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AN AUDIT OF THE
DECENTRALIZATION SUPPORT FUND
ACTIVITY NO. 263-K-605.4
(263-0161.04)
AN ACTIVITY UNDER EGYPT'S
DECENTRALIZATION SECTOR SUPPORT PROGRAM
AUDIT REPORT NO. 6-263-85-1
OCTOBER 31, 1984

AID's \$100 million assistance is to support and accelerate the process of administrative decentralization to 21 of Egypt's 26 rural governorates by increasing investment budgets under their jurisdictions. At March 31, 1984 AID had disbursed \$34.5 million for the procurement of equipment and related services to support this activity.

For the most part, the GOE has the capability to operate and maintain the AID-financed equipment and has provided adequate local currency to the governorates for equipment support. However, implementation and monitorship problems exist. Corrective actions are needed to keep the project on course. USAID needs to: obtain status reports on the arrival and clearance of all DSF equipment; initiate required procedures for monitoring equipment utilization; improve accountability and control of AID-financed spare parts; and establish quantitative indicators to measure benefits obtained from AID's investment. Resolution of these audit issues will result in better control over the remaining uncommitted \$59 million.

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EXECUTIVE SUMMARY

The Decentralization Support Fund (DSF) is one of six "Activities" in USAID/Egypt's \$525 million Decentralization Support Sector. The stated purpose of this massive sector input is to establish a functioning national system of decentralized decision and budget processes for local development to help the GOE achieve its policy objective of economic and administrative decentralization. Each activity in the decentralization portfolio is supposed to have a discrete purpose consistent with the overall purpose and program goal of achieving economic and administrative decentralization.

The purpose of the \$100 million DSF activity is to assist the GOE in accelerating the process of administrative decentralization to rural governorates by increasing investment budgets under jurisdiction of the governorates. The DSF finances equipment requested by governorate officials to improve services to large numbers of governorate residents.

The Government of Egypt (GOE) provides: funds for operation and maintenance of the DSF equipment; funds for clearing, forwarding and inland transport costs; and central government ministries and governorates provide staff time to the activity. Stated GOE objectives on decentralization are to support and develop local government in order to transfer central authorities to localities and to support local government units to solve problems locally. These objectives are consistent with those of AID's DSF activities.

At March 31, 1984 AID had disbursed \$34,488,766 for the DSF activity. (See Exhibit A.)

Objectives, Scope and Methodology

This audit covered DSF activities from inception in September 1980 through April 30, 1984. Our audit was made to determine whether equipment and parts were received, operated, maintained and utilized as intended to benefit 21 rural governorates within Egypt through decentralization.

The audit was made in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

Delays in the Delivery of Equipment: DSF equipment worth \$3.6 million remained in customs and Grantee's bonded warehouses up to 20 months. Delays were caused by the customs clearance process, disputes over loss and damages to equipment during unloading, non-standard documentation of excess property shipments and

commingling of DSF and other consignee's shipments. USAID/Egypt needs to obtain timely GOE reports on the arrival and clearance of DSF equipment and monitor these reports to assure that AID-financed equipment is delivered to governorates within the 90-day requirement for DSF activities. In response to our draft report, the Mission agreed to institute a reporting system and stated that the GOE had (a) delivered most of the equipment identified in our draft report and (b) changed clearing companies to obtain better services.

GOE Monitoring and Reporting Systems Should Be Implemented: We found during field visits that \$1.8 million of DSF equipment was unused or used for proscribed purposes. The USAID was unaware of this because the monitoring and reporting systems instituted by the GOE pursuant to the Grant Agreement were not effective. Recommendations made by AID evaluators to improve the GOE systems had not been implemented. USAID/Egypt agreed that improvements in monitoring and reporting on equipment use are needed.

Accountability Over \$3.4 Million of Spare Parts Needed: The activity provides up to \$17 million for spare parts of which \$3.4 million has been disbursed. During our field visits, we found that (a) claims for damaged and missing parts were not being pursued, (b) shipments were delivered without packing lists, (c) there were no stock cards or other control records, (d) receiving documents were missing, and (e) physical security was inadequate to protect parts from the elements and theft. USAID/Egypt agreed to institute a training program in spare parts inventory control.

DSF Benefits: Project designers noted in the activity paper (project paper) supporting authorization that "the benefits from the project are impossible to reasonably quantify," and "there is no way to evaluate the project as the least cost alternative to achieving an increase in the governorates' investment budgets." The only specific, quantified element of the activity is the input, \$100 million of equipment and spare parts (99 percent, and technical services (1 percent). Although the activity design fails to conform to the tight standards and guidelines for specificity required by Agency Handbooks, we believe benefits from this \$100 million AID input can and should be identified and documented. USAID/Egypt officials believe that benefits from some of the equipment provided will be difficult to quantify, nonetheless, we have retained a recommendation that quantitative indicators be developed to facilitate more effective evaluations of the DSF activity, and to emphasize end-use and impact of DSF equipment on decentralization.

Marking: AID emblems that have been removed, defaced, faded, or never attached should be replaced to better publicize this major AID input. The Mission agreed to furnish emblems as needed.

Mission Comments

A copy of our draft audit report was provided to USAID/E officials for discussion. Their comments are included in the appropriate sections of this report. The complete USAID/E response is attached as Appendix II.

BACKGROUND

The original DSF Grant Agreement was signed on September 28, 1980. It provided \$50 million in foreign exchange to 21 of the 26 governorates in Egypt. This amount was made available through the Grantee's national budget to purchase equipment in the United States. The latest Agreement signed June 30, 1983 increased total funding to \$100 million and extended the DSF assistance completion date from September 30, 1984 to June 30, 1987.

The purpose of AID's assistance is to support and accelerate the process of administrative decentralization to rural governorates by increasing investment budgets under their jurisdictions.

AID Regulation I applies to the procurement of equipment and related services financed under this Grant. According to the Project Paper equipment procurement is, for the most part, based on procedures developed under the Commodity Import Program (CIP).

To assist in monitoring the DSF, USAID contracted the services of four Egyptian engineers to form a Technical Liaison Group (TLG). The TLG, under the supervision of the USAID project officer, provides consulting services to Governorate officials to develop requirements, equipment lists, performance specifications and other technical services relating to procurement.

Originally, the Ministry of Economy was responsible for general implementation of the DSF. Two public sector trading companies, Engineering General Company (EGC) and Tractor & Engineering Company (TEC), were engaged as buyer for the Ministry of Economy. However, under the June 30, 1983 amendment to the DSF Agreement, the Ministry of Local Government (MLG) is responsible for DSF oversight. This includes arranging for budget allocations, evaluation, establishing equipment selection criteria, screening governorate lists for eligibility, reviewing of performance specifications, and overseeing all procurement.

Governorates are responsible for analyzing their equipment needs, determining priorities, developing performance specifications, and operating, maintaining and utilizing equipment received.

Procurement started in January 1982 when AID issued the first direct letter of commitment for 22 bulldozers. Through March 31, 1984, AID had issued direct letters of commitment for \$40.6 million. Disbursements were \$34.2 million. (See Exhibit A). Additional procurement for \$13.8 million was in process at March 31, 1984. Thus, the total amount of equipment procured or under procurement was \$54.4 million.

The required GOE contribution to the DSF is LE22 million for equipment operation and maintenance. So far, the GOE has provided a budget allocation of LE575,000 to each of the 21 governorates to be used for DSF equipment. This LE12,075,000 allocation has been more than sufficient because maintenance costs have been low for relatively new equipment which is covered by usual one year warranties.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine if the Decentralization Support Fund activity was effectively and efficiently managed, and to determine if AID's decentralization objectives were met through the placement of AID-financed equipment and parts in governorates within Egypt. Specific audit steps included a review of internal controls, verification of equipment and spare parts received and distributed in the quantity and condition paid for by AID, and analyses of recipient Governorates' equipment operation, maintenance and utilization.

We examined USAID financial and DSF records, reports and correspondence as well as GOE documents in Cairo, Alexandria and ten selected governorates. We also held discussions with GOE officials about DSF activities. Our audit work began in January 1984 and covered the DSF activities from inception in September 1980 through April 30, 1984. We examined DSF financial data through March 31, 1984.

The audit was made in accordance with the Comptroller General's Standards for Audit of Governmental Programs and accordingly included such tests of the DSF activities, records and internal controls as was considered necessary in the circumstances.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

DELAYS IN DELIVERY OF AID-FINANCED EQUIPMENT

There were delays of up to 20 months in the delivery of \$3.6 million worth of DSF equipment from the Alexandria port area to governorates for DSF activities. Of this total, \$2.6 million was for new equipment that arrived in country from November 1982 through September 1983. The remaining \$1.0 million was for excess property that arrived in Egypt during a one year period beginning in July 1982. Exhibit B is a schedule of AID-financed equipment received but not delivered at the time of our audit visits to the port of Alexandria in March 1984.

Section 6.6 of the grant agreement requires: (1) effective use of AID-financed commodities for the purpose for which the assistance is made available; (2) accurate arrival and clearance records to be maintained by customs authorities at ports of entry; and (3) removal of AID-financed commodities from customs or bonded warehouses within ninety calendar days after commodities are unloaded from the vessel at the port of entry.

New Equipment: Delays in the delivery of new DSF equipment were caused by the customs clearance process, loss and damage claim disputes that occurred during unloading of equipment; and various procedural problems affecting timely distribution of equipment. USAID procurement documents showed that 14 of 86 fire trucks received in Egypt beginning in November 1982 were still at the port in Alexandria at the end of February 1984. During our visit to the Alexandria port in March 1984 we found that 10 of the 14 fire trucks were ready for delivery. Three of the trucks had been so badly damaged during shipment that they had to be replaced by the supplier. Grantee officials told us the replacements were to have arrived by May 1983 but had later been rescheduled to arrive in May 1984. One truck had a damaged universal joint. In their response to our draft report USAID management advised that the supplier began repairing damaged fire trucks in January 1984, after settlement with the insurance company. Eleven had been delivered and three replacements for the trucks damaged beyond repair were to be delivered by October 31, 1984. The USAID stated that the delay in delivery of the 14 fire trucks was not unreasonable, given the need for time to repair and replace damaged vehicles.

Two articulated beam trucks arrived at the port of Alexandria in August 1983, one for North Sinai Governorate and one for Sharkia Governorate. Both trucks were still in Alexandria at the time of our audit visits in April 1984.

Thirty-five front end loaders arrived in Alexandria in September 1983. At the time of our visit to Alexandria on March 8, 1984, all 35 were still in port. During our field visits to governorates in April 1984, we confirmed that eight of the 35 loaders had been delivered for DSF activities.

Excess Property: Excess property arrived in Alexandria during a one year period beginning July 1982. Most of this property remained in the port at the time of our visit in March 1984. USAID reported delays in clearing excess property shipments through the Alexandria port because of non-standard documentation. Standard commercial bills of lading were not used for excess property shipments to Egypt. Parts of the same piece of equipment were shipped on different vessels, in different containers, and DSF excess property shipments were mixed with U.S. military shipments to other consignees. The absence of commercial bills of lading required project staff to obtain special letters of guarantee from the U.S. consulate in Alexandria for each shipment before the equipment could be moved from the port area to the Grantee's bonded warehouse.

In addition, a special approval was required from the Imports Rationale Committee in the Ministry of Economy before customs clearance could be obtained because the excess property was used equipment. In order to get the Committee's approval, excess property shipments had to be in country, and a detailed list of equipment had to accompany the request for approval.

After the time consuming procedures involved in clearing excess property were completed, EGC was slow in getting the equipment ready for delivery. During our visit to Sharkia on March 21, 1984, for example, no equipment had been received. A governorate committee had been in Alexandria the previous day to obtain assigned equipment. Governorate officials were assured that equipment was ready for delivery, but returned empty handed because equipment was not ready.

A committee from North Sinai spent 10 days in Alexandria trying to obtain assigned excess property but was not successful. EGC people said the equipment was not ready for delivery because of flat tires and dead batteries. Governorate officials were told they could pick up the equipment as is or wait for it to be repaired.

In another case tools in a work shop truck assigned to the North Sinai Governorate were stolen from the truck while stored in the Alexandria port area.

Conclusions and Recommendation

Requirements of the Grant Agreement to remove commodities from customs or bonded warehouses within 90 days should be followed. The grantee should report all circumstances where equipment remains undelivered beyond 90 days. Reports should be used by the GOE and USAID to monitor customs clearance and make-ready to assure timely delivery of AID-financed equipment to the recipient governorates. Arrival and clearance reports would also provide a basis for USAID determination whether to obtain a refund from the GOE under the Grant Agreement Standard Provisions Annex. 1/

Mission Comments

In response to our draft report, the Mission replied it feels that equipment delays will be eliminated because the MLG had acquired the services of a new clearing company. Also that, with the exception of three fire trucks and three pieces of excess property, all equipment listed in our audit report (Exhibit B) had been delivered. The USAID also stated that prior to ordering further excess property, the mission will coordinate ordering and shipping procedures with GPRD, New Cumberland, Pa. to insure that previous problems will not recur. Assurances have already been received verbally and will be reconfirmed by exchange of cables prior to placing any further excess property orders.

Based on followup actions reported by USAID/Egypt and their assurances that virtually all the equipment in Alexandria at the time of our audit had been delivered, we are deleting two recommendations. The draft report included a recommendation to assure delivery of the \$2.6 million in new equipment to the DSF governorates and another recommendation to assure delivery of the \$1.0 million of excess property before initiating further procurement of excess property. Except for six pieces of equipment, the two draft report recommendations have been implemented.

1/ Section D.2 paragraph (b) states, "If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D...."

Recommendation No. 1

USAID have the Grantee submit status reports on the arrival and clearance of all DSF equipment from customs so that AID-financed equipment not delivered to governorates within 90 days of arrival in port can be identified. USAID should also obtain a report on the delivery of the equipment listed in Exhibit B, including locations and dates of delivery.

GOE MONITORING AND REPORTING SYSTEMS SHOULD BE IMPLEMENTED

Government of Egypt procedures for monitoring and reporting equipment utilization to USAID/Egypt have not been effective. As a result, USAID/Egypt was unaware of situations where \$1.8 million of DSF equipment was unused or used for proscribed purposes.

The GOE was required to establish procedures for monitoring utilization of DSF financed commodities by the governorates as a condition precedent to disbursement of AID funds (Grant Agreement Section 4.2 (c)). In addition, project evaluators recommended in February 1983 that USAID/Egypt require periodic written feedback from governorates and dealers on the status of equipment.

The procedures for monitoring equipment utilization had not been initiated nor had the AID evaluator's recommendation for periodic written feed-back on equipment status been implemented.

As a result, we found a number of equipment utilization problems in the governorates we visited which had not been reported to USAID by the GOE and were not therefore resolved in a timely manner. We submitted a Record of Audit Finding during the audit and the USAID initiated corrective actions as follows:

North Sinai. A water tank trailer (excess property) had not been used since it was delivered because the truck tractor was being used elsewhere to haul a low-bed semi trailer. Government officials told us they did not intend to return the tractor to the water tank trailer because two sewage trucks were used to haul water. The truck tractor and the low-bed trailer were assigned to an American oil company to move heavy equipment from North Sinai to a different area in Egypt. (Equipment value \$97,000.)

The USAID response to the draft report stated that: "The loan of the truck tractor and low-bed semi trailer to the oil company was a short-term temporary arrangement and the items have been

returned to their original intended use. The truck tractor has been returned to work with the water truck trailer as required but in the interest of logical utilization of resources, it will also be used to work with the low bed semi-trailer as conditions warrant."

North Sinai. Two sewage trucks delivered to the governorate had never been used. They arrived in country in June 1983. Also, one of two motor graders had only 13 hours of operation recorded. The graders arrived in country in May 1982. (Equipment value \$118,000.)

The USAID response to the draft report stated that: "Initially the two sewage trucks were used to haul water. They are now being used for their intended purpose. The Governor of North Sinai has assured USAID that the two graders will be more efficiently utilized at El Arish or transferred to a location in need of grader services."

North Sinai. A refrigerator trailer has never been used. It arrived in country in January 1983 as part of the excess property procurement. A tractor is needed to haul this trailer. (Equipment value \$23,000.)

The USAID response to the draft report stated that: "The refrigerator trailer was used for stationary refrigerated storage pending completion of a cold-storage building. Building has been completed and refrigerator truck is being used to transport fish during the fishing season. The audit team visited North Sinai in the non-fishing season, therefore, the refrigerator truck was not in use."

Red Sea. Equipment for road building is not eligible for financing under DSF. This type of equipment is eligible for financing if its purpose is for maintenance, not construction. However, three bulldozers and three road graders assigned to three separate localities had been withdrawn by the governorate for construction of a 380 kilometer bituminous surface road. The road is being constructed by the Egyptian General Petroleum Corporation, an affiliate of the Ministry of Petroleum. The road construction was justified to service nomadic communities in the southern part of the governorate. However, in our discussion with the the Governor, he emphasized the military value of the road, especially in opening a link to Khartoum, the capital city of Sudan.

In Safaga where one bulldozer and one grader were withdrawn, the Secretary of the City Council expressed a need for the equipment. He told us he had requested their return for use in road maintenance. The equipment operator in Safaga had attended a course in Alexandria on operation but now had no equipment to operate. (Equipment value \$595,000.)

The USAID response to the draft report stated that: "DSF equipment was used to support construction of a vital road project. The road has been completed and the equipment returned to originally designated locations."

- Minya. Three of five DSF dump trucks assigned to the roads department were being used for construction (asphalt hauling) which generated revenues for the governorate. The fourth dump truck was out of service during our visit because it had been damaged in an accident. USAID informed us on April 29, 1984 that the TLG had followed up on this matter. (Equipment value \$100,500.)

The USAID response to the draft report stated that: "The three dump trucks being used for asphalt hauling have been returned to the roads department. The fourth dump truck damaged in an accident is now being repaired."

- Menoufia. During our audit visit, we found one dump truck was in good condition, but was parked in the central garage and had not been used for over a month. It arrived more than a year ago, and the odometer reading was only 2,400 km. (Equipment value \$33,500.)

The USAID response to the draft report stated that: "As mentioned during the exit conference, the 2,400 km odometer reading is not considered to be excessively low for a vehicle used in a standby situation. USAID will suggest that the governorate substitute other trucks for this activity on a rotating basis."

- Damietta. Two sewage trucks were not being used. Damietta officials told us a shortage of drivers was the cause. We were also told that a sewage truck in Ras El-Bar was not being used because the governorate had no need for it. (Equipment value \$56,000.)

The USAID response to the draft report stated that: "All trucks in Damietta are now working double shifts except the one mentioned as not being used in Ras El Bar. This location is a resort and Governorate officials desire a standby unit in the event of sewer system blockage during the tourist season. USAID will suggest rotational assignment of sewage trucks for this purpose."

- Beni Suef. An articulated beam truck was not being used because of mechanical problems. The City Council requested assistance from the dealer to resolve the mechanical problem, but received none. Council officials told us they were not aware that the governorate had a maintenance budget for such a purpose. (Equipment value \$32,000.)

The USAID response to the draft report stated that: "The ... articulated beam truck in question has been repaired and operators trained by the dealer. Officials are now aware of authorized uses of their maintenance budget."

- Beni Suef Veterinary lab equipment for the Veterinary College in Beni Suef arrived in country in April 1983. Lab equipment was a first priority for DSF procurement in Beni Suef, and the AID evaluators reported the equipment was needed to allow the school to become operational. At the time of our audit visit in April 1984, most of the boxes containing the equipment were still sealed. The Dean and his assistant were not available to explain when this lab equipment would be used. (Equipment value \$660,000.)

The USAID response to the draft report stated that: "The veterinary lab equipment for the Veterinary College is being put into use as each laboratory element is opened and people are trained. During the audit team visit, two labs were opened using AID equipment. All boxes have been opened and inventoried. A check with the Dean of the College revealed that, at present, facilities have been opened and personnel trained to utilize approximately 90 percent of the equipment received. The balance of the equipment represents, in part, items ordered in quantity for replacement of glass items which may get broken and expendables which would be used over time."

- Beni Suef. One fire truck arrived in country during November 1982 but had never been used. (Equipment value \$80,000.)

The USAID response to the draft report stated that: "The fire truck in question was delivered to Beni Suef in February 1983. Apparently there were no fires in the assigned area up to the time of the audit team visit. TLG will check to determine if transfer to a more critical location is desirable."

Conclusion and Recommendation

Corrective actions have been initiated by the USAID on problems reported by the auditors. However, utilization reports are needed to properly monitor DSF equipment. The DSF Grant Agreement requires that procedures be established for monitoring equipment utilization. The Standard Provisions Annex (Sect. B.5) calls for the Grantee to "furnish AID such reports as AID may reasonably request." In Implementation Letter No. 2 dated January 25, 1981, AID requested that quarterly grant status reports be provided. The grant status report could be used for reporting the disposition and use of DSF equipment.

Recommendation No. 2

USAID have the Grantee initiate required procedures for monitoring DSF equipment utilization, including periodic utilization reports for all AID-financed equipment delivered to governorates.

Mission Comments

The Mission agreed there is a need for utilization reports and advised us that discussions with the MLG on this subject have already started. Due to corrective actions taken by project management prior to issuance of this report, we are deleting a recommendation that the USAID assure that the above reported equipment utilization problems be resolved.

SPARE PARTS ACCOUNTABILITY NEEDED

In this \$100 million project, up to \$17 million is available for purchases of spare parts. Parts costing \$3.4 million have already been procured. In February 1983, AID evaluators recognized the need to account for DSF spare parts, and recommended that governorate engineers be taught how to set up a card type inventory control for spare parts. USAID/Egypt did not followup and the evaluators' recommendation had not been implemented by the end of our audit in April 1984. As a result, we found that serious problems in accounting and control of spare parts remained unresolved.

Governorates did very little to verify damage or shortage of spare parts at time of delivery. When damage and shortage problems were identified, governorates did not followup and these problems remained unresolved. Parts were in some cases delivered without invoices, packing lists or other documentation, thus governorates had no knowledge of what they were accountable for. Governorates did not prepare receiving documents; there was no record of verification between packing lists and parts actually received. Governorates did not maintain inventory records.

Specific problems listed below were identified at the governorates we visited during audit.

- In Sharkia, one of three crates of spare parts for a bulldozer was received with water damage. Gaskets were ruined and parts were rusted. The packing list was water soaked and illegible so the crate contents could not be verified. Governorate officials took no followup action to get a copy of the packing list or replacement parts from the dealer.

- The Red Sea Governorate could not produce complete packing lists for bulldozer and motor grader spare parts. There were no stock records.

TEC records in Alexandria showed two crates of fire truck spare parts earmarked for the Red Sea Governorate, but none were received. We found one crate in the storage yard at Alexandria. The other crate needs to be accounted for.

- At the North Sinai Governorate, records showed that spare parts for truck tractors were located at El-Arish. During our visit to El-Arish the storekeeper said he had not received any spare parts.

According to EGC records, the North Sinai Governorate received 8 crates of motor grader spare parts. The storekeeper could not produce packing lists to account for the crates. There was no verification of the quantity received with shipping documents.

EGC records showed 6 crates of bulldozer parts were shipped to North Sinai governorate. Packing lists or itemized invoices were not available at the governorate, and stock records listed only the number of boxes, not the contents.

- In the Minya Governorate, four crates of spare parts were received for dump trucks. No parts had been used and the crates had been left outside subject to theft and deterioration. No records were established.

- Twenty air filters were received for a motor grader in the Menoufia Governorate, but they were the wrong size. No followup actions were taken with the dealer to exchange the filters for the right size. Instead, filters were being purchased from the local market.

- In the Damietta Governorate, bulldozer spare parts were received in November 1982, and motor grader spare parts arrived in June 1983. Parts short shipped had not been replaced.

- TEC records showed delivery of fire truck spare parts to the Beni Suef Governorate in February 1984. The parts had not been received by the governorate at the time of our audit visit on April 12, 1984.

Spare parts for dump trucks were received in Beni Suef on September 24, 1983. Shortages and rusted parts were found. None of the missing parts and only 12 of the 113 rusted items had been replaced by the dealer at the time of our audit visit in April 1984.

Conversely, at Fayoum Governorate a spare parts control system was in place and operating effectively.

Conclusions and Recommendation

The volume involved and the diffusion of spare parts from arrival in country to delivery to governorates and then to central or field warehouses in various localities makes these assets extremely vulnerable to deterioration, diversion and misuse. Yet the accountability and control systems for the \$3.4 million of spares already in country have received little attention.

The GOE and USAID should expeditiously establish effective control over spare parts at all levels of distribution. As a minimum each governorate should prepare receiving and inspection reports, record all shortages and damages, pursue claims, establish stock records, and obtain receipts for issues. The Fayoum governorate has an effective control system that could be used as a model.

In response to our draft report, USAID officials agreed that training in spare parts control and inventory is needed, and stated they will work with the MLG and governorates to establish a training program with appropriate curriculum and implementation plan. We note that this training was recommended by evaluators in February 1983, has not been undertaken, and is now long overdue. We therefore recommend that:

Recommendation No. 3

USAID, in cooperation with the GOE, establish a training program for inventory control of AID-financed spare parts procured for DSF.

DSF BENEFITS SHOULD BE DETERMINED

The 1980 project paper 1/ stated that: "The benefits from the project are impossible to reasonably quantify. Further there is no way to evaluate the project as the least cost alternative to achieving an increase in the governorates investment budgets." Designers also stated the project purpose, planned outputs and planned end-of-project-status in broad terms that are so imprecise as to make comparison of actual performance with planned performance extremely difficult. Also, little data had been compiled on benefits derived from the procurement of AID-financed equipment and spare parts for AID's DSF activity.

1/ This undertaking started as a discrete \$50 million project. On August 29, 1982, an additional \$50 million was obligated and the project was folded into the Decentralization Sector Support Program as an "activity."

Agency Handbooks and project development guidance provide for stating purpose in terms of a specific end-of-project status; that is, objectively verifiable targets that signal the successful completion of the purpose. Also, planned outputs are to be stated in terms of the specifically intended kind of results that can be expected from good management of the inputs provided. DSF implementation documents lack this specificity.

As stated in the 1980 project paper the purpose of the DSF activity is: "To support and accelerate the process of administrative decentralization to rural governorates by increasing investment budgets under their jurisdiction. While under this activity, the most immediate result will be capital equipment, the infusion of the equipment itself and the experience gained through the planning and procurement phases of the activity should greatly strengthen the decentralization process." End of Project Status was described as: "(a) project planning reflecting local choice, (b) Governorates undertaking projects with less reliance on central Government, (c) improved maintenance of existing infrastructure, (d) improved performance/productivity for those services/infrastructure directly benefitting the project, and (e) larger governorate investment, operating and maintenance budgets."

Planned outputs in the project paper were (a) varieties of capital equipment (as determined by the governorates in accord with local priorities) in operation directly providing services and maintaining infrastructure which supports large elements of the rural population, and (b) increased capabilities and experience gained by governorate staff in the planning, procurement and operation of capital equipment, and in utilizing and relating these components to other local-level development activities.

DSF planning and design documents thus lack the specifics needed to readily and objectively determine if AID is getting the intended results from its \$100 million commitment.

Conclusions and Recommendation

In spite of the lack of specific targets and end of project status, we believe that benefits derived from \$100 million of AID input can and should be identified and documented in quantitative terms. For example, reporting the use of 86 DSF fire trucks to extinguish "X" number of fires and averting casualties is a benefit of the DSF activity without regard to progress from a baseline figure.

Another example where benefits can be measured is illustrated by the use of bulldozers in the Matruh governorate. Three bulldozers were received for use on dam work which is needed to prevent rain

water from washing out to the sea. Fresh water is a critical but scarce resource in the area. The number of dams constructed is a quantitative measure of benefits.

Other quantifiable indicators of DSF benefits are miles of roads upgraded or repaired, or revenues generated from private contractors for governorate coffers.

In response to our record of audit finding, USAID officials told us that benefits attributable to some equipment, such as sewage and dump trucks, are difficult to quantify. Nonetheless, they intend to include a requirement for quantifying benefits into the scope of work of the next evaluation of DSF activities.

Recommendation No. 4

USAID and the GOE establish quantitative indicators to measure DSF equipment benefits for use in its evaluation of the decentralization sector.

BETTER AID PUBLICITY NEEDED

The requirement of AID Regulation 1 (Section 201.31 (d)), to identify AID-financed equipment by having suppliers affix AID emblems, needs to be met. In addition to AID Regulation I, the Grant Standard Provisions Annex (Section B.8) specifies that "The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed...and mark goods financed by AID, as described in Project Implementation Letters." This requirement was incorporated in Implementation Letter No. 2.

We observed equipment where AID emblems had been removed, defaced, faded or never attached. In the Minya, Red Sea, and Giza Governorates AID emblems were removed, faded or not displayed on dump trucks and other equipment.

In Damietta, AID emblems were affixed to recently received garbage trucks, loaders, and a truck, but emblems were not affixed to bulldozers and dump trucks.

In Beni Suef, AID emblems were missing from the three dump trucks, two fire trucks and articulated beam trucks.

Conclusions and Recommendation

USAID should provide the Grantee with a supply of AID emblems for all DSF equipment and assure that the emblems are affixed.

The Mission stated that: "Decals were furnished to Matrouh for placing on excess property which were not marked. New IFB's will require metal placques riveted to the side of the equipment where practical. USAID TLG will canvas Governorates by field visits and provide additional decals as necessary."

Recommendation No. 5

USAID furnish the GOE with AID emblems for replacement on equipment as needed.

COMPLIANCE AND INTERNAL CONTROLS

Compliance

Overall, DSF operations were conducted in accordance with applicable laws and regulations. AID Regulation I applied to equipment and related services financed under this grant. We found no specific violations of this regulation, but reinforcement is needed under Section 201.31 relating to marking requirements (Page 14). The need for better compliance with project documents is discussed in the preceding sections of this report.

Internal Controls

Internal controls in this activity did not prevent delays in delivery of new and excess property to governorates by the GOE (Pages 3 to 6). Utilization reports and procedures for monitoring DSF equipment are needed for better control over equipment utilization (Pages 6 to 10). The GOE did not have effective control over spare parts (Page 10).

Now that the MLG is the responsible GOE Agency for actual procurement, port handling, customs clearance, and internal distribution of the equipment financed under the DSF activity, we believe that internal control will be improved.

EXHIBIT A

DECENTRALIZATION SUPPORT FUND
ACTIVITY NO. 263-K-605.4
EQUIPMENT PROCUREMENT SUMMARY
MARCH 31, 1984

<u>No.</u>	<u>L/Com</u> <u>Date</u>	<u>Item</u>	<u>Quantity</u>	<u>Committed</u>	<u>Disbursed</u>
01	1/82	Rubber Tire Tractor Dozers	22	\$ 3,757,776	3,523,828
02	1/82	Motor Graders, Deere & Co.	39	2,951,582	2,836,473
04	4/82	Dump Trucks, IHC	111	3,785,499	3,778,366
06	9/82	Truck Tractors, IHC	11	599,026	591,321
07	9/82	Fire Trucks, FMC	86	7,185,767	6,837,947
08	10/82	Sewage Trucks, IHC	195 <u>1/</u>	6,102,233	5,921,738
09	11/82	Inspection Of Fire Trucks	-0-	35,409	31,105
10	1/83	Veterinary Lab Equipment	1 (Lot)	769,905	659,737
11	5/83	Water Spray Trucks, IHC	91	3,835,835	3,161,760
12	5/83	Refuse Collection Trucks, IHC	29	1,349,000	1,047,337
13	5/83	Ford Trucks, Articulated Beam	10	385,536	385,536
13 <u>2/</u>	1/82	Excess Property	62	1,596,769	1,594,384
14	6/83	Front End Loaders, Deere & Co.	35	1,831,116	1,804,913
15	8/83	Hydraulic Cranes, Grove	15	2,466,450	2,055,375
16	10/83	Small Fire Trucks, CEDEC	<u>150</u>	<u>3,924,000</u>	<u>-0-</u>
Total Equipment Purchases			857	\$40,575,903	34,229,910
			===	=====	=====
Total Commitments				\$41,083,234	34,488,766
				=====	=====

1/ Of 195 trucks, 184 were procured for DSF and 11 were procured for Low Cost Housing and Community Upgrading Project No. 0066. DSF disbursement overstated by \$304,887 which represents value of the 11 trucks.

2/ Letter Order.

EXHIBIT B

DECENTRALIZATION SUPPORT FUND
ACTIVITY NO. 263-K-605.4
DELAYS IN DELIVERY OF EQUIPMENT
AS OF MARCH 1984

<u>Description</u>	<u>Date Received</u>	<u>Quantity</u>		<u>Balance</u>	<u>Amount</u>
		<u>Received</u>	<u>Delivered</u>		
<u>New Equipment</u>					
FMC Fire Trucks	11/82	86	72	14	\$ 974,806
Ford Trucks	8/83	10	8	2	64,256
Front End Loaders	9/83	<u>35</u>	<u>-0-</u>	<u>35</u>	<u>1,526,000</u>
Sub Total New Equipment		<u>131</u>	<u>80</u>	<u>51 1/</u>	<u>\$2,565,062</u>
<u>Excess Property</u>					
Tractor Dozer-					
Caterpillar	7/82-83	8	0	8	\$ 376,000
Tractor Dozer-					
W/Ripper	7/82-83	3	0	3	141,000
Semi Trailer					
Tank Truck	7/82-83	11	11	0	-0-
Semi Trailer					
Refrig Truck	7/82-83	4	3	1	23,000
Semi Trailer					
ow-Bed	7/82-83	3	1	2	45,000
Road Roller	7/82-83	2	0	2	35,000
Motor Graders	7/82-83	4	0	4	140,000
Loaders	7/82-83	3	0	2	86,000
Shop Trucks	7/82-83	2	1	1	24,000
Generator Sets	7/82-83	4	2	2	36,000
Asphalt Truck	7/82-83	1	0	1	24,500
Miscellaneous					
Equipment	7/82-83	<u>18</u>	<u>1</u>	<u>17</u>	<u>66,000</u>
Sub Total - Excess Property		<u>62</u>	<u>19</u>	<u>43 1/</u>	<u>\$ 996,500</u>
Total All Equipment					<u>\$3,561,562</u> *****

1/ Eight loaders costing \$348,800, four fire trucks costing \$278,516 and eight pieces of excess property costing \$350,000 were delivered to governorates in April 1984.

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	6
USAID have the Grantee submit status reports on the arrival and clearance of all DSF equipment from customs so that AID-financed equipment not delivered to governorates within 90 days of arrival in port can be identified. USAID should also obtain a report on the delivery of the equipment listed in Exhibit B, including locations and dates of delivery.	
<u>Recommendation No. 2</u>	10
USAID have the grantee initiate required procedures for monitoring DSF equipment utilization, including periodic utilization reports for all AID-financed equipment delivered to governorates.	
<u>Recommendation No. 3</u>	12
USAID, in cooperation with the GOE, establish a training program for inventory control of AID-financed spare parts procured for DSF.	
<u>Recommendation No.4</u>	14
USAID and the GOE establish quantitative indicators to measure DSF equipment benefits for use in its evaluation of the decentralization sector.	
<u>Recommendation No.5</u>	15
USAID furnish the GOE with AID emblems for replacement on equipment as needed.	



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

October 16, 1984

CAIRO, EGYPT

MEMORANDUM

From : M.P.W. Stone, Director *M.P.W. Stone*

To : Harold R. Gill, RIG/A/Cairo *HRG*

Subject : Draft Audit Report: An Audit of the Decentralization Support Fund Activity No. 263-K-605.4 (Now 263-0161.01) An Activity Under Egypt's Decentralization Sector Support Program

The following constitutes USAID/Cairo's response to the subject draft audit report.

A. Comments on text of draft report:

1) Executive Summary

a) Page ii

- The statement that there is no specified end-of-activity status, that there is no means of measuring output, and the activity is really a Commodity Import Program is incorrect and should be eliminated or rephrased for the following reasons:

- The Project Paper, Annex I, Logical Framework lists five items for End of Project Status (EOPS) under "Objectively Verified Indicators". These are (a) project planning reflecting local choice, (b) Governorates undertaking projects with less reliance on central Government, (c) improved maintenance of existing infrastructure, (d) improved performance/productivity for those services/infrastructure directly benefitting the project, and (e) larger governorate investment, operating and maintenance budgets.

- The project, unlike the CIP, provides training in operation and maintenance for drivers/operators and mechanics at the time of delivery as part of the purchase price of the equipment. Additional training will be provided in inventory control and Motor Pool operation as part of the project although not yet initiated.

- The DSF as an institution building project, has made important progress against the project's objectively verifiable indicators. All equipment ordered to date has been done at the initiative and to the specifications of each participating local Governorate. In a highly centralized Government as Egypt this modest step, in itself, is a significant achievement. 1/

2) Page iii & iv

- The Mission feels delays in delivery of equipment will be eliminated due to MIG acquiring services of a new clearing company which is already actively clearing DSF items and apparently doing very well. For example, scrapers valued at \$ 600,000 and pumps valued at \$ 1,700,000, which arrived in late August and September, have been cleared and inspected and the respective governorates have been notified to pick up this equipment. The Mission has continuously been consulting with MIG (not SER/COM) on this and has been informed of every arrival, clearance and delivery action. A system of written reporting will be initiated.

3) Page v:

- The Mission feels that in view of comments above and the institutional nature of DSF activity, "quantitative targets" should be rephrased and stated as "quantifiable indicators" which are already incorporated in the project and will be specifically addressed during future evaluations.

B. Background:

Page 1, Para 3:

- Equipment procurement is based in part on procedures developed under the Commodity Import Program (CIP), not entirely on CIP procedures as implied in this paragraph. See comments above.

C. Audit Findings, Conclusions and Recommendations

1) Delays in delivery of AID-Financed Equipment

- see comments for pages III & IV above. With the exception of three replacement fire trucks, the items mentioned on Page 6 of the draft report have all been delivered to the Governorates. Attachment 1 describing the history of the delivery of the fire trucks was furnished at the exit conference held on October 4, 1984 and clarification made that the 14 fire trucks viewed by the

1/ Report revised based on these comments; however, findings with respect to the need for determination of activity benefits were retained.

W

audit team at the end of February 1984 were part of the 19 which had to be repaired and, therefore, delay in delivery was not unreasonable. Citation of fire trucks delivery schedule as an example of undue delay is not correct.

2) Excess property, Pages 7 & 8

- Prior to ordering further excess property, Mission will coordinate ordering and shipping procedures with GPRD, New Cumberland, Pa., to insure that previous problems will not recur. Assurances have already been received verbally and will be reconfirmed by exchange of cables prior to placing any further excess property orders.

B. Comments on Recommendations

1) Recommendation No. 1

- Suggest this recommendation be rewritten as follows:
" USAID have the Grantee submit status reports on the arrival and clearance of all DGP equipment from customs so that the causes for AID financed equipment not being delivered to the Governorates within 90 days of arrival in port may be identified and appropriate corrective action may be undertaken."

2) Recommendation No. 2

- Out of 51 pieces of equipment listed as undelivered, 48 pieces have been delivered to the Governorates. The 3 remaining fire trucks will be inspected the week of October 21 and delivery is expected to take place by the October 31. Suggest this recommendation be dropped. 2/

3) Recommendation No. 3

- Out of 43 pieces of excess property listed as undelivered, 40 pieces have been delivered to Governorates. Remaining three items of excess property are in ILC storage area. These need minor repairs. Plan is to transfer these items to the Governorates in the next two weeks as is, and repair them locally. Suggest this recommendation be dropped. 2/

4. Recommendation No. 4

- USAID will work closely with the Grantee to initiate procedures for monitoring and reporting on utilization of DGP equipment. Discussions with ECG on this subject have already started.

2/ Based on USAID actions subsequent to the audit field work, draft report recommendations 2, 3 and 5 were deleted.

5. Recommendation No. 5

- This recommendation, as discussed at the exit conference, refers to the eleven examples of questionable utilization cited on pages 12-16 of the draft report. Following comments reflect current status of these utilization problems or clarifications as appropriate.

a) North Sinai - The loan of the truck tractor and low-bed semi trailer to the oil company was a short-term temporary arrangement and the items have been returned to their original intended use. The truck tractor has been returned to work with the water truck trailer as required but in the interest of logical utilization of resources, it will also be used to work with the low bed semi-trailer as conditions warrant.

b) North Sinai - Initially the two sewage trucks were used to haul water. They are now being used for their intended purpose. The Governor of North Sinai has assured USAID that the two graders will be more efficiently utilized at El Arish or transferred to a location in need of grader services.

c) North Sinai - The refrigerator trailer was used for stationary refrigerated storage pending completion of a cold-storage building. Building has been completed and refrigerator truck is being used to transport fish during the fishing season. The audit team visited North Sinai in the non-fishing season, therefore, the refrigerator truck was not in use.

d) Red Sea - DGF equipment was used to support construction of a vital road project. The road has been completed and the equipment returned to originally designated locations.

e) Minia - The three dump trucks being used for asphalt hauling have been returned to the roads department. The fourth dump truck damaged in an accident is now being repaired.

f) Menoufia - As mentioned during the exit conference, the 2,400 km odometer reading is not considered to be excessively low for a vehicle used in a standby situation. USAID will suggest that governorate substitute other trucks for this activity on a rotating basis.

g) Damietta - All trucks in Damietta are now working double shifts except the one mentioned as not being used in Ras El Bar. This location is a resort and Governorate officials desire a standby unit in the event of sewer system blockage during the tourist season. USAID will suggest rotational assignment of sewage trucks for this purpose.

h) Beni Suef - The Ford articulated beam truck in question has been repaired and operators trained by the dealer. Officials are now aware of authorized uses of their maintenance budget.

i) Beni Suef - The veterinary lab equipment for the Veterinary College is being put into use as each laboratory element is opened and people are trained. During the audit team visit, two labs were opened using AID equipment. All boxes have been opened and inventoried. A check with the Dean of the College revealed that, at present, facilities have been opened and personnel trained to utilize approximately 90 percent of the equipment received. The balance of the equipment represents, in part, items ordered in quantity for replacement of glass items which may get broken and expendables which would be used over time.

j) Beni Suef - The fire truck in question was delivered to Beni Suef in February 1983. Apparently there were no fires in the assigned area up to the time of the audit team visit. TIG will check to determine if transfer to a more critical location is desirable.

Since USAID has already undertaken corrective action on all questioned DSF equipment we suggest that Recommendation No. 5 be dropped. 2/

6. Recommendation No. 6:

- USAID will work with the Ministry of Local Government and the Governorates participating in the DSF project to establish a training program for inventory control of AID financial spare parts. It is USAID's understanding that implementation of this recommendation will be satisfied by the signing of a training contract with appropriate curriculum and implementation plan.

2/ Based on USAID actions subsequent to the audit field work, draft report recommendations 2, 3 and 5 were deleted.

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7. Recommendation NO. 7:

Recommend the phrase "quantitative targets" be replaced by "quantifiable indicators".

8. Recommendation No. 8:

Decals were furnished to Matrouh for placing on excess property which were not marked. New IFB's will require metal plaques riveted to the side of the equipment where practical. USAID TIC will canvas Governorates by field visits and provide additional decals as necessary.

Attachment: a/s

DSF Fire Trucks

USAID procured 86 Fire Trucks under DSF Activity. The Fire Trucks started to arrive Egypt in partial shipments starting Nov. 1982. .

The supplier FMC company was preparing the trucks prior to delivery during December 1982, Jan. and Early Feb. 1983 at Tractor and Engineering Co. Stores in Alexandria. Fire equipment (Ladders, Hoses, Accessories etc.) were shipped in separate boxes not fitted on the trucks as it is liable to damage and pilferage during shipping. On Feb. 13, 1983 - 64 Fire Trucks were delivered to the Governorates in a Ceremony Attended by GOE officials US Consul of Alexandria and AID Director. There were no delays in custom clearance for these trucks.

During shipping and unloading 22 trucks were damaged of which 3 were considered total loss and 19 were repairable under insurance claim.

FMC Company started repairing the 19 damage Trucks Jan. 1984 after reaching a settlement with the insurance company. The repaired trucks started to be released to the Governorates March 1984. During Auditors visit to TEC stores Alexandria there were 14 DSF Fire Trucks in the store (10 Trucks were ready for delivery, one under repair, and 3 considered total loss).

In Sep. 1984 the 3 replacement trucks arrived Alexandria. TEC Co. Telexed FMC to send their representative for predelivery prior to releasing them to the Governorates. USAID is now following up the predelivery and release of these trucks.

LIST OF REPORT RECIPIENTS

Assistant To The Administrator For Management (AA/M)	1
Assistant Administrator/Bureau For Near East (AA/NE)	5
Director, USAID/Egypt	5
Audit Liaison Office (AA/NE)	1
Office Of Egypt Affairs (NE/E)	1
Office Of Financial Management (M/FM/ASD)	2
Directorate For Program And Management Services (M/DAA/SER)	6
Bureau For Program And Policy Coordination (PPC/PDPR/PDI)	1
General Counsel (GC)	1
Office Of Legislative Affairs (LEG)	1
Office Of Public Affairs (OPA)	2
Office Of Evaluation (AAA/PPC/E)	1
Office Of Development Information And Utilization (S&T/DIU)	4
Office Of International Training (S&T/IT)	1
Inspector General (IG)	1
Assistant Inspector General For Audit (AIG/A)	1
RIG/A/Dakar	1
RIG/A/Karachi	1
RIG/A/Latin America	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections (RIG/II/C)	1