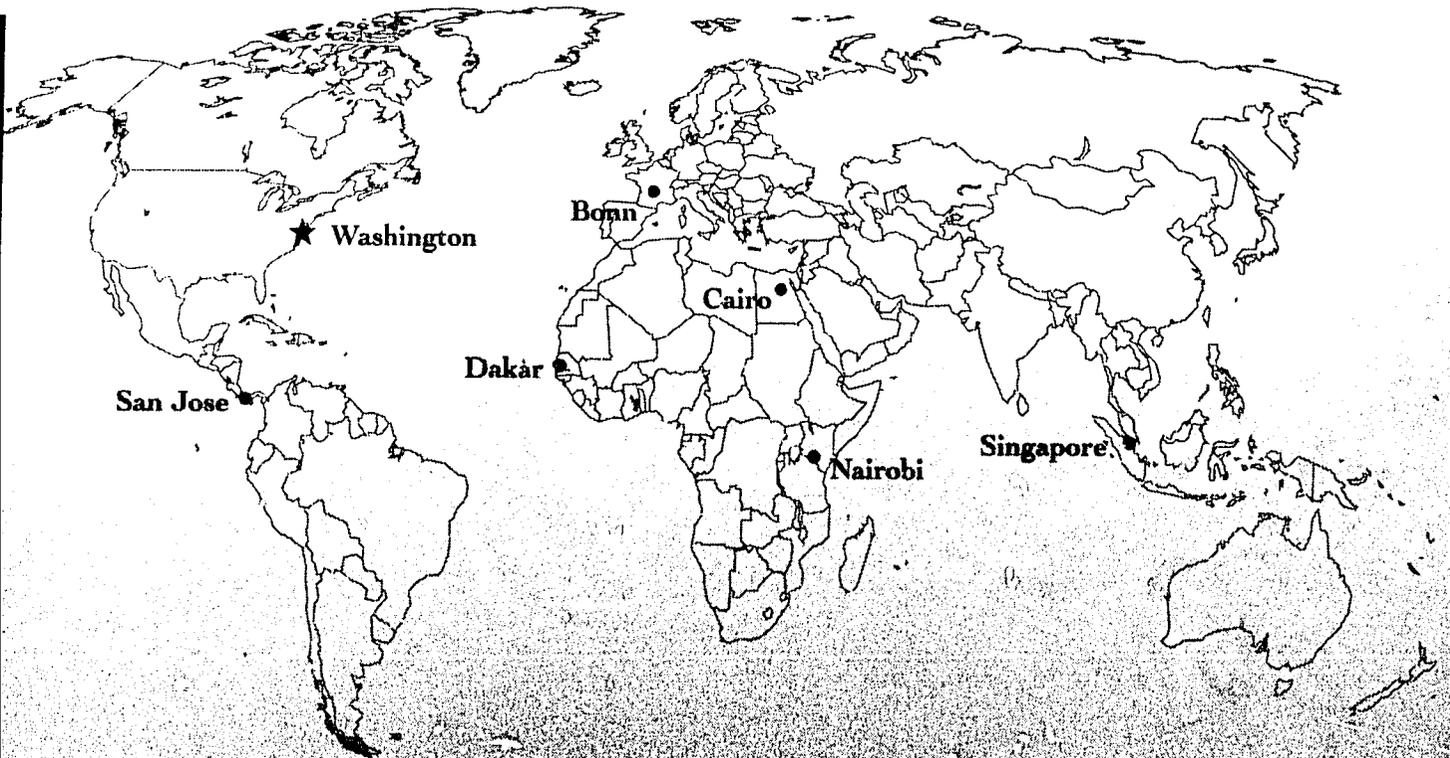

Audit of the Performance of USAID/Egypt-Financed Technical Assistance Contractors

Report No. 6-263-95-007
April 19, 1995





CAIRO, EGYPT

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

April 19, 1995

MEMORANDUM FOR USAID/Egypt Director, John R. Westley

FROM: RIG/A/Cairo (Acting), John J. Ottke

SUBJECT: Audit of the Performance of USAID/Egypt-Financed Technical Assistance Contractors

This memorandum is our report on the subject audit. The report does not contain any recommendations. I appreciate the cooperation and assistance provided to the auditors on this assignment.

Background

USAID/Egypt relies on technical assistance contractors to help design and implement development projects. The performance of technical assistance contractors can significantly influence the success or failure of these projects.

USAID/Egypt project officers have the primary responsibility for monitoring the performance of technical assistance contractors and initiating corrective actions when needed. The project officers are supported by contracting officers who are responsible for interpreting contract requirements.

Based on information provided by USAID/Egypt, we identified 48 technical assistance contracts ending on or after October 1, 1993. According to USAID/Egypt records, these contracts had commitments of \$476 million and expenditures of \$360 million as of June 30, 1994¹. Our audit tests covered a random sample of 15 contracts with commitments of \$168 million and disbursements of \$107 million.

¹ Throughout this report, local currency amounts are converted to dollars using the exchange rate in effect when the commitment was made.

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Audit Objective

The audit was performed to answer the following audit objective:

- Did USAID/Egypt monitor technical assistance contractors to provide reasonable assurance that they accomplished what they were contracted to do?

The scope and methodology of the audit is discussed in Appendix I.

Audit Findings

Our answer to the following audit objective is qualified to the extent of the effect, if any, of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a discussion of this qualifier.

Did USAID/Egypt monitor technical assistance contractors to provide reasonable assurance that they accomplished what they were contracted to do?

For the technical assistance contracts we reviewed, USAID/Egypt monitored the contractors to provide reasonable assurance that they accomplished what they were contracted to do.

USAID/Egypt's management controls for monitoring the performance of technical assistance contractors are described in USAID Handbooks 3 and 11 and in USAID/Egypt Mission Order 3-20. These controls were implemented for most of the contracts we reviewed:

- Contracts should have a clear statement of work. To the extent possible, the statement of work should focus on the result to be achieved: that is, it should describe what is to be done rather than how it is to be done. When appropriate (such as in the case of long-term contracts), the statement of work should include progress indicators to permit measurement of the contractor's progress against the expenditure of both time and money. For all 15 contracts reviewed, the contract statement of work was clearly defined. Where the statement of work did not include progress indicators, the contracts generally required the contractor to prepare a work plan which included progress indicators.
- If required by the contract, the contractor should prepare a time-phased work plan which explains how the contractor intends to accomplish the statement of work. The contractors prepared work plans in accordance with the contract requirements in 8 of the 12 cases where they were required. In the remaining four cases, the contractors prepared a work plan which did not include all of the required information or, primarily because of the nature of the work being performed, did not prepare a work plan at all.

- Contractors should submit progress reports as required by the contract terms. The contractors submitted progress reports for 11 of the 12 contracts where they were required.
- To supplement and verify the information provided by contractors in their progress reports, project officers should conduct site visits, attend meetings with the contractor, and/or correspond with the contractor on technical issues that arise as the contractor's work proceeds. For all 15 contracts reviewed, USAID/Egypt project officers used some or all of these monitoring techniques.
- Evaluations performed by a third party provide an independent perspective on contractor performance. Evaluations were planned or had been performed for 8 of the 10 long-term contracts reviewed.
- Performance audits conducted by USAID's Office of Inspector General can also provide assurance that contractors are performing satisfactorily. Five of the 15 contracts reviewed had been covered by performance audits.

While not every management control technique was implemented for each contract, we concluded that USAID/Egypt was generally doing a good job of monitoring the 15 technical assistance contractors reviewed. In addition, we found that 13 of the 15 contractors reviewed were accomplishing what they were contracted to do, in all significant respects (see Appendix II). In the two cases where there were significant problems with the contractors' performance, USAID/Egypt had taken steps to correct the problems. Accordingly, we are not making any recommendations.

Management Comments and Our Evaluation

USAID/Egypt did not have any comments to offer on the draft report. USAID/Egypt's response is included in Appendix III.

SCOPE AND METHODOLOGY

Scope

We conducted the audit in accordance with generally accepted government auditing standards. These standards require auditors to obtain written representations from management when they deem them useful. The Office of Inspector deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us a management representation letter for the audit that contained essential assertions about the activities we audited. However, USAID/Egypt officials directly responsible for these activities did not provide written representations. As result, our answer to the audit objective is qualified to the extent of the effect, if any, of not having such representations.

The audit fieldwork was performed from October 1994 through March 1995 and covered technical assistance contracts financed by USAID/Egypt which ended on or after October 1, 1993.² Based on information provided by USAID/Egypt, we identified 48 technical assistance contracts from which we selected a random sample of 15 contracts for review:

	<i>Total</i>	<i>Sampled</i>
Number of Contracts	48	15
Commitments as of 6/30/94	\$476,401,212	\$168,061,998
Expenditures as of 6/30/94	\$360,427,798	\$106,706,855

²

The audit did not cover contracts financed with operating expense funds which directly supported USAID/Egypt's operations, purchase orders, personal services contracts, agreements with other U.S. Government agencies, or contracts with commitments under \$100,000. The audit also did not cover contracts for construction management services under projects managed by USAID/Egypt's Urban Administration and Development Office, which were covered by a previous audit (Audit Report No. 6-263-93-05 dated February 18, 1993).

We limited our conclusions to the contracts included in our sample. The audit examined the results achieved under these contracts as of June 30, 1994, although we are also reporting on results achieved after that date if they had changed significantly at the time of our fieldwork.

We interviewed USAID/Egypt, Government of Egypt, and contractor officials in Cairo and Alexandria, Egypt. We also examined documentation provided by these officials including contracts, contractor work plans, contractor progress reports, studies, and correspondence.

As part of the audit, we obtained an understanding of USAID/Egypt's management controls that were relevant to the audit objective and determined whether they were placed in operation.

During the audit, we obtained information from USAID's Contract Information Management System and USAID/Egypt's Mission Accounting and Control System. We did not verify the information from these systems because the data was used mainly for background information and any inaccuracies would not likely have a significant effect on the audit results.

Methodology

In answering the audit objective, we reviewed the random sample of 15 contracts described in the scope section above. We compared the performance targets included in contract scopes of work and contractor work plans with the accomplishments reported by contractors in their progress reports. We judgmentally selected accomplishments reported by 13 of the 15 contractors to verify that they were reported accurately.³ In making our selection, we considered the relative importance of the reported accomplishments and the risk that accomplishments could be misstated. To verify reported accomplishments, we relied on physical observation and examination of documents substantiating that work reportedly performed was actually performed.

We also obtained an understanding of USAID/Egypt's management controls related to the audit objective and verified that the significant management controls were implemented for the contracts reviewed. We reviewed the following management control techniques:

- clear contract scope of work;
- contractor workplan prepared in accordance with contract;
- contractor progress reports submitted in accordance with contract;

³ We used judgmental sampling techniques because this was less time consuming than using random samples and, in our judgment, these techniques provided reasonable assurance that the major reported accomplishments were not misstated.

Appendix I

- project officer site visits, meetings, and correspondence with contractor;
- USAID/Egypt semi-annual implementation reports compare plans and targets to actual progress achieved; and
- evaluations and audits performed by third parties.

We also reviewed USAID/Egypt's fiscal year 1994 internal control reviews performed pursuant to the Federal Managers' Financial Integrity Act to see if these reviews disclosed any weaknesses relating to the management control techniques listed above.

**Expenditures and Results Achieved as of June 30, 1994 for
Technical Assistance Contracts Included in Audit Sample
(Unaudited Expenditures)**

<i>Contract</i>	<i>Expenditures as of June 30, 1994</i>	<i>Results Achieved as of June 30, 1994</i>
Contract A	\$90,000	Conducted a study of the impact of agricultural policy reforms on rice production, milling, marketing, and trade. Government of Egypt (GOE) and USAID/Egypt officials were satisfied with the contractor's performance and the GOE had reportedly begun implementing some of the study's recommendations.
Contract B	\$310,409	Helped the GOE implement a training program for personnel working in the electricity and petroleum sectors. GOE officials believed that the contractor was performing satisfactorily.
Contract C	\$276,310	Performed a study to help the Egyptian telephone organization meet increasing demand for services and achieve greater financial independence.
Contract D	\$2,723,856	Assisted in an energy loss reduction study and provided construction management services for rehabilitation of the electrical distribution network in Alexandria, Egypt. GOE officials were satisfied with the contractor's performance.
Contract E	\$15,896,238	Helped the GOE reform its tax system by assisting with policy analysis, training, and modern administrative systems. GOE and USAID/Egypt officials were satisfied with the contractor's performance.
Contract F	\$305,875	Performed feasibility studies for a business management training project. USAID/Egypt officials were satisfied with the contractor's performance.
Contract G	\$14,321,875	Administered grants and arranged training for scientists involved in research on schistosomiasis. The USAID project officer was satisfied with the contractor's performance.
Contract H	\$198,743	Conducted a financial management review and technical evaluation of the Child Survival Project. The USAID/Egypt project officer was satisfied with the contractor's work.

Contract	Expenditures as of June 30, 1994	Results Achieved as of June 30, 1994
Contract I	\$1,183,817	Provided assistance to the implementing agencies for the Population/Family Planning III Project. As of June 30, 1994, most of the contractor's effort had gone toward helping the agencies prepare implementation plans. The GOE and USAID/Egypt officials we interviewed were generally satisfied with the contractor's performance.
Contract J	\$6,195,195	Analyzed state-owned enterprises and helped the GOE develop a strategy for divesting itself of these enterprises. Although some problems arose during this contract, USAID/Egypt had taken actions to resolve the problems. We concluded that the contractor's performance was satisfactory on the whole.
Contract K	\$14,906,059	Managed participant training and professional scientific exchange programs for 1,444 individuals. This represented 97 percent achievement of the targets in the contract.
Contract L	\$31,963,020	Installed a remote sensing and control system to regulate irrigation networks and assisted the GOE with staff training and maintenance. The USAID/Egypt project officer was satisfied with the contractor's performance.
Contract M	\$15,000,000	Provided construction management services for a thermal power station. Although some problems with the contractor's performance were experienced, GOE and USAID/Egypt officials believed the contractor's performance was generally satisfactory.
Contract N	\$1,828,388	Helped prepare the invitation for bids and evaluate bids for an electrical distribution network control center. This work was seriously delayed and the contractor has proposed to extend the contract and increase its cost as a result of these delays. USAID/Egypt expressed its concerns over the contractor's performance in correspondence with the GOE contracting agency and advised the contracting agency not to pay costs attributable to errors by the contractor.

Appendix II

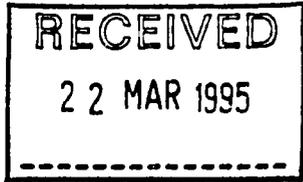
<i>Contract</i>	<i>Expenditures as of June 30, 1994</i>	<i>Results Achieved as of June 30, 1994</i>
Contract O	\$1,507,071	Helped prepare a request for proposals for software development. Also developed prototype systems. Incomplete reporting by the contractor made it difficult to determine what the contractor had done, but it was evident that several tasks in the contract scope of work were not completed. This contract ended in February 1995.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

airo, EGYPT

March 21, 1995



MEMORANDUM

TO: Bruce n. Boyer, A/RIG/A/C

FROM: James Redder, OD/FM/FA

James Redder

SUBJECT: Audit of the Performance of USAID/Egypt-Financed
Technical Assistance Contractors - Discussion Paper

Mission has no comments to offer on the subject Discussion Paper.
Please issue the final report.