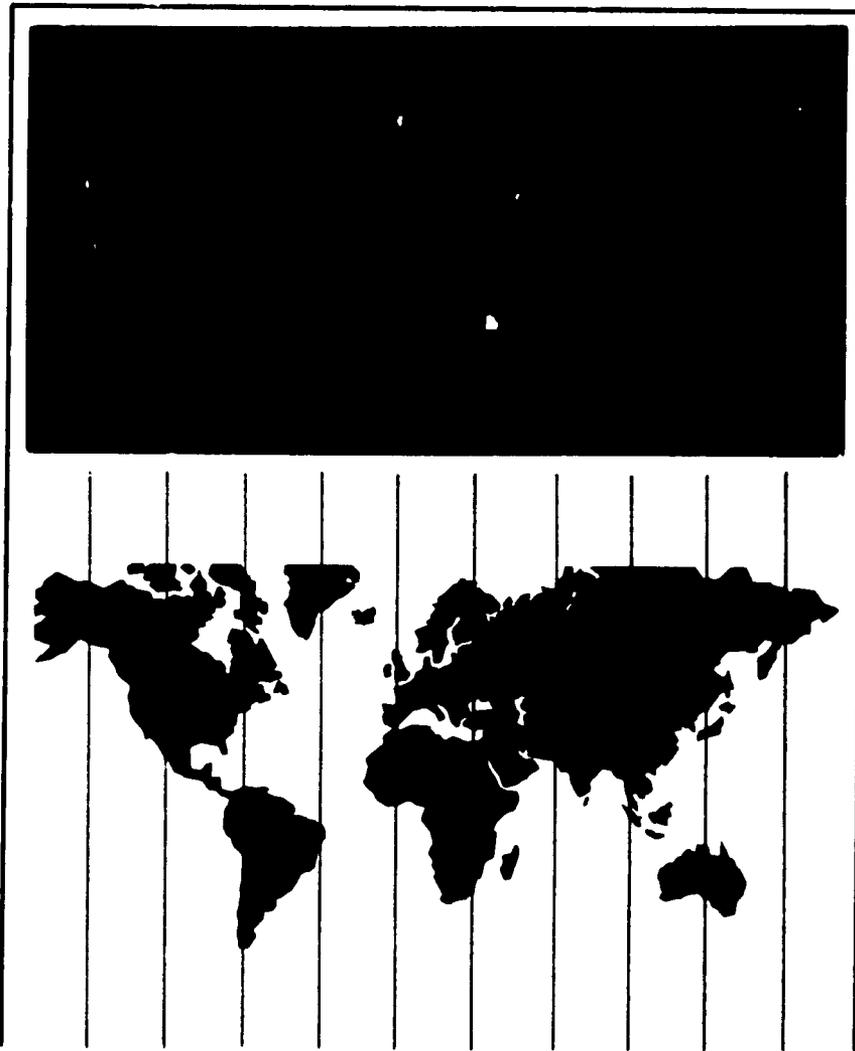


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
CAIRO

**AUDIT REPORT
ON
THE BASIC VILLAGE SERVICES PROGRAM
IN EGYPT**

Audit Report No. 6-263-82-5

Dated April 29, 1982

The Basic Village Services Project is entering its third implementation year. Project disbursements during the first two years totaled over \$60 million. The U.S. Government has committed an additional \$45 million in grant and Title III funding. During the current fiscal year, the USAID plans to commit additional funds.

Cash management of advances to the BVS project has increased project cost to the U.S. Government by over \$6 million. About \$1.6 million can be recovered. Further, cash management of BVS funds allowed unreported interest equivalent to over \$1 million to be earned on USG advanced funds. Agreements with the Government of Egypt require that the \$1 million must be recovered.

Approximately \$30 million of BVS projects have not been implemented due to pipe shortages. That shortage problem has existed for about two years.

The use of asbestos pipe in BVS potable water projects may result in severe health problems.

The report contains 38 recommendations for corrective action.

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Glossary

1. AID Agency for International Development
2. Agricultural Bank Agriculture, Development and Credit Bank
3. BVS Basic Village Services Project
4. CBE Central Bank of Egypt
5. District "County or Markaz" Governorate unit created to bring technical services closer to the villages
6. GOE Government of Egypt
7. Governorate Approximates a Province and is accorded many of the decisions once made by Central Ministries in Cairo
8. IAC Interagency Committee chaired by ORDEV's Director and consists of representatives from ORDEV and related Ministries
9. Local Village Unit Rural local villages under an incorporated area made up of several satellite villages
10. NBE National Bank of Egypt
11. ORDEV Organization for Reconstruction and Development of the Egyptian Village (serves as secretariat to IAC/BVS)
12. Title III Public Law 480 Title III - Food for Development
13. USAID/E U.S. Agency for International Development, Mission to Egypt
14. Village Councils Consists of appointed and elected council members of the central and satellite villages
15. Village Council Chief Executive management officer of the Village Council always an appointed council member

EXECUTIVE SUMMARY

Introduction

The Basic Village Services (BVS) Program as of December 31, 1981 had received over \$60 million from AID grant and P.L. 480 Title III funds. AID has obligated \$70 million and disbursed about \$31 million for the BVS program. The P.L. 480 Title III Agreement programmed \$75 million for this activity of which \$30 million has been provided.

The BVS Program is to assist the GOE in their efforts to decentralize authority for development activities and to improve the management capacity of the lower level governmental units; i.e., the Governorates, Districts and Village Units.

To accomplish the program purpose BVS funds are primarily used to finance basic village services projects that are selected, planned and implemented by the village governmental units. By December 31, 1981 about 1200 BVS projects had been approved. The approved projects were at various levels of implementation.

Scope

We made this audit to determine whether the BVS program was being implemented in accordance with requirements of the AID Project Grant Agreement, the Food for Development Program Agreement (P.L. 480 Title III) and related regulations. Additional background information and an expanded scope of audit statement are presented in Appendix B.

Summary of Major Findings and Recommendations

- Cash management of advances to the BVS project has increased project cost to the U.S. Government by more than \$6.3 million. The cost directly associated with cash management of advances continues to increase daily (page 3). We recommended recovery of \$1.6 million of these costs that should not have been incurred. We also recommended changes in cash management of advances that will greatly reduce the continuing increase of these costs (page 5).
- Interest earned by the Grantee on AID grant funds may exceed \$1,000,000 annually. We have recommended recovery of all interest earned on AID advanced funds (page 8).
- Interest earned by the Grantee on Title III funds may exceed the equivalent of \$400,000. We recommended that USAID/Egypt arrange to have all interest earned on Title III funds returned to the Organization for Reconstruction and Development of the Egyptian Village (ORDEV) for use on future BVS projects (page 12).

- The Qena Governorate arranged to have LE787,500 worth of commodities imported from Spain specifically for use in their BVS water projects. Commodities specifically imported for the BVS project are authorized only when of U.S. source and origin. We recommended recovery of the cost of the unallowable imports which totaled \$946,879 (page 19).
- The Sharkia Governorate paid over LE318,000 for unallowable items; e.g., procurement of vehicles and highway rolling equipment and payment of incentives. We recommended recovery of those amounts totaling the equivalent of about \$383,000 (page 20).
- The Qena Governorate imported commodities from the U.S. and paid LE31,314 of customs duties on the transaction. Identifiable taxes are not allowable for AID financing under the BVS project. We recommended recovery for the dollar equivalent of taxes paid on the transaction; \$37,652 (page 22).
- We have questioned about \$32,000 reimbursed to a USAID/Egypt consultant. We recommended recovery of that amount (page 28).
- The project has financed the procurement of substantial amounts of asbestos-cement pipe for use in BVS potable water projects. Environmental experts have noted potential health hazards associated with asbestos-cement pipe and we recommended that USAID provide an official documented position on the use of the asbestos pipe and take any necessary corrective action (page 13).
- Implementation of BVS water projects has been seriously delayed by insufficient supplies of pipe. We recommended immediate corrective action (page 15).

USAID/Egypt comments

"The Mission agrees that the project is not without problems. However, it is important to state that these are problems of implementation and administration. These two areas can be addressed and solved without resort to massive tampering with the design, goal or purpose of the Project. In no case did the Draft Audit Report (DAR) disclose evidence of deliberate fraud or misuse of money. It is indicative of the project that there is considerable interest and activity at the village level in choosing locally administered projects.

'Awareness of the rights of village councils is increasing. In Sharkia, for example, one village refused to allow the governorate to switch its funds to another village. In Giza, one markaz implemented their projects ahead of schedule and are ready for more money. Beheira and Minia have allowed a relative large amount of freedom to villages to choose their own projects.

'In short, the rationale on which the project was conceived is valid and working. The concept of assisting the decentralization process is a worthy one. We should not let the implementation problems cloud the success of those projects already completed or on-going."

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

(A) Commingled Funds in the Special Account

ORDEV has commingled funds from three sources in the one "Special Account" established for the Basic Village Services Project. The commingling of funds prevents identification of projects with funding source and thereby prevents verification of compliance with regulations related to the different funding sources. AID grant funds are USG owned and are governed by one set of regulations. Title III funds are GOE owned and governed by a different set of regulations. Interest earned is governed by one or the other sets of regulations, depending on the source of the principal.

A PL 480 Food for Development (Title III) Agreement was effected with the Government of Egypt on March 20, 1979. That agreement, as amended, required the Government of Egypt to establish a "Special Account" in which to deposit and maintain Title III Food for Development funds.

Under a Title III project payments for Title I commodities are forgiven in amounts equivalent to local currency deposited into a special account by the host government and used for agreed to purposes.

In October 1979, ORDEV opened a "Special Account" numbered 59-92-6018 in the Central Bank of Egypt. That Special Account was opened to fulfill the requirement of the Title III Food for Development agreement. Title III funds in the amount of LE9,838,331.200 (equivalent to about \$14 million) were deposited into the special account on October 3, 1979. These funds were completely disbursed to the approved Governorates by January 12, 1980 leaving a zero balance in the account. The Central Bank of Egypt verified at year end (June 30, 1980) that the account balance was nil.

In February 1981, ORDEV opened a "Special Account" numbered 99-92-6049 in the Central Bank of Egypt to receive the Title III funds provided through the June 30, 1980 amendment to the March 1979 Food for Development Agreement. On February 9, 1981 the Government of Egypt deposited LE9,993,148.895 (equivalent to about \$14 million) of Title III funds into the ORDEV Special Account No. 99-92-6049. In March and August 1981 AID advanced ORDEV LE21 million of Grant funds (equivalent to about \$30 million) for the Basic Village Services Project. These funds were also deposited into the ORDEV Title III Special Account No. 99-92-6049. During September 1981 ORDEV deposited about LE60,000 (equivalent to \$86,000) of funds generated from interest paid on Title III funds into the Title III Special Account.

The Special Account contained a closing balance of LE9,400,650 at the end of the fiscal year, i.e., September 30, 1981. There is no accurate way to identify who owns the LE9,400,650 or whose regulations should apply to which funds. Further, the funds previously disbursed from the special account are unidentifiable as to ownership and applicable regulations.

The projects under the Basic Village Services Project are not identified with intended funding sources. The annual approved plan of sub-projects is only a listing of activities to be undertaken for each approved Governorate with no distinction made for funding sources.

The commingling of funds coupled with the non-identification of the sub-projects by funding source presents several legal and technical problems:

- The AID grant agreement requires that interest earned on grant funds must be returned to AID in US dollars. However, Title III Egyptian Pounds are owned by the GOE. The GOE's Interagency Committee has directed that interest earned on Title III funds be used for project purposes.
- If project costs are disallowed the refund is handled differently depending on the source of funds involved.
- An audit of the project can not produce evidence for the USAID or USDA that Title III funds have been used properly
- A fund established for the exclusive maintenance of Grant funded subprojects can not be limited to Grant funded subprojects because subprojects are not identified by source of funding.
- At any point in time prior to project completion neither USAID/Egypt nor ORDEV can provide data showing accomplishments or completion rates for either the grant funded or Title III funded subprojects.
- When funds reach various levels in the implementation process, for example deposits into Village Council bank accounts, legal requirements may change. The Title III funds are considered expended when deposited into a Village Council's bank account and an equivalent dollar amount is then eligible for offset to the Title I Sales Agreement. However, there is no way to verify whether or not the funds deposited into a Village Council's bank account are Title III or from the grant agreement. On the other hand, when AID grant funds are deposited in a Village Council's bank account the funds remain AID Grant funds and all legal and regulatory requirements remain in effect.
- Egyptian Pounds to be offset under the PL 480 Sales Agreement are to be converted to a dollar equivalent at the prevailing official exchange rate on the date the pounds are disbursed from the Special Account into a Village Council's bank account. Currently, the rate can not be correctly determined if the exchange rate fluctuates during the project period. A change in the rate of exchange did take place on August 1, 1981.

We believe USAID/Egypt should amend the Basic Village Services Project Agreement to (a) prohibit commingling of Title III and AID Grant funds in the special account and (b) require ORDEV to identify projects by funding source. We suggest that USAID/Egypt consider accomplishing the identification of projects to funding sources by specifying that only one source of funding for Basic Village Services Projects may be used in each approved Governorate.

Recommendation No. 1

USAID/Egypt amend the Basic Village Services Project Agreement to require a "Special Account" for AID Grant funds.

Recommendation No. 2

USAID/Egypt arrange for specific identification of subprojects with funding sources in the Basic Village Services Project.

(B) Cash Management - Grant Funds

Cash management of advances has increased project cost to the U.S. Government by more than \$6.3 million. The cost directly associated with cash management of advances continues to increase daily.

We are recommending (a) recovery of about \$1.6 million of these costs and (b) changes in USAID/Egypt's cash management practices that will greatly reduce the continuing increase of these costs.

The reporting of cash disbursements as expenditures under the Basic Village Services Project is deceptive. Project funds in large tranches are advanced to ORDEV before project costs are incurred; but, these advances are classified as expenditures in the financial records. Ledgers to control these advances, by design, have not been established. Although the USAID knows that these "disbursements" are in fact advances, most readers of financial reports on the project would see a project that was completed; i.e., that the pipeline was clear of unliquidated obligations. This appearance of project completion may continue for years before the project is actually implemented and the uncontrolled advances liquidated.

USAID/Egypt designed, and AID/W approved, the "disbursement concept" of the Basic Village Services Project to function as follows (Project Paper Page 34):

"The cash management aspects of disbursing the entire annual allocation...up front prior to actual project implementation were carefully considered. An incremental funding mechanism with periodic reimbursement or replenishment was considered and rejected. The project sites and the accounting stations are so widespread, the financial reporting network so diffuse, the need for funds at the provincial level in terms of timing and amount so uncertain, it is imperative to have the funds available at the nearest control point, which is the governorate. The initial expenditure...of dollars will be a disbursement, not an advance. Periodic reporting from the GOE will indicate how the funds were used and will determine future allocations."

The above cited conditions; widespread accounting stations, diffuse reporting network, uncertain timing of need for funds, are the same reasons normally given for tightening internal controls instead of loosening those controls. Furthermore, the disbursement process currently used leaves the Mission in the position of reliance on the post audit function to establish what proportion of the funds have been expended.

(1) Non-Recoverable Losses Related to Excessive Advances due to Exchange Rate Change

In March 1981, USAID/Egypt advanced \$20 million to ORDEV for use in the Basic Village Services Project. These funds were converted (rate US\$1 = LEO.70) to 14 million Egyptian pounds (LE) and the pounds were deposited into ORDEV's account in the Central Bank of Egypt in Cairo. These pounds were to be advanced by ORDEV to seven approved Governorates. The Governorates in turn were to advance the funds to Village Councils for use in funding approved Basic Village Services Projects.

On August 1, 1981 the official rate of exchange was changed to US\$1 = LEO.83168. On that same date ORDEV's Cairo project bank account balance was LE6,476,825. The funds remaining in ORDEV's Cairo bank account from the excessive advance by USAID/Egypt in March 1981 resulted in a net loss to AID of \$1,464,967 on August 1, 1981 when the rate of exchange changed. That is, in March 1981 it cost AID \$9,252,607 to purchase the LE6,476,825 remaining in the Cairo bank account on August 1, 1981; but, if USAID/Egypt had purchased the LE6,476,825 on or after August 1, 1981 it would have taken only \$7,787,639, thereby saving AID \$1,464,967. This is the minimum amount of the exchange rate loss. The remaining LE7.5 million of the advance to ORDEV had been readvanced to the Governorates by August 1, 1981, but, had not been expended by August 1, 1981. ^{1/} ORDEV's records showed that on September 30, 1981 governorates' disbursements on projects totaled less than the Title III funds transferred to the Governorates. Therefore, on a first in - first out basis none of the AID Grant funds advanced to the Governorates, totaling LE7,523,175, had been disbursed from the Governorat bank accounts on August 1, 1981. So, AID lost an additional \$1,701,636 due to the early procurement of the Egyptian Pounds advanced to the Governorates in excess of need. That is, the LE7,523,175 advanced to the Governorates were purchased by AID at US\$1 = LEO.70 which totals \$10,747,393. But, if USAID/Egypt had waited and purchased the pounds when needed; i.e., some time after August 1, 1981, the exchange rate would have been US\$1 = LEO.83168 and the cost would have been only \$9,045,757 for the same number of pounds, thereby saving \$1,701,636.

^{1/} We asked ORDEV for the financial information on the status of expenditures under the Basic Village Services Project as of August 1, 1981. ORDEV stated that they could not provide the data as of August 1, 1981, but they could provide it for us as of September 30, 1981.

(2) Recoverable Loss Related to Excessive Advances Due to Exchange Rate Change

On July 28, 1981, USAID/Egypt prepared a voucher to advance an additional \$10 million to ORDEV for the Basic Village Services Project. This advance was provided notwithstanding the fact that ORDEV Cairo project bank account contained over LE6 million and the Governorates' bank accounts contained over LE7 million from the previous USAID/Egypt advance.

On August 1, 1981 the USAID/Egypt Controller's Office scheduled the voucher for payment of the \$10 million advance. The schedule for payment of the advance was then forwarded to the U.S. Disbursing Office in Paris (the Regional Finance Center for the Near East) which issued a check payable to ORDEV in the amount of LE7 million. The exchange of dollars for pounds is required by the Grant Agreement to be made at the highest official rate of exchange at the time of the transaction. The Regional Finance Center issued a check for AID to ORDEV dated August 5, 1981 in the amount of LE7 million. Therefore, the Regional Finance Center used the rate of US\$1 = LEO.70 for the transaction.

The official rate of exchange became US\$1 = LEO.83168 on August 1, 1981. Therefore, the Regional Finance Center should have charged AID only \$8,416,698.73 for the August 5, 1981 transaction instead of \$10 million. USAID/Egypt should recover the excess payment to the Regional Finance Center of \$1,583,301.27.

Recommendation No. 3

USAID/Egypt recover \$1,583,301.27 which represents an overpayment in the purchase of LE7 million made on August 5, 1981 through the Regional Finance Center, Paris.

(3) Non-Recoverable Interest Payment Made by the U.S. Government on Excessive Advances

The U.S. Government's budget is financed in part through borrowing. Accordingly, premature disbursement of Agency funds adds to the cost of the funds by the amount of interest paid for the funds. It is due to this fact that U.S. Treasury and OMB regulations require that advances of funds not be provided in excess of need.

USAID/Egypt has provided funds to the Basic Village Services Project greatly in advance of the Project's needs.

ORDEV's Central Bank Account in Cairo carried an average daily balance equivalent to \$15,552,505 of the funds advanced by USAID/Egypt for the six month period from April 1, 1981 through September 30, 1981. Using an estimated annual rate of 15 percent paid by the U.S. Treasury for borrowed funds, the added interest cost to the U.S. Government for \$15,552,505 for six months totaled \$1,166,437. This cost was incurred while the advanced LE equivalent remained idle in ORDEV's Central Bank Account in Cairo.

Additional interest expense was also incurred by the U.S. Treasury for the idle funds in the Governorates' accounts. We did not determine an average daily balance for the nine Governorates that received these advances. However, we did establish that between April 1, 1981 and September 30, 1981 the equivalent of at least \$10,747,393 of AID Grant funds was transferred to the Governorates' accounts and that that amount remained unexpended on September 30, 1981. Assuming that the funds had been transferred in equal daily installments throughout the period, the average daily balance in the Governorates' bank accounts would have been \$5,373,697. Additional interest expense to the U.S. Government at 15 percent per annum totals \$403,027. The advances provided by USAID/Egypt to the Basic Village Services Project prior to need during the six month period ending September 30, 1981, therefore, cost the U.S. Government at least \$1,569,464 in interest expenses.

(4) The Remaining Balance

On September 30, 1981 the ORDEV Special bank account in Cairo for the Basic Village Services Project had a remaining balance of funds totaling LE9,400,650. When all issued checks are cleared and checks are issued to advance funds to the Governorates to finance the remaining projects, ORDEV will still have LE805,864 in that account. All but LE59,536 of this remaining balance was provided from AID advances. Again, this amount was advanced to ORDEV prior to identification of projects on which to expend it.

ORDEV advised us that they had written to the Governorates asking them to submit proposals for additional projects. These proposals will be reviewed and, if approved, will be funded by advances from the remaining special account balance of LE805,864.

We believe USAID/Egypt should follow-up with ORDEV to insure that new projects amounting to LE805,864 are promptly funded or the remaining balance attributable to AID Grant funds (LE746,328) is refunded to AID in the dollar equivalent.

Recommendation No. 4

USAID/Egypt follow-up with ORDEV and insure that the remaining special account balance of LE746,328 is exclusively used for approved projects or that the dollar equivalent is refunded to AID.

The payments in advance of need as described above cost the Agency and the U.S. Government an unnecessary \$6,319,369. About \$1.6 million should be recovered. We believe there are better and less wasteful ways to fund the Basic Village Services Project with at least the same potential for attainment of the Project's objectives.

We suggest that USAID/Egypt consider funding the Basic Village Services Project under normal cost reimbursement procedures; i.e., arrange for the Government of Egypt to provide funding to the Village Councils through the Governorates by their normal budgeting process. Then, upon submission of proper payment documentation, reimburse the Government of Egypt directly in US dollars. This would develop the existing budgeting process and leave the system, including the appropriation and budgeting process, intact upon AID's withdrawal from the Project. This process would also coincide with the Title III Program which is now in operation for the second year.

Or, if the Government of Egypt will not agree to the above funding process, USAID/Egypt may wish to consider establishing a central revolving fund in ORDEV. ORDEV could reimburse the Village Councils or Governorates for project activities. If, ORDEV could not handle the added work load, USAID/Egypt may wish to consider establishing a revolving fund at the Governorate level to reimburse the Village Councils for their project costs. Or, some other process that would eliminate the excessive advances to the Basic Village Services Project

Any of the above methods would reduce the interest cost being incurred daily on advances in excess of need and would prevent loss in the event of a further devaluation of the Egyptian Pound. The above proposed alternatives for funding the Basic Village Services Project may require additional administrative cost. However, we conclude that several years of contracted support should cost less than the \$6.3 million of unnecessary costs incurred under current project procedures during only the six month period ending September 30, 1981.

Recommendation No. 5

USAID/Egypt terminate the practice of advancing funds to the Basic Village Services Project in excess of need.

The USAID comments:

"The Mission feels that the tone of the draft report, particularly as it relates to disbursements, infers that USAID/Egypt administered the Project in a way inconsistent with the intent of the Project Paper and the basic Grant Agreement. In fact, the up-front cash disbursement feature was an integral part of the Project's design and was included in the Project Paper and the Grant Agreement. The Draft Audit Report (DAR) states on page 1 that 'Scope: We made this audit to determine whether the BVS Program was being implemented in accordance with requirements of the AID Project Grant Agreement, the Food for Development Program Agreement (PL 480 Title III) and related regulations.' Nowhere does the DAR indicate that disbursements were made contrary to the Agreement.

"In fact the designers of the Project recognized that implementation problems could occur. Therefore, the Grant Agreement states in Annex I, page 5 'Subsequent disbursements to individual governorates after the first year's allocation will be contingent upon satisfactory progress in implementation of the approved plan. If a governorate or village within a governorate fails to perform satisfactorily or if funds accumulate excessively in governorates or village accounts, compensatory deductions will be made from follow-on financing.' The Project Paper includes the above language but goes one step further. 'By penalizing them (the villages) for lack of performance or faulty performance, governorates will thus be held responsible for implementation of sub-projects.'

"The DAR, in great detail, faults 'USAID/Egypt's' cash management of the BVS Project. The DAR quotes paragraph two of page 34 of the Project Paper in which a justification is given for an initial year's disbursement. The DAR again criticizes the Mission by stating 'the above weaknesses (i.e., page 34 quoted in the DAR) in internal controls that USAID/Egypt used as a basis for advancing funds for this Project...'

"The Mission did not act unilaterally in the initial year's disbursement. Instead the concepts proposed in the Project Paper were approved without alterations by the AID Administrator.

"The Mission requests that the tone of any discussion in the final Audit Report concerning cash disbursements, reflect that such disbursements were as proposed by the Mission, and as agreed to by AID/W. Furthermore, the disbursements followed exactly the Grant Agreement."

We agree with the USAID's description of the project design and approval process and we agree that actual disbursements followed the grant agreement. As a result, however, the project incurred unnecessary costs totaling over \$6.3 million.

(C) Interest Earned on BVS Funds In Governorates' and Village Councils' Bank Accounts

Interest earned by Governorates and Village Councils on BVS funds deposited in bank accounts may exceed \$1,000,000 annually. The AID/GOE grant agreement requires that interest earned on AID grant funds be returned to AID in U.S. dollars by the Grantee. To date, none of the interest earned on AID grant funds has been returned to AID.

In all three of the Governorates covered by this audit interest was being earned on BVS funds. In Sharkia Governorate part of the BVS funds were deposited in a special Governorate bank account and part of the funds were deposited in Village Councils' special bank accounts. Both the Governorate and the Village Council accounts were earning interest. In Beheira Governorate all of the BVS funds were deposited in Village Councils' special bank accounts. The Village Councils' bank accounts were earning interest. In Qena Governorate all the BVS funds were

retained in a Governorate special bank account. The Governorate special account was earning interest.

To verify that interest was being earned on the BVS funds we visited seven banks in which BVS funds were deposited. We reviewed bank records on the BVS accounts and discussed the accounts with bank officials. In addition to the seven banks visited, we examined bank statements on BVS funds when available in project files. We also visited the Head Office of the Agricultural Development and Credit Bank in Cairo to verify bank policy on interest payments. We found that: (1) governorates and village councils' bank accounts for BVS funds are established in the Agricultural Development and Credit Bank, (2) the BVS funds are deposited in current (checking) accounts and (3) it is the Agricultural Development and Credit Bank's policy to pay interest on current accounts.

With one exception, we found that the interest earned on BVS funds is deposited into the special account for the BVS funds. The one exception is the Qena Governorate which has the interest earned on BVS funds deposited into a separate account in the same bank.

Governorate and village council officials repeatedly told us that the interest earned on the BVS funds would be retained by the entity earning the interest and used for BVS projects. However, we could not verify this statement because in none of the accounts audited had the balance been reduced to a point where the use of the earned interest would be required. Egyptian officials, other than those in the ORDEV Cairo Office, did not appear to understand that the grant agreement required that interest earned on AID grant funds be returned to AID. Accordingly, no effort had been made by Governorate and Village Council officials to return the interest earned to AID.

As shown below the amount of interest earned on the AID grant and Title III BVS funds, deposited in Governorates and Village Councils' accounts, is substantial.

(1) Governorate Accounts

(a) The BVS funds advanced to the Sharkia Governorate during 1981 were deposited into special account no. 54 which was opened during January 1981, in the Agricultural Development and Credit Bank of Zagazig. Part of the BVS funds were transferred to the Village Councils' bank accounts; but the remainder was retained in the Governorate special account. The interest earned and posted by the bank to the Governorate account for the period March 1, 1981 through January 31, 1982 totaled LE30,305.95. On a first-in first-out basis LE3,081.25 was earned on Title III funds and LE27,224.70 was earned on AID grant funds.

In accordance with a USAID/Egypt and Egyptian Interagency Committee agreement, interest earned on Title III funds is to be returned by the Governorates and reprogrammed for project purposes. Therefore, USAID/Egypt should advise ORDEV to require the Sharkia Governorate to return the LE3,081.25 interest income earned on Title III funds during CY 1981 to the ORDEV Special Account for future programming.

Recommendation No. 6

USAID/Egypt (a) advise ORDEV to require the Sharkia Governorate to forward the LE3,081.25 of interest earned on Title III funds during CY 1981 to the ORDEV Special Account and (b) arrange to have these funds programmed for BVS projects.

The AID grant agreement requires that interest earned on AID grant funds be returned to AID in dollars. Accordingly, USAID/Egypt should collect \$32,734.59 from the GOE as the dollar equivalent of the LE27,224.70 interest earned on AID grant funds by the Sharkia Governorate for the period ending January 31, 1982.

Recommendation No. 7

USAID/Egypt collect from the Government of Egypt the \$32,734.59 of interest earned on AID grant BVS funds by the Sharkia Governorate for the period ending January 31, 1982.

As of January 31, 1982 the Sharkia Governorate retained LE207,718.35 of AID grant BVS funds in their bank account. That amount was earning interest. USAID/Egypt should determine the amount of interest earned on the AID grant funds subsequent to January 31, 1982 and collect that amount.

Recommendation No. 8

USAID/Egypt monitor the Sharkia Governorate bank account and collect all amounts of interest earned on AID grant BVS funds subsequent to January 31, 1982.

(b) The BVS funds advanced to the Qena Governorate were deposited into Governorate accounts. None of the BVS funds were transferred to village councils. However, some of the BVS funds were transferred to Governorate Departments who commingled the funds in Governorate bank accounts. Our identification of interest earned was limited to the interest earned on BVS funds while the BVS funds were deposited in a separate special account.

Interest earned on the BVS funds in the special account for the period July 1, 1981 through January 31, 1982 totaled LE41,328.72.

USAID/Egypt should collect the dollar equivalent (\$49,693.05) of the LE41,328.72 of interest earned on AID grant funds by the Qena Governorate during the period July 1, 1981 through January 31, 1982.

Recommendation No. 9

USAID/Egypt collect from the Government of Egypt the \$49,693.05 of interest earned on AID grant BVS funds by the Qena Governorate for the period July 1, 1981 through January 31, 1982.

As of January 31, 1982, LE1,877,463.38 of BVS funds remained in the Qena Governorate special account. Those funds continue to earn interest. USAID/Egypt should determine the amount of interest earned and collect that amount.

Recommendation No. 10

USAID/Egypt monitor the Qena Governorate special account and collect all amounts of interest earned on AID grant BVS funds subsequent to January 31, 1982.

(2) Village Council Accounts

(a) In Sharkia Governorate

The Sharkia Governorate transferred part of their CY 1981 BVS program funds to the village councils. The village councils deposited the BVS funds into special accounts in the local branches of the Agricultural Development and Credit Bank.

Our review of the village councils' books and records and visits to selected banks showed that the village councils' special bank accounts for BVS funds earned interest.

(b) In Beheira Governorate

The Beheira Governorate transferred all of their CY 1981 BVS program funds to the village councils' bank accounts. The village councils deposited the BVS funds into special accounts in the local branch of the Agricultural Development and Credit Bank.

Our review of the village councils' books and records and visits to selected banks showed that the village councils' special bank accounts for BVS funds earned interest.

(c) In Qena Governorate

As previously discussed, the Qena Governorate did not transfer any of the CY 1981 BVS funds to the village councils. However, Governorate officials advised that they will transfer all of the CY 1982 BVS funds they receive directly to the village councils.

We established the amount of interest earned on BVS funds deposited in ten village councils' bank accounts in Sharkia and Beheira Governorates. During the six month period July 1, 1981 through December 31, 1981 the ten bank accounts earned LE9,820.23. On a first-in first-out basis all of the interest was earned on AID grant funds.

When the rates of interest earned by village councils included in this sample are applied to the 479 village councils planned to receive AID grant BVS funds in CY 1981 the projected interest earned amounts to LE940,775. The grant agreement requires that interest earned on AID grant funds be returned to AID in dollars. Therefore, the estimated amount due AID for interest earned annually on AID grant funds in village councils' bank accounts is \$1,131,174.25.

USAID/Egypt should collect in dollars the equivalent of the interest earned by all village councils in project Governorates on BVS grant funds.

Recommendation No. 11

USAID/Egypt (a) determine the amount of interest earned on AID grant BVS funds deposited in the village councils' bank accounts (estimated at \$1,131,173.25 annually), and (b) collect that amount from the Government of Egypt.

We also verified that interest was earned on Title III funds deposited in village councils' bank accounts in Sharkia Governorate during the period ending June 30, 1981.

At four banks that we visited, documentation showed that interest earned on Title III funds during the six month period January 1, 1981 through June 30, 1981 averaged LE737.50 per account. If all 479 of the village councils' accounts earned the average, the total interest earned on Title III funds for the six month period ending June 30, 1981, would be LE353,262.500.

In accordance with an agreement between USAID/Cairo and the Egyptian Interagency Committee, all interest earned on Title III funds is to be returned by the Governorates for reprogramming.

Recommendation No. 12

USAID/Egypt (a) determine the amount of interest earned on Title III BVS funds deposited in Village Councils' accounts (estimated at LE353,262.500 for the six months ended June 30, 1981) and (b) arrange to have that amount returned to the ORDEV special account for reprogramming.

(D) Potential Health Problems May Result from Use of Asbestos Pipe in Potable Water Projects

The BVS Program funds substantial amounts of asbestos-cement pipe for use in potable water projects. The environmental experts under USAID/Egypt's direct consultant contract for the BVS program recommended in October 1981 that AID shift from asbestos pipe to lead free PVC or other suitable materials for use in BVS projects. Yet, at the time of our audit no change had been made in the use of asbestos-cement pipe in the BVS program.

AID has financed approximately 150,000 meters of asbestos-cement pipes for use in potable water projects in each of the nine governorates participating in the 1980/1981 BVS program. An approximate equal amount was financed for each of the three governorates participating in the 1979/1980 BVS Title III funded program.

Environmental experts employed by the AID direct contractor noted the potential health problems in August 1981, shortly after their arrival in country. The contractor's environmental team obtained and reviewed current data on use of asbestos pipe in water systems, and issued an environmental report on the asbestos pipe dated October 14, 1981. The consultants' conclusions were, they stated, "...generally consistent with those drawn by the U.S. Environmental Protection Agency."

In summary, they determined that:

- "1. Asbestos does have the potential for creating health problems, namely cancer.
- "2. Water supplies may contain asbestos from two sources.
 - 1- Nature.
 - 2- Use of asbestos pipe.
- "3. Natural asbestos fibers can be removed by conventional well - operated filtration.
- "4. Fibers from pipe are released to the water as a result of:
 - a- Tapping and fitting during construction. Proper methods can minimize this problem.
 - b- Erosion from the pipe itself, which is dependent on the quality of water, namely pH, alkalinity & calcium hardness.
- "5. The erosion source can be evaluated by the calculation of a figure called Aggressiveness Index, which is developed using measures of the above quality parameters."

The consultants' October 14, 1981 report included specific conclusions and recommendations on the use of asbestos-cement pipe in potable water projects:

- "1. Caution should be observed in the use of asbestos pipe. Its potential hazards to health must be recognized.
- "2. The Aggressiveness Index should be evaluated in new water systems before using asbestos pipe. When the A.I. is less than 10 a water treatment specialist should be consulted to find suitable methods to overcome the problem.
- "3. Serious considerations should be given to shifting from asbestos pipe to lead - free PVC or other apparently suitable materials.

Note: Not all PVC is lead free.

- "4. A program of water analysis to determine asbestos content and A.I. of existing water supplies should be undertaken by water supply officials."

USAID/Egypt has not implemented the above recommendations concerning use of asbestos-cement pipe.

We believe that the consultants' report presents sound evidence of potential future harmful health effects to consumers of water provided through asbestos-cement pipe systems. (The USAID disagrees, see Appendix C, page 6.) We are not unsympathetic to the argument that use of potable water provided through asbestos-cement pipe systems is probably less hazardous to health than the continued use of impure water. However, either alternative is undesirable and the BVS program can and should provide other types of water systems for the program.

If AID chooses to continue funding asbestos-cement pipes for BVS potable water projects, we recommend a written decision to do so be placed in the record showing the basis for that decision and the signatures of the authorizing persons.

Recommendation No. 13

USAID/Egypt document, for the record, an official position on use of asbestos-cement pipe in AID-funded BVS potable water project.

If AID decides to discontinue funding asbestos-cement pipes for BVS potable water project due to potential health problems we believe the following actions should be taken:

Recommendation No. 14

USAID/Egypt arrange for lead - free PVC or other suitable materials to be used for piping in BVS potable water projects.

Recommendation No. 15

USAID/Egypt (a) arrange water analysis of all BVS funded potable water systems containing asbestos-cement pipe, and (b) take any corrective actions required based on the results of such tests.

The USAID rejected our conclusion that the consultants' report presents potential serious evidence of future harmful effects to consumers of water provided through asbestos-cement pipe (Appendix C, page 6). The contract consultants, who raised the issue wrote a memorandum in response to a draft of this audit report which, according to the USAID, counters the consultants' August-October 1981 statements. The USAID asks therefore that the above recommendations be withdrawn. We believe, however, that implementation of the above recommendations is necessary to resolve the health hazard issue.

(E) Implementation of BVS Potable Water Projects

Implementation of BVS water projects has been seriously delayed by insufficient supplies of pipe. Immediate action is needed.

The 1980/1981 BVS program authorized 88 potable water projects in the Qena Governorate. The funding provided by the BVS program for those projects totaled over LE2.3 million. All of the potable water projects required pipes for implementation. As of March 1982, none of the 88 potable water projects had been started due to shortages of asbestos-cement pipe.

The Qena Governorate ordered the pipe required for their BVS water projects in May 1981. They physically received in Qena about 178,000 meters of the 208,000 meters of 4" pipe required for the BVS projects in January 1982.

The only supplier of asbestos-cement pipe (the pipe normally used in BVS potable water projects) in Egypt is a public sector company named Siegwart. That company manufactures and, when necessary to meet demand, imports asbestos-cement pipe. Siegwart initiates imports of asbestos-cement pipe any time their backorders exceed 1 million meters. Siegwart requires advance payment in full for orders they accept for pipes and any price increase prior to delivery is passed to the customer.

The Qena Governorate arranged for Siegwart to import the 208,000 meters of pipe required for their BVS projects and paid in advance LE787,500. The advance payment was for the total price of the 208,000 meters of 4" asbestos-cement pipe ordered. However, by January 1982, when the imported pipe arrived, the price had increased. The Qena Governorate did not have funds to pay the price increase so they accepted 18,000 meters less pipe than ordered to offset the price change.

Although the Qena Governorate had physically received the 178,000 meters of pipe, the pipe had not been tested by their Technical Committee. The Technical Committee must test the pipe before it can be "officially" received. Accordingly, at the time of our audit in Qena (March 1982) no BVS potable water projects had been implemented.

The pipe problems in the Beheira Governorate were less severe than in other governorates we visited, but shortages were evident. For example:

- The Nedeiba Village Unit ordered 10,000 meters of pipe in May and June 1981. They paid LE37,500 in advance for the full order. On November 12, 1981, the Village Unit received 1,800 meters of the pipe. As of February 12, 1982, no additional pipe had been received.

The Nedeiba Village Unit Officials advised that the amount of pipe they hope to eventually receive will be reduced by an amount to equal LE6,103 for a price increase.

- In September 1981, the El-Nemria Village Unit paid LE7,500 in advance for 2,000 meters of pipe. On January 26, 1982, the Village Unit paid LE1,260 for a price increase on the pipes. However, the only commodities they received was 500 couplings.
- The Kom El-Farag Village Unit paid LE13,984 in advance on May 19, 1981, for 1,850 meters of 8" pipe. In October 1981, they paid LE2,307 to cover a price increase on this order so they could receive the full amount of pipe required for their BVS projects. The Village Unit received 1,244 meters of 8" pipe on January 28, 1982. No additional pipe had been received at the time of our audit.

The Sharkia Governorate ordered the pipe for the 1979/1980 BVS program in February 1980. Siegwart was paid LE1.2 million in advance for the entire order. During July and October 1981, the Governorate paid Siegwart an additional LE132,000 to cover a price increase on the pipe.

During our audit of Sharkia Governorate in February 1982, the BVS potable water projects were not being implemented because pipe requirements ordered and paid for still had not been delivered. For example:

- In March 1980, Sheikh El-Naharia Village Unit advanced Siegwart LE20,800 for 5,700 meters of pipe. The pipe was not received until August 1981. However, as of February 1982, the couplings required for installation of the pipe had not been received.

The Sheiba El-Nakaria Village Unit ordered 5,540 meters more pipe from Siegwart in November 1981. All of this pipe was received in January 1982, but as of February 1982, the couplings for that order had not arrived.

- The El-Zankaloon Village Unit paid LE23,000 to Siegwart during March 1980. As of February 1982, the Village Unit had not received the pipe.
- Bordein Village Unit ordered 12,624 meters of pipe in March 1980. As of February 1982, they had received only 2,490 meters of the pipe.
- El-Aslougui Village Unit ordered 6,049 meters of pipe in March 1980. As of February 1982, they had received only 1,928 meters of the pipe; they had not received the couplings.
- The El-Gheita Village Unit paid LE146,350 in April 1980, for 11,719 meters of pipe. The pipe was received later in 1980; but as of February 1982, they had still not received the couplings for the pipe and the Village Unit, in February 1982, purchased metal couplings on the local market at additional expense.

We visited Siegwart Company and requested them to provide us with data on orders related to the BVS program. Siegwart Officials provided us with a worksheet showing the status of asbestos-cement pipe orders for BVS projects for the period July 1 through December 31, 1981. A summary of the data provided by Siegwart follows:

Siegwart Activity
related to BVS Project Orders for Asbestos-Cement Pipe
for the Nine Governorates in the BVS Programs

<u>Size of Pipe in Inches</u>	<u>Meters Ordered for BVS Projects during the Period 7/1-12/31/81</u>	<u>Meters Delivered to BVS Projects during the Period 7/1-12/13/81</u>	<u>Increase of Unfulfilled BVS Orders during the Period 7/1-12/31/81</u>
4	973,913	566,562	407,351
5	7,026	4,262	2,764
6	120,293	76,501	43,792
8	55,223	30,943	24,280
10	4,500	3,436	1,064
12	27,100	10,921	16,179
14	<u>3,000</u>	<u>2,642</u>	<u>358</u>
Total in Meters	1,191,055 =====	695,267 =====	495,788 =====

The above data provided by Siegwart relate only to orders for BVS projects for the six month period ending December 31, 1981. Siegwart did not show the amount of unfulfilled BVS Project orders on July 1, 1981. We assume that amount of unfulfilled orders on July 1, 1981 would be large since our audit showed that some BVS project orders for pipe made in early 1980 had not been filled as of February 1982. The 495,788 meters of unfulfilled BVS project orders is the increase of unfulfilled orders and is additional to the balance of unfulfilled orders outstanding on July 1, 1981; the shortage problem is increasing substantially in size.

The above data from Siegwart were not audited but appear reasonable when compared to BVS pipe requirements for the CY 1981 program of 1.8 million meters.

The USAID is aware of problems related to pipe shortages for BVS projects through reports by USAID/Egypt employees, USAID/Egypt contract personnel and a March 1981 AID evaluation. Yet, the problem remains. In fact, the size of the shortage problems appear to be increasing significantly.

Potable water projects in the BVS program represent over 60 percent of the activities under the program. Any problem that adversely affects the implementation of the BVS water projects greatly reduces the overall impact of the BVS program.

We believe USAID/Egypt should now take action to resolve the shortages of pipe for BVS water projects. This action should be taken in context with Section D of this report dealing with the health hazards from use of asbestos.

We suggest USAID/Egypt consider obtaining sources of acceptable pipe for use in water projects. The Mission may wish to have the pipe imported. It may be possible for the Mission to arrange for AID-financed PVC plants in Egypt to produce a lead-free pipe acceptable for BVS uses. The Mission may wish to limit future BVS water projects. The USAID/Egypt may choose another approach to resolve the pipe shortage. Whatever approach the Mission takes, we recommend that it be taken quickly.

Recommendation No. 16

USAID/Egypt expeditiously take action necessary to resolve the shortage of pipe for BVS potable water projects.

(F) Import of Pipe by the Qena Governorate for the 1980/1981 BVS Program

The Qena Governorate arranged to have LE787,500 worth of asbestos-cement pipe imported from Spain specifically for their BVS water projects. Imports specifically for BVS projects are limited to United States source and origin. Therefore, USAID/Egypt should recover the dollar equivalent of the unallowable purchases; i.e., \$946,878.60.

The Qena Governorate requested the Siegwart Company in a letter dated May 17, 1981, to import the governorates' total pipe requirements for BVS projects from Spain. The Siegwart Company confirmed in a letter dated July 18, 1981, that they could import the pipe for Qena Governorate's BVS projects. In the same letter Siegwart Company required immediate payment, in full, for the pipe order. The Qena Governorate issued check no. 775901 dated August 5, 1981 to Siegwart Company in full advance payment for the imported Spanish pipe. The check amounted to LE787,500.

The pipe imported for the Qena Governorate arrived in Alexandria in January 1982. The Qena Governorate arranged to receive the imported pipe directly from Customs and truck the pipe to Qena. On March 3, 1982 we verified from receiving reports that 178,397 meters of URALITA 4" asbestos-cement pipes had been received in the Qena Governorate. The total order was for 208,000 meters of pipe. Qena Governorate officials advised us that they had received 190,000 meters of imported pipe in Qena but have not yet prepared all of the receiving reports. The remaining 18,000 meters of pipe were deducted from their order to cover an increase in the price of the pipe.

Section 6.1 and 6.2 of the grant agreement limits commodity procurement to items of U.S. or Egyptian origin. Project Implementation Letter No. 7 issued under authority of the AID Project grant agreement states that AID financed goods imported specifically for the project must be of United States source and origin.

The LE787,500 of pipe imported specifically for the BVS projects in Qena Governorate was of Spanish source and origin and therefore ineligible for AID financing. USAID/Egypt should recover \$946,878.60 (equivalent of LE787,500) from the Qena Governorate for unallowable procurement of imported commodities for the BVS program.

Recommendation No. 17

USAID/Egypt recover \$946,878.60 (equivalent of LE787,500) from the Qena Governorate for unallowable procurement of imported Spanish asbestos-cement pipe with BVS funds.

USAID/Egypt should review procurement in all the BVS governorates to determine whether unallowable procurement similar to the above has been made.

Recommendation No. 18

USAID/Egypt review procurement with project funds in all BVS governorates to (a) determine whether the procurement was allowable under project procurement criteria and (b) recover funds used for unallowable procurement.

(G) The 1979/1980 Title III Program in Sharkia Governorate

In December 1979 the Sharkia Governorate received a check from ORDEV in the amount of LE3,368,457.20. That check was to be used by the Sharkia Governorate to finance their approved BVS projects in accordance with the Title III Food for Development Program Agreement dated March 20, 1979.

The Sharkia Governorate deposited the Title III funds in their general administration bank account in the Central Bank of Egypt. Then the Governorate drew a check on the Central Bank of Egypt in the same amount and deposited it in their account in the agricultural bank. Along with the deposit, the Governorate attached the approved distribution list of Title III projects. The Governorate instructed the agricultural bank to distribute the Title III funds to the village councils in accordance with the approved list.

At the same time that the agricultural bank was instructed to distribute the Title III funds to the village councils, the Governorate instructed all the recipient village councils to return the funds to the Governorate. This movement of funds technically fulfilled a requirement of the Food for Development Program Agreement (Title III) that "...the GOE will transfer necessary funds from the Title III special account to the bank account of the village council against a signed project agreement. This transfer will be considered a disbursement in furtherance of the goals of the Food for Development Program and will be eligible for offset against Title I indebtedness."

The above transfer of funds technically fulfilled the requirements for offset. However, we strongly suggest that USAID/Egypt monitor the transfer of BVS funds in Governorates to prevent this procedure in the future. We believe this suggestion is particularly important because another RIG/A/C audit team working on another audit found evidence that the same procedure is currently being used by the Menia Governorate for the CY 1981 BVS program.

The village councils returned the Title III BVS funds to the Sharkia Governorate as instructed. Various governorate offices have made use of the funds to implement BVS projects. But, substantial amounts have been misused by the governorate departments. For example:

The Highways Department of the Sharkia Governorate received LE281,766.31 of the Title III BVS funds returned by the village councils to finance road projects in six village units. But, the Highways Department used LE273,368.32 of the BVS Title III funds to purchase paving equipment, vehicles, furniture and office equipment, other equipment, and to construct buildings.

The procurement of the above items is not allowable under the Food for Development Program Agreement. Accordingly, USAID/Egypt should ensure that the LE273,368.32 of BVS Title III funds used to purchase these items is not offset against Title I indebtedness.

Recommendation No. 19

USAID/Egypt disallow for offset against Title I indebtedness LE273,368.32 of Title III BVS funds used by the Sharkia Governorate to purchase vehicles and highway equipment and other unallowable items.

The Housing Department of the Sharkia Governorate received LE2,533,635 of Title III BVS funds returned by the village councils to implement BVS water projects.

The Housing Department improperly used these BVS Title III funds to pay for 2 Fiat and 6 Datsun vehicles, plus accessories and to pay incentives to Housing Department Employees. The 8 vehicles cost LE43,853 and the incentives amounted to LE1,588.

Vehicles and incentives are not eligible for financing under the Food for Development Program Agreement.

Accordingly, USAID/Egypt should ensure that payments totaling LE45,441 are not offset against Title I indebtedness.

Recommendation No. 20

USAID/Egypt disallow for offset against Title I indebtedness LE45,441.00 of Title III BVS funds used by the Sharkia Governorate to purchase eight vehicles and pay incentives to Housing Department employees.

The Sharkia Governorate received LE3,368,457.20 of Title III BVS funds in December 1979. As of January 31, 1982 LE447,782.16 of the Title III BVS funds remained in the Governorate bank account. We believe USAID/Egypt should encourage the Sharkia Governorate to expedite usage of the Title III BVS funds or reduce the next AID grant of BVS funds accordingly.

Recommendation No. 21

USAID/Egypt determine the amount of unexpended prior years' BVS funds and analyze the Governorate's absorptive capacity for BVS projects as the basis for determining BVS program levels in the Governorate.

In our draft report, the recommendation stated that:

"USAID/Egypt determine that all 1979 Title III BVS funds are expended prior to the next Grant of AID funds or reduce the AID Grant an amount equal to the unused 1979 Title III funds."

The USAID commented that:

"Although the Mission agrees that for proper cash management 1979 funds should be expeditiously utilized, there is no justifiable basis in the audit report, to make disbursements of one fund contingent upon expenditure of the other fund."

Whether or not there is justifiable basis in the audit report, we believe that common sense dictates that past experience influence planning. Past experience shows that the Governorate has been unable to expeditiously use funds previously made available, and it seems reasonable to us that this fact should be considered in determining the level of future additional grants to the Governorate for the same purpose, i.e., BVS projects. However, the above recommendation was revised to provide management flexibility.

(H) Import Tax on AID Financed Commodities

The Qena Governorate paid LE31,314.06 customs duty on pumps and motors imported from the United States specifically for use in BVS projects. The duty was paid from BVS funds. The payment of customs duty is unallowable under the grant agreement. Thus, the \$37,651.56 customs duty (equivalent LE31,314.06) on AID financed commodities must be recovered by AID.

The Qena Governorate bid review committee on May 23, 1981 approved GEMCO Engineering Company's bid to supply 106 pump units. The units included pumps, electric motors and spare parts. The total cost of GEMCO's bid was LE657,595 (equivalent \$790,682.71). The contract for the procurement was signed by the Qena Governorate and GEMCO on June 28, 1981.

GEMCO imported the 106 pump units from a supplier in the United States and delivered them to the Qena Governorate on February 15, 1982.

We verified with GEMCO that GEMCO paid import duties of 5 percent on the pump units and spare parts and the duties were passed on to, and paid by, the Qena Governorate.

The AID grant agreement is specific; Section B.4 of the Standard Provisions Annex states that taxes in any form will not be financed with AID funds. That section in sub-part B.4 b2 states "To the extent that ... any commodity procurement transactions financed under the grant are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant." USAID/Egypt should recover \$37,651.56

(equivalent LE31,314.06) from the GOE for the amount of BVS funds used by the Qena Governorate to pay identifiable taxes (customs duties) on their procurement of pumps.

Recommendation No. 22

USAID/Egypt recover \$37,651.56 (equivalent to LE31,314.06) from the GOE for BVS funds used to pay unallowable customs duties by the Qena Governorate.

USAID/Egypt should review procurement in all BVS governorates and determine whether customs duties and other unallowable taxes have been funded with BVS funds. All unallowable payments of customs duties and taxes identified by the Mission should be recovered from the GOE.

Recommendation No. 23

USAID/Egypt review procurement in all BVS governorates and (a) determine whether customs duties and other unallowable taxes were paid with BVS funds, (b) determine the amount of any customs duties or other identifiable taxes paid and (c) recover any customs duties or identifiable taxes paid with BVS funds.

(I) Bank Commission charges on 1980/1981 BVS Program Funds in Sharkia Governorate

The Sharkia Governorate's bank charged commissions totaling LE1,166.50 on AID grant funds. Bank commissions are not allowable for financing with AID grant BVS funds. The GOE should refund to AID the LE1,166.50 paid for bank commission charges.

Upon receipt of 1980/1981 BVS funds from ORDEV the Sharkia Governorate deposited the checks into their account in the Central Bank of Egypt. The governorate then wrote checks on that account and deposited the checks into the BVS special account in the Agricultural Development and Credit Bank. The Agricultural Development and Credit Bank charged a commission of LE1,166.50 on the deposits.

Bank commission charges are not authorized for financing under the AID grant agreement. Therefore, USAID/Egypt should recover \$1,402.58 (equivalent LE1,166.50) from the GOE for AID grant BVS funds used to pay bank commission charges.

Recommendation No. 24

USAID/Egypt recover \$1,402.58 (equivalent LE1,166.50) paid from AID BVS grant funds for unallowable bank commission charges.

(J) BVS Maintenance Funds

The Basic Village Services (BVS) Grant Agreement requires, as a condition precedent, that each governorate participating in the project establish and fund a special account for maintenance of BVS projects. Those special accounts must be funded in an amount equal to 10 percent of each AID disbursement.

Each of the Governorates in the BVS program established and funded a special account equal to at least 10 percent of the AID grant funds approved for their projects. However, most of the governorates deposited in their maintenance special account an amount equal to 10 percent of all BVS funds received during CY 1981 (the first year for disbursement of AID grant funds); i.e., 10 percent of the total of AID grant funds and Title III funds. The AID BVS Project Paper makes it clear that AID intended the maintenance funding to equal 10 percent of the total BVS funds. The Project Paper section concerning the maintenance funds states "although this system is not now in effect in the ongoing Title III program it would be applied to those funds as well, beginning with the second year's allocation. Procedures will be worked out by USAID with the Interagency Committee, ORDEV and the Governorates."

Three governorates; Menoufia, Qalioubia and Menia, had deposited funds into special accounts for maintenance of BVS project in excess of 10 percent of their total AID grant and Title III funds. The excess was about LE80,000.

Two governorates have not funded the full 10 percent of all the BVS funds they received during CY 1981. Those two governorates were Fayoum and Giza. Each of those two Governorates' maintenance funds were about LE25,000 less than the full 10 percent of the total BVS funds received in CY 1981.

USAID/Egypt should arrange for the Fayoum and Giza Governorates to deposit funds into their BVS maintenance special accounts in amounts sufficient to equal 10 percent of the CY 1981 BVS funds prior to authorizing any additional disbursement to these two Governorates.

Recommendation 25

USAID/Egypt (a) arrange for the Fayoum Governorate to deposit LE24,318 and (b) the Giza Governorate to deposit LE25,000 to their respective maintenance funds for BVS project accounts or (c) identify the AID grant funded BVS projects and require that the maintenance funds deposited by Fayoum and Giza be used only on AID grant funded projects and not on Title III funded projects.

USAID/Egypt .comments:

"The Mission requests that Recommendation No. 25 be deleted. The Mission is not in a position to '...arrange...' for either Fayoum or Giza to increase their maintenance fund. The Grant Agreement requires, as the Audit Report states, that as a condition precedent each governorate establish a special account for the maintenance fund. However, the Agreement further states in Section 4.3 (a) 'evidence that funds in an amount equal to 10% of each AID disbursement (emphasis added) have been deposited in special accounts for the purpose of maintaining such projects under the Basic Village Services Program.' The Audit Report correctly states that the intent in the Project Paper is that the 'maintenance fund be 10% of the combined Title III and AID Grant funds.' It is internally inconsistent for the Audit Report to maintain that this is a legal binding condition, while in other Recommendations, such as special accounts, ignore both Project Paper and Agreement statements treating the two funding sources as one. Furthermore, the requirement to include the Title III funds in the Maintenance Fund requirement has been made internally by the IAC. While the Mission would urge Fayoum and Giza to increase their Maintenance Fund, it is felt this Recommendation is invalid."

We have reworded our recommendation to allow the Mission the option of fulfilling their stated objective or the letter of the grant agreement. That is, the 10 percent maintenance fund was established for the AID grant funded projects under the AID grant agreement. If the USAID/Egypt does not arrange to have Fayoum and Giza Governorates deposit funds for maintenance of the total of AID grant and Title III BVS projects then the Mission should ensure that the maintenance funds be used only on AID funded projects as provided in the Grant Agreement.

The BVS maintenance funds, in the three governorates covered in our audit, were deposited into accounts earning interest at the rate of 10 percent annually. The maintenance funds have now been in interest bearing accounts for over one year. If all nine governorates in the program are earning interest at the rate of the three in our sample the annual interest income on the BVS maintenance funds would total in excess of LE300,000. The maintenance funds are Government of Egypt appropriated funds and therefore AID has no control over the interest earned.

To prevent possible misunderstanding between AID and the GOE on the use of the substantial amounts of interest earned on BVS maintenance funds USAID/Egypt should negotiate an agreement with the Egyptian Interagency Committee defining use of those funds.

Recommendation No. 26

USAID/Egypt negotiate an agreement with the Interagency Committee on the use of interest earned on BVS maintenance funds.

USAID/Egypt comments:

"The Mission requests that Recommendation No. 26 be deleted. Although more specific information will be in the maintenance fund guidelines now being finalized, interest on the maintenance fund was addressed in an ORDEV letter dated 19 January 1981 to all Assistant Secretaries General. Item 3 states 'Interest from the fund appropriated for maintenance in the accounts in the village banks is put in the same account in the village banks to increase the funds for maintenance and it is prohibited to be spent on other purposes.'"

The three governorates covered in this audit had not distributed any of the maintenance funds to the Village banks. All of the maintenance funds, in each of the governorates, were in central governorate bank accounts.

According to the January 19, 1981 quote presented above only interest earned in Village banks will be put into the maintenance funds. We, therefore, are retaining the recommendation.

In the three governorates audited BVS maintenance funds have not been used; primarily because criteria for use of the maintenance funds had not been established.

USAID/Egypt's contract with Chemonics required Chemonics to develop "Procedures and guidelines for the operation of the proposed sub-project maintenance funds." Further, the USAID/Egypt BVS Project Office, in an action memorandum dated February 17, 1981, on conditions precedent related to the maintenance funds stated "The consultant will be tasked to develop these criteria immediately upon initiation of their contract and this office will closely supervise and expedite the completion thereof."

The consultant contract was initiated on April 6, 1981 but as of March 1982 the procedures, guidelines and criteria for use of the maintenance funds had not been developed. The program, in some governorates, is now entering the third year.

To prevent unnecessary deterioration of BVS projects due to lack of preventive and corrective maintenance USAID/Egypt should expedite preparation of criteria for the use of the maintenance funds.

Recommendation No. 27

USAID/Egypt expedite preparation of criteria for the use of the BVS maintenance funds.

(K) Erroneous Payment with BVS Funds

The Gheata Village Unit of the Sharkia Governorate erroneously paid LE576.33 for a non-BVS Project Activity from BVS funds. Officials of the Village Unit advised us that they will make necessary adjustments to replace the LE576.33 in the BVS account.

Gheata Village Unit paid invoice 147 dated October 5, 1981 received from contractor Ahmed Hassan Toraich. The invoice was for work the contractor had done for the Gheata Village Unit. But, part of the work was for a BVS project and part was for other activities. The invoiced amount was for all the work done by the contractor. The invoice amount totaled LE3,917.65 of which LE3,341.32 applied to BVS projects. The total amount was paid from the BVS account. Therefore, the additional payment of LE576.33 should be recovered for BVS uses. The Gheata Village council officials assured us that they would make the necessary adjustments to replenish the BVS account.

USAID/Egypt should follow-up with the Gheata Village council and ensure the BVS account is properly reimbursed for the incorrect payment amount of LE576.33.

Recommendation No. 28

USAID/Egypt ensure that LE576.33 is recovered and deposited into the Gheata Village council's special account for the BVS program.

(L) Annual Report on Title III

The Government of Egypt is required under terms of the Food for Development Program Agreement to provide to the USG an Annual Comprehensive Report on Title III Activities. That report has not been provided.

The Food for Development Program Agreement (Title III) provides that one of the responsibilities of the GOE (acting through ORDEV) is to:

"Submit on/or before November 1 of each year during the period of this agreement a comprehensive report to the USG on the activities and progress achieved under the Food for Development Program, for the United States fiscal year ending September 30 including, but not limited to, a comparison of results with program targets, a specific accounting for commodities and funds generated, their uses, the outstanding balances at the end of the most recent fiscal year, and any recommendations of the GOE for modification and improvement of the Food for Development Program."

The Title III Program Agreement was signed on March 20, 1979. The program is now in its third year, but, to date ORDEV has not provided an annual report on the Title III activities.

USAID/Egypt officials advised that they have repeatedly requested ORDEV to provide the report. Further, we were told USAID/Egypt had arranged in September 1981 for TDY personnel from AID/W to help ORDEV prepare one of the required annual reports. But, due to circumstances beyond their control, the AID/W assistance had to be postponed.

The required annual report, when properly prepared, should be of assistance in monitoring and controlling the Title III BVS Program. Accordingly, we suggest USAID/Egypt arrange for necessary assistance to enable ORDEV to provide the required reports.

Recommendation No. 29

USAID/Egypt arrange for ORDEV to prepare and provide to AID the required annual report on the Title III Program Activities.

(M) Questioned Costs Under a Direct USAID/Egypt Cost-Reimbursable Contract No.263-0103-C-00-1014 With Chemonics International Consulting Division

We have questioned dollar costs totaling \$31,565.88 and Egyptian Pounds costs totaling LE172.20 paid to Chemonics under contract no.263-0103-C-00-1014. We have recommended that USAID/Egypt recover these amounts.

(1) Questioned Dollar Costs

Our review of dollar invoices from Chemonics was limited to those numbered from 1 through 7. The invoice numbered 7 was for dollar costs incurred during the month ending October 31, 1981. That invoice was the last one paid by USAID/Egypt at the time of our audit.

(a) Overhead and General and Administrative Charges on Local Egyptian Pound Salaries

Chemonics billed and USAID/Egypt paid improper charges totaling \$21,203.91 for overhead and G and A on local Egyptian Pound salaries paid by Chemonics. Chemonics' overhead charges are allowable only on U.S. dollar direct salary costs and General and Administrative charges are allowable only on U.S. dollar costs.

AID/Washington reviewed Chemonics overhead proposal and advised the USAID/Egypt that the "proposal did not include the proposed U.S. salaries or the Local Professional salaries to be incurred under the Basic Village Services Project. Further, our review of their previous submission indicated that the overhead and General and Administrative rates were based on U.S. dollar costs. Thus, Chemonics indirect costs should not be applied to local currency costs and may have to be modified for the current U.S. dollar effort under this Project."

AID/Washington further advised USAID/Egypt that the base of application for overhead was "U.S. dollar direct salaries and wages" and that the base of application for G and A was "Total U.S. Dollar Cost Input".

We discussed the Chemonics contract provisions on overhead and General and Administrative charges with the USAID/Egypt Contracting Officer who assured us that during the contract negotiations Chemonics was informed that overhead and General and Administrative charge rates were applicable only on U.S. dollar costs.

Nevertheless, Chemonics applied their overhead and General and Administrative rates to the dollar equivalent of their local professional Egyptian Pound salary costs. The improper charges on pound salaries for overhead totaled \$19,354.55 and for General and Administrative charges totaled \$1,849.36. The combined incorrect payment amounts to \$21,203.91. USAID/Egypt should recover this amount from Chemonics. Further, USAID/Egypt should determine and recover any payments of overhead and General and Administrative amounts to Chemonics based on the dollar equivalent of LE salary costs subsequent to invoice number 7 for the month ending October 31, 1981.

Recommendation No. 30

USAID/Egypt collect \$21,203.91 incorrectly paid to Chemonics for overhead and General and Administrative charges on local Egyptian Pound salaries.

Recommendation No. 31

USAID/Egypt determine and recover from Chemonics any overhead and General and Administrative payment on local Egyptian Pound salaries made to Chemonics subsequent to invoice number 7 for the month ending October 31, 1981.

(b) General and Administrative Charges on Total Egyptian Pound Cost

Chemonics billed and USAID/Egypt paid General and Administrative charges amounting to \$7,048.37 on total local Egyptian Pound costs. These payments were not allowable under terms of the contract and should be recovered.

As discussed above General and Administrative rates are allowable only on U.S. dollar costs. Yet, Chemonics applied their General and Administrative rate to the U.S. dollar equivalent of their total Egyptian Pound costs. The incorrect amount paid for General and Administrative charges on local currency costs amounted to \$7,048.37 (plus the \$1,849.36 of General and Administrative costs charged on local currency salaries recommended for recovery above) on the first 7 dollar invoices from Chemonics. USAID/Egypt should recover that amount. Additionally, USAID/Egypt should determine and recover from Chemonics any payments to Chemonics for General and Administrative charges on Egyptian Pound costs subsequent to invoice number 7 for the month ending October 31, 1981.

Recommendation No. 32

USAID/Egypt collect \$7,048.37 from Chemonics for unallowable payment for General and Administrative charges on total Egyptian Pound costs.

Recommendation No. 33

USAID/Egypt determine and recover any amounts paid to Chemonics for General and Administrative charges on Egyptian Pound costs subsequent to invoice 7 for the month ending October 31, 1981.

(c) Salary Payments in Excess of the Maximum Allowable

Chemonics billed and USAID/Egypt paid \$83.36 in excess of the maximum allowable salary rate.

The Contract with Chemonics limits maximum salary rates to the allowable FSR-1 rate. The Contract also authorizes Chemonics' employees Sunday differential in the same manner and under the same conditions as U.S. direct hire employees of AID.

Under AID regulations the combination of salary plus Sunday differential may not exceed the maximum salary rate authorized for a FSR-1 (legal Cap). That amount, for the period covered by our audit, is \$4,176.04 a month. During four months under this Contract Chemonics paid an employee in excess of the \$4,176.04 rate by an amount totaling \$83.36. USAID/Egypt should recover from Chemonics these payments made to Chemonics in excess of the maximum salary rate.

Recommendation No. 34

USAID/Egypt collect \$83.36 from Chemonics for payment made in excess of the maximum allowable salary rate.

(d) General and Administrative Charges Paid on Questioned Costs

The dollar overhead and salary cost questioned in the above subsections were included in Chemonics calculations for General and Administrative charges. Accordingly, the General and Administrative charges paid by USAID/Egypt on these costs should be recovered from Chemonics.

The General and Administrative charges on questioned overhead payments total \$754.82 and on questioned salary payments total \$3.25.

Recommendation No. 35

USAID/Egypt collect \$758.07 from Chemonics for General and Administrative payments on questioned costs recommended for recovery.

(e) Incomplete Error Adjustment

Chemonics erroneously included the local Egyptian salaries paid to their Egyptian subcontractor in their calculation for overhead charges. Chemonics detected this error and made correction to the overhead, General and Administrative charges on local costs and the fixed fee charges. However, Chemonics did not make adjustments for the erroneous General and Administrative charges included in the General and Administrative calculation on dollar costs which included the erroneous overhead charge. The erroneous amount of overhead included in the General and Administrative calculation totaled \$6,678.80. The amount of General and Administrative charges billed on the erroneous payment totaled \$260.47. USAID/Egypt should recover that amount from Chemonics.

Recommendation No. 36

USAID/Egypt collect \$260.47 from Chemonics for amounts paid on General and Administrative charges calculated on improper overhead amounts.

(f) Fixed Fee Adjustment for Questioned Costs

USAID/Egypt has paid portions of Chemonics's fixed fee totaling \$2,214.70 based on the questioned costs included in the above sub-sections of this report. These fixed fee payments are premature and should be recovered from Chemonics.

Recommendation No. 37

USAID/Egypt collect \$2,214.70 from Chemonics for incorrect payment of fixed fee.

USAID/Egypt comments:

The Mission does not concur with Recommendations No. 30, 31, 32, 33, 35, 36 and 37 and requests they be deleted.

"During the negotiation of costs for the Basic Village Services (BVS) contract, the Overhead Branch of SER/CM (SOD/OSC) was queried as to the latest OH and G&A rates applicable to the Chemonics proposals for the BVS effort. The initial response indicated that the SOD/OSC review of previous overhead proposals did not include local currency costs in the pools for OH and G&A expenses and therefore Chemonics indirect costs should be applied to only dollar costs. However, included as part of the original proposal

was a letter from SOD/OSC, cosigned by Chemonics which indicated the bases of application for OH and G&A were "Direct Salaries and Wages" and "Total Cost Input" respectively.

'Discussions with the Contractor also highlighted the fact that local currency costs were not previously included in the base for other proposals because all other contracts were paid in U.S. dollars which were converted to meet local currency needs. Other than Egypt, no local currency as such was provided. For the above reasons, the Contracting Officer concluded that fair treatment and recoupment of indirect expenses could only be realized if the Contractor were permitted to include the large amount of local currency (LE1,850,000 to US\$2,480,000) under the BVS Project in the indirect cost pools for OH and G&A. Considerable administrative effort is involved in managing these funds from the Chemonics home office staff and they are following consistent, approved accounting methods and procedures concurred in by the Defense Contract Audit Agency.

'The above decision was discussed with the AID Overhead Branch Chief who advised that this position was based on AID policy (not regulations) which dates from a 1977 decision and includes G&A only. He further stated that considering the circumstances of the Chemonics situation and the large amount of local currency involved, it would not be fair to attempt to make a retroactive reduction in the G&A amount on the contract.'

'We disagree with the contracting officer's statement which reads "...fair treatment and recoupment of indirect expense could only be realized if the contractor were permitted to include the large amount of local currency (LE1,850,000 to US\$2,480,000) under the BVS Project in the indirect cost pools for OH and G&A.'

All of the local currency costs under the contract are classified as direct project costs and are paid by AID. Section 1-15.203 of the Federal Procurement Regulations (FPR) states "an indirect cost ... is one which, because of its incurrence for common or joint objectives, is not readily subject to treatment as a direct cost."

We conclude therefore that the local costs paid as direct costs not only can not be included in the indirect cost pools but all other costs of a like nature must be excluded for the indirect cost pools prior to calculation of the rate(s) To accomplish this and thereby prevent duplicate recovery of costs the FPR in Section 1-15.203 also provides that "no final cost objective shall have allocated to it as an indirect cost any cost, if other cost incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective."

Further, the Mission's response includes the local currency professional salaries in the US dollar direct salaries base and applies the overhead rate. This practice would include local currency direct salaries in both the overhead pool and the base.

The above USAID/Egypt comments notwithstanding, the fact remains that local costs were not included in either the base or the indirect pools when the provisional overhead and General and Administrative rates were calculated. Therefore, AID/W instructed USAID/Egypt and USAID/Egypt advised Chemonics that overhead and G&A rates could be applied only on US dollar costs. Accordingly, we are retaining the recommendations.

(2) Questioned Egyptian Pound (LE) Costs

USAID/Egypt advances Egyptian Pounds to Chemonics based on estimates of cash requirements. Monthly, Chemonics submits vouchers for their costs under the contract. The vouchers are processed as "no Pay" vouchers and the approved amounts applied to liquidate the outstanding advances. At the time of our audit the vouchers for May 1981 through August 1981 had been applied to the outstanding advances.

Incorrect Payments of Supplementary Post Allowance

Chemonics billed and USAID/Egypt paid LE172.20 for Supplementary Post Allowance charges that were not allowable.

Chemonics leased an apartment for one of their employees in advance of his arrival at post. The apartment was completely furnished; including maid service, a complete kitchen and accessories; e.g., silverware, plates and cooking utensils.

Prior to arrival at post of the employee scheduled to occupy the apartment, Chemonics used the apartment as a "staff house" for another employee. That employee was paid temporary quarters allowance adjusted for use of the staff house and LE172.20 for the Supplementary Post Allowance.

Chemonics employees are authorized Supplementary Post Allowance in accordance with the Standardized Regulations, Chapter 230. Chapter 230 of the Standardized Regulations states:

"The supplementary post allowance is intended only for those employees who are faced with heavy expenses because of the necessity of providing hotel or restaurant meals while compelled, because of current unavailability at the post of suitable temporary quarters having kitchen facilities, to occupy temporary non-housekeeping quarters..."

Since the Chemonics employee was staying in furnished quarters including kitchen facilities the Supplementary Post Allowance is not allowable. Accordingly, USAID/Egypt should recover LE172.20 incorrectly paid to a Chemonics employee while staying in a furnished apartment.

Recommendation No. 38

USAID/Egypt recover LE172.20 paid to Chemonics for unallowable Supplementary Post Allowance charges.

LIST OF REPORT RECOMMENDATIONS

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<u>Recommendation No. 1</u>	3
USAID/Egypt amend the Basic Village Services Project Agreement to require a "Special Account" for AID Grant funds.	
<u>Recommendation No. 2</u>	3
USAID/Egypt arrange for specific identification of subprojects with funding sources in the Basic Village Services Project.	
<u>Recommendation No. 3</u>	5
USAID/Egypt recover \$1,583,301.27 which represents an overpayment in the purchase of LE7 million made on August 5, 1981 through the Regional Finance Center, Paris.	
<u>Recommendation No. 4</u>	6
USAID/Egypt follow-up with ORDEV and insure that the remaining special account balance of LE746,328 is exclusively used for approved projects or that the dollar equivalent is refunded to AID.	
<u>Recommendation No. 5</u>	7
USAID/Egypt terminate the practice of advancing funds to the Basic Village Services Project in excess of need.	
<u>Recommendation No. 6</u>	10
USAID/Egypt (a) advise ORDEV to require the Sharkia Governorate to forward the LE3,081.25 of interest earned on Title III funds during CY 1981 to the ORDEV Special Account and (b) arrange to have these funds programmed for BVS projects.	

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<u>Recommendation No. 7</u>	10
USAID/Egypt collect from the Government of Egypt the \$32,734.59 of interest earned on AID grant BVS funds by the Sharkia Governorate for the period ending January 31, 1982.	
<u>Recommendation No. 8</u>	10
USAID/Egypt monitor the Sharkia Governorate bank account and collect all amounts of interest earned on AID grant BVS funds subsequent to January 31, 1982.	
<u>Recommendation No. 9</u>	11
USAID/Egypt collect from the Government of Egypt the \$49,693.05 of interest earned on AID grant BVS funds by the Qena Governorate for the period July 1, 1981 through January 31, 1982.	
<u>Recommendation No. 10</u>	11
USAID/Egypt monitor the Qena Governorate special account and collect all amounts of interest earned on AID grant BVS funds subsequent to January 31, 1982.	
<u>Recommendation No. 11</u>	12
USAID/Egypt (a) determine the amount of interest earned on AID grant BVS funds deposited in the village councils' bank accounts (estimated at \$1,131,173.25) annually, and (b) collect that amount from the Government of Egypt.	

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<u>Recommendation No. 12</u>	12
USAID/Egypt (a) determine the amount of interest earned on Title III LVS funds deposited in Village Councils' accounts (estimated at LE353,262.500 for the six months ended June 30, 1981) and (b) arrange to have that amount returned to the ORDEV special account for reprogramming.	
<u>Recommendation No. 13</u>	14
USAID/Egypt document, for the record, an official position on use of asbestos-cement pipe in AID-funded BVS potable water project.	
<u>Recommendation No. 14</u>	15
USAID/Egypt arrange for lead - free PVC or other suitable materials to be used for piping in BVS potable water projects.	
<u>Recommendation No. 15</u>	15
USAID/Egypt (a) arrange water analysis of all BVS funded potable water systems containing asbestos-cement pipe, and (b) take any corrective actions required based on the results of such tests.	
<u>Recommendation No. 16</u>	19
USAID/Egypt expeditiously take action necessary to resolve the shortage of pipe for BVS potable water projects.	
<u>Recommendation No. 17</u>	19
USAID/Egypt collect \$946,878.60 (equivalent of LE787,500) from the Qena Governorate for unallowable procurement of imported Spanish asbestos-cement pipe with BVS funds.	

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<u>Recommendation No. 18</u>	20
USAID/Egypt review procurement with project funds in all BVS governorates to (a) determine whether the procurement was allowable under project procurement criteria and (b) recover funds used for unallowable procurement.	
<u>Recommendation No. 19</u>	21
USAID/Egypt disallow for offset against Title I indebtedness LE272,368.32 of Title III BVS funds used by the Sharkia Governorate to purchase vehicles and highway equipment and other unallowable items.	
<u>Recommendation No. 20</u>	21
USAID/Egypt disallow for offset against Title I indebtedness LE45,441.00 of Title III BVS funds used by the Sharkia Governorate to purchase eight vehicles and pay incentives to Housing Department employees.	
<u>Recommendation No. 21</u>	21
USAID/Egypt determine the amount of unexpended prior years' BVS funds and analyze the Governorate's absorptive capacity for BVS projects as the basis for determining BVS program levels in the Governorate.	
<u>Recommendation No. 22</u>	23
USAID/Egypt recover \$37,651.56 (equivalent to LE31,314.06) from the GOE for BVS funds used to pay unallowable customs duties by the Qena Governorate.	

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<u>Recommendation No. 23</u>	23
<p>USAID/Egypt review procurement in all BVS governorates and (a) determine whether customs duties and other unallowable taxes were paid with BVS funds, (b) determine the amount of any customs duties or other identifiable taxes paid and (c) recover any customs duties or identifiable taxes paid with BVS funds.</p>	
<u>Recommendation No. 24</u>	23
<p>USAID/Egypt recover \$1,402.50 (equivalent LE1,166.50) paid from AID BVS grant funds for unallowable bank commission charges.</p>	
<u>Recommendation No. 25</u>	24
<p>USAID/Egypt (a) arrange for the Fayoum Governorate to deposit LE24,318 and (b) the Giza Governorate to deposit LE25,000 to their respective maintenance funds for BVS project accounts or (c) identify the AID grant funded BVS projects and require that the maintenance funds deposited by Fayoum and Giza be used only on AID grant funded projects and not on Title III funded projects.</p>	
<u>Recommendation No. 26</u>	26
<p>USAID/Egypt negotiate an agreement with the Interagency Committee on the use of interest earned on BVS maintenance funds.</p>	
<u>Recommendation No. 27</u>	27
<p>USAID/Egypt expedite preparation of criteria for the use of the BVS maintenance funds.</p>	

Recommendation No. 28 27

USAID/Egypt ensure that LE576.33 is recovered and deposited into the Gheata Village council's special account for the BVS program.

Recommendation No. 29 28

USAID/Egypt arrange for ORDEV to prepare and provide to AID the required annual report on the Title III Program Activities.

Recommendation No. 30 29

USAID/Egypt collect \$21,203.91 incorrectly paid to Chemonics for overhead and General and Administrative charges on local Egyptian Pound salaries.

Recommendation No. 31 29

USAID/Egypt determine and recover from Chemonics any overhead and General and Administrative payment on local Egyptian Pound salaries made to Chemonics subsequent to invoice number 7 for the month ending October 31, 1981.

Recommendation No. 32 30

USAID/Egypt collect \$7,048.37 from Chemonics for unallowable payment for General and Administrative charges on total Egyptian Pound costs.

Recommendation No. 33 30

USAID/Egypt determine and recover any amounts paid to Chemonics for General and Administrative charges on Egyptian Pound costs subsequent to invoice 7 for the month ending October 31, 1981.

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<u>Recommendation No. 34</u>	30
USAID/Egypt collect \$83.36 from Chemonics for payment made in excess of the maximum allowable salary rate.	
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USAID/Egypt recover \$758.07 from Chemonics for General and Administrative payments on questioned costs recommended for recovery.	
<u>Recommendation No. 36</u>	31
USAID/Egypt collect \$260.47 from Chemonics for amounts paid on General and Administrative charges calculated on improper overhead amounts.	
<u>Recommendation No. 37</u>	31
USAID/Egypt collect \$2,214.70 from Chemonics for incorrect payment of fixed fee.	
<u>Recommendation No. 38</u>	33
USAID/Egypt recover LE172.20 paid to Chemonics for unallowable Supplementary Post Allowance charges.	

BACKGROUND AND AUDIT SCOPE

Background

The Basic Village Services (BVS) Program began on March 20, 1979 under authority of a P.L. 480 Title III Food for Development Program Agreement. The stated goal of the Food for Development Program was to reinforce and strengthen decentralized local government in Egypt so that it more effectively supports agricultural and rural development.

The system of local government in Egypt is increasingly geared to decentralization. Each village government is comprised of a popularly elected council, an appointed chief executive and representatives from the technical ministries. Each elected village council has jurisdiction over (and representatives from) one main village and several satellite villages. Each elected council is legally empowered to plan technical projects (with the help of technical ministries), contract for services, purchase equipment, and make payments. Furthermore, enactment of Law 52 has provided additional revenues to village councils for local use in addition to the 75 percent of the central government taxes levied on agricultural land which are returned to the village councils' budgets. Governorates and districts are organized along similar lines with emphasis placed upon encouraging these entities to plan, organize and implement activities including BVS projects.

Major agrarian land reform measures were adopted in Egypt in 1952. In subsequent years, the Government of Egypt (GOE) has distributed technical, social and agricultural services in rural areas and implemented administrative reorganization and tax reforms; and gradually expanded roads, potable water, and other infrastructural facilities in rural areas. But considering the fact that there are now 40 million Egyptians and, by the year 2000 there will be 70 million, rural facilities and programs require speeded expansion.

To assist the GOE to increase decentralization and improve the lot of the rural population the Title III agreement provide for a five-year (\$15 million annually) program of BVS activities in rural governorates. The first BVS program year was 1979/1980 and funds were concentrated in three governorates; Sharkia, Fayoum and Sohag.

On August 31, 1980 AID and the GOE signed Project Grant Agreement No. 263-0103. That agreement provided \$70 million in addition to Title III funds to expand the BVS program to nine governorates and to improve the management capacity of the governorates in the BVS program.

According to the Grant Agreement, the project will consist of:

"...technical and capital assistance for the design, management and construction of basic village services in Egypt in support of the policy of the Grantee to decentralize authority for development activities. It will focus on improving and expanding a continuing capacity in governorates and villages to plan, manage, finance, implement and maintain locally chosen and constructed rural infrastructure projects. The project will finance technical advisory services, training and research and evaluation. In addition, it will finance the construction of locally selected infrastructure projects. The project will be integrated with the ongoing P.E. 480 Title III Basic Village Services Project. Implementation of the two projects will be coordinated by the Government of Egypt Interagency Committee for Basic Village Services."

Project funds were authorized to be used to finance locally selected infrastructure projects, long term technical advisory services, training, research, and evaluation.

As of December 31, 1981 Title III funding disbursed to the project totaled \$30 million and AID's grant funding totaled over \$31 million. Amounts disbursed to governorates for BVS projects are shown below:

Name of Governorate	Amounts Received by Governorates Participating in the BVS Program			Total
	The 1979/1980 Program for Title III Funds	For the 1980/1981 Program Year		
		Title III Funds	AID Grant Funds	
Sohag	LE 3,480,895	LE 1,110,000	LE 2,340,000	LE 6,930,895
Fayoum	2,988,979	1,110,000	2,340,000	6,438,979
Sharkia	3,368,457	1,110,000	2,340,000	6,818,457
Kaliobia		1,110,000	2,297,511	3,407,511
Menoufia		1,110,000	1,901,000	3,011,000
Beheira		1,110,000	2,340,000	3,450,000
Giza		1,110,000	2,340,000	3,450,000
Minia		1,110,000	2,018,310	3,128,310
Kena		1,110,000	2,340,000	3,450,000
Totals	LE 9,838,331	LE 9,990,000	LE 20,256,821	LE 40,085,152

The current official rate of exchange is US\$1 = LEO.83168. However, at the time the above Egyptian pounds were provided from dollar financing, the rate was US\$1 = LEO.70. Therefore, the total dollar equivalent provided to the nine governorates was \$57,264,503.

Scope of Audit

This regularly scheduled audit was made to determine whether the BVS program was being implemented in accordance with requirements of the Project Grant Agreement, the Food for Development Program Agreement (P.L. 480 Title III) and related regulations. The audit was made in accordance with prescribed standards for government audits.

To accomplish our audit purpose we reviewed project files and related financial documentation located in USAID/Egypt, the consultant office in Cairo, the ORDEV, and in selected Governorates, District and Village Units. We interviewed officials of the Central Bank of Egypt, the Agricultural Development and Credit Bank and the Ministry of Finance.

Three of the nine governorates in the BVS program were selected for audit; Beheira, Sharkia and Fayoum. We traced all AID and Title III funding to those governorates and verified the disposition of selected transactions.

We examined GOE internal controls systems on use of the BVS funds at various levels and as considered necessary verified the actual application of the systems.

Our examination included field visits to selected governorate, district and village unit offices. We inspected certain commodities purchased with BVS funds and work completed on various projects.

We visited several village and governorate banks and reviewed their records on project funds.

Extensive discussions on the program activities were held with USAID/Egypt, US Department of Agriculture, GOE and other officials involved in the projects

Our audit covered the period from March 20, 1979 through December 31, 1981 and was made during the period November 1981 through March 1982.

This is the initial audit of the BVS Program by the AID Inspector General staff.

memorandum

DATE: 22 APR 1982

REPLY TO
ATTN OF: Director: Donald S. BrownAPPENDIX C
Page 1 of 9

SUBJECT: Mission comments on basic Village Services (bVS) Draft Audit

TO: RIG/A/C: Harold Gill

APR 22 REC'D

The Mission takes this opportunity to submit the following comments on the subject draft audit for your consideration.

The Mission agrees that the project is not without problems. However, it is important to state that these are problems of implementation and administration. These two areas can be addressed and solved without resort to massive tampering with the design, goal or purpose of the Project. In no case did the Draft Audit Report (DAR) disclose evidence of deliberate fraud or misuse of money. It is indicative of the project that there is considerable interest and activity at the village level in choosing locally administered projects.

Awareness of the rights of village councils is increasing. In Sharkia, for example, one village refused to allow the governorate to switch its funds to another village. In Giza, one markaz implemented their projects ahead of schedule and are ready for more money. Beheira and Minia have allowed a relative large amount of freedom to villages to choose their own projects.

In short, the rationale on which the project was conceived is valid and working. The concept of assisting the decentralization process is a worthy one. We should not let the implementation problems cloud the success of those projects already completed or on-going.

A. The Mission feels that the tone of the draft report, particularly as it relates to disbursements, infers that USAID/Egypt administered the Project in a way inconsistent with the intent of the Project Paper and the basic Grant Agreement. In fact, the up-front cash disbursement feature was an integral part of the Project's design



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-111

and was included in the Project Paper and the Grant Agreement. The DAK states on page i that "Scope: We made this audit to determine whether the BVS Program was being implemented in accordance with requirements of the AID Project Grant Agreement, the Food for Development Program Agreement (PL 480 Title III) and related regulations." Nowhere does the DAK indicate that disbursements were made contrary to the Agreement.

In fact the designers of the Project recognized that implementation problems could occur. Therefore, the Grant Agreement states in Annex I, page 5 "Subsequent disbursements to individual governorates after the first year's allocation will be contingent upon satisfactory progress in implementation of the approved plan. If a governorate or village within a governorate fails to perform satisfactorily or if funds accumulate excessively in governorates or village accounts, compensatory deductions will be made from follow-on financing." The Project Paper includes the above language but goes one step further. "By penalizing them (the villages) for lack of performance or faulty performance, governorates will thus be held responsible for implementation of sub-projects."

The DAK, in great detail, faults "USAID/Egypt's" cash management of the BVS Project. The DAK quotes paragraph two of page 34 of the Project Paper in which a justification is given for an initial year's disbursement. The DAK again criticizes the Mission by stating "the above weaknesses (ie page 34 quoted in the DAK) in internal controls that USAID/Egypt used as a basis for advancing funds for this Project..."

The Mission did not act unilaterally in the initial year's disbursement. Instead the concepts proposed in the Project Paper were approved without alterations by the AID Administrator.

The Mission requests that the tone of any discussion in the final Audit report concerning cash disbursements, reflect that such disbursements were as proposed by the Mission, and as agreed to by AID/W. Furthermore, the disbursements followed exactly the Grant Agreement.

B. The Mission has analyzed the number of Recommendations and discussed this matter with the Auditor in charge of this DAK. Following are comments on specific recommendations.

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We feel that Recommendations of similar or related topics should be consolidated. Examples of this would be consolidating all recommendations pertaining to the interest on BVS grant funds, Recommendations Nos. 17, 18, 19, 20, 21;^{1/} interest on Title III funds, Recommendations Nos. 15, 16, 22;^{2/} and offset of Title III; Recommendations Nos. 23, 24, 25, 26, 27.^{3/} While there are arguments both pro and con, the Mission would prefer fewer multi-sectioned recommendations than several single recommendations of a similar or same nature.

C. The Mission requests that Recommendations which state a specific course of action be changed to more flexible language. Specifically the Mission requests that recommendation nos. 17, 18, 19, 20, 21 that the USAID recover, in dollars, all interest earned on BVS grant funds be reworded. Likewise we request recommendation nos. 32, 34, 35, 36^{4/} be reworded. There are options other than repayment in dollars. The Project Authorization, signed by the Acting Administrator, Joseph C. Wheeler, on 28 August 1981, states in Paragraph 3(C) (4) "In the event either the Cooperating Country or A.I.D. determines that any amount of subproject funds have not been utilized in accordance with the terms and conditions of the project agreement, the Cooperating Country will secure or cause to be secured a reimbursement of such funds from the appropriate governorate authority and shall deposit the proceeds of such refunds in a special account or accounts for future subproject disbursement, or for refund to A.I.D., as AID may determine, and the Cooperating Country agrees to establish a formal procedure acceptable to A.I.D. which will ensure that such refunds are obtained and used in accordance with this covenant."

The Mission requests that the above Recommendations nos. 17, 18, 19, 20, 21^{1/} be worded as follows "USAID/Egypt should determine the legal status of interest earned on grant funds. based on this legal determination, appropriate action should be taken."

D. In this same general area, the Mission requests that recommendations be specific and apply to those situations directly audited by the RIG/A. Specifically the Mission requests that recommendations requiring action on "estimated" amounts be deleted or reworded so as to establish definite parameters.

1/ These recommendations appear as Nos. 7, 8, 9, 10 and 11 in this report.

2/ Recommendations 15 and 16 were combined as Recommendation No.6; Recommendation No. 22 appears as No. 12 in this report.

3/ Recommendation No. 23 appears as No. 19 in this report; Recommendations No. 24, 25, 26, 27 are combined as Recommendation No. 20 in this report.

4/ These Recommendations appear as 17, 22, 23 and 24 in this report.

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E. The Mission will contact RFC Paris for advice on how to implement recommendation no.3.

F. The Mission requests that Recommendation nos. 4 and 5 be deleted. The Agreement explicitly states in Annex 1, page 5 "Subsequent disbursements to individual governorates after the first year's allocation will be contingent upon satisfactory progress in implementation of the approved plan. If a governorate or village within a government fails to perform satisfactorily or if funds accumulate excessively in a village accounts, compensatory deductions will be made from follow-on financing." Furthermore, under the Decentralization Sector Support Project, funds will be disbursed either on a quarterly basis or cash need basis.

G. The Mission does not concur with Recommendation nos. 6, 7, 8, 9, 11, 12 and 13⁵ and requests they be deleted.

During the negotiation of costs for the basic Village Services (BVS) contract, the Overhead Branch of SER/CM (SOD/OSC) was queried as to the latest OH and G&A rates applicable to the Chemonics proposals for the BVS effort. The initial response indicated that the SOD/OSC review of previous overhead proposals did not include local currency costs in the pools for OH and G&A expenses and therefore Chemonics indirect costs should be applied to only dollar costs. However, included as part of the original proposal was a letter from SOD/OSC, cosigned by Chemonics which indicated the bases of application for OH and G&A were "Direct Salaries and Wages" and "Total Cost Input" respectively.

Discussions with the Contractor also highlighted the fact that local currency costs were not previously included in the base for other proposals because all other contracts were paid in U.S. dollars which were converted to meet local currency needs. Other than Egypt, no local currency as such was provided. For the above reasons, the Contracting Officer concluded that fair treatment and recoupment of indirect expenses could only be realized if the Contractor were permitted to include the large amount of local currency (LE 1,850,000 to US\$ 2,480,000) under the BVS Project in the indirect cost pools for OH and G&A. Considerable administrative effort is involved in managing these funds from the Chemonics home office staff and they are following consistent, approved accounting methods and procedures concurred in by the Defense Contract Audit Agency.

5/ These Recommendations appear as Recommendations No. 30, 31, 32, 33, 35, 36 and 37 in this report.

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The above decision was discussed with Mr. D. Dickie, AID Overhead Branch Chief who advised that this position was based on AID policy (not regulations) which dates from a 1977 decision and includes G&A only. Mr. Dickie further stated that considering the circumstances of the Chemonics situation and the large amount of local currency involved, it would not be fair to attempt to make a retroactive reduction in the G&A amount on the contract.

H. The Mission will document the overpayments referred to in Recommendation nos. 10 and 14~~6~~ and take appropriate action.

I. The authority to approve forgiveness lies with the Ambassador with authority reelected to the Mission Controller through the Mission Director. The Mission requests, therefore, that recommendation nos. 23, 24, 25, 26, 27~~3~~ be reworded to state that "appropriate Mission personnel should review the use of Title III funds as stated in the DAK and make a determination as to the validity of that use."

J. The Mission requests that Recommendation no. 28~~7~~ be deleted. The Auditor's contention throughout this DAK is that Title III and grant funds be treated as separate funds for both accounting and implementation purposes. The criteria for disbursement of these two funds are different. Although the Mission agrees that for proper cash management 1979 funds should be expeditiously utilized, there is no justifiable basis in the Audit report, to make disbursements of one fund contingent upon expenditure of the other fund.

K. The Mission requests that Recommendation no. 29~~8~~ be deleted. The Mission is not in a position to "...arrange..." for either Fayoum or Giza to increase their maintenance fund. The Grant Agreement requires, as the Audit Report states, that as a condition precedent each governorate establish a special account for the maintenance fund. However, the Agreement further states in Section 4.3(a) "evidence that funds in an amount equal to 10% of each AID disbursement (emphasis added) have been deposited in special accounts for the purpose of maintaining such projects under the basic Village Services Program." The Audit Report correctly states that the intent in the Project Paper is that the "maintenance fund

6/ These Recommendations appear as Nos. 34 and 38 in this report.

7/ Recommendations No. 28 appears in this report as No. 21.

8/ Recommendation No. 29 appears in this report as No. 25.

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be 10% of the combined Title III and AID Grant funds." It is internally inconsistent for the Audit Report to maintain that this is a legal binding condition, while in other Recommendations, such as special accounts, ignore both Project Paper and Agreement statements treating the two funding sources as one. Furthermore, the requirement to include the Title III funds in the Maintenance Fund requirement has been made internally by the IAC. While the Mission would urge Fayoum and Giza to increase their Maintenance Fund, it is felt this Recommendation is invalid.

L. The Mission requests that Recommendation no. ~~30~~^{9/} be deleted. Although more specific information will be in the maintenance fund guidelines now being finalized, interest on the maintenance fund was addressed in an OMBEV letter dated 19 January 1981 to all Assistant Secretaries General. Item 3 states "Interest from the fund appropriated for maintenance in the accounts in the village banks is put in the same account in the village banks to increase the funds for maintenance and it is prohibited to be spent on other purposes."

M. The Mission requests that Recommendation no. ~~31~~^{10/} be deleted. Cnemonics has submitted two drafts for the Maintenance fund which are now being reviewed and will be finalized immediately after the arrival of the new Chief of Party. The general criteria and guidelines have been discussed with selected governorate personnel and appear to be reasonable and sound.

N. The Mission requests that Recommendation no. ~~33~~^{11/}, be reworded to say "...take necessary action as deemed legally appropriate."

O. The Mission requests that Recommendation nos. 36, 39, 40 and ~~42~~^{12/} be deleted. The Mission rejects the contention that consultants' report "...presents sound evidence of future harmful effects to consumers of water provided through asbestos-cement pipe."

In response to the DAK Recommendation No. ~~36~~^{12/}, the authors of the consultants report have written in a memo dated 15 April 1981,

"1. We stand by our conclusions and recommendations contained in our report on the subject..."

"however, we are not implying that all existing systems using a-c pipe are unhealthy, nor are we implying that a-c pipe should be abandoned..."

9/ Recommendation No. 30 appears in this report as No. 26.

10/ Recommendation No. 31 appears in this report as No. 27.

11/ Recommendation No. 33 appears in this report as No. 18.

12/ Recommendations No. 38, 39, 40 and 42 appear in this report as 13, 14, 15 and 16.

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"2. We have no evidence that any of the existing BVS systems contain high fiber counts... the determination of fiber counts is a long, complex laboratory process requiring electron microscopy."

They further state that "we recognize that there is a potential health hazard and that research is underway on the subject. Up to this time there is no conclusive evidence of this hazard. While we approach the use of a-c pipe with caution, there is far more proven hazard to health from the lack of potable water. Where there is no good technical and/or economic alternative to a-c pipe, we will continue to accept its use to provide basic, potable water where none exists."

"It also should be noted that some of the BVS systems link in to larger existing water systems all of which utilize a-c pipe, so that any 'corrective action' required in those cases goes beyond the BVS project itself. The Government of Egypt is using a-c pipe almost exclusively in its other efforts to provide potable water and has not, up to now, acknowledged any possible problem."

Furthermore, in a letter to Mr. Philip Cheney, one of the co-authors of the report cited by the DAH, Dr. Joseph A. Cotruvo, Director, Criteria and Standards Division, Office of Drinking Water in the United States Environmental Protection Agency states "However, the Office of Drinking Water, which has the responsibility for the control of contaminants in drinking water, has not reached a position on the ingestion risk and hazards of asbestos fibers, whether from asbestos-cement pipe or from natural sources. Research is in progress both with animal feeding studies and epidemiologic studies of human populations exposed to asbestos through drinking water. The initial results from animal studies being conducted at the National Institute of Environmental Health Sciences did not show any adverse effects on the test animals from asbestos in their diet."

The mission also quotes an Aide Memoire from Mr. Leo Pastore, newly arrived Chief of Party of the Chemonics' International Consulting Team. "While in Washington during the period March 13 through April 6 1982, I met with and held telephonic discussions with several individuals related to the A/C pipe health problem. These were:

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- Dennis Werner, WASH
- Craig Hafner, Sanitary Engin, WASH
- John Austin, Environmental Engin, Office of Health/USAID
- Ray Isely, MPH, MD, WASH
- David Donaldson, WASH
- Vic Wenman, WASH Project Mngr, Office of Health/USAID

In addition I discussed the problem with and received reports from: Environmental Protection Agency, VITA, American Water Works Assoc., and Mr. Joe Haratani, NE/TECH, Sanitary Engineer."

"In every instance it was made clear to me that there was no conclusive evidence to-date to support the health hazard contention, that there were several clinical studies underway was one aspect, but that up to now none of these studies have been able to provide the evidence required to support the health hazard thesis. It was also made very clear by the Office of Health USAID that they were disturbed that this was being raised as an issue by AID when it was quite properly dealt with in the past. The contention overall was that anyone raising this as an issue at this point in time was engaging in risk analysis when it was not possible to quantify the risk factors, and that in no way should this become grounds for the discontinuance of water projects."

The Mission, again, requests that recommendation No. 38^{12/} be deleted on the grounds that there has been no change in the environmental status of asbestos-cement pipe for which AID must make a determination.

We request that recommendation nos. 39 and 42^{12/} be deleted. AID/W has placed a moratorium on new water systems in the BVS Project until the pipe supply problem has been solved.

Unclassified State 103695 dated 17 April 1982 states: "The NEAC requests Mission establish a moratorium on the funding of all potable water projects until problems related to pipe procurement bottlenecks have been resolved..."

As AID has dictated terms for future water projects, and given that Mission as well as contractor personnel have been discussing potential solutions to the pipe problem with ORDEV officers, notably H.E. Monamed Ahmed Labib, it requested that these recommendations be deleted.

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The Mission further requests that Recommendation No.40^{12/} be deleted. The consultants state that "It is our opinion that this recommendation, as stated, is over-reaching and unnecessary. We suggest that we do sample checking of water systems to determine the aggressiveness index of BVS systems before concluding that corrective actions are called for. We now have the capability to do this and will proceed."

As the DAK cites the environmental advisors of Chemonics as the basis for its recommendations, the Mission feels that the counter statements made by those same consultants are valid and that, in fact, there has been no change in the assessment of asbestos cement since the project was formed.

LIST OF REPORT RECIPIENTS

EGYPT

Director, USAID/Egypt	5
Regional Inspector General for Investigations & Inspections (RIG/II/C)	1

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 (NE) (Audit Liaison Officer)	1
Bureau for Program and Management Services (SER)	6
Bureau for Program and Policy Coordination	1
Office of Development Information and Utilization (DS/DIU)	4
Office of the General Counsel (GC)	1
Office of Financial Management (FM)	1
Office of Legislative Affairs (LEG)	1
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
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