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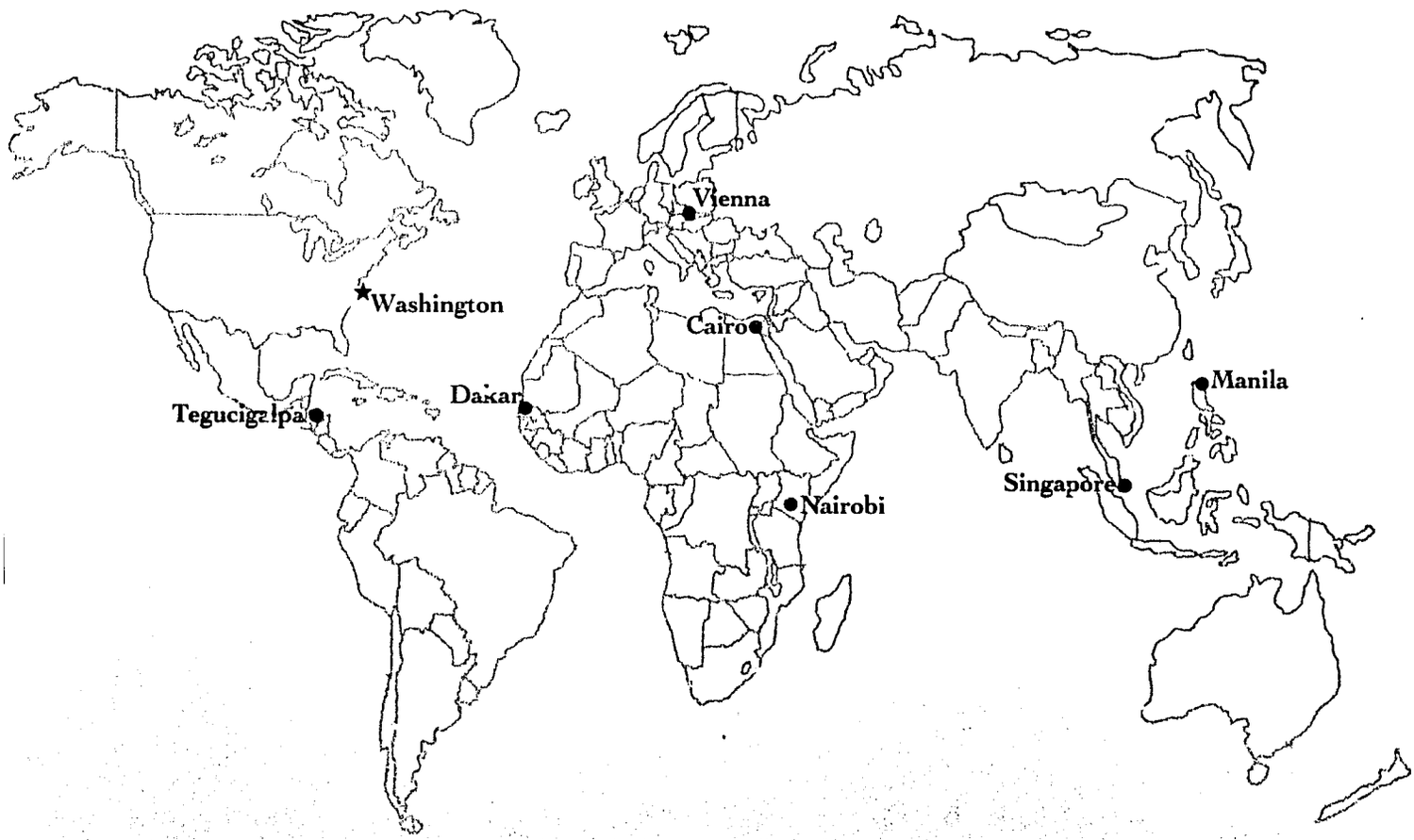
Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Project Technical Services Procured by the Government of Egypt

Report No. 6-263-92-08
September 24, 1992



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

September 24, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/Cairo, Philippe L. Darcy

SUBJECT: Audit of USAID/Egypt's Project Technical Services Procured by the Government of Egypt

Enclosed are ten copies of our audit report on USAID/Egypt's Project Technical Services Procured by the Government of Egypt, Report No. 6-263-92-08.

We received your deputy's comments on a draft of this report and your written representations regarding the audited activities and have included them as an appendix to the report. However, the representations were limited with regards to an essential confirmation and, in accordance with A.I.D./Washington guidance, Mission staff directly responsible for the audited activities did not provide written representations to you or us regarding these activities. Thus, our answers to the audit objectives are qualified.

The report contains seven recommendations. Recommendations Nos. 1.1, 2.1 and 2.2 are closed upon report issuance. Recommendations Nos. 1.2, 3.1, 3.2 and 4 are resolved and will be closed when appropriate action is completed. Please respond to this report within 30 days to indicate any further actions planned or taken to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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EXECUTIVE SUMMARY

Background

A.I.D. obtains technical assistance services under bilateral assistance projects either by contracting directly for the services or by using host country contracts, in which A.I.D. finances the procurement but the host government is the contracting party. A.I.D. nonetheless remains responsible for monitoring the host government's procurement and award process in accordance with prescribed A.I.D. handbook requirements. During the two years ending September 30, 1991, USAID/Egypt recorded 11 new host government awards of A.I.D.-financed contracts for technical services with a total estimated cost of $35.3 million. (See page 1.)

Audit Objectives

We audited USAID/Egypt's project technical services procured by the Government of Egypt in accordance with generally accepted government auditing standards. (See Scope and Methodology, Appendix I.) We conducted our fieldwork from October 1991 to May 1992 to answer the following questions:

1. Did USAID/Egypt follow A.I.D. policies and procedures to establish technical services needs? (See page 1.)

2. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the particular procurement? (See page 2.)

3. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements? (See page 2.)

4. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements when selecting potential contractors? (See page 2.)

5. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country awarded technical services contracts at a fair price to qualified and eligible contractors in compliance with the Agency's negotiation and award requirements? (See page 2.)

6. What did USAID/Egypt do to assess host government agencies' procurement capabilities? (See page 2.)

Summary of Audit

The Director, USAID/Egypt, provided us written representations covering Mission responsibilities, full and accurate disclosure of financial and management information, compliance with contractual agreements and other matters. (The complete representation is contained in Appendix II of this report.) The Director limited his representations to those which may be contained in the records under audit with regards to instances of irregularities, noncompliance and/or violations of laws and regulations. Also, in accordance with A.I.D./Washington guidance, the Mission policy is that only the Director, not the officials directly responsible for the activities under audit, will provide written representations. (See Scope and Methodology, Appendix I.)

Except for the effects on the audit findings, if any, of not receiving acceptable representations as discussed above, USAID/Egypt followed A.I.D. policies and procedures for monitoring the host government's procurement and award process, but did not always follow policies and procedures to ensure that contracts were awarded at a fair price to qualified and eligible contractors. (See page 7.) As a result, the Mission: (1) did not always confirm contractors' eligibilities to participate in A.I.D.-financed procurements, (2) did not always approve executed contracts prior to financing, and (3) approved a cost-reimbursement contract that has no clause establishing a cost standard

and requiring periodic adjustment of the overhead rate based on audit, and a single source procurement negotiated by the host government without proper authorization.

Audit Findings

A.I.D. Policies Generally Followed to Establish Technical Services Needs

For the five host government technical services contracts reviewed with total estimated costs of $16.8 million, project design documents identified technical services needs and related them to project objectives. Design documents for three contracts also identified the individual procurements in a procurement plan in accordance with A.I.D. handbook guidance. (See page 4.)

A.I.D. Policies Followed to Ensure Appropriate Contractor and Contract Type Selections

For three of the five contracts reviewed, the host government identified appropriate sources of the technical services and advertised the procurements. In the other two cases, it identified and obtained waivers for single source technical service providers. The host government also selected appropriate types of contracts in accordance with A.I.D. Handbook 11, Chapter 1 principles. (See page 4.)

A.I.D. Policies Followed to Ensure Use of Proper Prequalification Procedures

For the two contracts for which prequalification was used to select technical services offerors, A.I.D. Handbook 11, Chapter 1 and other applicable A.I.D. handbook requirements were followed to advertise the procurements, evaluate prequalification questionnaires, and derive shortlists of prequalified offerors. (See page 5.)

A.I.D. Policies Followed to Ensure Use of
Proper Competitive and Noncompetitive Procedures

For the three contracts for which competitive procedures were used to select technical services contractors, A.I.D. Handbook 11, Chapter 1 requirements were followed to prepare the solicitation documents, advertise the procurements, and evaluate and rank submitted proposals. For the two noncompetitive procurements, the Mission followed A.I.D. handbook and other requirements to waive competition and authorize negotiations with single source providers. (See page 6.)

A.I.D. Policies Not Always Followed to Ensure Contracts
Were Awarded to Eligible Contractors at a Fair Price

Although USAID/Egypt reviewed drafts of host government contracts and ensured contracts contained mandatory clauses, it did not always: (1) confirm contractors' eligibilities to participate in A.I.D.-financed procurement programs, (2) approve executed contracts before financing, and (3) follow applicable procedures to ensure contracts were awarded at a fair price in accordance with A.I.D.'s negotiation and award requirements. (See page 7.)

Contrary to A.I.D. Handbook 11, Chapter 1 requirements, USAID/Egypt project officers did not check to ensure contractors were not on official lists of debarred or suspended awardees before awards were made in two of the five contracts reviewed. They relied on others to make such checks or were unaware such lists are available in USAID/Egypt's contracts office. In two other cases, the officers did not obtain contractors' certifications that they met handbook nationality eligibility requirements before awards were made because the officers believed minority firms or well-known U.S. firms did not need to submit such certifications. By not confirming contractors' eligibilities before awards are made, USAID/Egypt runs the risk that awards will be made to ineligible contractors. (See page 8.)

The first rule of A.I.D. Handbook 11, Chapter 1 requires A.I.D. to formally approve signed host government contracts before A.I.D. financing when contract amounts exceed $250,000. USAID/Egypt, however, did not formally approve two of the five contracts reviewed -- all of which exceed $250,000 in value -- because project officers believed such approvals were unnecessary when contract drafts had already been reviewed and approved. As a result, USAID/Egypt issued letters of commitment to two contractors without formally having approved the contracts. (See page 10.)

According to A.I.D. Handbook 11, Chapter 1, A.I.D. approval of host government contracts is dependent on several factors including "reasonabieness of price" based on the contracting agency's analysis of the contract's cost and conformity with the rules in Section 2 of the chapter. USAID/Egypt did not, however, consistently apply these criteria in approving two of the five contracts reviewed. In one case, it did not ensure the contract contained required clauses to conform with Section 2 rules and other handbook requirements; in the other case, it did not ensure the host government had proper authorization in accordance with Section 2 rules to exceed an existing noncompetitive procurement waiver's cost ceiling when it signed the single source contract. In the first case, project staff disregarded a Mission contract officer's advice to include a required contract clause. In the second case, project staff did not explain why the Mission waited until after contract signature to raise the existing waiver's cost ceiling. As a result, the Mission approved a cost-reimbursement contract that has no clause establishing a cost standard or requiring periodic adjustment of the overhead rate based on audit, and a single source procurement whose cost the host government negotiated without first obtaining proper authorization. (See page 11.)

Assessments Performed of Host Government Agencies' Procurement Capabilities

As of April 20, 1992, USAID/Egypt had completed assessments of all but 1 of 12 host government contracting agencies' capabilities to undertake A.I.D.-financed procurements, issued 7 certifications of the agencies' capabilities to undertake procurements, and hired additional controller staff and formed a financial analysis support team whose duties include assessing implementing agencies' contracting capabilities. (See page 14.)

Summary of Recommendations

We recommend that USAID/Egypt:

- Issue a staff notification to remind project staff of A.I.D. Handbook 11, Chapter 1 requirements to confirm contractors' eligibilities to participate in A.I.D. procurement programs, formally approve host government contracts with values exceeding $250,000 before A.I.D. financing, and base contract approval on cited handbook criteria (See pages 8, 10, and 12.);

- Establish controls to ensure letters of commitment are issued to host government contractors only after formal approval of contracts (See page 10.); and

- Advise the relevant host government contracting agency to amend its contract to include essential clauses on establishing a cost standard and on periodic adjustment of the overhead rate based on audit (See page 12.).

Management Comments and Our Evaluation

Management commented that it had taken or would take action to implement each of the recommendations (See page 16.).

Office of the Inspector General

Office of the Inspector General
September 24, 1992

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INTRODUCTION

Background

A.I.D. obtains technical assistance services under bilateral assistance projects either by contracting directly for the services or by using host country contracts, in which A.I.D. finances the procurement but the host government is the contracting party. For such procurements, A.I.D. officials nonetheless are responsible for establishing the need for technical services and determining whether the cognizant host government agency has the capacity to manage the procurement. Furthermore, they must ensure that the agency identifies acceptable sources of contract services, selects an appropriate type of contract, uses acceptable competitive procedures in selecting contractors, and awards the contract to a qualified contractor at a fair price. These responsibilities and related procedures are specified in A.I.D. Handbooks -- in particular, A.I.D. Handbook 11 on "Country Contracting," Chapter 1 on "Procurement of Professional and Technical Services."

During the two years ending September 30, 1991, USAID/Egypt recorded 11 new host government awards of A.I.D.-financed contracts for technical services with a total estimated cost of $35.3 million.

Audit Objectives

The Office of the Regional Inspector General for Audit/Cairo audited USAID/Egypt's project technical services procured by the Government of Egypt to answer the following audit objectives:

1. Did USAID/Egypt follow A.I.D. policies and procedures to establish technical services needs?

2. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the particular procurement?

3. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements?

4. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements, when selecting potential contractors?

5. Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country awarded technical services contracts at a fair price to qualified and eligible contractors in compliance with the Agency's negotiation and award requirements?

6. What did USAID/Egypt do to assess host government agencies' procurement capabilities?

Our audit plan originally included seven objectives. We combined two of these objectives into the second objective and substituted the sixth objective for the following objective: Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country is capable of managing the procurement process? We did this because a May 1991 U.S. General Accounting Office (GAO) report, which reviewed four A.I.D. missions including USAID/Egypt, concluded in effect that the answer to this objective is "no" and recommended that A.I.D. "fully comply with recently issued AID guidance on conducting capability assessments." We therefore decided to obtain information on what USAID/Egypt has done to respond to this recently issued guidance.

In answering these objectives, we tested whether USAID/Egypt followed applicable internal controls. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Appendix I contains a complete discussion of the scope and methodology for this audit; our report on internal controls begins on page 18.

REPORT OF AUDIT FINDINGS

Based upon discussions with Mission officials, the Director, USAID/Egypt, provided us a written representation that USAID/Egypt is responsible for the internal control system and the fairness and accuracy of the accounting and management information relating to the audited activities and that, to the best of his knowledge and belief, USAID/Egypt had provided us all the financial and management information relating to the audit objectives, USAID/Egypt is unaware of any material instances where the information provided had not been properly and accurately recorded and reported, and USAID/Egypt has complied with all contractual agreements that could materially affect the Mission's monitoring of technical assistance procured by the Government of Egypt. (The complete representation is contained in Appendix II to this report.)

Although the Director, USAID/Egypt, provided us these essential written representations, he did not provide acceptable representations as to whether he is aware of any instances of irregularities, noncompliance with A.I.D. policies and procedures or violations or possible violations of laws and regulations for the activities under audit. Instead, the Director confirmed that, to the best of his knowledge and belief, the records under audit should contain any instances of irregularities or noncompliance or violations. Also, in accordance with A.I.D./Washington guidance of May 13, 1992, the Mission policy is that only the Director will sign a letter of representation. Therefore, other USAID/Egypt officials directly responsible for the audited activities -- the three Mission Associate Directors whose staff are responsible for monitoring the host government's procurement process for their respective projects -- did not provide written representations to the Director confirming essential information. As a result, our answers to the audit objectives are qualified to the extent of the effect of not having such representations.

Did USAID/Egypt follow A.I.D. policies and procedures to establish technical services needs?

Except for the effects on the audit findings, if any, of not receiving acceptable representations, as discussed on page 3, USAID/Egypt generally followed A.I.D. policies and procedures to establish technical services needs.

For the five contracts reviewed with total estimated costs of $16.8 million, project design documents identified technical services needs and related them to project objectives. Design documents for three of the contracts also identified the individual procurements in a procurement plan, specified the contracting mode, estimated the procurement's cost, and briefly described the contract's scope of services in accordance with the guidance contained in A.I.D. Handbook 3, Chapter 3, and Supplement B to Handbook 3. Although design documents for another contract did not include the procurement in a procurement plan, they nevertheless described the needed services and specified that the host government would prepare and submit a proposal for contracting for the services.

Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the particular procurement?

Except for the effects on the audit findings, if any, of not receiving acceptable representations, as discussed on page 3, USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the procurement.

For three of the five contracts reviewed, the host government identified appropriate sources of the technical services and advertised the procurements; in the other two cases, it identified and obtained waivers for single source technical service providers. In addition, host government selections of the types of contracts -- for example, cost reimbursement or fixed price/lump sum contracts -- were made in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.1) principles. These principles advise use of: (1) cost reimbursement contracts when uncertainties in the amount of work and the conditions under which it must be performed make an accurate determination of costs impossible, and (2) fixed price contracts when the scope and duration of services can be

defined in advance with sufficient precision to accurately determine contract performance requirements.

Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements?

Except for the effects on the audit findings, if any, of not receiving acceptable representations, as discussed on page 3, USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements.

Although prequalification of technical services offerors is not mandatory, the host government used prequalification in two of the three cases in which competitive procedures were used to procure technical services. In these cases, prequalification notifications were published in the Commerce Business Daily. In the case involving a procurement services a[illegible], a notification was also published in the A.I.D. Procurement Information Bulletin in accordance with A.I.D. Handbook 1, Supplement B (Section 12C3b) and A.I.D. Handbook 15, Chapter 4 (Section 4C2c) requirements.

In each case, host government evaluation panels scored returned prequalification questionnaires to derive shortlists of at least three qualified firms in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.3) guidelines. The host government also submitted memos to A.I.D. explaining the basis for the selections in accordance with the procedures discussed in A.I.D. Handbook 3, Supplement B, Chapter IV. USAID/Egypt approved the shortlists of prequalified offerors in each case in accordance with guidance contained in A.I.D. Handbook 11, Chapter 1 (Section 3.2.2). In one case, the A.I.D. project officer performed an independent evaluation of returned questionnaires as discussed in A.I.D. Handbook 3, Supplement B, Chapter IV, which corroborated the host government's evaluation results.

Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements, when selecting potential contractors?

Except for the effects on the audit findings, if any, of not receiving acceptable representations, as discussed on page 3, USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements, when selecting contractors.

For three of the five contracts reviewed, the host government used competitive procedures to select technical services contractors. In the two cases where prequalification was used, the solicitation document -- the Request for Technical Proposals -- was sent to each shortlisted firm. In the other case, availability of the Request for Technical Proposals was advertised in the Commerce Business Daily in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.4.2) guidelines. In all three cases, the Requests for Technical Proposals contained the information required by A.I.D. Handbook 11, Chapter 1 (Section 4.2.1) including a clear statement of work and criteria to be used to evaluate proposals. USAID/Egypt also approved each solicitation document prior to its advertisement or submission to prequalified firms.

In accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.4.4) guidance, host government panels evaluated and scored the submitted proposals using the criteria set forth in the Requests for Technical Proposals, ranked the proposals, and submitted selection memoranda to A.I.D. explaining the basis for the rankings and listing each acceptable proposal in rank order. USAID/Egypt also approved the highest ranked contractor in each case although it did not do so using each of the approval factors listed in Handbook 11, Chapter 1 (Section 3.4.5). These exceptions are addressed in the following audit findings section.

For two of the five contracts reviewed, USAID/Egypt waived the competition requirements of A.I.D. Handbook 11, Chapter 1 (Section 2.4) to permit the host government to negotiate with a single source technical services provider in accordance with the criteria specified in A.I.D. Handbook 11, Chapter 1 (Section 2.4.2.a). The USAID/Egypt Mission Director approved each waiver in accordance with the requirements of A.I.D. Handbook 11, Chapter 1 (Section 2.4.2.c) and A.I.D.'s Delegation of Authority No. 653, which authorizes the Mission Director in Egypt to

waive competition for host country contracts "without dollar limitation". However, in one case, the host government negotiated a contract whose cost was more than four times the waiver's cost ceiling before obtaining USAID/Egypt's approval to modify the waiver and lift the ceiling. This matter is addressed in the following audit findings section.

Did USAID/Egypt follow A.I.D. policies and procedures to ensure that the host country awarded technical services contracts at a fair price to qualified and eligible contractors in compliance with the Agency's negotiation and award requirements?

USAID/Egypt did not always follow A.I.D. policies and procedures to ensure that the host government awarded technical services contracts at a fair price to qualified and eligible contractors in accordance with A.I.D.'s negotiation and award requirements. Although USAID/Egypt reviewed drafts of host government contracts, approved the drafts when A.I.D. policy began to require such approvals, and ensured the contracts contained mandatory clauses, it did not always: (1) confirm contractors' eligibilities to participate in A.I.D.-financed procurement programs, (2) approve executed contracts before financing, and (3) follow applicable procedures to ensure contracts were awarded at a fair price in accordance with A.I.D.'s negotiation and award requirements.

A.I.D. Handbook 11, Chapter 1 (Sections 3.2.6 and 3.5.4) recommends that A.I.D. review and approve drafts of host government contracts "to avoid changes in the signed contract and resulting delays...". In November 1990, A.I.D. began to require such approvals "prior to [contract] execution". For the five contracts reviewed, Mission files contained contract drafts and/or related documentation showing that the drafts were reviewed prior to contract execution. USAID/Egypt also approved drafts of contracts prior to execution for the two contracts awarded after November 1990 and for one of the three contracts awarded before November 1990. All five contracts also contained mandatory clauses such as the legal effect of A.I.D. approvals and decisions, contractors' eligible nationality, air travel and transportation, and host country taxes as required by A.I.D. Handbook 11, Chapter 1 (Section 2.12).

However, USAID/Egypt needs to: (1) ensure contractors are not on lists of parties excluded from A.I.D. procurement programs and submit certifications that they meet A.I.D.'s nationality rule, (2) approve executed contracts prior to financing, and (3) follow applicable procedures to monitor contract cost negotiations and review draft

contracts to ensure contracts are awarded at a fair price in compliance with A.I.D.'s negotiation and award requirements.

Contractor Eligibilities
Were Not Always Confirmed

Contrary to A.I.D. Handbook 11, Chapter 1 requirements, USAID/Egypt project officers did not check to ensure contractors were not on lists of debarred or suspended awardees such as the U.S. General Services Administration's "Lists of Parties Excluded From Federal Procurement or Nonprocurement Programs" before awards were made in two of the five contracts reviewed. They relied on others to make such checks or were unaware such lists are available in USAID/Egypt's contracts office. In two other cases including one of those just mentioned, the officers did not obtain contractors' certifications that they met handbook nationality eligibility requirements before awards were made because the officers believed minority firms or well-known U.S. firms did not need to submit such certifications. (This rule did not apply to one of the five contractors reviewed because it is an international research center.) By not confirming contractors' eligibilities in accordance with handbook requirements before awards are made, USAID/Egypt runs the risk that awards will be made to ineligible contractors.

Recommendation No. 1: We recommend that USAID/Egypt issue:

1.1 a staff notification to remind project staff of A.I.D. Handbook 11, Chapter 1 rules regarding contractor eligibilities to participate in A.I.D. procurement programs; and

1.2 a checklist for use by project staff to ensure each Chapter 1 requirement is met prior to contract award and approval.

A.I.D. Handbook 11, Chapter 1 (Section 2.3) requires host government contracting agencies to refrain from awarding contracts to organizations or individuals that are on official lists of suspended, debarred or ineligible parties. A pre-November 1990 version of this rule advised that such lists "are regularly distributed to USAID Missions and are available for review." In addition, Chapter 1's nationality rule (Section 2.6.2.1d.) requires that corporate secretaries "shall certify" that their firms meet the nationality eligibility requirements specified in Section 2.6.2.1 of the chapter. Section 1.2 of Chapter 1 also advises that, "The AID Mission is responsible for providing assistance to

the Contracting Agency, to the extent necessary, in the application of the rules and guidance in this Handbook" and that, "The Mission may also have a useful role in explaining AID's procedures to the contractor."

Project personnel, however, did not check official lists of parties excluded from federal procurement programs to ensure contractors were not on such lists for two of the five contracts in our sample. Neither did they obtain contractors' certifications on meeting nationality eligibility requirements before awards were made in one of these cases and in a third case. These personnel explained that they or their predecessors relied on others -- e.g., the Mission's contracts office or A.I.D./Washington -- to confirm that contractors were not on debarred or suspended lists. They were also unaware that USAID/Egypt's contracts office keeps a copy of the current "Lists of Parties Excluded From Federal Procurement or Nonprocurement Programs," which the U.S. General Services Administration revises monthly, for use by Mission staff. The personnel also explained that well-known U.S. firms and minority firms did not need to submit nationality certifications although these are not bases for waiving the requirement for certification under the nationality rule.

We were not able to verify whether one of the firms in question, whose contract was awarded in June 1990, was on official debarred or suspended lists when the award was made since such lists regularly change. A contracts officer's memorandum on the second contract, which was awarded in August 1991, noted that the contractor was not on such a list "as of April 12, 1991." Although the memorandum shows that the contracts officer checked whether the contractor was on such a list, we believe such checks or confirming such checks have been made are a project officer's responsibility. For example, USAID/Egypt Mission Order No. 5-4 on "Responsibilities and Authorities: Approval, Negotiation and Implementation of Projects" assigns "action officer" responsibility for host country contract approvals to project officers, not contracts officers, who have only "consultation" responsibility under the Order.

Regarding nationality certifications, project personnel requested and obtained them from the two contractors in question during the course of our audit. Nevertheless, we believe the certifications should have been obtained before the contracts were awarded. USAID/Egypt needs to confirm contractors' eligibilities in accordance with A.I.D. rules to avoid the risk of approving ineligible host government contracts. To ensure this is done, the Mission should remind project staff of handbook rules and issue a checklist for their use to ensure Chapter 1 requirements are met before contracts are awarded and approved.

Signed Contracts Were Not
Always Approved Before Financing

The first rule of A.I.D. Handbook 11, Chapter 1 requires A.I.D. to formally approve signed host government contracts before A.I.D. financing when contract amounts exceed $250,000. USAID/Egypt, however, did not formally approve two of the five contracts reviewed -- all of which exceed $250,000 in value -- because project officers believed such approvals were unnecessary when contract drafts had already been reviewed and approved. As a result, USAID/Egypt issued letters of commitment to two contractors without formally having approved the contracts.

Recommendation No. 2: We recommend that USAID/Egypt:

2.1 issue a staff notification on the A.I.D. Handbook 11, Chapter 1 requirement to formally approve host government contracts with values exceeding $250,000 before A.I.D. financing; and

2.2 establish controls to ensure letters of commitment are issued to host government contractors only after formal Mission approval of contracts.

According to A.I.D. Handbook 11, Chapter 1 (Section 2.1), formal A.I.D. approval of "signed contract documents" is mandatory before contract financing when contract amounts exceed $250,000 in value. All five contracts we reviewed exceed this amount; however, in two cases, USAID/Egypt did not formally approve the executed contracts. In one case, project staff explained that the contract was not approved because the Mission had already reviewed and approved a draft of the contract which was "identical" to the signed contract. The staff, however, were unable to provide a copy of the draft and believe it was returned, after approval, to the host government which used it for signature by the contracting parties. In the second case, project staff claim a Mission contracts officer advised them that the executed contract did not need to be approved because the Mission had already reviewed and approved a draft of the contract. We were unable to corroborate this claim since the contracts officer has left post.

USAID/Egypt, nevertheless, issued letters of commitment guaranteeing payment to each contractor without formally having approved the contracts. The Mission Controller Office issued the letters based on its receipt of copies of the signed contracts and copies of Mission Project Implementation Letters sent to the host government which approved

the contract drafts, authorized the host government to sign the contracts, and requested it to forward copies of the executed contracts. A.I.D. Handbook 11, Chapter 1 provides no basis for waiving the rule to approve host government contracts exceeding $250,000 in value; and none of these documents shows A.I.D. formally approved the contracts. This is not simply a technicality; only "signed contract documents" are legal and binding. When A.I.D. contracts directly for services, its signature is the commitment mechanism. When the host government and a third party (the contractor) sign a contract, A.I.D. must formally approve the contract before financing can begin. To ensure this is done consistently, USAID/Egypt should remind project staff of this important requirement and establish controls to ensure letters of commitment are issued to host government contractors only after the Mission has formally approved the contract.

Procedures Were Not Always Followed
To Ensure a Fair Contract Price

According to A.I.D. Handbook 11, Chapter 1, A.I.D. approval of host government contracts is based on several factors including "reasonableness of price" based on the contracting agency's analysis of the contract's cost and conformity with the rules in Section 2 of the chapter. USAID/Egypt did not, however, consistently apply these criteria in approving two of the five contracts reviewed. In one case, it did not ensure the contract contained required clauses to conform with Section 2 rules and other handbook requirements; in the other case, it did not ensure the host government had proper authorization in accordance with Section 2 rules to exceed an existing noncompetitive procurement waiver's cost ceiling when it signed the single source contract. The project officer for the first contract said he disregarded the advice of a Mission contracts officer to include a required clause. Project staff in the second case did not explain why the Mission waited until after contract signature to raise the existing waiver's cost ceiling. As a result, the Mission approved a cost-reimbursement contract that has no clause establishing a standard against which to determine the propriety of reimbursable costs or requiring periodic adjustment of the indirect cost rate based on audit and a single source procurement whose cost the host government negotiated without first obtaining proper authorization.

Recommendation No. 3: We recommend that USAID/Egypt:

3.1 issue a staff notification on A.I.D. Handbook 11, Chapter 1 requirements for monitoring contract cost negotiations and approving host government contracts; and

3.2 advise the Egyptian Electricity Authority to amend contract number 26391033 to include essential clauses on establishing a cost standard and on periodic adjustment of the indirect cost rate based on audit.

Recommendation No. 4: We recommend that USAID/Egypt report the internal control weaknesses cited in our Report on Internal Controls (see pages 21 and 22) to the appropriate level of A.I.D. management.

According to A.I.D. Handbook 11, Chapter 1 (Section 3.5.4), A.I.D. approval of host government technical services contracts will be based on several factors including the "reasonableness of price based on the analysis [of the cost or price of the proposed contract] prepared by the Contracting Agency," the considerations discussed in Section 3.5.2. which address the contracting agency's preparation of cost estimates, and "conformity with the rules in Section 2" of Chapter 1. USAID/Egypt did not, however, consistently apply these criteria when it approved two of the five contracts in our sample.

In one case, the Mission did not ensure that the cost reimbursement contract contained essential clauses on establishing a standard to assess the propriety of reimbursable costs and on adjusting the contract's overhead or indirect cost rate based on audit as discussed in Section 4.3 of Chapter 1. Section 4.3.16a. states that, "A standard must be set in every cost reimbursement contract against which expenditures may be compared in order to determine the propriety of reimbursable costs," such as the standard contained in A.I.D. Handbook 11, Chapter 4 on cost allowability, allocability and reasonableness. Section 4.3.16c.(3) of Chapter 1 also advises that, "AID will not approve a contract where the overhead is expressed as a fixed percentage rate which is <u>not</u> subject to adjustment based on audit" because this is "a form of cost-plus-percentage-of-cost contracting," which Section 2.9 of Chapter 1 specifically prohibits.

The project officer agreed that the $3 million contract with an overhead rate of 180 percent has no clause requiring periodic adjustment of the rate based on audit and said he disregarded a contracts officer's advice to include such a clause in the contract. The project officer noted, however, that two footnotes in the contract's appendix on labor costs use the word "provisional" to refer to the overhead rate and said this clearly

indicates the rate could be adjusted. We agree that this is a reasonable interpretation of the implication of using this term. However, the contract currently does not specify the mechanism or manner in which the overhead rate could be adjusted (e.g., by audit) or when (e.g., yearly). It is also possible that the contractor could dispute the project officer's interpretation of how to apply this term without appropriate clarification through an explicit change in contract language.

Regarding the second contract, USAID/Egypt did not ensure that the host government contracting agency had proper authorization when it signed a single source contract for $2.1 million on October 27, 1989. Section 2.4.2 of Chapter 1 specifies the criteria and approval authority for waiving competitive procurements and makes clear that the waivers need to state the value of the procurements. The September 1987 waiver authorizing this single source procurement established a cost ceiling of $500,000. However, USAID/Egypt did not change this authorization until one month after contract signature when it approved a waiver modification that raised the ceiling to $2.2 million and authorized "negotiations" with the single source supplier. The negotiations apparently never took place since the signed contract value of $2.1 has remained unchanged.

We believe USAID/Egypt's apparent after-the-fact granting of authority to the host government to exceed the existing waiver's cost ceiling and "negotiate" with the single source supplier is unorthodox since it reverses the usual order in which authority is granted before action requiring authorization is taken. We also believe that the host government did not in fact have proper authorization in accordance with Section 2 rules when it signed a sole source contract for more than $500,000 in October 1989. Project staff did not explain why the Mission waited until after contract signature to lift the existing cost ceiling and authorize "negotiations". The staff also said they could not find the host government's written justification for the four-fold increase in contract costs. However, the December 11, 1989 action memorandum approving the contract noted that, "The detailed financial information...has been reviewed by USAID's Controller Office, and the estimated costs have been found to be appropriate and reasonable."

By not following or properly applying applicable handbook procedures, the Mission approved a cost reimbursement contract that has no clause establishing a cost standard or requiring periodic adjustment of the overhead rate based on audit, and a single source procurement whose cost the host government negotiated before obtaining proper authorization. USAID/Egypt should: (1) remind project staff of Handbook 11, Chapter 1 requirements for monitoring contract cost negotiations and the bases for approving host government contracts, and (2) advise the relevant host government contracting agency

of the need to amend its contract to include essential clauses on establishing a cost standard and on periodic adjustment of the indirect cost rate based on audit.

What did USAID/Egypt do to assess host government agencies' procurement capabilities?

As of April 20, 1992, USAID/Egypt had completed assessments of all but 1 of 12 host government contracting agencies' capabilities to undertake A.I.D.-financed procurements, issued 7 certifications of agencies' capabilities to undertake procurements, and hired additional controller staff and formed a financial analysis support team whose duties include assessing implementing agencies' contracting capabilities.

A May 1991 U.S. General Accounting Office report entitled "Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts" concluded that, "Contrary to AID guidance, missions [including USAID/Egypt, which was one of four sampled missions] generally did not conduct assessments of host country contracting...before deciding whether to use a host country contract. In those cases when assessments were made, they generally were after the fact and were of such low quality that they were of little practical use." To correct this problem, the report recommended that "the AID Administrator ensure that missions fully comply with recently issued AID guidance on conducting capability assessments."

Issued in November 1990, this guidance requires mission directors to determine in writing that host country contracting agencies have or will obtain the capability to undertake procurements before host country contracting procedures can be used for procurements exceeding $250,000 in value. USAID/Egypt identified 12 host government agencies requiring capability assessments and completed 11 assessments as of April 20, 1992. Based on the completed assessments, which public accounting firms performed in all but one case, USAID/Egypt issued seven certifications of agencies' capabilities to undertake A.I.D.-financed procurements, denied certifying two agencies at least for the moment, decided one agency did not need a certification since any planned procurements would be less than $250,000 in value, and was deliberating whether to issue a certification in the remaining case.

USAID/Egypt also recently hired additional controller staff and formed a financial analysis support team in February 1992 to assist aid recipients, host government implementing agencies, and contractors to meet financial requirements. The team's major responsibilities include testing payment documentation and reviewing implementing

agencies' financial internal controls to ensure they meet A.I.D. regulations and contractual agreements, helping strengthen recipients' financial internal controls and financial reporting, and assessing host government implementing agencies' financial and contracting capabilities.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Egypt stated that it had taken or will take action to implement Recommendations Nos. 1, 2, 3 and 4. The Mission recently issued staff notices reminding project staff of A.I.D. Handbook 11, Chapter 1 rules regarding contractor eligibilities to participate in A.I.D. procurement programs and informing them that the Mission will not issue a letter of commitment for a host country contract until a project implementation letter formally approving the contract has been issued. The Mission also issued guidance to financial management staff informing them of the A.I.D. Handbook 11, Chapter 1 requirement to formally approve signed contract documents before financing host country contracts exceeding $250,000 and directing them to ensure that a project implementation letter (at least in final draft stage) formally approving the contract is in place before executing an A.I.D. direct letter of commitment. Based on these actions, we consider Recommendations Nos. 1.1, 2.1 and 2.2 to be closed.

The Mission also stated that it is preparing a host country contract checklist for the procurement of professional and technical services for circulation to Mission employees and a staff notice summarizing appropriate sections of A.I.D. Handbook 11, Chapter 1 on monitoring contract cost negotiations and approving host country contracts. The Mission indicated that it will take appropriate action to ensure that the relevant host government contracting agency amends its contract to include essential clauses on establishing a cost standard and on periodic adjustment of the indirect cost rate based on audit and requested that our recommendation identify the agency and contract. Based on these proposed actions, we consider Recommendations Nos. 1.2, 3.1 and 3.2 to be resolved. We will close the recommendations when evidence is provided showing that the actions have been completed.

Regarding Recommendation No. 4, the Mission stated that it will ensure that the internal control weaknesses identified in our report on internal controls will be reviewed during the Mission's next internal control assessment. However, we have reworded this recommendation in accordance with our office's policy and procedures handbook and now recommend that USAID/Egypt report these weaknesses to the appropriate level of A.I.D. management. Thus, we consider Recommendation No. 4 to be resolved and will close the recommendation when the Mission reports these weaknesses to the appropriate level of A.I.D. management. See Appendix II for the Mission's complete comments.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards, except that the USAID/Egypt Director did not provide us acceptable representations in all essential respects and, in accordance with A.I.D./Washington guidance, Mission officials directly responsible for the audited activities did not provide written representations relating to the activities to support the representation made by the USAID/Egypt Director. (A description of the representations USAID/Egypt made is included in the Scope and Methodology section of this report; and Appendix II contains the audit representation letter along with the Mission's response to this audit report.)

Generally accepted government auditing standards require that we plan and perform the audit to fairly, objectively and reliably answer the audit objectives. Those standards also require that we:

- Assess the applicable internal controls when necessary to satisfy the audit objectives; and

- Report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We focused our assessment of internal controls on those applicable to the audit objectives and not to provide assurance on the overall internal control structure. Furthermore, the limitations in the Mission's representations are sufficient to preclude an unqualified

opinion on the reliability of the internal controls related to the audit objectives. Therefore, our opinions on the adequacy of internal controls are qualified to the extent of the effect such representations may have, if any, on our audit results.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each audit objective by category. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The U.S. General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal control policies and procedures for Federal foreign assistance programs are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because conditions may change or the system itself may not be properly administered.

Conclusion for Audit Objective One

The first audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to establish technical services needs. In planning and performing our audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 3, Chapter 3 (Appendix 3H and Attachment 1 to Appendix 3H), A.I.D. Handbook 3, Supplement B (Chapter II), and A.I.D. Handbook 3, Chapter 9 (Appendix 9C). For the purposes of this report, we classified the relevant policies and procedures

into the following categories: identifying technical services needs and developing a procurement plan.

Our tests showed that the Agency's controls were logically designed and with one exception consistently applied.

Conclusion for Audit Objective Two

The second audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the procurement. In planning and performing our audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 11, Chapter 1 (Sections 1.1 and 3.1). For the purposes of this report, we classified the relevant policies and procedures into the following categories: identifying appropriate sources of contract technical services and selecting an appropriate type of technical services contract.

Our tests showed that the Agency's controls were consistently applied.

Conclusion for Audit Objective Three

The third audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements. In planning and performing our audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 11, Chapter 1 (Sections 3.2 and 3.3), A.I.D. Handbook 1, Supplement B (Section 12C3b), A.I.D. Handbook 15, Chapter 4 (Section 4C2c), and A.I.D. Handbook 3, Supplement B, Chapter IV. For the purposes of this report, we classified the relevant policies and procedures into the following categories: advertising prequalification notifications, scoring and ranking returned prequalification questionnaires, and reviewing and approving shortlists of prequalified offerors.

Our tests showed that the Agency's controls were logically designed and consistently applied.

Conclusion for Audit Objective Four

The fourth audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements, when selecting potential contractors. In planning and performing our audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 11, Chapter 1 (Sections 2.4, 3.4 and 4.2.1) and A.I.D. Delegation of Authority No. 653. For the purposes of this report, we classified the relevant policies and procedures into the following categories: advertising Requests for Technical Proposals, ensuring the Requests contain all required information, scoring and ranking the proposals, reviewing and approving the highest ranked contractor, and waiving competition requirements.

Our tests showed that the Agency's controls were logically designed and consistently applied.

Conclusion for Audit Objective Five

The fifth audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country awarded technical services contracts at a fair price to qualified and eligible contractors in compliance with A.I.D.'s negotiation and award requirements. In planning and performing our audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 11, Chapter 1 (Sections 2, 3.2.6, 3.5.4 and 4.3) and Chapter 4. For the purposes of this report, we classified the relevant policies and procedures into the following categories: reviewing and approving draft contracts, ensuring contracts contain all mandatory and essential clauses, confirming contractors' eligibilities to participate in A.I.D.-financed procurement programs, approving executed contracts, and basing contract approvals on cited handbook factors.

Our tests showed that the Agency's controls were consistently applied except:

- USAID/Egypt did not always confirm contractors' eligibilities to participate in A.I.D.-financed procurement programs.

- USAID/Egypt did not always approve executed contracts before financing.

- USAID/Egypt did not always base contract approvals on the factors cited in Handbook 11, Chapter 1, Section 3.5.4.

In implementing the Federal Managers' Financial Integrity Act, USAID/Egypt evaluated the internal control structure in place for fiscal year 1991 and reported that project officers satisfactorily monitor host country advertising, award, and contract negotiation procedures and satisfactorily review proposed host country contracts for reasonableness of price, payment provisions, technical specifications, and required regulatory provisions before approval. To improve reporting under the Integrity Act, we are recommending that the Mission report the above internal control weaknesses to the appropriate level of A.I.D. management. (See page 12.)

Conclusion for Audit Objective Six

The sixth audit objective was to obtain information on what USAID/Egypt has done to assess host government agencies' procurement capabilities. Since this is a descriptive audit objective, which is designed to inform the reader of a condition rather than to compare a condition to specified criteria, we did not assess internal controls to satisfy the objective.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's project technical services procured by the Government of Egypt in accordance with generally accepted government auditing standards, except as discussed below with regard to the extent of representations made by Mission officials.

Government auditing standards require auditors to obtain representation letters when they deem the letters useful. The Office of the Inspector General deems them necessary evidence to support potentially positive findings. We requested USAID/Egypt's management to furnish a written representation regarding this audit assignment. Based on discussions with Mission officials, USAID/Egypt's Director provided us a written representation that USAID/Egypt is responsible for the internal control system and the fairness and accuracy of the accounting and management information relating to the audited activities and that, to the best of his knowledge and belief, USAID/Egypt had provided us all the financial and management information relating to the audit objectives, USAID/Egypt is unaware of any material instances where the information provided had not been properly and accurately recorded and reported, and USAID/Egypt has complied with all contractual agreements that could materially affect the Mission's monitoring of technical assistance procured by the Government of Egypt. (The Director's representation is contained in Appendix II to this report.)

Although the Director, USAID/Egypt, provided us these essential written representations, he did not provide acceptable representations as to whether he is aware of any instances of irregularities, noncompliance with A.I.D. policies and procedures or violations or

possible violations of laws and regulations for the activities under audit. Instead, the Director confirmed that, to the best of his knowledge and belief, the records under audit should contain any instances of irregularities or noncompliance or violations. Also, in accordance with A.I.D./Washington guidance of May 13, 1992, the Mission policy is that only the Director will sign a letter of representation. Therefore, other USAID/Egypt officials directly responsible for the audited activities -- the three Mission Associate Directors whose staff are responsible for monitoring the host government's procurement process for their respective projects -- did not provide written representations to the Director confirming essential information. Therefore our answers to the audit objectives are qualified to the extent of the effect of not having such representations.

We conducted the audit from October 14, 1991 through May 13, 1992 and covered USAID/Egypt's system for managing A.I.D.-financed host government procurements of project technical services for the two fiscal years ending September 30, 1991. We conducted our work at USAID/Egypt.

We obtained a list of all USAID/Egypt host country contracts for technical assistance services awarded during fiscal years 1989, 1990 and 1991 from the Mission's contracts office, confirmed the accuracy and completeness of this list with Mission project personnel, and selected five contracts awarded during the two most recent completed fiscal years -- i.e., 1990 and 1991 -- for review. We excluded 1 of the 11 contracts awarded during this two-year period from review because Mission and RIG/A/Cairo personnel had already reviewed the procurement in 1989 and concluded that the host government's prequalification procedures had been proper. Of the 10 remaining contract awards, we selected the 5 awards with the highest dollar values for detailed review. These 5 contracts' combined value of $16.8 million is about 92 percent of the total value of all 10 contracts, which is $18.1 million.

We met with project officers and other project staff to obtain copies of contracts, contract drafts, project planning documents, correspondence with host government contracting agencies, action memoranda and other relevant documentation in project contract files to assess USAID/Egypt's system for managing host government procurements. We also reviewed A.I.D. Handbooks -- in particular, Handbook 11 on "Country Contracting," Chapter 1 on "Procurement of Professional and Technical Services" -- and other guidelines and discussed any discrepancies or omissions in project files with project officers and staff whenever guidelines and requirements appeared not to have been

followed. Additional information on the kinds and sources of information used during the audit and on audit techniques for each audit objective is given in the following methodology section. We examined the internal controls related to each audit objective, reported on the controls, and considered prior audit findings when applicable to the areas under review.

The audit covered USAID/Egypt's system for managing host government procurements of project technical assistance services from planning the need for such services through contract award. The audit did not address USAID/Egypt's system for monitoring contractor performance after the awards were made. Since the audit was limited to identifying and testing compliance with A.I.D.'s policies and procedures, we did not test for compliance with laws and regulations.

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to establish technical services needs. To accomplish this objective, we analyzed the project papers, authorizations, and agreements related to the five contracts in our sample to determine whether these documents identified technical services needs and related them to project objectives. We reviewed the project papers to see if they contained procurement plans that included the specific procurements under review and whether they specified the contracting mode, the contract's prospective cost, and a brief description of the contract's scope of work in accordance with A.I.D. Handbook 3, Chapter 3 guidance. We also interviewed cognizant Mission personnel to obtain their views on the adequacy of the planning process for technical services needs.

Audit Objective Two

The second audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country identified acceptable sources of contract technical services and selected the type of technical services contract which was allowable and most applicable for the procurement. To accomplish this objective, we reviewed the five contracts' procurement plans, other project paper analyses, and related documents in project contract files to determine how the contractor and contract types were determined and the contracts' statements of work to determine whether the contract types selected were applicable to the procurements in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.1) principles. We also discussed the appropriateness of the contractor and contract type selections with cognizant Mission personnel.

Audit Objective Three

The third audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country's prequalification process was performed impartially and in compliance with A.I.D. requirements. To accomplish this objective, we reviewed Mission project contract files for the two contracts in our sample that used prequalification to competitively procure technical services to determine whether prequalification notifications were properly advertised, host government evaluation panels scored returned prequalification questionnaires to derive shortlists of at least three qualified firms, and USAID/Egypt approved the shortlists of prequalified offerors in accordance with A.I.D. Handbook 11, Chapter 1 (Sections 3.2 and 3.3) guidelines. We also determined whether the host government submitted memoranda detailing the methods and results of the prequalification process in accordance with A.I.D. Handbook 3, Supplement B, Chapter IV guidance. We discussed our audit observations on the prequalification procedures with cognizant Mission personnel.

Audit Objective Four

The fourth audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country used acceptable competitive procedures, or obtained proper waivers for use of noncompetitive procurements, when selecting

potential contractors. To accomplish this objective, we reviewed Mission project contract files for the three competitively procured contracts in our sample to determine whether: (1) the Requests for Technical Proposals contained clear statements of work and the criteria to be used to evaluate the proposals, (2) the Requests were properly advertised, (3) USAID/Egypt approved the Requests prior to advertisement or submission to prequalified firms, (4) the host government evaluated and scored the proposals using the criteria set forth in the Requests, (5) the host government ranked the proposals and submitted selection memoranda to the Mission explaining the basis for the rankings, and (6) USAID/Egypt approved the highest ranked firm in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.4 and 4.2) guidelines.

For the two noncompetitive procurements in our sample, we reviewed project contract files to determine whether the host government received proper waivers of competitive selection requirements to negotiate with single source technical service providers in accordance with A.I.D. Handbook 11, Chapter 1 (Section 2.4.2) requirements and A.I.D. Delegation of Authority No. 653, which authorizes the USAID/Egypt Mission Director to waive competition for host government contracts "without dollar limitation". We discussed our audit observations on each procurement with cognizant Mission personnel.

Audit Objective Five

The fifth audit objective was to determine if USAID/Egypt followed A.I.D. policies and procedures to ensure that the host country awarded technical services contracts at a fair price to qualified and eligible contractors in compliance with A.I.D.'s negotiation and award requirements. To accomplish this objective, we reviewed project agreements, implementation letters, A.I.D. Handbook 11, Chapter 1, and A.I.D.'s November 1990 final guidance on host country contracting to determine USAID/Egypt's specific review and approval rights and obligations for each of the five sampled contracts. We reviewed project contract files to determine whether USAID/Egypt reviewed and approved contract drafts in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.2.6 and 3.5.4) guidelines and the November 1990 final guidance, and we reviewed the contracts to see if they contained all mandatory provisions required by Handbook 11, Chapter 1 (Section 2.12).

We also reviewed Mission files and discussed with project staff whether A.I.D. Handbook 11, Chapter 1 (Section 2) rules had been followed to confirm contractors' eligibilities to participate in A.I.D.-financed procurements and to approve executed contracts before financing. Finally, we reviewed relevant documents in project contract files to determine whether the host government prepared cost estimates in accordance with A.I.D. Handbook 11, Chapter 1 (Section 3.5.2) guidelines, the extent to which Mission personnel reviewed the estimates, whether Mission approval of the contracts was based on the factors listed in Handbook 11, Chapter 1 (Section 3.5.4) including "reasonableness of price" and conformity with Chapter 1 Section 2 rules, and whether contracts contained essential clauses as discussed in Section 4.3 of Chapter 1. We discussed our audit observations on compliance with the requirements to ensure awards were made at a fair price to eligible contractors with cognizant Mission personnel -- particularly any omissions or discrepancies in project files and instances where requirements were not met.

Audit Objective Six

The sixth audit objective was to determine what USAID/Egypt has done to assess host government agencies' procurement capabilities. To accomplish this objective, we reviewed A.I.D.'s "Final HCC [Host Country Contracting] Guidance Cable" issued to all missions in November 1990 and the U.S. General Accounting Office's May 1991 report on "Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts," which found that four A.I.D. missions including USAID/Egypt generally did not conduct assessments of host country contracting agencies' capabilities and recommended that the A.I.D. Administrator ensure full compliance with "recently issued AID guidance on conducting capability assessments." We interviewed USAID/Egypt controller personnel to obtain information on recent Mission-sponsored assessments of host government agencies' contracting capabilities, copies of Mission certifications of agency capabilities based on the assessments, and information on the recent formation of a Mission controller team whose duties will include assessing agencies' contracting capabilities.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

AUG 26 1992

M E M O R A N D U M

TO: Philippe Darcy, RIG/A/C

FROM: George Waechtenheim, D/DIR

SUBJECT: Audit of USAID/Egypt Project Technical Assistance Procured by the Government of Egypt

Following is the Mission's response to the recommendations under the subject draft audit report:

Recommendation No. 1:

We recommend that USAID/Egypt issue:

1.1 a staff notification to remind project staff of AID Handbook 11, Chapter 1 rules regarding contractor eligibilities to participate in AID procurement programs.

1.2 a check list for use by project staff to ensure each Chapter 1 requirement is met prior to contract award and approval.

Mission Response:

1.1 Mission has drafted a Staff Notice (Attachment I) to remind project staff of AID Handbook 11, Chapter 1 rules regarding contractor eligibilities to participate in AID procurement programs. Based on the above, Mission requests that Recommendation No. 1.1 be closed.

1.2 Mission is also currently preparing a host country checklist for the procurement of professional and technical services which will be circulated to the USAID/Cairo employees. Based on the above, Mission requests that Recommendation No. 1.2 be resolved and closed upon issuance of host country check list.

Recommendation No. 2:

We recommend that USAID/Egypt:

2.1 issue a staff notification on the AID Handbook 11, Chapter 1 requirement to formally approve host government contracts with values exceeding $250,000 before AID financing; and

2.2 establish controls to ensure letters of commitments are issued to host government contractors only after formal Mission approval of contracts.

Mission Response:

2.1 Mission has drafted a Staff Notice stating that formal AID approval of signed host government contracts with values exceeding $250,000 is required before AID financing (Attachment II). FM has also issued an inter-office notice (Attachment III) requiring project accountants not to issue Direct Letters of Commitments for technical services over $250,000 unless USAID has issued a PIL formerly approving the contracts. Based on the above, Mission requests that Recommendation No. 2.1 be closed.

2.2 On June 29, 1992, FM issued guidance to all FM staff (Attachment III), stating HB 11, Chapter 1, Section 2.1H requirement for formal AID approval of signed contract documents before financing host country contracts exceeding $250,000, and as such, they are required to ensure that a PIL (at least in final draft stage) formally approving the contract be in place before executing an AID Direct Letter of Commitment. Based on the above, Mission requests closure of Recommendation No. 2.2.

Recommendation No. 3:

We recommend that USAID/Egypt:

3.1 issue a staff notification on AID Handbook 11, Chapter 1 requirement for monitoring contract cost negotiations and approving host government contracts; and

3.2 advise the relevant host government contracting agency to amend its contract to include essential clauses on establishing a cost standard and on periodic adjustment of the indirect cost rate based on audit.

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Mission Response:

3.1 Mission is drafting a Staff Notice summarizing sections 3.5.3 to 3.5.5 of AID Handbook 11, Chapter 1 requirement for monitoring contract cost negotiations and approving host government contracts. Based on the above, Mission request that Recommendation No. 3.1 be resolved and closed upon issuance of Staff Notice.

3.2 USAID/Cairo will take appropriate actions to ensure the relevant host government contracting agency amend the contract to include essential clauses on establishing a cost standard and periodic adjustment of the indirect cost rate based on audits. In the final audit report, Mission requests that the relevant host government contracting agency and contract be identified in Recommendation No. 3.2. Based on the above the Mission requests closure of Recommendation No. 3.2 and closed upon amendment of Host Country contract.

Recommendation No. 4:

We recommend that USAID/Egypt, for use in preparing its report under the Federal Managers' Financial Integrity Act, perform an assessment addressing the internal control weaknesses identified in this report.

Mission Response:

Attachment IV is a copy of memo from Mr. Will, DIR/CS to the Chairman of the MCRC (Mr. Franklin, AD/FM), dated June 1, 1992, requesting that the weaknesses identified in subject audit report be included in the next Internal Control Assessment. The Chairman of the MCRC will ensure that these weaknesses will be reviewed during the next Mission Internal Control Assessment. Based on the above, Mission requests closure of Recommendation No. 4.

Att: a/s above

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

RECEIVED
20 SEP 1992

SEP 20 1992

Mr. Philippe L. Darcy
Regional Inspector General
for Audits
Cairo, Egypt

Dear Mr. Darcy:

This Representation Letter is being issued in accordance with Agency guidance in response to the audit of "USAID Project Technical Assistance Procured by the Government of Egypt" recently conducted by your Staff.

Based upon discussions with Mission Staff, to the best of my knowledge and belief, I confirm that all appropriate financial records in the possession and under the control of USAID/Cairo relating to the function being audited have been made available to you. To the best of my knowledge and belief, the records made available to you are accurate and complete, and they fairly represent the status of this function within the Mission. To the best of my knowledge and belief, in conjunction with the confirmation in A, B, C and D below, those records, with respect to the referenced audit, should contain any instances of non-compliance or irregularities, or violations of laws and regulations as those terms may be defined by or perceived by the Inspector General. Specifically I confirm that:

(A) USAID/Egypt is responsible for the internal control system, for the fairness and accuracy of accounting and management information for the function under audit. USAID/Egypt to the best of my knowledge and belief exercises its best efforts to ascertain and follow applicable U.S. laws and AID regulations and AID interpretations of those laws and regulations.

(B) To the best of my knowledge and belief, and based on discussions and verbal representations by others in the Mission, USAID/Egypt has made available to you or otherwise provided you at your request all financial and management information related to the audit objectives.

(C) To the best of my knowledge and belief, except for any findings or other matters included in the audit report, USAID/Egypt is unaware of any material instances associated with the function being audited where financial or management information has not been properly and accurately recorded/reported.

(D) To the best of my knowledge and belief, USAID/Egypt has complied with all contractual agreements, to the extent there are such agreements, which could have any material effect on Mission monitoring of Technical Assistance Procured by the Government of Egypt.

Upon review of your draft report and following further discussion with my staff, I know of no events subsequent to the date of your draft report, (other than those which were included in our response to that report), which to the best of my knowledge and belief would materially alter the statements in (A) thru (D) above.

All representations made herein by me are made in light of my experience since my arrival at post.

I request that this Representation Letter be included as a part of the official management comments on the draft report and that it be published therewith as an Annex to the report.

Sincerely yours,

Henry H. Bassford
Director

APPENDIX III

REPORT DISTRIBUTION

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