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AGENTS' COMMISSIONS
FINANCED UNDER
THE COMMODITY IMPORT PROGRAMS OF EGYPT.

Audit Report No: 6-263-81-6
February 26, 1981

The Commodity Import Programs (CIP) in Egypt amount to over \$1.5 billion as of our audit cut-off, 95.6% of which is channelled through the public sector. About \$44.2 million of this amount will be used to finance agents' commissions in U.S. dollars. The practice of financing agents' commissions in U.S. dollars rather than local currency warrants re-assessment in view of United States and Agency policy and provisions of AID regulations.

- It is Agency policy to spend supporting assistance U.S. dollars on United States commodities and services. Agents' commissions cover services performed in Egypt--these are local currency costs.
- Egypt has been designated as an "excess currency country" by the U.S. Department of the Treasury. The policy of the United States is to maximize the use of excess and near-excess currencies by paying obligations in the currencies of these countries rather than in U.S. dollars.
- Over 95% of all CIP assistance to Egypt has been through the public sector; i.e., entities of the GOE (the importer). GOE public sector trading companies have acted as agents of the U.S. supplier in transactions under the CIP; actual services provided by other sampled Egyptian agents in CIP transactions benefit the importers and commissions paid are linked to services benefitting importers rather than to supplier sales. AID Regulation No. 1 prohibits commissions, payments, or benefits to the importers.

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
Introduction	1
Audit Purpose and Scope	1
Conclusions	ii
Recommendations	iv
BACKGROUND	1
Description of the CI Program	1
Scope of Audit and Purpose	3
USAID/E Comments	3
AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	4
Multi-Millions of U.S. Dollars are paid in Commissions	5
Payments of Agents' Commissions for the benefit of importers	6
The practice of financing Agents' Commissions in U.S. Dollars	12
need re-assessment	12
Monitoring of Agents' Commissions can be strengthened	15
EXHIBIT	
A - Importation and/or Funds Committed by Ministries, Loans, and Grants as of July 31, 1980	
APPENDICES	
I - Additional Background Information on the CIP of USAID/Egypt	
II - List of Report Recommendations	
III - List of Report Recipients	

EXECUTIVE SUMMARY

Introduction

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

Of the \$1.54 billion obligated, about 95.5 percent (over \$1.4 billion) has been allocated to Egypt's public sector. The remaining balance, about \$68.5 million, has been allocated to Egypt's private sector, and is the subject of AAG/E Audit Report No. 6-263-80-10 dated August 10, 1980. This report covers AID and USAID/E policy and practice of financing agents' commissions under the CIP in Egypt with U.S. dollars. It is the sixth report in a series of seven to be issued covering the results of our comprehensive review of the CIP. The seventh report in the series will cover issues applicable to the overall CIP, both public and private sectors, and will present overall program conclusions. For better perspective, the reader may wish to obtain the entire series of CIP reports (see page 2 of this report).

Audit Purpose and Scope

We reviewed the procedures used concerning payments of an indeterminable amount of agents' commissions under the CIP from inception, February 1975, to report issuance. Current Agency documents do not distinguish types of payments; i.e., whether payments are commissions, credits, allowances, similar payments or side payments. Our conservative estimate of agents' commissions paid, or to be paid, under the CIP is about \$44.2 million. We examined, to the extent deemed necessary, historical files, transaction support data, cables, correspondence, advertisements, bids, contracts, accounting information, related files, and pertinent statutes, regulations and other criteria. We visited various GOE Ministries, public sector firms, agents of importers, agents of suppliers, and involved USAID/E offices. We held meetings and interviews with various officials and employees of GOE entities and with cognizant managers and involved USAID/E personnel, including top USAID/E management. We coordinated with the Regional Inspector General for Investigations and Inspections, Cairo (RIG/II/C) and with the Regional Inspector General for Audit, Washington (RIG/A/W) to obtain some information generated in AID/W and in the United States.

Conclusions

Over the past five years the USAID/E has financed agents' commissions under CIP transactions with U.S. dollars rather than from local currencies. The agents perform their services in Egypt and there seems no standard or criteria as to what functions or services are covered by agents' commissions; nor is there a firm basis to determine whether or not agents' commissions paid are reasonable or not; in fact, some commissions as high as 50% of the commodity sales price have been paid through the CIP. In the case of spare parts, the average commission has ranged between 25% to 30%.

These commissions are paid in U.S. dollars to Egyptian agents for services performed in Egypt which are local currency costs. Substantial sums of money are involved--a conservative estimate is \$44.2 million for agents' commissions from U.S. dollars through the CIP up to the period covered by this audit. The CIP is expanding by significant amounts and is now close to a \$2.3 billion program.

The USAID/E practice of financing agents' commissions in U.S. dollars is not consistent for all types of activities; U.S. dollar commissions are allowed for commodities procured through the CIP and where AID Regulation No. 1 applies. In the case of most capital projects, however, the USAID/E refuses to finance agents' commissions as an operating rule and these costs are financed by the GOE or the supplier in local currency.

The practice of financing agents' commissions in U.S. dollars rather than local currency warrants re-assessment in view of Agency and United States policy.

--It is Agency policy to spend supporting assistance U.S. dollars on United States commodities and services. Agents' commissions are paid in U.S. dollars for services performed in Egypt by Egyptian agents--these are local currency costs.

--The policy of the United States is to maximize the use of excess and near-excess currencies by paying obligation in the currencies of these countries rather than in U.S. dollars. Agency policy set forth in "AID Cash Management Procedures" is to use excess or near-excess currencies for necessary expenses in these countries. Egypt has been designated an "excess currency country" by the U.S. Department of the Treasury.

We are recommending that determination be made by AA/SER regarding the allowability of paying agents' commissions in U.S. dollars under Agency policies and regulations covering the use of excess and near-excess currencies. We are also recommending that AA/SER and the Agency General Counsel render determinations regarding the prohibitions on U.S. dollar payments for agents' commissions under Agency Procurement Policies concerning U.S. source and origin requirements. Based on these determinations, the USAID/E should formulate policies and procedures (page 12).

Beyond the significant drain of U.S. dollars from actual CI Program commodity imports to pay these agents' commissions, such payments may contravene provisions of AID Regulation No. 1 which prohibit any commissions, payments, credits, allowances or benefits of any kind to be paid, made, or given by the supplier or his agent (a) to or for the benefit of (i) the importer, or (ii) a purchasing agent or representative of an importer, or (b) to any third party in connection with a sale by the supplier to his dealer, distributor or established agent in the cooperating country.

--Over 95% of all CIP assistance to Egypt has been through the public sector; i.e., entities of the GOE (the importer). At least two GOE public sector trading companies have received agents' commissions from the U.S. supplier, as the supplier's representative, although the importer was another GOE entity. In short, an entity of the importer acted as the agent in a CIP-financed procurement by another entity of the importer. Payment of agents' commissions through AID financing under this type of situation seems prohibited by AID Regulation No. 1. Our review showed at least 10 GOE public sector trading companies dealing in foreign trade; five of these companies were shown on Invoice and Contract Abstract documents as either importers or agents, or both in CIP-financed transactions.

--Actual services provided by sampled Egyptian agents involved in transactions financed through the CIP do benefit the importers, whether public or private sector. Based on examples reviewed, the extent of services provided by these agents to Egyptian importers affected the dollar amount of commissions paid to the agents. Commissions are therefore linked to services benefitting the importers rather than supplier sales. This routine practice seems contrary to AID Regulation No. 1 proscriptions.

We are recommending that the Agency General Counsel make a determination regarding whether the broad types of services provided by agents fall within Section 201.65 provisions of AID Regulation No. 1 prohibiting commission and other payments to benefit importers, importers' agents, or third parties. Also that a determination be made regarding the allowability of CIP-financed commissions paid to public sector trading companies acting as agents. USAID/E should formulate policies and procedures, as necessary (pages 6 and 9).

The Surveillance and Evaluation Division of SER/COM has the responsibility of monitoring agents' commissions to insure they are reasonable and in line with prevailing market levels. Suppliers are required to provide information on commissions and other payments or benefits on the Invoice and Contract Abstract of the Supplier's Certificate (Form AID-282). We believe the monitoring and surveillance functions can be strengthened by revising the the Form AID-282 to require disclosure of the exact type and amount of all payments to agents and the specific services provided (page 15).

Recommendations

This report contains 9 recommendations listed in Appendix II.

BACKGROUND

1. Description of the CI Program

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

- (a) to maintain a large net inflow of U.S. and other foreign resources in the short-run; and,
- (b) to achieve a lower need for foreign resources inflows over the medium and long-run through expansion of Egypt's productive capacity.

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

This report limits its coverage to the Commodity Import Program (CIP) and more restrictively to the USAID/E practice of financing agents' commissions in Egypt with U.S. dollars. Background information on the CIP is presented in greater detail in Appendix I.

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

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

<u>Audit Report No.</u>	<u>Date</u>	<u>Title</u>
6-263-80-10	August 10, 1980	The Private Sector Allocations of the Commodity Import Programs of Egypt.
6-263-81-1	November 30, 1980	The Financial Procedures and Controls of the Commodity Import Programs of Egypt.
6-263-81-2	December 21, 1980	Internal Operating Procedures Applicable to Project-Like Activities of the Commodity Import Programs of Egypt.
6-263-81-3	January 29, 1981	Internal Operating Procedures Applicable to Non-Durable and Durable Commodities of the Commodity Import Programs of Egypt.
6-263-81-5	December 30, 1980	Internal Operating Procedures for Arrival Accounting and End-Use as related to the Commodity Import Programs of Egypt.
6-263-81-6	February 26, 1981	Financing of Agents' Commissions under the Commodity Import Programs of Egypt.
6-263-81-7	o/a April 15, 1981	An Overview of the Commodity Import Programs of Egypt.

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

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

2. Scope of Audit and Purpose

This is the sixth audit report on the CIP in Egypt. The series of seven scheduled reviews contribute, individually or collectively towards attaining comprehensive audit objectives listed in Appendix I.

As noted below (Para.3), this review of agents' commissions was initially covered through audit objectives established for examining financial procedures and controls of the CIP; in view of the deferred issuance of the final overview audit report on the CIP, this subject is presented herein as a separate audit report. For this review, our audit objectives were to determine and evaluate USAID/E practices concerning payments of agents' commissions through the CIP. However, because of the nature of the subject and the conditions noted in the body of the report, related functions performed in AID/W are included in the discussions.

Our examination covered the procedures followed by the USAID/E and the groundrules provided by AID/W on the payment of agents' commissions. The period covered in the audit was from program inception, February 1975, to July 31, 1980 for the financial data. CIP management policies and practices related to agents' commissions were still in effect at the time of issuance of this report. The review was conducted in accordance with generally accepted auditing principles and standards. Accordingly, we examined, to the extent deemed necessary, historical files, transaction support data, cables, pertinent Agency Handbooks, AID Regulation No. 1, and other available documents. We also visited six agents in Egypt and reviewed different case studies made by the Office of the Regional Inspector General for Inspection and Investigation.

3. USAID/E Comments

Financing of agents' commissions through the CIP was initially covered as part of our review of Financial Procedures and Controls of the CIP (Audit Report No. 81-1); this area was deleted from that final audit report to enable considering the subject in broader perspective as part of the final CIP Overview report. Deferral of the final overview report to allow full consideration of USAID/E written comments to earlier published audit reports in this CIP series resulted in agreement to address agents' commissions in this separate report, along with USAID/E official comments on this subject. Official USAID/E comments were expected in January, 1981, but had not been received at the time of publication of this report. Unofficially, however, we were told that the USAID/E generally is not in agreement with the conclusions presented in this audit report. Where possible, we gave full consideration to these unofficial comments in finalizing this report. We understand that the USAID/E will furnish comprehensive written comments in response to this final published report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Over the past five years the USAID/E has financed agents' commissions under CIP transactions with U.S. dollars rather than from local currencies. The agents perform their services in Egypt and there seems no standard or criteria as to what functions or services are covered by agents' commissions; nor is there a firm basis to determine whether or not agents' commissions paid are reasonable or not; in fact, some commissions as high as 50% of the commodity sales price have been paid through the CIP.

These commissions are paid in U.S. dollars to Egyptian agents for services performed in Egypt which are local currency costs. Substantial sums of money are involved--a conservative estimate is \$44.2 million for agents' commissions from U.S. dollars through the CIP up to the period covered by this audit. The CIP is expanding by significant amounts and is now close to a \$2.3 billion program. The USAID/E practice of financing agents' commissions in U.S. dollars is not consistent for all types of activities; U.S. dollar commissions are allowed for commodities procured through the CIP and where AID Regulation No. 1 applies. In the case of most capital projects, however, the USAID/E refuses to finance agents' commissions as an operating rule and these costs are financed by the GOE or the supplier in local currency. One fundamental question raised in this review is whether agents' commissions should be paid in U.S. dollars through AID financing under the CIP or in local currency by either the GOE or the supplier. Whether financed through the CIP in U.S. dollars or not, these agents' commissions are local currency costs.

This practice of financing agents' commissions in U.S. dollars warrants review and determinations by Agency top management since Agency policy is to spend grant and supporting assistance loan dollars in U.S. products and services. Also pertinent, Egypt is designated by the U.S. Department of the Treasury as an "excess currency" country. As noted in Agency regulations and the Foreign Assistance Act (FAA), it is the policy of the United States to maximize the use of excess (and near-excess) currencies by paying obligations in the currencies of those countries rather than in U.S. dollars.

Beyond the significant drain of U.S. dollars from actual CI Program commodity imports to pay these agents' commissions, such payments may contravene provisions of AID Regulation No. 1 which prohibit any commissions, payments, credits, allowances or benefits of any kind to be paid, made, or given by the supplier or his agent (a) to or for the benefit of (i) the importer, or (ii) a purchasing agent or representative of an importer, or (b) to any third party in connection with a sale by the supplier to his dealer, distributor or established agent in the cooperating country. The actual nature of services provided by these agents is difficult to determine from files and documents used to monitor transactions; however, based on statements by agents interviewed and the relationship of these agents to importers and suppliers, many of these agent commission payments appear to contravene the provisions of AID Regulations No. 1.

1. Multi-Millions of U.S. Dollars are Paid in Commissions

Substantial amounts of money are involved in agents' commissions paid in U.S. dollars under the CIP. The level of payments for these agents' commissions have varied according to the type of commodities imported. To illustrate, typical rates of commissions paid by U.S. suppliers to Egyptian agents through the CIP varied as follows:

<u>Commodity</u>	<u>Average Commission Rate Per Order (%)</u>
Tallow	1
Cellulose Acetate Tow	2
Electrolytic Zinc Ingots	2.5
Bleached Woodpulp	3
Cigarette Paper	6.5
Machine Tools	10
Generators with Accessories	9
Marine Engines	10
Trucks and Tractors	10
Cranes	11
Mechanics Hand Service Tools	14.5
Dental Units	13.5

In the case of spare parts, the average commission has ranged between 25 to 30%. In one case reviewed, the commission paid was 50% of the invoice price. But the volume of payments reflected by these rates gives a better idea of the significant dollar amounts involved. For example, tallow has been imported into Egypt from one U.S. supplier at a cost of over \$52 million. At one percent, the agents' commissions exceed \$520,000. Three transactions imported marine engines for a total of \$1.856 million; at 10%, the agents' commissions amount to \$185,600. One audit team found that a total of \$2.9 million had been paid on a level of disbursements of \$99.3 million; thus, a conservative composite average rate was calculated at about 3 percent. When all \$1.472 billion is disbursed for commodities to the public sector, then, at least \$44.2 million will have been paid in the form of agents' commissions. Since these commissions are payable in U.S. dollars, they represent a reduction in the value of actual commodities that will be imported for the Egyptian economy.

Considering the substantial multi-millions of U.S. dollars paid for agents' commissions under this CI Program, our review attempted to answer some basic questions: Who are these agents? What is their history? What do they do to earn their fee? There is very little information available at the USAID/E to adequately answer these questions. Suppliers are required to provide information on commissions and other payments or benefits on the Invoice and Contract Abstract of the Supplier's Certificate (AID Form 282). These Forms 282 are monitored in AID/W by SER/COM. Our review of selected available Forms 282, however, showed that there is insufficient information on these forms to identify the exact type of payments made to agents, purpose of payments, or

the agent services provided. We were able to find some background material and some indications as to the role of the agents from audit interviews and several special reviews made by the IG Office of Investigation and Inspection. Such information and background are referred to in later sections of this report discussing related issues needing resolutions.

2. Payments of Agents' Commissions for the benefit of importers

Prohibitions on the payments of commissions, other payments, credits allowances, or benefits of any kind to or for the benefit of the importer, a purchasing agent, or representative of the importer or to a third party in connection with sales by the supplier are contained in AID Regulation No. 1. In Egypt, the preponderance of CIP imports (95.6%) is for public sector organizations. Some of the agents involved in CIP transactions are Public Sector Trading Companies; these are organizational elements of the GOE and any commissions or other payments, credits and allowances to them are for the benefit of the importer. IG documentation reviewed also showed that actual services provided and functions performed by sampled Egyptian agents involved in transactions financed through the CIP do benefit the importers, whether public sector or private. Situations and transactions reviewed indicate possible violations of statutory provisions of AID Regulation No. 1 and clarification of the intent and application of this regulation is needed.

The payment of agents' commissions is authorized, subject to certain restrictions, by Section 201.65 of Regulation No. 1. Section 201.65 (h) of Regulation No. 1, states in part:

"(h) Commissions and other payments or benefits to importers purchasing agents and others. Unless otherwise authorized by AID, no commission or other payment, credit, allowance, or benefit of any kind shall be paid, made, or given in connection with any sale subject to this part by the supplier or his agent--(1) To or for the benefit of the importer; or (2) To or for the benefit of a purchasing agent or representative of an importer, even though such purchasing agent or other agent or representative may also have an agreement with a supplier to represent the supplier; or (3) To any third party in connection with a sale by the supplier to his dealer, distributor, or established agent in the cooperating country."

Subparagraph (2) above can be interpreted to prohibit payment of commissions to public sector companies in Egypt since the Government of Egypt (GOE) is the importer and these are GOE agencies or entities. In Egypt, 95.6% of all CIP assistance is channeled through the public sector.

During our review of the operations of six selected agents (two of which represented public sector companies), we found that information regarding commissions is a closely guarded secret. Responses regarding sources of income were vague and contradictory. For example, two agents claimed that

commissions were derived from suppliers; one public sector agent stated that commissions were obtained from importers; the other public sector company agent stated that commissions were to be paid by the importer but had never been received; another agent said that commissions were paid by both the importer and the supplier; one agent made no comments regarding receipt of commissions. In sum, the entire area of agents' commissions seems particularly vulnerable from the standpoint of mis-use of U.S. dollars and there is at least some potential that agents are compensated by both importers and suppliers.

Our draft audit report noted that many of the agents are public sector companies; i.e., organizational sub-elements of the GOE (the principal importer) or, agents of the importer. Consequently, payments of agents' commissions by U.S. suppliers to public sector trade companies in Egypt are actually payments to the importer's agents.

In response to the draft audit report, the USAID/E pointed out that the Director of the Office of Commodity Management and Trade knew of only two public sector trading companies, that at one time during early 1978, acted as agents of U.S. suppliers bidding chemicals for another GOE company. In this case, the USAID/E stated, the agents were acting as representatives of U.S. suppliers and were not acting as purchasing agents or representatives of the importers. In these two cases, the USAID/E noted, the two GOE public sector trading companies complied with AID Regulation No. 1 provisions.

Accepting USAID/E comments that these two GOE public sector trading companies represented the supplier and complied with AID Regulation No. 1, the situation does surface an area of interest. These two GOE public sector trading companies, as entities of the GOE, the importer, receive agents' commissions from the supplier, as the supplier's representative, yet the importer is another GOE entity. In short, an entity of the importer acts as the agent in a CIP-financed procurement by another entity of the importer. AID Regulation No. 1 seems intended to prohibit payment of commissions under this exact type of situation.

AID Regulation No. 1, as quoted earlier, stipulates that no commission or other payments, credit allowance or benefit of any kind shall be paid, made, or given in connection with any sale subject to this part by the supplier or his agent.

"(2) To or for the benefit of a purchasing agent or representative of an importer, even though such purchasing agent or other agent or representative may also have an agreement with a supplier to represent the supplier..."

Since the two public sector trading companies cited in the USAID/E response are entities of the importer; i.e., the GOE--AID Regulation No. 1 can be interpreted as prohibiting any payment or benefit to them even though they have an agreement to represent the supplier.

Our review also showed at least ten GOE public sector companies dealing in foreign trade, listed below:

Tractor & Engineering Company*
General Engineering Company
MISR Car Trading Company
MISR Foreign Trade Company*
Arab Foreign Trade Company
MISR Import & Export*
El Nasr Import & Export*
El Wady Company for Agriculture Export
El Nil Company for Agriculture Export
General Company for Trade & Chemicals*

Those companies identified with an asterisk have been shown on previous forms AID-282, Invoice and Contract Abstract, as either importers or agents, or both (on separate 282s). The information on these forms, however, is not sufficient to determine whether payments made were commissions, credits, allowances, similar payments or side payments. Neither does the information on these forms identify or explain the services provided by the agents.

While AID Regulation No. 1 does permit payments of agents' commissions under the CIP, it is rather clear as to the prohibition against any payments, credits or benefits of any kind, to the benefit of either the importer or a purchasing agents or representative of an importer. The situation in Egypt, where almost all imports under the CIP are by entities of the importer, the GOE, seems to merit a clarification of the intent and application of AID Regulation No. 1.

Considering the fact that over 95% of all CIP assistance to Egypt has been through entities of the GOE (the importer); that at least 10 GOE public sector companies (entities of the importer--the GOE) are shown on Forms AID-282 as either direct importers or agents (or both, on separate forms); and that public sector companies (entities of the importer--the GOE) have in the past been agents of the supplier when the importer has been another GOE entity, we believe the following recommendation is pertinent.

Recommendation No. 1

The Agency General Counsel renders a determination regarding whether any commissions, other payments, credits, allowances, or benefits of any kind either made, paid, or given (as set forth in Section 201.65 of AID Regulation No. 1) by U.S. suppliers and reimbursed under the CIP are actually to the benefit of the GOE importer and prohibited by AID Regulation No. 1 when the importer is a GOE public sector entity and the agent or representative is an Egyptian public sector company representing a U.S. supplier.

Recommendation No. 2

USAID/E formulate policies and procedures regarding payments of agents' commissions, as necessary, based on the GC determination in Recommendation No. 1.

AID Regulation No. 1 also proscribes commissions, payments, credits, allowances or benefits by the supplier or his agent:

- "(1) To or for the benefit of the importer;" or
- "(3) To any third party in connection with a sale by the supplier to his dealer, distributor, or established agent in the cooperating country."

As noted earlier, the information shown on the Forms AID-282 is not sufficient to determine the exact nature of payments; i.e., whether they are commissions, credits, allowances, similar payments or side payments. Neither is available information sufficient to show the actual services provided by agents for the U.S. dollar commissions paid through the CIP. Documentation of IG sampled interviews showed that the actual services provided by Egyptian agents (as stated by these agents) involved in transactions financed through the CIP do benefit the importers, whether public sector or private. Some examples of situations reviewed follow:

--A GOE-owned (public sector) company is the exclusive Egyptian distributor for a specific U.S. supplier; but, an "agent" has a parallel arrangement with this exclusive Egyptian public sector distributorship to provide technical consultation and services; the agent assembles equipment after arrival in Egypt, provides maintenance service under warranties, and stocks spare parts. Since the GOE public sector company is the exclusive distributor, it seems unnecessary to pay an agent to stock spare parts and to perform other services shown here--these are normal functions and services performed by a distributor; performance of these services and functions by an agent paid by a supplier through CIP dollar funding seems to directly benefit the importer. Considering this situation, the question of whether or not commissions paid this agent actually benefit the importer seems valid and within the proscriptions intended by AID Regulation No. 1. Also, AID Regulation No. 1, prohibits commissions or payments to any third party in connection with a sale by the supplier to his dealer, distributor or established agent in the cooperating country. Since this GOE company is the "exclusive" distributor, there is no apparent need to pay these types of commissions.

- In another case, the agent prepared paperwork, introductions, arranged transportation, made separate written agreements between importers involved in the CIP transaction and, in short, supervised the entire transaction. The agent represented the U.S. supplier but also apparently put together the various importers; i.e., it seems that the importers could not have participated in the CIP transaction without this agent's services. These services seem to benefit the importers to some extent as a result of commissions paid to the agent by the U.S. supplier. In this case, importers were using CIP Private Sector funds.

- In another example, the agent performed functions such as installation of equipment, training of importer employees, warranty services, and other requirements, dependent upon the needs and desires of the importer; he did not receive his commission until the equipment had been installed and noted that the amount of his commission was dependent upon the extent of services provided the importer. The importer, in this case, was a GOE-owned entity (public sector importer). Since the amount of the agent's commission was dependent upon the extent of services provided the importer, it seems that payment of these commissions by the supplier in U.S. dollars were of direct benefit to the importer.

- One agent imports for his own account using AID financing (CIP Private Sector funding) and also acts as a commissioned agent on third party imports through the CIP; this agent provides the services of an engineer/technician to explain maintenance principles to these other third party importers. Commissions paid this agent in U.S. dollars by suppliers for services seem to directly benefit other importers, contrary to AID Regulation No. 1 and Agency policy.

- In three other cases reviewed, the agents also imported for their own accounts as well as for the accounts of other importers; two of these "agent-importers" also provided technical services to these other importers; again, the services provided seem to contravene the intent of AID Regulations and Agency policy by benefitting the importers from commissions paid by U.S. suppliers through the CIP.

- Several agents assist the importers in opening Letters of Credit for importing commodities through the CIP; one also assists in solving any problems which might take place before the transaction is completed; another also makes two visits to the importers to insure that equipment is working properly and also has maintenance contracts with these same importers. Services of these agents seem to benefit the importers as a direct result of U.S. dollar commissions paid by U.S. suppliers; the existence of contracts for maintenance between the agent and importers seems at variance with the agent's contractual relation-

ship with the U.S. supplier. Are importers capable and expected to open their own Letters of Credit as part of their importing operations? If so, payment of an agent to provide such services seems to directly benefit the importer, contrary to proscriptions of AID Regulation No. 1 and Agency policy.

--In another case, the commission is split between two agents; the first agent provides training to importer employees and makes regular visits to the importers during the warranty period to assure proper functioning of the equipment. The second agent provides importers with data on suppliers' equipment and helps them put together bid tender packages from the technical standpoint; when technical problems arise at any of the importers' factory sites, he contacts the supplier's engineer to handle them. It seems that these services benefit the importers directly; e.g., preparation of bid tenders would be a normal cost of the importers, performed by their staffs and such services by a commissioned agent would certainly benefit the importers in time and cost savings; similarly, tracking and obtaining supplier engineers to resolve technical problems at the factory sites would benefit the importers. It also appears that an agent assisting in preparing bid tender packages can easily gain advantage over other bidders, thereby defeating the competitive intent of the CIP.

Based on the examples above, a conclusion can be drawn that the rate of commissions received by an agent depended upon the type of commodity, the role of the agent, and the services required to be performed; but the extent of services provided to Egyptian importers affected the dollar amount of commissions paid to the agents. Commissions are therefore linked to services benefitting the importers rather than supplier sales.

Some of the services provided by agents, in the examples discussed above, were of benefit to the suppliers who paid the commissions through CIP financing. In many instances, however, the services seem to equally, if not primarily, benefit the importers with no apparent relationship to securing the sales. In at least one instance, payments benefitted the agent as a third party in connection with sales by a supplier to his exclusive distributor, a situation covered specifically by Section 201.65 (h) (3).

While the extent of payment of agents' commissions covering these types of services is not known, we believe the examples discussed illustrate the need to clarify policies and procedures. The types of services provided by these agents are much broader than the Agency's definition of agents' commissions. Payments for such broad range of services benefitting the importers, their agents, or third parties contravene AID Regulation No. 1 provisions, in our opinion.

Recommendation No. 3

The Agency General Counsel make a determination regarding whether the types of services provided by agents (as shown in the situations presented above) fall within AID Regulation No. 1, Section 201.65 provisions prohibiting commission and other payments to benefit the importers, importers' agents or third parties.

Recommendation No. 4

USAID/E formulate policies and procedures to assure compliance with AID Regulation No. 1 provisions, as necessary, based on the determinations of the GC in Recommendation No. 3.

3. The practice of financing agents' commissions in U.S. Dollars need reassessment

The issue of agents' commissions also involves Agency policy with respect to payments in U.S. dollars, regardless of whether the agents are public sector trading companies or private entities. Agency policy overall is to spend supporting assistance U.S. dollars on United States commodities and services. Moreover, Egypt has been designated as an "excess" currency country. It is also United States and Agency policy overall to maximize the use of excess and near-excess currencies by paying in the currencies of those countries rather than in U.S. dollars.

Over the past five years the USAID/E has financed agents' commissions under CIP transactions with U.S. dollars rather than from Egyptian pounds. These commissions are paid in U.S. dollars to Egyptian agents for services performed in Egypt which are local currency costs. The USAID/E policy on U.S. dollar financing of agents commissions is not consistent, however. In the case of most capital projects, the USAID/E refuses to finance agents' commissions as an operating policy and these costs are financed by either the COE importer or the supplier in local currency. USAID/E comments on the initial draft follow:

"The draft Report suggests that USAID allows agents' commissions for CIP-financed activities but not for capital projects. The point is really that where Regulation I procedures have governed capital projects, agents' commissions have been allowed, i.e., Industrial Development Bank, Road Reconstruction Grant, Decentralization. The draft Report does recognize that AID regulations permit such payments under the CIP."

While AID Regulation No. 1 may permit payment of agents' commissions under the CIP, it does not cover the method of such payments; i.e., whether payments are in U.S. dollars or local currencies. Other Agency policies are also involved here.

AID Handbook 1, covering Agency Procurement Policies, sets forth specifically that the United States (Code 000) is the authorized source for all grants (with exceptions not applicable to Egypt) and supporting assistance loans. Agency procurement policy, then, is to spend supporting assistance U.S. dollars on United States commodities and services. In our opinion, the payment of commissions or other payments to foreign agents in U.S. dollars does not follow the intent of Agency procurement policies.

An additional Agency policy is involved--AID Cash Management Procedures. AID's Cash Management Policy was approved by the Deputy Administrator on November 21, 1978. Agency policy and procedures were set forth in STATE 273219, dated October, 1979. In part, these procedures state:

"F. Foreign Currency. Section 8070 of the TFRM is generally self-explanatory. Note that the same Cash Management policies applicable to Dollar disbursements are also applicable to foreign currency disbursements.

"In accordance with Section 8070.80, every effort will be made to include in contracts a requirement that obligations will be made payable in foreign currency of excess and near-excess currency countries to the extent that the contractor may be expected to require such currency for necessary expenses in the country involved. In applying this requirement, AID will consider requests for omission of certain categories of local costs from the requirements of this section when contractors justify payment of such costs in excess currencies as administratively impractical, or when AID determines at the time a project is approved that use of excess or near-excess currencies is not consistent with the objectives to be achieved."

Egypt has been designated as an "excess currency country" by the U.S. Department of the Treasury. We believe the significant amounts of U.S. dollars involved in agents' commissions and the situation in Egypt where 95.6% of all CIP assistance has been through the GOE, as the importer, merits the attention of management to assure compliance with Agency Procurement and Cash Management policies and AID Regulation No. 1. In the case of Egypt, Agency policy in AID Handbook 19, based on statutory provisions of the FAA, needs to be considered also. These Agency regulations state, in part:

"The policy of the United States is to maximize the use of excess and near-excess currencies by paying obligations in the currencies of those countries rather than in U.S. dollars. These uses include the financing of AID local project costs, in compliance with the specific statutory provision in Section 612 (b) of the FAA; certain payments to American contractors to the extent that the contractor may be expected to require such currencies for necessary expenses in the country involved; ***. The President shall take all appropriate steps to assure that, to the maximum extent possible, United States-owned foreign currencies are utilized in lieu of dollars. Dollar funds made available pursuant to this Act shall not be expended for goods and services when United States-owned foreign currencies are

available for such purposes unless the administrative official approving the voucher certifies as to the reason for the use of dollars in each case."

We believe USAID/E policies and practices regarding payments to agents in U.S. dollars need to be re-assessed in view of AID Cash Management Procedures which set forth a policy requiring use of local currencies for payments of necessary expenses in the country involved where it is designated an excess or near-excess currency country. The types of services discussed in the examples on pages 9,10 and 11 are local currency costs of services performed in Egypt by Egyptian agents.

Recommendation No. 5

USAID/E, in coordination with the AA/NE, (1) obtain a determination from AA/SER on whether or not payments of agents' commissions or other payments to agents in Egypt in U.S. dollars are allowable under Agency Cash Management policies and procedures covering use of excess and near-excess currencies for necessary expenses in country, and (2) formulate USAID/E policies and procedures accordingly.

In view of United States and Agency policy stated in the FAA and in AID Handbook 1 and 19, we believe clarification is also needed in view of USAID/E practices and policies regarding payments to agents in U.S. dollars under the CIP.

Recommendation No. 6

AA/SER, in coordination with the Agency General Counsel make a determination on whether or not payments of agents' commissions or other payments to agents in Egypt in U.S. dollars are prohibited by (a) Agency Procurement Policies in AID Handbook 1 which stipulate the United States as the only source for procurements under grants and supporting assistance loans, and by (b) AID Handbook 19, Chapter 5 which incorporates requirements of the FAA and requires use of excess and near-excess currencies for goods and services in country.

Recommendation No. 7

USAID/E formulate policies and procedures to assure compliance with Agency policies on use of local currencies and U.S. source procurement under grants and supporting assistance loans, as necessary, based on the determinations of AA/SER and the GC in Recommendation No. 6.

In the event AA/SER and the General Counsel determine that agents' commissions are not payable in U.S. dollars under the CIP in Egypt, the following recommendation addresses actions needed beyond formulation of policies and procedures.

Recommendation No. 8

USAID/E take action to assure no further payments of agents' commissions or other payments to agents are made from U.S. dollars under the CIP except within requirements of applicable AID regulations and the FAA.

4. Monitoring of agents' commissions can be strengthened

AID Handbook 17 places responsibility on the Surveillance and Evaluation Division of SER/COM to "...maintain surveillance files, including lists of suppliers, agents, importers, banks, and shipping companies involved in commodity import programs, with source data for establishing their integrity and reliability..."

To fulfill this responsibility, "...SER/COM monitors payment to insure that commissions are reasonable and in line with the prevailing level in the market. Suppliers are required to provide information on commissions and other payments or benefits on the Invoice and Contract Abstract of the Supplier's Certificate (AID Form-282)..."

AID Form-282, in our opinion, does not have sufficient information to help SER/COM fulfill its monitoring and surveillance functions. This form gives no information on the services being provided by the agent. It is also not clear whether the amount paid is in the form of commissions, discounts, or in-kind benefits. This fact, we believe, accounts for several observations made throughout this report. For example, the files of the USAID/E contain very little information which might help understand the role of the agents and the reasons why close to \$44.1 million must be paid for these local services from appropriated U.S. dollars. Also, the commission percentages range from 1% to as much as 30 or 50% and there seems to be a more direct linkage between the commissions and the services the agent must perform for the benefit of the importer than with the supplier's for securing the sale. Thus, there seems to be no standard or criteria as to what functions or services are covered by agents' commissions.

While commissions are payable in U.S. dollars under the CIP in Egypt, we believe the monitoring and surveillance function can be strengthened by implementing the following recommendation.

Recommendation No. 9

AA/SER determine whether it is practical, and, if so, revise the AID Form-282 to (a) require that suppliers include and certify information on specific services provided by the agent and (b) identify the exact type and amount of payments made to agents as to commissions, allowances, discounts, and side payments.

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

EXHIBIT A

Ministry or GOE Organization	Imports		U S \$000		BY	LOANS		(263-K-XXX)		AND GRANT 263-0119	TOTAL
	026	027	029	030		036	038	045	052		
Supply	\$45,900	\$30,800	\$10,650	15,000	\$ 519	\$219,701	\$111,500	\$90,000	\$28,500	\$572,570	
Industry	25,000	6,000	25,320	33,000	6,321	79,500	88,000	90,000	5,000	353,141	
Transport	1,400	600	47,030	25,341	9,175	57,750	24,157	30,000	6,500	201,953	
Electricity	1,500	19,900	9,730	22,000	-	-	15,000	-	9,500	77,630	
Suez Canal Authority	-	1,200	1,270	-	3,900	25,000	25,000	-	-	56,370	
G.O.P.I.	-	-	-	12,000	-	24,826	5,000	-	10,000	51,826	
Information	-	-	-	18,951	5,000	8,683	10,000	-	-	42,634	
Agriculture	-	-	-	-	18,000	-	-	5,000	-	23,000	
Local governorates	-	-	-	3,357	3,000	2,000	9,900	-	-	13,257	
Housing	5,000	3,300	-	-	1,662	1,602	-	-	-	11,564	
Health	-	-	6,000	-	-	3,613	-	-	-	9,613	
Trade	-	7,500	-	-	-	-	843	1,000	-	9,343	
Press Institutions	-	-	-	-	-	-	-	7,500	-	7,500	
Education	-	-	-	159	4,140	317	-	-	-	4,596	
Irrigation	-	700	-	192	3,204	-	-	500	-	2,008	
Canal Works Company	-	-	-	-	-	-	-	600	-	600	
Civil Aviation	-	-	-	-	-	-	-	-	500	500	
Development and New Com	-	-	-	-	-	-	-	-	-	500	
Academy of Science	1,200	-0-	-	-	-	-	-	-	-	1,200	
Cairo University	-	-	-	-	79	-	-	-	-	79	
Sub-Total	80,000	70,000	100,000	150,000	55,000	425,000	290,000	224,500	76,500	1,471,600	
Private Sector	-0-	-0-	-0-	-0-	10,000	15,000	10,000	25,000	8,500	68,500	
Un-Sub-obligated	-	-	-	-	-	-	-	500	-	500	
TOTALS	\$ 80,000	\$ 70,000	\$100,000	\$150,000	\$ 65,000	\$440,000	\$300,000	\$250,000	\$ 85,000	\$ 1,540,000	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIST OF REPORT RECOMMENDATIONS

<u>Recommendation No. 1</u>	<u>Page</u>
The Agency General Counsel render a determination regarding whether any commissions, other payments, credits, allowances, or benefits of any kind either made, paid, or given (as set forth in Section 201.65 of AID Regulation No. 1) by U.S. suppliers and reimbursed under the CIP are actually to the benefit of the GOE importer and prohibited by AID Regulation No. 1 when the importer is a GOE public sector entity and the agent or representative is an Egyptian public sector company representing a U.S. supplier.	8
<u>Recommendation No. 2</u>	
USAID/E formulate policies and procedures regarding payments of agents' commissions, as necessary, based on the GC determination in Recommendation No. 1	9
<u>Recommendation No. 3</u>	
The Agency General Counsel make a determination regarding whether the types of services provided by agents (as shown in the situations presented above) fall within AID Regulation No. 1, Section 201.65 provisions prohibiting commission and other payments to benefit the importers, importers' agents or third parties.	12
<u>Recommendation No. 4</u>	
USAID/E formulate policies and procedures to assure compliance with AID Regulation No. 1 provisions, as necessary, based on the determinations of the GC in Recommendation No. 3.	12
<u>Recommendation No. 5</u>	
USAID/E, in coordination with the AA/NE, (1) obtain a determination from AA/SER on whether or not payments of agents' commissions or other payments to agents in Egypt in U.S. dollars are allowable under Agency Cash Management policies and procedures covering use of excess and near-excess currencies for necessary expenses in country, and (2) formulate USAID/E policies and procedures accordingly.	14

20

<u>Recommendation No. 6</u>	<u>Page</u>
AA/SER, in coordination with the Agency General Counsel make a determination on whether or not payments of agents' commissions or other payments to agents in Egypt in U.S. dollars are prohibited by (a) Agency Procurement Policies in AID Handbook 1 which stipulate the United States as the only source for procurements under grants and supporting assistance loans, and by (b) AID Handbook 19, Chapter 5 which incorporates requirements of the FAA and requires use of excess and near-excess currencies for goods and services in country.	14
<u>Recommendation No. 7</u>	
USAID/E formulate policies and procedures to assure compliance with Agency policies on use of local currencies and U.S. source procurement under grants and supporting assistance loans, as necessary, based on the determinations of AA/SER and the GC in Recommendation No. 6.	14
<u>Recommendation No. 8</u>	
USAID/E take action to assure no further payments of agents' commissions or other payments to agents are made from U.S. dollars under the CIP except within requirements of applicable AID regulations and the FAA.	15
<u>Recommendation No. 9</u>	
AA/SER determine whether it is practical, and, if so, revise the AID Form-282 to (a) require that suppliers include and certify information on specific services provided by the agent and (b) identify the exact type and amount of payments made to agents as to commissions, allowances, discounts, and side payments.	16

21

LIST OF REPORT RECIPIENTS

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