	
--transmission	2	8.0	
--accidents	1	4.0	

AUDIT OF THE INTERNAL PROCEDURES OF THE CIP
LIST OF VEHICLES DISTRIBUTED TO THE NATIONAL POLICE
AS OF JULY 31,1980

Type of vehicle	Unit cost	Police License Plate No.	Assigned to
Jeep	$ 7261	7180	(1)EEA Police Headquarters
Jeep	7261	7181	Cairo Zone
Jeep	7261	7183	EEA Police Headquarters
Jeep	7261	7185	Police Headquarters
Jeep	7261	7186	(1) Police Headquarters
Jeep	7261	7189	Police Headquarters
Jeep	7261	7190	Cairo Zone
Jeep	7261	7191	Gharbia Zone
Jeep	7261	7192	EEA Police Headquarters
Jeep	7261	7193	(1) Police Headquarters
Jeep	7261	7178	Canal Zone
Jeep	7261	7179	Behera Zone
Jeep	7261	7182	Dakahlia Zone
Jeep	7261	7184	Cairo Zone
Dodge Pickup	7377	7195	(1)EEA Police Headquarters
Dodge Pickup	7377	7197	EEA Police Headquarters
Total	$ 116,408		

Source: This list was obtained from the EEA Police Headquarters

(1) We physically verfied that these vehicles were used by the National Police assigned to EEA.

EXHIBIT E

Audit Of The Internal Operating Procedures Of The CIP
List Of Tractors Sold To The Ministry Of Interior
(Police)
As of July 31, 1980

Sales Year

1979 - Invoice No. 967 dated Nov. 25, 79 for 9 tractors

- Invoice No.1333 dated Dec. 31, 79 for10 tractors

Sub-total 19

1980	Chasis #	Engine #	
1	1691	14047	
2	1659	13594	
3	1715	13788	
4	1695	13380	
5	1652	11267	
6	1648	13739	
7	1726	11424	
8	1722	11634	
9	1723	11675	
10	1646	13474	
11	1714	14141	
12	1733	14037	
13	1700	13799	
14	1728	13463	
15	1730	11323	
16	1711	10283	
17	1638	11584	
18	2096	17009	
19	1739	11082	
20	1641	13489	
21	2330	14093	
22	2333	15015	
23	2344	10257	
24	2349	14128	
25	2353	13749	
26	2355	15037	
27	2358	13748	
28	2370	18511	
29	314	11527	
30	364	13502	sub-total 30

Grand total 49

ADDITIONAL BACKGROUND INFORMATION ON
THE COMMODITY IMPORT PROGRAMS OF USAID/EGYPT

Since 1975, when the economic assistance was initiated, there have been nine loans and one grant signed which obligate $1.5 billion for the CIP. These funds are appropriated through the Economic Support Fund as authorized under Section 532 of the Foreign Assistance Act (FAA). The following table shows the amount of the obligated funds and their status, by loans or grant, as of July 31, 1980:

		Amounts in US $ Millions		
Loan/Grant No.	CIP	Obligated	Disbursed	Balance
026	I	$ 80.0	$ 79.9	$ 0.1
027	II	70.0	69.9	0.1
029	III	100.0	99.2	0.8
030	IV	150.0	135.5	14.5
036	V	65.0	56.7	8.3
038	VI	440.0	372.7	67.3
045A	VII	226.0	187.2	38.8
045B	VIII	74.0	58.0	16.0
052	IX	250.0	154.2	95.8
Loans Sub-Total		1,455.0	1,213.3	241.7
Grant 0119		85.0	4.5	80.5
TOTAL		$ 1,540.0	$ 1,217.8	$ 322.2

The Program Assistance Approval Document (PAAD), which is signed by the AID Administrator, presents, in capsule form, the intent of the program; this is subsequently incorporated into the loan or grant agreements.

> "The proposed loan will assist Egypt with its balance of payments deficit during the coming year. The loan proceeds will finance imports of agricultural and industrial machinery, equipment, spare parts and other essential commodities and related services. The loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and to provide agricultural inputs essential to increase agricultural production."

The above statements have not changed significantly for the nine loans and grant, except that some loans add wording such as (a) "...and for new industrial expansion...", or (b) "...imports of food..."

The purpose of the loan or grant amounts were basically the same for the first five loans (026, 027, 029, 030, 036):

"...not to exceed...Million Dollars (the Loan) for the foreign exchange costs of commodities and commodity related services, as such services are defined by AID Regulation 1, needed to assist the Borrower to increase its industrial and agricultural production..."

The purpose of the loan or grant amounts changed somewhat for the next four agreements (038, 045A, 052 and 263-0119):

"...not to exceed...Million Dollars for the foreign exchange costs of commodities and commodity related services, as such services are defined by AID Regulation 1, needed to assist the Borrower in meeting a serious foreign exchange shortage, achieving development objectives, improving the standard of living and maintaining political stability..."

In sum, the objectives of the loans and grant are to finance types of commodities which will assist the GOE to diminish continued crisis in their Balance of Payments through maximizing production of existing or new industrial enterprises and increasing agricultural production. Importation of some food is also authorized so that political stability can continue.

About 95.5% of the obligated funds ($1.5 billion) are managed and channelled through the Public Sector of Egypt. The remaining balance, about $68.5 million, was allocated to the Private Sector.

This is the fourth audit report of the CIP. The series of seven reviews contribute, individually or collectively, toward the following audit objectives:

To (a) evaluate the adequacy of USAID/Egypt monitoring; (b) evaluate coordination within USAID/E for the purpose of determining how CIP projects are considered in regard to the overall USAID program; (c) evaluate the progress of the CIP program toward specific objectives in industry, agriculture and the Private Sector of the economy; (d) evaluate the actual impact of the CIP program on Egypt's foreign exchange needs; (e) evaluate the extent of GOE involvement in the determination of items to be procured under the CIP program and whether the items procured are in line with the GOE economic goals; (f) evaluate the extent of coordination between the GOE ministries in the acquisition and use of the commodities imported; (g) determine the adequacy of both GOE and USAID/E arrival accounting systems; (h) evaluate whether the planned computer system will be adequate for the proper control of the CIP programs; (i) review and evaluate controls over counterpart generations; and (j) determine the extent of action taken on prior recommendations.

LIST OF REPORT RECOMMENDATIONS

	Page
Recommendation No. 1	
USAID/E obtain from the GOE, in accordance with Section 201.81 of Regulation No. 1, a refund of $116,408 which represents the cost of 16 vehicles transferred by EEA to the National Police.	8
Recommendation No. 2	
USAID/E inform the EEA that AID will not finance additional equipment procurement through the CIP until an effective equipment control system is established by EEA to assure compliance with requirements of AID Regulation No. 1 and the FAA. This system should include control mechanisms at all levels of the EEA organizational structure.	8
Recommendation No. 3	
USAID/E require EEA to render a report to the USAID/E on location and utilization of equipment financed under the CIP program.	9
Recommendation No. 4	
USAID/E schedule and make a complete end-use review covering all equipment imported by EEA under CIP.	9
Recommendation No. 5	
The USAID/E obtain from the GOE, in accordance with Section 201.81 of Regulation No. 1, a refund of $312,816 representing the cost of 49 AID-financed MF-265 tractors sold to the Ministry of Interior and being used by the police.	12
Recommendation No. 6	
The USAID/E require that the MOI and the importer (NASCO) segregate sales of AID-financed MF-265 tractors from those of non AID-financed MF-265 tractors for calendar year 1978.	13

	Page
Recommendation No. 7	
The USAID/E Controller (a) implement a final end-use review that corrects discrepancies and that accounts for total sales of AID-financed MF-265 tractors, (b) determine that tractors sold to non-farmer organizations are being used for purposes authorized by the FAA, and (c) take any additional action deemed necessary.	13
Recommendation No. 8	
USAID/E request and assist the Ministry of Transportation (MOT) to accumulate lists of all problems of the buses held by the three Transit Authorities, which can be attributed to the supplier, and the approximate cost to correct all such problems, individually and collectively.	21
Recommendation No. 9	
USAID/E, in conjunction with AA/SER and AA/NE, (a) review procedures currently followed in managing and assisting the GOE with CIP procurements and, (b) as determined necessary, revise and/or establish procedural guidelines for procurement assistance which will assure the import of high quality, guaranteed products that meet in-country needs and conditions.	22
Recommendation No. 10	
The USAID/E, in coordination with SER/COM, (a) re-evaluate the heavy emphasis being given to the importation of tobacco and acetate tow (cigarette paper) under the CIP, and (b) formulate USAID/E policies and procedures, as necessary, to assure compliance with HB 15 requirements for financing most tobacco importations through the P.L. 480 program and only additional quantities through the CIP when P.L. 480 amounts are deemed inadequate.	24

Recommendation No. 11	Page
The USAID/E (a) obtain a determination from the Agency General Counsel regarding whether or not re-exported tobacco products constitute commodities in the same or substantially the same form, and (b) based on such legal determination, formulate policies and practices for assuring compliance with AID Regulation 1 requirements.	25

THE INTERNAL OPERATING PROCEDURES
OF THE
COMMODITY IMPORT PROGRAMS OF EGYPT

ACRONYMS
AND
COMMONLY USED TERMS

AA/NE	(AID's) Assistant Administrator/Bureau for Near East
AA/SER	(AID's) Assistant Administrator/Bureau for Program and Management Services
* AAG/E	Area Auditor General/Egypt
* AAG/NE	Area Auditor General/Near East
* AAG/W	Area Auditor General/Washington
IIDPS	Industrial and Infrastructure Development and Program Support
AEG	American Export Group
AID	Agency for International Development
AID/W	Agency for International Development/Washington
* AG/PPP	Auditor General/Office of Policy, Plans and Programs
AJP	Activity Justification Paper
A.R.E.	Arab Republic of Egypt
ARETO	Arab Republic of Egypt Telecommunications Organization
Bank L/Com	Bank Letter of Commitment
B/G	Borrower/Grantee (Contracts between Host Government and Supplier)
BOP	Balance of Payments
CIP	Commodity Import Program
Direct L/Com	Direct Letter of Commitment
EEA	Egyptian Electric Authority
ERS	Egyptian Railways System
ESC	Egyptian Sugar Company
ESF	Economic Support Fund

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* Effective 1/6/81, Area Auditors General (AAG) redesignated as Regional Inspectors General (RIG)

FAA	Foreign Assistance Act
GASC	(Egypt's) General Authority for Supply Commodities (Ministry of Supply)
GERCO	General Engineering and Refrigeration Company
GOE	Government of Egypt
GOFI	General Organization for Industralization
HB	The AID Handbook
IFB	Invitation for Bid
L/C	Letter of Credit
MF	Massey Ferguson (CI-Financed Tractors)
Mission	See USAID/E below
MO	Mission Order
MOE	Ministry of Economy
MOI	Ministry of Industry
MOT	Ministry of Transportation and Communications
M/T	Metric Ton
NASCO	El-Nasr Automotive Company (A Public Sector Firm under Egypt's MOI)
PAAD	Program Assistance Approval Document
PL 480	Public Law No.480
RAF	Record of Audit Finding
RTC	Railway Traffic Control (System)
SCA	Suez Canal Authority
SER/COM	The Office of Commodity Management in AID/W
USAID/E	U.S. Agency for International Dwvelopment/Egypt
USAID/LEG	Mission's Legal Advisor
VHF	Very High Frequency
VTMS	Vessel Traffic Management System

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AID/WASHINGTON	
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
Assistant Administrator/Bureau for Development Support	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)	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
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