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AUDIT FOLLOW-UP ON
USAID/EGYPT'S ACTIONS IN
RESPONSE TO PRIOR AUDIT OF
PROJECT NO. 263-0033, URBAN
ELECTRIC DISTRIBUTION (12/17/85)

Audit Report No. 6-263-89-2
December 13, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

December 13, 1988

MEMORANDUM For Director USAID/Egypt, Marshall D. Brown

FROM: RIG/A/Cairo, F. A. Kalhammer *F. A. Kalhammer*

SUBJECT: Audit Follow-up on USAID/Egypt's
Actions in Response to Prior Audit of
Project No. 263-0033, Urban Electric
Distribution (12/17/85)

This report presents the results of audit of USAID/Egypt's actions on closed Recommendation Nos. 1 through 4 of the above report. This follow-up audit of the project commodities purchased under the Urban Electric Distribution Project showed that prior Recommendation Nos. 2 through 4 were implemented satisfactorily, but that Recommendation No. 1 was not fully implemented. Accordingly, in our draft report, we said that Recommendation No. 1 should be reopened and called for USAID/Egypt to arrange with the Egyptian Electricity Authority for the most appropriate use of A.I.D.-financed materials, mobile equipment, and vehicles. Since the exit conference on October 5, 1988, USAID/Egypt has taken effective action, as described in Appendix 2, and Recommendation No. 1 consequently remains closed.

Background

The Regional Inspector General for Audit, Cairo issued an Audit Report entitled "Urban Electric Distribution Project No. 263-0033" on December 17, 1985. The project was basically designed to rehabilitate and expand the electric distribution systems in Cairo, Alexandria, Shebin El-Kom, and Beni Suef; and to ensure service with acceptable voltage levels and a minimum of interruptions by providing engineering services, equipment, and supplies. As of February 28, 1985, about \$42 million had been disbursed for project commodities. About \$32.4 million of these commodities were reviewed in the prior audit.

Recommendation Nos. 1 through 4 of subject report addressed the need for improved management in order to achieve project objectives, as well as a need for better controls over project property (See Appendix 1). All report recommendations were closed by May 1986 based on actions reportedly taken, or promised, by USAID/Egypt and/or the Government of Egypt (GOE).

Audit Objectives And Scope

The objective of this follow-up audit was to verify that actions reported by USAID/Egypt officials on four of the seven closed recommendations in the audit report entitled, "Urban Electric Distribution Project No. 263-0033" were properly implemented.

The review was made under the guidance provided by OMB Circular A-50; which requires Federal Inspectors General to periodically evaluate the effectiveness of audit recommendations in order to ensure that promised corrective actions are actually taken and have had the intended effect.

This audit included a retest of the \$32.4 million in commodities included in the prior audit. We reviewed records and reports, and interviewed officials at USAID/Egypt, the cognizant engineering consultant's office in Alexandria, the Egyptian Electricity Authority (EEA), and project officials in Cairo, Alexandria, Shebin El-Kom, and Beni-Suef. We also reviewed inventory control records at EEA warehouses in the four cities.

Audit field work began on July 1, 1988, and was completed on August 31, 1988. The audit was made in accordance with generally accepted government auditing standards. The review of compliance and internal controls was limited to the finding in this report.

Results Of Audit

Our follow-up showed that adequate corrective measures were taken on Recommendation Nos. 2, 3, and 4 and that those recommendations were appropriately closed (See Appendix 1). Recommendation No. 1 was not fully implemented in that certain commodities had not been put to use. This was apparently caused by inadequate calculation of the quantities needed based on usage factors and spare parts levels. Thus, further USAID/Egypt actions were needed to obtain more effective use of some \$1.6 million in project commodities.

Discussion - Recommendation No. 1 of Audit Report No. 86-1, dated December 17, 1985, recommended that USAID/Egypt arrange with the Egyptian Electricity Authority for the most appropriate use of A.I.D.-financed warehouses, mobile equipment, materials and vehicles. This recommendation was closed: (a) on the basis of a report by USAID/Egypt officials resulting from site visits made during April 1986 which stated that all warehouses were being fully utilized for A.I.D. and non-A.I.D.-financed materials; and (b) on information from the project officer that the unused equipment and materials had been transferred to locations where they were needed.

Follow-up tests of the \$32.4 million in commodities, previously reviewed in the prior audit, showed that almost \$1.6 million (5 percent) was still of little benefit to the project (See Exhibits 1 & 2). Materials, mobile equipment, and vehicles remained in excess or unsuitable to project needs. Some project vehicles and mobile equipment remained out of order and needed spare parts to be usable.

Although Chapter 9 of A.I.D. Handbook 3 requires appropriate planning to establish requirements, a determination of the quantities needed based on usage factors and spare parts levels had not been appropriately made. The project officer advised us that an engineering consultant had determined materials and equipment needs based on current and future demands of the electric distribution system. The operation of this system was described as a continuous dynamic process, and therefore, it was extremely difficult, according to the consultant, to estimate accurately in advance the actual quantities needed.

Here are some examples of unused items:

Materials And Installation Equipment - The following table shows how much of the overhead wires and relays lay idle in the four cities, as of August 31, 1988:

	<u>Overhead Wires</u>	<u>Relays</u>
Alexandria	\$ 150,000 <u>1/</u>	\$ 85,000
Shebin El-Kom	320,000	134,000
Beni Suef	76,000	11,000
Cairo	-0-	78,000
Total Value Unused	<u>546,000</u>	<u>308,000</u>
	=====	=====
Total Value Received	\$2,102,018	\$1,249,772
Percentage Not Used	26%	25%

Also, there were some compression connectors and spacers costing \$13,523 in the Beni Suef warehouse which had seen only limited usage.

Mobile Equipment - In Beni Suef, one 18-ton crane, one dump truck, and one backhoe loader, costing in total about \$149,000, remained unused. Also, one aerial bucket, one aerial ladder, one 8-ton truck and four 1/2-ton pick-up trucks, costing in total about \$142,000, were found in need of repair in the same location. No action had been taken by local EEA officials.

In Exhibit 1 the \$277,000 in vans, trucks, and station wagons shown as "misused" had been reported in Audit Report Nos. 6-263-83-2, dated February 21, 1983, and 6-263-86-1, dated December 17, 1985. USAID/Egypt considered various corrective actions, including the issuance of a Bill for Collection, but could not reach agreement with the Egyptian Electric Authority. Instead, in April 1985, USAID/Egypt suspended all procurement of vehicles for the remainder of the project. Therefore, there was no practical value in calling for further Mission action.

Based on our audit follow-up, we concluded that Recommendation No. 1 of Audit Report No. 6-263-86-1, dated December 17, 1985, should be reopened (see Apperdix 1). However, after presenting the results of our follow-up to the Mission at a meeting on October 5, 1988, USAID/Egypt took effective action to ensure proper disposition and use of the idled materials and equipment as described in Appendix 2. Consequently, Recommendation No. 1 will remain closed.

1/ 185 m/m Duplex used as cables.

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USAID/EGYPT'S ACTIONS IN
RESPONSE TO PRIOR AUDIT OF
PROJECT NO. 263-0033, URBAN
ELECTRIC DISTRIBUTION (12/17/85)

EXHIBITS AND APPENDICES

EXHIBIT 1

Utilization Status Of Project Commodities
August 31, 1988
\$ (000)

	Alexandria		Shebin El-Kom		Beni Suef		Cairo		Totals		Grand Totals	
	Misused	Not Used	Under-utilized	Misused								
Materials and Equipment												
Transformer Points		\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
Overhead Wires		150	-0-	320	-0-	76	-0-	-0-	546	-0-	-0-	546
Underground Cables		-0-	-0-	-0-	-0-	-0-	-0-	152	-0-	-0-	-0-	152
Termination Kits		38	-0-	-0-	-0-	3	-0-	-0-	41	-0-	-0-	41
Protective Relays		85	-0-	134 1/	-0-	11	-0-	78	-0-	-0-	-0-	308
Sub-Totals		\$273	\$-0-	\$454	\$-0-	\$ 90	\$-0-	\$230	\$-0-	\$1,047	\$-0-	\$1,047
Mobile Equipment												
Test Vans		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Forklifts		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Vans, Trucks, Station Wagons	\$277	-0-	-0-	-0-	25	29	63	-0-	-0-	29	88	277
Cable Reel Trailers		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Buckets and Ladders		-0-	-0-	-0-	-0-	-0-	79	-0-	-0-	-0-	-0-	-0-
Mobile Cranes		-0-	-0-	-0-	-0-	116	-0-	-0-	-0-	-0-	-0-	79
Loaders		-0-	-0-	-0-	-0-	4	-0-	-0-	116	-0-	-0-	116
Sub-Totals	277	-0-	-0-	-0-	25	149	142	4	-0-	153	167	277
Warehouses		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Substations		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Totals	277	\$273	\$-0-	\$454	\$ 25	\$239	\$142	\$234	\$-0-	\$1,200	\$167	\$277
												\$1,644

1/ Includes \$89,000 transferred to another region (Delta Distribution Co.).

EXHIBIT 2

Utilization Status of Project Commodities
\$(000)

	As of February 28, 1985						As of August 31, 1988				
	Total Reviewed	Not Used	Under- utilized	Misused	Totals	Percentage	Not Used	Under- utilized	Misused	Totals	Percentage
Materials and Equipment											
Transformer Points	\$ 1,376	\$ 133	\$-0-	\$-0-	\$ 133	9.7	-0-	-0-	-0-	-0-	-0-
Overhead Wires	2,102	1,779	-0-	-0-	1,779	84.6	546	-0-	-0-	-0-	-0-
Underground Cables	11,792	369	-0-	-0-	369	3.1	193	-0-	-0-	546	26.0
Protective Relays	845	428	-0-	-0-	428	50.7	308	-0-	-0-	193	1.6
Sub-Totals	<u>\$16,115</u>	<u>\$2,709</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$2,709</u>	<u>16.8</u>	<u>\$1,047</u>	<u>-0-</u>	<u>-0-</u>	<u>\$1,047</u>	<u>6.5</u>
Mobile Equipment											
Test Vans	\$ 403	\$ 403	\$-0-	\$-0-	\$ 403	100	-0-	-0-	-0-	-0-	-0-
Forklifts	517	-0-	68	-0-	68	13.2	-0-	-0-	-0-	-0-	-0-
Vans, Trucks, Station Wagons	3,031	57	59	277	393	13.0	29	88	277	394	13.0
Cable Reel Trailers	236	12	-0-	-0-	12	5.1	-0-	-0-	-0-	-0-	-0-
Buckets and Ladders	1,097	191	-0-	-0-	191	17.4	-0-	79	-0-	79	7.2
Mobile Cranes	814	233	-0-	-0-	233	28.6	116	-0-	-0-	116	14.3
Loaders	396	12	-0-	-0-	12	3.0	8	-0-	-0-	8	2.0
Sub-Totals	<u>\$6,494</u>	<u>\$908</u>	<u>\$127</u>	<u>\$277</u>	<u>\$1,312</u>	<u>20.2</u>	<u>153</u>	<u>167</u>	<u>277</u>	<u>597</u>	<u>9.2</u>
Warehouses	<u>\$2,570</u>	<u>\$407</u>	<u>\$407</u>	<u>\$-0-</u>	<u>\$ 814</u>	<u>31.7</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Substations	<u>\$7,201</u>	—	—	—	—	—	—	—	—	—	—
Grand Total	<u>\$32,393</u>	<u>\$4,024</u>	<u>\$534</u>	<u>\$277</u>	<u>\$4,835</u>	<u>14.9</u>	<u>1,200</u>	<u>167</u>	<u>277</u>	<u>1,644</u>	<u>5.1</u>

1/ This percentage was based on total value received: \$1,249,000.

APPENDIX 1

Urban Electric Distribution Project
Audit Report No. 6-263-86-1
Dated December 17, 1985

List Of (Closed) Recommendations

	<u>Status As Of August 1988</u>
<u>Recommendation No. 1</u> We recommend that USAID/Egypt arrange with the Egyptian Electricity Authority for the most appropriate use of AID-financed warehouses, mobile equipment, materials, and vehicles. To the extent that commitments for acceptable use cannot be obtained or carried out, USAID/ Egypt should issue Bills for Collection for items not devoted to the project.	Not Fully Implemented
<u>Recommendation No. 2</u> We recommend that USAID/Egypt establish a procurement review group with assigned responsibility for approving all pending and planned procurements consistent with bona fide project requirements.	Satisfactorily Implemented
<u>Recommendation No. 3</u> We recommend that USAID/Egypt require the Egyptian Electricity Authority to develop a procurement plan that effectively integrates project commodity requirements with project construction.	Satisfactorily Implemented
<u>Recommendation No. 4</u> We recommend that USAID/Egypt (1) ensure that the Egyptian Electricity Authority takes action to repair and use the four test vans for the purposes intended, or (2) determine through AID General Counsel, if remedies should be taken against the supplier for possible failure to carry out the terms of the contract.	Satisfactorily Implemented

memorandum

DEC 10 1988

DATE:

REPLY TO
ATTN OF: DIR, Marshall D. Brown *SB*

SUBJECT: Audit of USAID/Egypt's Action on Closed Recommendation of Audit Report
Urban Electric Distribution Project No. 263-0033

TO: Audit Report No. 6-263-1 Dated December 17, 1985

RIG/A, F.A. Kaihammer

We have reviewed your report of the audit of USAID/Egypt's actions on closed recommendations contained in Audit Report No. 6-263-86-1 dated December 17, 1985 for the Urban Electric Distribution Project, Project 263-0033. Your audit concluded that Recommendations No. 2 through 4 of the 1985 audit had been implemented satisfactorily, but that Recommendation No. 1 had not been fully implemented and should therefore be reopened. Your audit identified almost \$1.6 million of commodities (\$1 million in Materials and Equipment and \$600,000 in Mobile Equipment) which appeared to still be of little benefit to the project.

Before discussing the audit recommendation, we would like to point out that a distribution network is a dynamic system that is constantly undergoing change. As new equipment and materials become available in the industry, they are incorporated into the network and it is not unusual that in the period of ten years to find that the planning and specification of equipment and materials undergo a significant change. This has indeed occurred on this project.

Materials and Equipment

Overhead wires in Alexandria, Shebin El Kom and Beni Suf valued at \$546,000 have not been utilized in the quantities originally planned due to a change in distribution construction standards which now specify larger capacity conductors.

We have discussed the use of the project financed 16mm² quadruplex conductor (\$320,000) in stock at Shebin El Kom with the Alexandria Distribution Company (ADC) Project Manager and ADC's consultant, Harza. Both ADC

and Harza have agreed to utilize a substantial amount of this conductor for the rehabilitation of the Alexandria network. As a result, 120 km. of similar conductor, being procured for the Alexandria project, has been cancelled.

The project financed 185 mm² quadruplex conductor in stock (\$150,000) in Alexandria has limited application and will be utilized over time for overhead line extensions or replacement.

At Beni Suef there are 22 reels of 185 mm² quadruplex conductors (\$62,000 calculated). Beni Suef plans to use an average of 8 reels per year. Therefore, the conductor in stock will be utilized over the next 3 years.

There are 14 reels of galvanized steel wire in stock at Beni Suef (\$14,000 calculated). This wire was planned for use as guy wires on wood pole lines. This wire is not required and is surplus. We will encourage EEA to find an application for this wire.

We are aware that there are different size underground cables with a value of \$152,000 remain in stock in Cairo. A supply of each size cable is kept as spare stock to be used in metropolitan Cairo for repair or replacement of similar cable should it be damaged. Without this reserve the Cairo Distribution Company would have to otherwise stock cable of the same type or improvise cable splices using cable of different cross section size. We believe the Cairo Distribution Company is exercising reasonable judgment and inventory management. Please note that the cable is used for underground distribution and is subject to damage from excavation and customer owned equipment failure.

The termination kits in Alexandria and Beni Suef valued at \$38,000 and \$3,000 respectively have been identified as under utilized. These termination kits are designed specifically for the cables provided to Alexandria and Beni Suef. The quantity of termination kits purchased was based on an estimate of the number of splices and terminations to be made. We have discussed the utilization of these kits, 295 kits remaining out of 698 kits for the 3 conductor 150 mm² size, with Alexandria Distribution Company. They stated that they are using these kits but at a rate less than originally planned due to longer cable runs requiring fewer

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splices and terminations. The kits stocked in Beni Suef are also the result of cable installations involving longer runs requiring fewer splices and terminations.

Your audit identified protective relays (including instruments) in Cairo, Alexandria, Beni Suef and Shebin El Kom valued at \$308,000 which are not utilized. The procurement of the protective relays in 1982 was delayed intentionally by USAID until warehouse construction was well along and warehouses would be available to contain the relays. At the same time EEA (unknown to USAID at the time) procured a number of European relays. By the time the AID financed procurement was completed, the need for the project financed relays had diminished.

The relays (\$85,000) in stock in Alexandria will be utilized in conjunction with the construction of the three substations to be completed in September 1989. EEA and Siemens (the substation contractor) are preparing a contract change order to substitute the contract provided relays with relays in the EEA, Alexandria stock.

Beni Suef staff have advised us that the relays (and instruments) (\$11,000) in stock in Beni Suef will be utilized prior to the end of 1988.

We will work with EEA to assure that the relays (\$134,000) which were transferred to the Delta via Shebin El Kom or are in stock in Cairo (\$78,000) will be either installed or otherwise transferred to areas where they can be utilized with a reasonable quantity remaining in stock as spares.

Mobile Equipment

Mobile equipment valued at \$167,000 has been identified as under utilized in Beni Suef and Shebin El Kom.

At Beni Suef, four one-half ton trucks, one 8 ton truck and one aerial ladder truck (\$142,000) are in need of engine replacement. The Beni Suef staff have funds for the engine replacement and are waiting for the transfer of the Customs Release documents from REA before they can begin these repairs. We will communicate with EEA to expedite the transfer of the needed documents.

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At Shebin El Kom, the staff stated that the "under-utilized" 8 ton truck (\$25,000) has been utilized since 1982 for the project and is now in need of major repairs but they do not have sufficient local currency to service this truck nor the foreign exchange to purchase needed parts. We will request EEA to either provide the necessary funds to Shebin El Kom for the repair or, if the condition of the truck does not warrant its repair, to retire it.

Mobile equipment valued at \$153,000 has been identified as equipment not used in Beni Suef or Cairo.

The Mobile Crane at Beni Suef (\$116,000) is used on occasion and on a recent inspection, the crane was in the field on a job.

The Beni Suef staff have agreed to use the Backhoe/Front End loader (\$4,000).

We will request the Beni Suef staff to utilize the dump truck (\$29,000) and if this is not successful, we will request that EEA transfer the truck to areas where it will be used.

We will request EEA to utilize the Backhoe/Loader (\$4,000) in Cairo or to transfer it to a different organization that will utilize the work equipment.

You stated in the Audit Report that the station wagons (\$277,000) financed by the project are considered as misused. The Mission has been aware of this problem since 1984. The Mission did consider various corrective actions and chose to accept the current assignments made by the Minister since a change in assignments at this late date would not have contributed anything to the project. The station wagons have been utilized for official business purposes by various Authorities within the Ministry of Electricity and Energy following their assignment which had been approved by the Minister. We believe the assignments, while not fully in accordance with the Project Agreement, have resulted in their effective utilization. The vehicles have been maintained and some are still in use. The station wagons are now fully depreciated. As a result of similar assignments in other Ministries, the Mission reviews each request for the procurement of passenger type vehicles, including station wagons, and generally does not approve the purchase of vehicles other than utility vehicles.

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Therefore, we believe that the recommendation of your Audit Report should be closed.

APPENDIX 3

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