AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE INSPECTOR GENERAL

18 JUN 1984

ID-AAT-199
LN 44727

18

Office of the
Assistant Inspector General
for Audit

MEMORANDUM

TO: See Distribution

FROM: AIG/A, James B. Durnil

SUBJECT: Audit Report No. 3-632-83-11

00 22 77

Attached to this memorandum is an Addendum to Audit Report No. 3-632-83-11, "Poor Contractor Performance Has Hindered the Construction of Lesotho's Southern Perimeter Road," dated March 18, 1983. The introduction to the attachment describes the need for issuing an addendum to the original report.

Attachment

Distribution:
AA/M
AA/AFR
PPC/E
M/FM
M/SER/CM
FM/ASD
S&T/ENGR
LEG
GC

Addendum to Audit Report No. 3-632-83-11 of the Inspector General for the United States Agency for International Development dated March 18, 1983 entitled, "Poor Contractor Performance has Hindered the Construction of Lesotho's Southern Perimeter Road"

Introduction

Subsequent to the issuance of the subject Audit Report on March 18, 1983 (the "Report"), new facts and new information have come to the attention of the Office of General Counsel and the Inspector General of AID which suggest that it would be appropriate to clarify some of the conclusions of the Report so as to more clearly present the thrust of the findings contained therein.

Purpose and Scope

The purpose of this Addendum is to make it clear that the major problems identified with the contract to construct the Southern Perimeter Road in Lesotho were not the result of "poor contractor performance" by PRC Harris ("Harris") but rather were a result of the nature of the contractual situation as more fully described in Audit Report No. 3-000-83-13, and problems inherent in the project and the operational circumstances.

Findings, Conclusions and Recommendations

--Title I Design. The contractual arrangements with respect to the project did not call for a "design to cost" arrangement, and indeed, the contract specifically provided that "no major deviation from the general alignment or design criteria established in the feasibility report shall be made without the prior approval of the Ministry of Works [of the Government of Lesotho - "GOL"]. Consequently, Harris did not fail to follow general engineering practices by working to design the road to the specifications called for by the GOL.

The fact that the plans which were developed exceeded the initial budget estimates for construction was instead the fault of the planning and contractual process which first underestimated the cost of the project and then gave the contractual control to the GOL.

--Title II Cut/Off Construction. The circumstances surrounding the additional rock excavation undertaken by the contractor, Mello L. Teer Company, are currently being considered and the Report does not purport to be a full analysis of the facts surrounding this situation.

--Title III Force Account Construction. Although investigation of the project suggested evidence of "fraud, abuse and general mismanagement" in connection with the project, it would be inappropriate to read the Report as stating that such problems were caused by Harris as opposed to being inherent in the contractual and operational situation.

As noted on page 27 of the Report, "the abuses still existed" even after Harris was no longer involved with Title III. In addition, as noted on page 23 of the Report, since Harris was never provided the facilities promised to it under the contract, the resulting "unsatisfactory conditions" were directly responsible for hindering the development of the project. Furthermore, after the date of the Report, an independent accounting firm has made a detailed examination of expenditures under the contract, and in connection with this examination, Harris and the GOL have entered into a final settlement and mutual release. Finally, it has been determined that there is no claim by AID against Harris under Title III of the contract.

Consequently, it is not appropriate to blame the problems of the project on performance by Harris when there were significantly more fundamental problems inherent in the project, the contracts and the circumstances. Indeed, as suggested on page 3 of the Report, it would be much more appropriate to focus on "significant host country contracting deficiencies that need to be addressed by AID management" and which are further discussed in Audit Report No. 3-000-83-13 referred to above.