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AUDIT OF
USAID/EGYPT'S ASSESSMENT OF
HOST COUNTRY CONTRACTING CAPABILITIES
Audit Report No. 6-263-86-9
September 22, 1986

memorandum

DATE: September 22, 1986,
REPLY TO: *Joseph K. Ferri*
ATTN OF: Joseph K. Ferri, RIG/A/Cairo
SUBJECT: Audit Of USAID/Egypt's Assessment Of
Host Country Contracting Capabilities
TO: Mr. Frank B. Kimball, Director USAID/Egypt

This report presents the results of audit of USAID/Egypt's Assessment Of Host Country Contracting Capabilities. Basically, the audit showed that despite the repeated admonitions of Agency policy directives and Office of the Inspector General audit reports, USAID/Egypt still has not effectively implemented the requirement that assessments be made of the host country's capabilities to carry out the procurement function prior to selecting the most appropriate contracting mode for implementing projects.

Please advise this office within 30 days of actions planned or taken to implement the recommendation. We appreciate the cooperation extended to our staff during the audit.

Background

From 1976 through December 30, 1983, the AID policy described in AID Handbook 1, Sup. B, Ch.3 gave preference to the use of host country rather than AID-direct contracting for implementing projects. A fundamental principle of AID has been that the countries it assists should undertake the implementation of their own development programs, rather than use AID as an agent to do so. There is no longer a stated Agency preference between AID-direct and host country contracting, and the most appropriate mode should be used.

Considerations of accountability and overall management effectiveness are vital in determining the appropriateness of the mode selected, and the capacity of the host country's implementing agencies must be assessed as a part of the planning process. Such assessments are required by Handbook 3, Chapter 8, and the Project Officers' Guidebook on Host Country Contracting (Handbook 3, Supplement B).

The detailed assessment is prepared to accompany each project paper as part of the approval process. This assessment must be in writing, approved by the Mission Director, and remain available to record that the decision to use host country contracting was based on an analysis of the contracting strengths and weaknesses of the host country institution. Assessments are a prerequisite for USAID/Controller concurrence in the proposed methods of implementing and financing projects at the time project papers are submitted to AID/Washington.

Office of the Inspector General Audit Report No. 84-38, dated September 28, 1984, found that as a result of not realistically assessing host country contracting capabilities and addressing recognized problems early in the relationship, costly project delays were encountered and a high degree of risk was introduced into AID's payment process. Moreover, without the required assessments, Missions were not in a position to: (1) know what impediments to timely project execution existed in the host government; (2) direct assistance to areas where the implementing agencies needed help; or (3) structure a response to overcome or accommodate such problems. Also, because assessments were not made, no definitive basis existed for addressing the root causes of the problems of delays, improving controls over payments and equipment, or reconciling the inherent weaknesses of host country procurement capabilities with AID's need to protect U.S. interests.

Audit Objectives And Scope

The Office of the Regional Inspector General For Audit/Cairo made a compliance audit of USAID/Egypt's assessment of host country contracting capabilities. The audit objectives were to examine USAID/Egypt's compliance with the requirement that: (1) assessments of the host country contracting capabilities be made before assigning procurement responsibilities to the host government; and (2) the USAID/Controller's concurrence be included in each project paper at the time the paper is submitted to AID/Washington.

The audit was done in April-May 1986, and included a review of records, reports and project papers at USAID/Egypt project offices, and interviews with six project officers. The audit covered all active project papers (three) dated

after September 30, 1984, totaling \$244 million. The audit also included three out of seventeen (18 percent) project papers still in the design stage.

The audit was made in accordance with generally accepted government auditing standards.

Results Of Audit

The audit showed that the USAID/Egypt had not fully complied with the Handbook requirements in the three project papers prepared after September 30, 1984 -- the date when the most recent directive was to be implemented by USAID/Egypt.

Two of three completed project papers included recommendations to use host country contracting. The other paper recommended using the AID-direct contracting mode. These recommendations, however, were not based on appropriate assessments of Government of Egypt implementing agencies capabilities, as required by AID Handbook 3. The audit also disclosed that one of the three project papers did not include the required USAID/Egypt Controller concurrence on the measures for implementing and financing the project.

The failure to comply with the requirement for appropriate written assessments was due mainly to three project officers' unfamiliarity with the Handbook requirements. As a result, there are the prospects of delays and unnecessary risks in USAID/Egypt's payment process on these projects. Moreover, USAID/Egypt did not identify any weaknesses in the implementing agencies that could benefit from improved management procedures. The lack of Controller concurrence in one of the project papers appeared to result from an oversight.

We recommended that USAID/Egypt once again reemphasize the importance of making assessments and issue a Mission Order, or other appropriate official document, to inform Mission personnel of the need to comply with Handbook requirements.

Discussion - AID "Payment Verification Policy Statements" dated December 30, 1983, required: (1) a comprehensive general assessment of methods of implementing and financing projects to be presented on a regular basis, and more specific assessments to be included in the project papers; and (2) AID/Washington Controller concurrence on the recommended manner of implementing and financing projects. The Controller's concurrence was to be included in both the

general assessment and the more specific project paper assessments requiring AID/Washington review. This authority was redelegated to USAID Mission Controllers effective March 31, 1984.

The policy further explained that when host country contracting is proposed as a means of implementation, the assessments must set forth a realistic appraisal of the prospective contracting agency's ability to: (a) advertise, award and negotiate contracts; (b) monitor contract implementation; (c) examine invoices; and (d) audit contractor records and reports.

AID Handbook 3 states that to determine the capacity of a host country to effectively assume specific implementation functions, such as contracting, requires careful assessment during the project design and planning cycle. Further, it is within the context of the project officer's monitoring responsibilities, that he/she assesses, or arranges to have assessed, the procurement and contracting capabilities of the host country implementing agency. This assessment is essential to determine which contracting mode to approve - whether host country or direct AID contracting - in implementing the project, and it should be undertaken during the project development stage. AID Handbook 3 also assigns Mission Directors the responsibility to assure that the project design assigns procurement responsibility in a manner best fitting the particular circumstances, and which will result in the most effective implementation of AID-financed projects.

The three project papers issued subsequent to the September 30, 1984 effective date of implementing the most recent policy guidance in Egypt showed that appropriate assessments were not done, or if such assessments were done, they were not available in the files. These projects were estimated to cost \$244 million.

Project Paper No. 263-0176 entitled: "Water/Wastewater Institutional Support", with an estimated cost of \$15 million, included a recommendation that host country contracting be used. The project officer stated that a formal assessment had been done of all host country capabilities, including the contracting function, and that the host country capabilities were found to be adequate. The assessment was a one-page document indicating an evaluation was made, but contained little specific information of the methodology used to arrive at the conclusion reached. The assessment was also missing the Mission Director's approval.

Project Paper No. 263-0182 for "Local Development II", with an estimated cost of \$156 million, did not have a formal assessment. Nevertheless, the project paper included a recommendation to use the AID-direct contracting mode. The project officer explained that some sort of assessment was done, but he could not locate the document.

Project Paper No. 263-0203 entitled "Child Survival", with an estimated cost of \$73 million, had almost the same situation. In terms of a recommendation, the host country contracting mode was preferred, but again no written assessment was done.

Three other project papers were examined but they were in early stages of design, and had not progressed to the point that assessments had been made.

The USAID/Egypt Controller's certification indicating concurrence with the proposed method of implementing and financing was included in two of the project papers, but was missing from the third. The project officer provided no reason why the certification was not included in the files. He thought that the Controller had concurred but could not locate any documentation. The Controller agreed that it was an oversight, a human error, and that it would be avoided in the future.

The main reason USAID/Egypt was not fully complying with the policies and regulations regarding assessments was project officer unfamiliarity with what was to be done, and how and when assessments were to be made. Three of six project officers stated that they were not aware of the requirement to perform a written assessment during the design stage of the project, and to make it available in official project files. Project officers and other Mission personnel need to be more aware of AID's policies and regulations in this area.

The issue of assessing host country contracting capabilities was discussed in detail in a 1986 USAID/Egypt-sponsored training course on project implementation. A questionnaire for the course was developed that if used correctly could assist project officers in selecting the appropriate contracting mode. Course participants, mainly project officers, were exposed to the requirement and made aware of its importance. A Mission Order supplementing the training material would alert other project officers to the need to make the assessments and ensure that a USAID/Egypt Controller's certification was on every project paper.

Recommendation No.1

We recommend that USAID/Egypt issue a Mission Order, or other appropriate document, to reemphasize to project officers and other Mission personnel the need to ensure that:

- a. an assessment of the host country contracting capabilities is made during the design stage of projects, and is included in the project paper, or other official document; and
- b. a certification to record concurrence by the USAID/Egypt Controller of the proposed method of implementing and financing the project is included in every project paper.

Management Comments - The USAID/Egypt Associate Director, Financial Management Division (Controller) responded for the Mission that this report, because of its lack of overall impact and limited scope, should not be published. The report was criticized for sampling only three project papers. Also, the Associate Director said an in-depth assessment was not required when the AID-direct mode was recommended; he indicated that the audit had overlooked the implementing ministry's proven track record in the procurement area.

Office Of The Inspector General Comments - It is important to note that this report is a follow-up audit of Audit Report No. 84-38 issued September 28, 1984. The overall impact of this present report is in terms of avoiding future procurement problems in Egypt. The possible negative effects of not making the required assessments were detailed in Audit Report 84-38. Prior RIG/A/Cairo audits of USAID/Egypt projects involving the same Egyptian ministries responsible for the projects referred to in this report also have amply demonstrated the necessity for assessing procurement capabilities before committing to the host country mode of contracting.

Concerning the "limited scope" of the audit, the audit covered all project papers dated after September 30, 1984, which is when the new policy guidance was to be applied in USAID/Egypt. Also, the comment that an in-depth assessment was not needed when the AID-direct contracting mode is selected is in error. AID Handbooks require in-depth assessments in all cases to determine which contracting mode is appropriate to use.

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