

memorandum

FD-101-712
11/12/87

DATE: November 5, 1987
 REPLY TO: Joseph R. Ferri, RIG/A/Cairo
 ATTN OF:
 SUBJECT: Audit of the Cairo Sewerage II Project
 TO: Mr. W. Haven North, AAA/PPC/CDIE

RIG/A/C-88-66

On September 30, 1987, we issued Audit Report No. 6-263-87-13 on the Cairo Sewerage II Project. During the audit we noted that a major construction delay of about six months, at that time, was taking place primarily due to a conflict over whether the project design could be carried out without unacceptable risks to life and property.

This conflict between American British Consultants (AMBRIC), technical consultants to the Cairo Wastewater Organization, and Weslur Constructors, contractors for the installation of sewers and connectors, was discussed in the draft audit report but omitted from the final report because an imminent decision was expected.

In order for readers of the audit report to have a more complete picture of the Cairo Sewerage II audit results, we are providing a copy of our Management Letter, dated November 5, 1987, to the Mission Director detailing the construction delay. This letter should be kept with Audit Report No. 6-263-87-13, dated September 30, 1987 and entitled Audit of Cairo Sewerage II, USAID/Egypt Project No. 263-0173.

memorandum

DATE: November 5, 1987

REPLY TO
ATTN OF: *Joseph R. Ferri*
Joseph R. Ferri, RIG/A/Cairo

SUBJECT: Dispute over Construction Contract
Number 20 in the Cairo Sewerage II
Project No. 263-0173 (6-263-88-L-2)

TO: Mr. George Laudato, Director USAID/Egypt (A)

The purpose of this Management Letter is to: (1) advise you about project construction delays resulting from a contractual dispute regarding Contract 20 of the Cairo Sewerage II project; and (2) request information on USAID/Egypt efforts to resolve the problem. The situation has been discussed previously with members of the Development Resources office who are thoroughly familiar with the details.

Contract number 20 was awarded to Weslur Constructors in April 1986 at a cost of about \$50.4 million. The intended contract purpose was for the installation of sewers and collectors in the northwestern section of Cairo over a 4-year period. In our recent audit of the Cairo Sewerage II project (Audit Report No. 6-263-87-13 dated 9/30/87), we found that primarily due to a contractual dispute between Weslur and AMBRIC over construction methodology, expected construction work by Weslur had been delayed for about six months. Weslur contended that the construction method specified in contract tender documents could not be safely accomplished. AMBRIC, the consultant engineer, did not agree with Weslur's conclusions and maintained that the works could be constructed by a competent contractor without unacceptable risks to life and property.

On July 18, 1987, Weslur formally notified AMBRIC that it would be impossible to carry out the works as designed in a safe and acceptable manner and, therefore, it considered itself released from its obligation to execute the works. This notification invoked a "Settlement of Disputes" clause in the contract which required AMBRIC to reach a decision on the disagreement within 90 days. Although these events were closely monitored, USAID/Egypt project officials essentially maintained a "hands off" attitude because the Mission was not a party to the contract. The matter was included in our draft report on the Cairo Sewerage II project, but was omitted because a decided course of action was expected by mid-October 1987. However, a decision has not been forthcoming.

Currently Weslur and AMBRIC are still discussing possible contract settlement conditions and options, but agreement has not been reached. Until the matter is resolved, USAID/Egypt funds remain tied up in a nonproducing activity and project benefits are not being realized. Further, since Cairo Sewerage II is an integrated system, the lack of progress in settling the Weslur contract will ultimately affect other project construction contract work.

In order to protect AID's investment in this project and to enhance the prospect of the sewerage project serving the needy people of Cairo in as timely manner as feasible, USAID/Egypt may need to become more involved with the settlement process, and to propose, if necessary, other acceptable options for resolving this situation. We would appreciate receiving your views on this conclusion and being advised of any action taken or planned to resolve the construction delay problem.