Auditor General

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AUDIT REPORT

ON

REVIEW OF SYRIA AID PROGRAM

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Area Auditor General Near East
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AUDIT REPORT

ON

REVIEW OF SYRIA AID PROGRAM

BACKGROUND AND SCOPE

Background

In 1975, the United States extended a number of loans and grants to Syria to support its economic development under the Security Supporting Assistance Program (now the Economic Support Fund). Although the assistance program to Syria is justified by overriding political considerations, the program pursues economic and social development objectives.

The State Department is responsible for the Economic Support Fund (ESF) in terms of policy and has the predominant voice in establishing the funding levels requested by the administration for the program. AID manages and implements the program after policy and funding decisions have already been made.

The ESF in the Middle East is designed to support U.S. efforts to achieve a settlement of the Arab-Israel dispute and bring about peace and stability in the region. The overriding political justification for a program in Syria is that it is one of the ways in which the U.S. is trying to encourage Syria to continue in the search for a comprehensive peace settlement. The program is seen by the Syrians as a concrete demonstration of U.S. interest in their country and in the development program to which they have assigned high national priority. Alteration of the U.S. program could be viewed by the Syrians as a signal that the United States has "counted Syria out" of the process of trying to find a comprehensive peace in the area, or as a form of unwelcome pressure.

In what the U.S. believes to be a genuine desire for a resolution of the problems in the Middle East, the Syrian leaders have strongly criticized President Sadat's initiative and direct Egyption-Israeli negotiations.

Syrian leaders, along with most other Arab States view the Egyption-Israeli negotiations as prejudicing, rather than advancing, a solution of the Palestinian problem. However, at the same time, Syria supports the peace process which they believe should be conducted in a broader framework. The Syrian leaders have assured the U.S. that the door is still open for Syrian participation in a comprehensive peace settlement. Despite their differences over the strategy being followed, the Syrians have made it abundantly clear they seek the broadest possible relationship with the U.S.

It is also the U.S. position that, while not agreeing totally with Syria's policy in Lebanon, the Syrians have played a constructive role in Lebanon as part of the peace keeping forces.

The last U.S. economic assistance program to the Syrian Arab Republic (SARG) was terminated in FY 1964. The U.S. resumed diplomatic relations in 1974 and signed the first project agreement in February 1975. As a result, AID procedures and the mechanics of its paper flow and requirements were all new to SARG officials. Consequently, indoctrination and training was necessary from the outset. After a slow beginning in setting up a working relationship, the Syrian government was changed in 1976 and this required a totally new start again in dealing with the different Syrian officials.

As of March 31, 1979, funds obligated for the current Syrian program totalled $370 million of which $63 million has been expended and $307 million remains in the pipeline. This pipeline will increase by another $68 million to a total of about $375 million if all funds appropriated for FY 1979 are obligated. The pipeline has continued to grow each year since 1975 primarily because of extensive delays in program implementation.

Scope

We performed this audit of the Economic Support Fund to Syria to determine whether AID-financed activities were planned and implemented effectively and in accordance with prescribed agency policies and procedures, to identify problem areas requiring management attention, and to evaluate the management of the Joint Administrative Office (JAO) activities. Accordingly, our audit included an examination of the 19 projects in the Mission program and a review of the JAO activities. The period covered was from the resumption of AID activities in 1975 through March 31, 1979.

The audit was conducted in accordance with generally accepted practices and included such tests, field trips, discussions and other review procedures considered necessary.

Our report was reviewed by USAID/Syria officials whose comments were considered before the report was issued in final form.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following sections, are digested below:

- Almost four years have elapsed since AID resumed a program in Syria and very little has been accomplished in the area of capital development assistance. The capital development program consists of 6 projects and accounts for $220.7 million or 60 percent of total Mission funds obligated through March 31, 1979. Expenditures of $1.4 million for these projects are less than one percent. There are growing indications of the SARG's impatience with the rate of loan implementation and with the political conditions surrounding the overall AID program. Recent developments in the Middle East, such as Syria's opposition to the Egyptian-Israeli peace treaty, make the political justification for the Syria AID Program questionable. As a result of Syria's opposition to the peace treaty, the House of Representatives eliminated the entire $45 million Syria AID program planned for FY 1980. In light of these actions, we recommended that AID reassess the political situation in Syria and determine what impact it will have on future AID assistance efforts in Syria. If it is decided that the program will be continued, we recommended that an evaluation be made of our alternatives presented in the report, and the most appropriate course of action be selected to effectively achieve project implementation. (See p. 6).

- Utilization of AID loan funds provided under the Commodity Import Program (CIP) has shown a marked improvement in recent months. However, we found that USAID/S's arrival accounting system needed improvement. We recommended that a formal arrival accounting system be established and maintained. (See p. 17).

- We also found that cardiovascular medical equipment costing an estimated $906,272 was air freighted to Damascus over 8 months ago and was still lying in storage unutilized. We recommended that follow-up action be taken to ensure that the medical equipment was installed and operating within one year as required by AID regulations. (See p. 18).

- USAID/S follow-up on returned participants was informal and not documented in some cases. We recommended that a formal follow-up program on participant returnees be initiated. (See p. 23).

- Many participants return to Syria without exit interviews as required by AID regulations. We recommended that the Office of International Training (DS/IT) strengthen their procedures to assure that exit interviews for all participants are conducted before leaving the United States. (See p. 25).

- In December 1977, a joint Administrative Office (JAO), Support Agreement was signed between the Mission and the Embassy. Much progress has been made by the JAO in performing its administrative functions in conformance with AID requirements and directives; however, certain functions are not being performed as required. The required annual report on vehicle operating and maintenance costs has not been prepared and submitted to AID/W, nor has AID/W requested that it be prepared. The required Certificate of Inventory Reconciliation has not been made, and the required certification on the value of AID-owned property has not been submitted to AID/W. We also found that the quarterly reconciliations of the total dollar value reflected on the general ledger account has not been made with the stock record cards. We recommended that a property general ledger account be established, quarterly reconciliations of the dollar values be made with the stock record cards, and the required certification of property value for the past fiscal year be submitted to AID/W. (See p. 31).

The report contains 6 recommendations which are listed in xhibit B.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. PROJECT IMPLEMENTATION

Since the reintroduction of the AID program in FY 1975, implementation delays have been common to most projects. The pipeline of unexpended balances has been growing and frequent extensions of various critical dates were needed for all capital development projects. However, the Commodity Import Program (CIP) and technical assistance programs are showing progress in implementation.

In part, overall implementation problems stem from the resumption of a relatively large AID program, mandated solely on a political basis without adequate time for advance planning and program development. USAID/S has consequently experienced a great deal of political pressure to identify and develop projects and obligate funds as quickly as possible. As a result, they hastily instituted large infrastructure projects which were expected to quickly absorb the large amounts of ESF assistance made available.

This political necessity to identify projects and obligate large amounts of funds quickly, the little prior experience in and knowledge of Syria and limited AID staff did not permit the Mission to develop either a meaningful planning base or to obtain the needed expertise in understanding more fully the procedures and operations of the Syrian Government. This situation has impacted greatly on USAID/S's ability to formulate a cohesive development strategy and successfully implement their capital projects.

Delays in capital project implementation are generally attributable to three basic factors: 1) the lengthy time periods required by the Syrian Government in processing and finally ratifying loan agreements; 2) host country difficulties in selection of and negotiation with U.S. engineering firms to provide design and engineering services, and obtain approval from the Prime Minister's High Economic Committee; and 3) an inability to obtain construction contract bid responses that are considered cost efficient. At present, these delay factors have impacted sufficiently on individual projects that it is conceivable that the majority of the capital assistance projects in Syria will not be implemented.

Considering the political nature and objectives of the U.S. assistance program in Syria and the fact that capital assistance represents 60 percent of current U.S. efforts in-country, we believe rapid action is necessary to get this phase of the program moving before serious damage is done to relationships between the U.S. and Syria.

B. CAPITAL DEVELOPMENT PROJECTS

The capital development program in Syria, through March 31, 1979, consists of 6 major loans amounting to $220.7 millions or 60 percent of total funds obligated for the entire program. Projects obligated as far back as 1975 are still in pre-implementation phases with no near term resolution in sight. In fact, the capital assistance program in Syria is virtually at a standstill at the present time except for the Euphrates Basin Irrigation Project. The financial status of the six Capital Development Loan Projects as of March 31, 1979 was as follows:

	Date Signed	Missions Obligated	Missions Expended
Damascus Water Supply I Loan No. 276-J-008	6/30/75	$48.0	$ .3
Damascus Water Supply II Loan No. 276-K-010	6/28/76	$14.5	-
Euphrates Basin Irrigation Loan No. 276-K-011	7/22/76	$17.6	.6
Damascus-Dera'a Highway Loan No. 276-K-012	7/22/76	$45.9	.5
Rural Electrification Loan No. 276-K-016	9/27/77	$34.7	-
Lattakia-Tartous Highway Loan No. 276-K-018	9/28/78	$60.0	-
Total		$220.7	$1.4

From the above it can be seen that expenditures are not impressive, but they are reflective of USAID/S's implementation problems. As of March 31, 1979, only $1.4 million has been expended or about one half of one percent of total funds available. To make matters worse, expenditures have been made on only three of the projects and in two of these projects implementation progress has virtually stopped because construction bids received were grossly in excess of estimated costs. In the case of the Damascus Water Supply I project, the bids were rejected on March 26 and the bids on Damascus-Dera'a Highway are expected to be rejected in the very near future.

1. Damascus Water Supply I Project

The Damascus Water Supply I project consists of procurement and installation of 370 kilometers[1/] of ductile iron pipe, fittings and connections to rehabilitate and extend the water supply distribution system for part of the City of Damascus. This loan agreement was signed on June 30, 1975 for $48 million. The overall project was initially estimated to cost $94.7 million, consisting of $48 million in foreign exchange to be financed by the AID loan and the balance of $46.7 million for local currency expenditures to be financed by SARG.

Construction was to begin in September 1977 with project completion scheduled for March 1980. However, to date, the construction contractor has not been selected and the project has had five extensions (totaling 36 months) to sign the construction contract with a U.S. firm. The latest extension expires on June 30, 1979, and it is unlikely that a construction contract can be signed by that date.

Gilbert Associates, Inc. (Gilbert) was selected as the engineering firm for the project and signed an agreement on July 20, 1976 to prepare bid documents, assist in construction contract execution, and supervise the construction contract. As of March 31, 1979 obligations for Gilbert have amounted to $1.3 million, leaving an uncommitted loan portion of $46.7 million for the balance of the project.

1/ This was the original estimate made in a feasibility study prepared in 1972 by a French firm and was included in AID's loan agreement. The final quantity determined by the U.S. engineering consultant in 1978 was 690 kilometers for the entire project.

Construction bid proposals were submitted by three bidders in January 1979 and ranged from $132 million to $144 million, or $37 million to $50 million more than initially estimated in the Project Paper. The foreign exchange component included in the bids ranged from a low of $86 million to a high of over $107 million as compared to the remaining uncommitted loan balance of $47 million. Therefore, acceptance of the low bid would have required SARG to provide an additional $39 million of foreign exchange. SARG found all the bids to be unacceptably high. As a result, the bids were rejected by Figeh (the SARG governmental agency responsible for the project) in March 1979 and it now appears that an effort will be made to negotiate with all interested prequalified firms for a contract. This process is expected to take at least three months and there is a great deal of skepticism that a contract will be successfully negotiated.

In reality, there are few alternatives available that would lead to signing a construction contract. Re-bidding does not appear to be promising--the consulting engineer has indicated that "this is unlikely to result in more or lower bids - probably the opposite." He also indicated that any negotiation would not be promising because "it is probably unrealistic to expect that a price reduction of the magnitude that would be required could be negotiated." In general, the consulting engineer felt a new approach was required that would satisfy both AID and host country requirements. In essence, what he suggested was establishing a Host Country Project Office to supervise and direct procurement and installation of the water system.

The low bidder has also suggested a combination of U.S. and local contracting. In fact, he submitted a new proposal of $76.7 million to SARG on March 13, 1979, using a SARG-owned firm as sub-contractor. Under the terms of the proposal, the U.S. contractor would (1) procure all materials outlined by the specifications, (2) perform all construction supervision and management, (3) coordinate purchasing, shipping, job scheduling and planning, and (4) furnish all engineering and drawings as required by specifications. The local contractor, among other things, would perform all material handling in-country and all installation, excavation, restoration, and connection of the system.

Our analysis of the $76.7 million bid shows that the U.S. contractor would provide the material for $23.4 million, charge $24.8 million for procurement services and supervision, and pay the sub-contractor $28.5 million for installation. He also conditioned the offer as subject to the

Host Government holding him harmless for any deficiencies of the SARG contractor which makes it highly unlikely the offer would be acceptable.

Thus, USAID/S management faces a real dilemma; neither negotiation nor re-bidding for a construction contract for this project seems to be a very promising solution. At the same time, it is also essential to minimize implementation delays, both because the project is needed to supply water to Damascus and because every day of delay increases the costs due to inflation. It is even more important to find a means of successfully implementing this project in the very near future because of the adverse implications that deobligation action would have on other capital projects, as well as the impact such action would have on relationships between the U.S. and Syrian Governments. It should be noted that similar project problems, as expressed above, are also being experienced in the Damascus-Dera'a Highway project.

2. Damascus-Dera'a Highway

The Damascus-Dera'a Highway project consists of engineering and construction services to construct a 104 kilometer, four-lane divided highway from Damascus to Dera'a, which is near the Jordanian border. This loan agreement was signed on July 22, 1976 for $45.9 million. The overall project was originally estimated to cost $82.8 million consisting of $45.9 million in foreign exchange to be financed by the AID loan and the balance of $36.9 million for local currency expenditures to be financed by the SARG.

Construction was to begin in September 1977 with project completion scheduled for June 1981. According to the initial plan, a construction contractor was to be selected by August 31, 1977. However, selection of a construction contractor has not been accomplished and the project is now over 1-1/2 years behind schedule.

In September 1977, 14 months after the loan agreement was signed, an engineering consulting contract was signed between a U.S. firm and the Ministry of Communication for $5,246,033. In January 1978, the SARG rejected the contract on the basis of unacceptably high costs. In May 1978, an approved contract for initial engineering consulting services was signed with Daniel, Mann, Johnson and Mendenhall International and Tippetts, Abbett, McCarthy, Stratton (DMJM/TAMS) for $3,689,187 resulting in a savings of almost $1.6 million.

In December 1978, SARG issued invitation-for-bid documents to pre-qualified contractors. Construction bid proposals were submitted by three bidders relative to both sections of the highway. Bids for section one ranged from $61.2 million to $132.3 million and bids for section two ranged from $82.3 million to $127.8 million. A Mission official told us that a contractor could not be awarded both sections, only one section. A combination of the two eligible bids for each section (not awarding both sections to the same contractor), yielded an overall range from a low of $147.5 million to a high of $214.6 million or $64.7 million to $131.8 million more than originally estimated in the loan agreement.

Further, the engineering consulting firm estimated the total cost of the project in February 1979 to be $110.4 million. Thus, the actual construction bids received exceeded the engineers' estimate by $37.1 million to $104.2 million. The foreign exchange component included in the lowest bid was $89.9 million as compared to the remaining available loan balance of about $42 million. Therefore, acceptance of the low bid would have required the SARG to provide an additional $47.9 million of foreign exchange. As a result, it appears obvious that all bids submitted will be rejected by the SARG in early April 1979 because of excessive costs.

At the time of our audit, the Mission planned to have the SARG re-bid for a construction contract. Rebidding was expected to take an additional five months to finalize without a great deal of promise for success. We were told by knowledgeable USAID/S personnel that there is no hope of negotiation and it is very doubtful that a U.S. contractor will ever get the construction contract because of the excessively high bids received.

We were also advised that the business climate in Syria is not attractive to U.S. firms because of the substantial bank guaranties and heavy penalty clauses required as part of any contract. Consequently, there is some question that any of the large capital development projects will be implemented under present conditions. There was some feeling and support for the concept of allowing a local contractor to perform the construction (using U.S. equipment and materials) to help get these projects implemented.

On April 4, 1979, we found that the SARG had submitted formal proposals, dated April 1, to USAID in an attempt to solve the problems encountered on Damascus Water Supply I and Damascus - Dera'a Highway

Projects so they could receive some benefit from the two loans as soon as possible. In the proposals the SARG stated that they did not believe bidding would produce successful results. In order to make up for the time wasted and to ensure implementation of these vital projects at reasonable costs, the SARG proposed that the fastest solution was to use the loan fund proceeds for the two projects to finance: (1) commodity imports required for the projects, (2) the contractual costs of the U.S. consulting engineers, and (3) use some funds as reserves.

3. Other Capital Projects

The remaining four capital assistance projects are also behind schedule. The Euphrates Basin Irrigation Project is the only other Capital Assistance project that has incurred limited expenditures as of March 31, 1979. It currently is behind schedule in some elements ranging from 12 to 15 months. Damascus Water Supply II, Rural Electrification, and Lattakia-Tartous Highway projects are 31, 9, and 1 months respectively, behind schedule as of March 31, 1979.

From our review of project files and progress reports we did not note any major problems other than the implementation delay noted above.

4. Conclusions

As of March 31, 1979, we believe the entire Capital Assistance Program in Syria could be in serious trouble. Two major projects with AID loan commitments totalling $94.9 million are already 1-1/2 to 3 years behind schedule and all construction bids for the two projects were recently rejected or are about to be rejected which will cause more delay. Further, both SARG and key USAID officials have expressed concern that prospects for negotiating or re-bidding for construction contracts on either of the projects are not very promising.

In essence, almost four years have elapsed since AID resumed a capital assistance program in Syria and very little has been accomplished. At present, there is no indication that implementation progress will be significantly improved in the near future. To the contrary, there are growing indications of the SARG's impatience with the rate of loan implementation and with the political conditions surrounding the overall AID program.

Given the above situation and the dramatic political events that have developed in recent weeks, we believe it is imperative that the future status of AID programming in Syria be resolved at an early date.

The U.S. assistance program to Syria is designed to support U.S. efforts to achieve a settlement of the Arab-Israeli dispute. Recent developments in the Middle East, such as Syria's opposition to the Egyptian-Israeli peace treaty, make the political justification for the Syria program questionable. The International Herald Tribune reported on April 11, 1979 that Syrian leaders were convinced that the treaty would fail within a year. Syria's Minister of Information was quoted as saying that "The most urgent task now is to foil the treaty and we have the means to do it." Furthermore, he said that his government would support opposition to Egyptian policies. Because of Syria's actions and its opposition to the peace treaty, on April 10, 1979 the House of Representatives completely eliminated the $45 million AID program planned for Syria for FY 1980. The House Foreign Affairs Committee had previously reduced the Syria program by $15 million. Considering the gravity of these actions, we believe AID should reassess their programming efforts in Syria and determine whether the present program will be continued or if it will be necessary to deobligate funding presently available.

If it is determined that the Syrian program is to be continued, we believe AID should conduct an intensive evaluation of the factors causing delays in implementing the Syrian Capital Assistance program with a specific intent of identifying alternative actions that could speed up the implementation process. There are a number of alternatives that should be considered:

(a) The high cost of utilizing American contractors for construction purposes has been a major stumbling block to project progress. The factors causing high bid responses should be identified and discussed with high level SARG officials and contractors to determine if Host Country regulations, conditions, and risk uncertainties could be sufficiently modified to overcome this major problem area.

(b) An effort should be made to determine if local capability and funding sources exist that could be utilized for construction services.

(c) If qualified local contractors are available, a determination should be made of the feasibility of using individual loan proceeds solely for U. S. engineering services and project equipment and materials with the remaining residue to be utilized for other U. S. procurement, for related purposes, rather than being deobligated. A determination should also be made as to whether there is sufficient justification to permit AID financing of host country contractors from loan proceeds if circumstances warrant such funding. (Audit note: after completion of our draft audit report, SARG's State Planning Commission submitted a formal proposal to USAID/S on April 1, 1979 in which they outlined a solution for the two major capital projects--Damascus Water Supply I and Damascus-Dera'a Highway. Their proposed solution is essentially identical to alternative (c) above except they did not request AID financing of local contractors.)

In summary, if the United States is to achieve the objectives established for the Syrian assistance program, some resolution of the current political situation and the factors inhibiting capital project implementation must be found in the near future.

Recommendation No. 1

We recommend that the Assistant Administrator, Near East, reassess the political situation in Syria and determine what impact it will have on future AID assistance efforts in Syria. If it is decided that the program will be continued, we recommend that the Assistant Administrator Near East evaluate our alternatives presented above together with the SARG's proposal and select the most appropriate course of action to effectively achieve project implementation.

C. COMMODITY IMPORT PROGRAM (CIP)

1. Drawdown of Loan Funds

The utilization of AID loan funds provided under the CIP program has shown a marked improvement in recent months.

The first CIP loan to the SARG was signed on February 27, 1975. Since that time, four additional loans have been made raising total funding availability to $125 million (See Exhibit A).

As of March 31, 1979, expenditures have totalled about $55 million with about $22.7 million of the total being expended since October 1978. Comparing financing commitments to total loan funds availability shows an even more dramatic improvement in fund utilization as shown by the following table:

Loan Number	Date Signed	Loan Amount (Millions)	Amount Committed As of 3/31/79
276-J-007	2/27/75	$ 30	$29.9
276-K-013	9/30/76	15	14.9
276-K-015	9/20/77	40	39.9
276-K-017	8/21/78	20	3.1
276-K-019	1/24/79	20	-0-
Totals		$ 125	$87.8

In essence, only about $17 million is currently available under the fourth loan since loan condition's precedent under the fifth loan are not expected to be met until late May 1979. These improvements in increased funding commitments and faster loan expenditures are attributed mainly to two factors:

(a) Initially, the SARG was unfamiliar with AID procedures and the U.S. market. In addition, SARG's procurement procedures are even more restrictive than AID's. As

each agency went through the process of learning one another's system, procurement actions were effected more easily and faster. SARG is now familiar with and has accepted AID's standard documentation requirements.

(b) The increased use of the Direct Letter of Commitment to suppliers for high cost items, rather than using Letters of Credit through banks, has helped speed up recent procurement and saved both time and money.

2. Arrival Accounting

Our previous audit report (No. 5-276-77-24 dated September 30, 1977) cited inadequacies in arrival accounting procedures in that the SARG had not established a centralized system to monitor the arrival of commodities. AID regulations also require the USAID to determine (by performing a survey) whether the Borrower's record-keeping system is adequate to monitor the program. We reported that USAID/S had not performed the required survey nor had they established their own arrival accounting system. The report further stated that the much deferred survey was being performed and that the results would be put to use in establishing an effective arrival accounting system within SARG. SARG officials were amenable to performing the function but a coordinative unit responsible for the system had not been established nor was it known when, or if, this unit would become operable. Consequently, a recommendation was made that USAID/S perform the arrival accounting function until the SARG developed the capability to do so.

Our recommendation was closed based on a USAID/S memorandum dated November 2, 1977. Briefly, the memorandum stated that documentation maintained within USAID/S allowed them to satisfy the basic requirements set forth in appropriate AID regulations. The memo also stated that only two importers were involved with a limited number of Letters of Credit and if this changed the USAID would review its own system if the SARG had not developed a reliable one of its own.

The situation now is that USAID/S is maintaining the arrival accounting records and, we were informed, the SARG may never be in a position to take over this function. Also, the current situation has changed

and there are now more importers involved and more numerous transactions being effected. Consequently, the present USAID/S system needs updating and refinement to establish a system that will adequately meet the requirements of AID regulations. Our review of Mission documents showed that pertinent information can eventually be obtained. However, it is necessary to go through various and numerous files and schedules based mainly on suppliers shipping documents, reports from the SARC, and end-use trip reports.

Recommendation No. 2

We recommend that USAID/S establish and maintain a formal arrival accounting system.

3. Cardiovascular Medical Equipment

We found that cardiovascular medical equipment costing an estimated $906,272 was air freighted to Syria over eight months ago and is still lying in storage unutilized. The equipment arrived in Damascus on August 2, 1978, and was procured under AID Loan 276-K-013.

The total estimated Cost, Insurance and Freight (CIF) price to Damascus was $808,949, including $93,680 for the cost of airfreight. A final estimated cost component of $97,230 is for installation of the equipment and training of personnel in its use. We were told the equipment was air freighted because much of the equipment is delicate and sensitive and also that it was urgently required.

The procurement proposal requested that suppliers submit offers on a CIF basis to Damascus International Airport for those items selected for airshipment and CIF to a Syrian port for those which could be shipped by sea. Nevertheless, we found that a number of items such as furniture and cabinets that could have been shipped by sea were approved by AID/W for airshipment. There is also a question on the urgency of need for this equipment since the space required to install the equipment is in an unacceptable construction stage to permit the installation by the supplier even though the equipment has been on hand for over eight months.

In our visit to the hospital we found the equipment to be acceptably stored but one large size blood refrigerator had large dents on its sides and a damaged top. During our visit, we were also informed by a hospital official that all necessary construction would be completed during the first week of April 1979.

Recommendation No. 3

We recommend that USAID/S follow-up to ensure that all the cardiovascular medical equipment is installed and operating within one year from the date of arrival of the commodities in Damascus as required by AID regulations. Should this time-frame fail to be met, USAID/S should file a claim for refund.

(Audit Note: In response to our draft report USAID/S advised that they were reserving judgement on this recommendation because it is premature since four months still remain before the one year period has run. We find this to be an unusual comment considering almost $100,000 was spent to airfreight the equipment to Syria on an urgent basis.)

4. Monitoring of Utilization and End-Use Checks

Our review of USAID/S records indicate that utilization and end-use checks were made, in various parts of the country, on a value of $20,758,528 of commodities. All test checks were related to the first CIP loan, 276-J-007, from which commodities worth $29.9 million had arrived in country. This appears adequate and we suggest that USAID/S continue to make such utilization checks on commodities that are now arriving under the follow-on program loans.

Our review of USAID/S trip reports and files, as well as discussions with appropriate officials, showed that the Mission is generally following the required monitoring regulation. Periodic field trips are made on a spot-check basis concentrating on those areas or end-users that have received the largest amounts. Trip reports are made in most cases but, we were informed, usually not for visits in Damascus city itself. Occasional visits are also made to supplier's representatives to discuss any problems that may arise and to inspect their service and spare parts facilities.

D. TECHNICAL ASSISTANCE PROGRAMS

1. General

USAID's technical assistance program totals $24.1 million or about 7 percent of the total program. It has been concentrated in areas of technical services and feasibility studies, language and technical training and health services. The most active programs have been the General Participant training and English language training programs. We agree with USAID/S that both projects are their most successful programs to date. The SARG is also strongly committed to these programs.

USAID involvement in the health sector has been limited to providing assistance in the areas of institutional planning and training of personnel.

The technical assistance program in Syria consists of the following eight grant projects:

	Date Signed	Millions Obligated As of 3/31/79	Millions Expenditures As of 3/31/79
1. Technical Services and Feasibility Studies I 276-0001	2/27/75	$ 4.0	$ 3.2
2. General Participant Training 276-0004	2/27/75	4.9	2.7
3. Development of Health Services 276-0006	6/28/76	1.1	.4
4. English Language Training 276-0002	6/30/76	2.4	.7
5. Technical Services and Feasibility Studies II 276-0005	9/20/77	3.5	.3

	Date Signed	Millions Obligated As of 3/31/79	Millions Expenditures As of 3/31/79
6. Technical Services and Feasibility Studies III 276-0026	7/12/78	$ 2.0	$ .0
7. Technical Health Institute 276-0019	7/12/78	4.0	.0
8. Land Classification and Soil Survey 276-0020	9/28/78	2.2	.0
		$ 24.1	$ 7.3

2. Technical Services and Feasibility Studies

The three Technical Services and Feasibility Study grants total $9.5 million of which about $3.5 million has been expended.

Technical Services and Feasibility Study I was one of the first AID projects following re-establishment of relations with Syria in late 1974. The initial 1-1/2 to 2 years of the grant period were devoted to establishing a rapport between USAID/S and the SARG in identifying meaningful activities. As each went through the process of learning one anothers system, the SARG began to submit a number of proposals for a wide range of studies, assessments and evaluations.

The most significant projects developed under Study I are the English Language Training Center, Development of Health Services, Technical Health Institute, and Soil Survey and Land-Classification. Grants II and III were initiated because of the increased amount and nature of the SARG's requests to maintain continuous project development activities.

Grant II is aimed primarily at performing an agricultural sector assessment which will serve as a basis for agriculture policy changes and planning for the next five years. This assessment is currently underway with 15 consultants in Syria performing the study and related activities.

Grant III provides funding for a transport sector study. This study is designed to assist the SARG in evaluating their overall transportation policies and investment plans. A contract was signed on September 30, 1978, however, no expenditures have been made.

3. Participant Training Program

The participant training program was initiated in February 1975 and financed by the General Participant Training Grant. Other projects with training components have been signed since that time. The primary purpose of the program is to provide specialized training in the U.S. for key Syrian officials. The focus of the project through 1978 was to provide short-term (2 to 8 months) non-academic practical training and skills acquisition. The short-term training has been provided to 21 Ministries and Departments in a wide variety of technical and development fields including, but not limited to, engineering, agricultural production, water resources, highway systems, health services, and women in development. The training is given at technical training facilities, private business organizations and governmental agencies.

The fifth amendment to the grant agreement, signed on January 24, 1979, continued the purposes of the General Participant Training project. The SARG recently requested long-term academic training and some training in third countries in addition to normal training. USAID/S plans to satisfy this request.

About $4.9 million has been obligated for training under the grants and $2.7 was expended as of March 31, 1979. From the inception of the program, in February 1975, through February 1979, 286 participants were enrolled in the program, of which 263 had completed training and returned to Syria and 23 were still in training.

a. Selection, Utilization, Follow-up and Evaluation

The SARG, through the Ministry of Planning, reviews manpower development needs, nominates candidates based upon background, qualifications, position, and ability to apply needed training. USAID/S evaluates these credentials and usually accepts the nominations of the SARG. USAID/S has found it necessary to reject only a few candidates who were deemed unqualified. Larger numbers have been temporarily rejected because of

the lack of language capability. Details of the requested training program for individual candidates are usually worked out jointly between the SARG and USAID. AID/W determines the training locations. We reviewed the bio-data for 44 participants and they appeared qualified for their respective training programs.

We found that the SARG reinforces the participants commitment to return to Syria by a very effective system of negative incentives which include guarantees by third parties to reimburse the SARG if the participant does not return. The commitment remains in force until participants fulfill their obligation to SARG, after returning from training, for a period equivalent to triple the training period.

To date there has only been one non-returnee since the inception of the program. The participant married while in the U.S. and has refused to return. This case is under review by the U.S. Immigration and Nationalization Service at the request of SARG.

USAID/S believes the percent of returned participants who are not being used directly in the fields for which they were trained is minimal. USAID/S is trying to develop accurate data to determine the extent of utilization. They know of only a few participants who have left Syria and these individuals temporarily transferred from their Ministries to the Gulf area. According to USAID/S, the SARG appears willing to allow employees to work in the Gulf area for a few years earning foreign exchange and further improving their skills and experience. USAID/S is attempting to develop more information about other returned participants who may have transferred to the Gulf States or other countries.

We found that USAID/S follow-up on returnees has been informal and not documented in some cases. Now that the program has progressed to the point that 263 participants have returned since the agreement was executed, we believe formal follow-up procedures on participants should be initiated as required by AID Handbook 10, Chapter 36. This would provide USAID/S with certain data regarding the value of the training received by the participants and the extent the training is being utilized or where training is not being used at all and not related to the participants current job.

Recommendation No. 4

We recommend that USAID/S initiate a formal follow-up program on returned participants as required by Handbook 10.

b. Administrative Control

In Syria the major purpose of the economic assistance program is political in nature, that is to develop better relations between Americans and Syrians. According to the Mission the participant training program is one of their most successful projects. However, at the same time, USAID/S is also concerned that each participant receive not only the best technical training available in the U.S. but that the program also provide the best possible image of the U.S. and AID. USAID/S generally found that the participant's training was useful and beneficial and that the participants felt they could apply the training to practical use in Syria. However, USAID/S pointed out several problems encountered by the participants during their training.

In our review of selected files on participants, we found several instances where participants were dissatisfied with segments of their training and felt part of their training was fragmented. For example, we found numerous complaints from returned participants about the lack of organization and ineffectiveness of training arranged for them. Several aviation participants who received training by the Federal Aviation Administration International Liaison Office in Miami in late 1977 complained that their training did not relate to their needs. Day-to-day schedules were usually not available and many appointments were arranged after participants requested training from the person in charge. Thus, participants kept themselves occupied by shopping trips or visits to tourist sites rather than on substantive training. As a result, the Syrian Directorate of Civil Aviation recommended that future participants be programmed for training at other facilities.

In another instance a Professor of Agriculture complained that part of his program arranged by USDA at the University of Florida on biological control of Agricultural pests was poorly developed and managed. Part of his program was taught by a Jamaican who had previously had the same course but spoke poor English. He spent two weeks lecturing participants on the virtues of Jamaica, its history, culture, and tourist attractions backed up

with color slides of the instructor's home, seashore etc. After student complaints, the instructor was replaced by staff members who were knowledgeable on the subject of biological control of agricultural pests.

With reference to program substance, some programs were aimed too low for the existing background of the participants, some program coordinators tended to treat participants as less than equals and some organizations were not informed in advance by the Office of International Training (DS/IT) of the arrival and training requirements of the participant.

USAID/S believes that farming out of training programs with insufficient monitoring has led to a lessening of DS/IT's program control. The increasing detachment of DS/IT from the implementation of individual programs has resulted in less than desirable handling in many cases. USAID/S noted that some difficulties have been encountered by AID/W in arranging satisfactory on-the-job training in areas of petroleum, pesticide and grain milling fields. They also noted that DS/IT is farming out as much of the participant programming and administration as possible to other U.S. agencies. This has led to a lessening of DS/IT's responsibilities and control over participant matters with the result that the participants training program objectives have not been met in certain cases.

Training Implementation Plans (TIP's) are supposed to reflect accurately the program arranged for each participant before he or she arrives in Washington. We found numerous examples where TIPs provided no information on subjects to be covered in Universities or during on-the-job training. This provides no basis for which USAID/S or the SARG can judge whether the program is meeting participant's requirements. Because of these participant training programming problems, USAID/S advised us that they are now requiring that TIP's be provided before a Participant leaves Syria.

USAID/S also noted that many participants return to Syria without DS/IT exit interviews as required by AID Handbook 10, Chapter 5. An exit interview of sufficient depth to cover the substance and major program arrangement worked out for each participant should be held at the end of the program before the participant departs for home. This interview should stress the extent to which the program was followed as outlined in the TIP.

Review of these interviews by supervisory personnel in AID/W and at the Missions would help identify areas in which plans are not being followed or in which planning and/or implementation procedures should be changed or strengthened.

Recommendation No. 5

We recommend that the Office of International Training (DS/IT) strengthen their procedures to assure that exit interviews for all participants are conducted before leaving the United States.

c. English Language Training

Participant training candidates must demonstrate competence at an appropriate level of English by taking a language examination. Those candidates who have not attained a level of English adequate for training may study at the AID funded English Language Training Center or Ministry sub-centers. This system appears to have been satisfactory in the past, however, the primary obstacle to expansion of the participant training program in Syria is the lack of English language proficiency of candidates. USAID/S is trying to remedy this situation with an English language training project which is designed to prepare potential participants for training in the U.S.

A language testing specialist, funded under the English Language Training Project to develop a test to measure language ability at five levels, evaluated the administration of the American Language Institute of Georgetown University testing of participant candidates at the USAID Mission on January 24, 1979. The testing specialist found the following deficiencies in the testing procedures.

-- confusion on who could take the test (ministries should register in advance the names of people planning to take the test).

-- inadequate security (test forms and scoring keys should be under lock and key).

-- the testing room and surrounding area was not conducive to obtain reliable test results (the room was overcrowded making it easy to obtain answers from other papers).

-- test administration procedures should be more stringent (more careful proctoring would cut down on the amount of sharing of answers).

The testing specialist concluded that he could not rely on the test scores taken under these circumstances. Since departure of the consultant, USAID/S has started action to correct these deficiencies. Therefore we do not consider a recommendation necessary.

d. Local Training Facilities

Many of the Syrian officials need to study English before going to the U.S. To provide the necessary language instruction, USAID contracted with Georgetown University to establish an English Language Training Center (ELTC) in Damascus. The ELTC opened in October 1977 and is staffed by seven Americans and three Syrian counterparts. Another five Syrian counterparts are working for their Master's Degrees in Teaching English as a Foreign Language at Georgetown University in Washington, D.C. At present, the Center conducts four terms per year and can accommodate 105 students each term. The third amendment to the grant agreement signed in January 1979, increased the amount of funds available for the ELTC to a total of $2,367,000 of which 729,000 was expended as of March 31, 1979.

In addition to the mid-to-advanced level instruction provided at the ELTC, the project is also funding several qualified American dependents who teach beginning level English in six Ministry sub-centers. Each sub-center can accommodate 15 students each term. The sub-center terms are the same as those of ELTC. USAID and the SARG are planning to combine the ELTC and most of the sub-centers into a full range language center in early 1980.

The Grant agreement states that SARG shall furnish classroom, office and laboratory space satisfactory to AID in a location suitable for the needs of the ELTC, and necessary administrative and teaching counterparts. In getting started, the Center encountered a number of problems such as inadequate classrooms, office space, and office supplies and lack of Syrian administrative and teaching counterparts. The location of the ELTC on the edge of town also created a transportation problem.

After getting off to a slow start with a limited enrollment of 47 for the first term due to the above problems, the Center has increased its capacity to 105 students per term. Nevertheless, the Center has a large number of candidates on a waiting list each term. During a field visit to the ELTC we noted that space provided for the center was still inadequate to effectively service current participants. The American Team Leader who is currently the Director of the Center expressed great concern over this problem and had gone directly to the Syrian Planning Commission to request additional space. He subsequently informed us that the SARG did make more space available to the ELTC and that a new government facility is presently being constructed with adequate space to be available upon completion in early 1980.

1. Other Technical Assistance Grants

The balance of USAID/S's technical assistance program totals $7.3 million and consists of two health service grants and an agricultural soils survey grant.

Health Services

There are two projects designed to improve health care, especially to the poorer people in rural and low income urban areas--Development of Health Services and the Technical Health Institute.

a) The Development of Health Services grant was signed on June 28, 1976 for $400,000. Two additional amendments increased funding of this grant by $675,000 yielding a total obligation of $1,075,000, of which $397,000 has been expended. The project has recently been making substantial progress and expenditures are expected to increase significantly in the next several months.

The main objectives of the project are to develop (1) a Syrian capacity for policy analysis, planning and evaluation within the health sector, (2) a centralized system for medical and hospital equipment maintenance and repair, and (3) a health data base. This project has three distinct elements: health planning, hospital maintenance, and health survey and statistics.

The grant finances three technical advisors who will provide assistance and training in the areas of national health planning, health survey work, and medical equipment maintenance.

Although the initial grant agreement was signed on June 28, 1976, the conditions precedent were not met by the SARG until January 20, 1977, or 7 months later. The delays were attributable to (1) inexperience of the SARG with AID's methods of handling technical assistance projects and (2) inability by AID/W to recruit and contract with a qualified medical consulting firm to implement the project. Two of the advisors have been on board since October 1977, while the third did not arrive until August 1978.

The project appears now to be moving in the right direction. SARG has accepted the planning concept proposed by the consultant, SARG personnel have been trained, and most of the commodities have been ordered. Vehicles for the project, including 10 utility vehicles and 1 mobile van, have arrived and will be utilized for a national health survey scheduled to begin in April 1979.

The SARG has provided adequate logistical support and two SARG candidates, currently receiving English language training at the ELTC, have been selected to receive long-term training in the U.S. for the degree of Master of Public Health.

b) The Technical Health Institute grant will provide teachers, short-term advisors, and equipment in support of paramedical personnel. The purpose of the project is to upgrade and expand the training of auxiliary health personnel at the Technical Health Institute, a SARG facility.

The Technical Health Institute project agreement was signed on July 12, 1978 for $4,050,000. No expenditures have been made to date because the grant agreement was not ratified by the SARG until January 1979.

To date, only one condition precedent has not been met, that of employing an equipment and maintenance supervisor. The time period for satisfying the condition precedent has been extended to April 9, 1979. Requests for proposals were issued on February 26, 1979, with a final date for submitting proposals of April 12, 1979.

Land Classification and Soil Survey

The Land Classification and Soil Survey Project Agreement was signed on September 28, 1978 for $2.2 million. No expenditures have been made as this project is in the basic pre-implementation stage.

This project will facilitate the implementation of the SARG's plan to intensify agricultural production. The project will provide funding for training, technical assistance, commodities, and field equipment to conduct the survey.

E. JOINT ADMINISTRATIVE OFFICE (JAO)

On December 19, 1977, a Joint Administrative Office Support Agreement was signed between USAID/S and the Embassy in Damascus which established that certain administrative functions would be performed by the Embassy. These functions include inter alia: leasing and maintenance of offices and residential quarters; property accountability and warehousing; local and off-shore procurement; and vehicle maintenance and repairs. The JAO is responsible for all special reporting requirements and maintenance of records in accordance with AID regulations as set forth in Handbook No. 23. Assigning these responsibilities to the Embassy was predicated on economy and the Embassy's capability to furnish the services effectively.

We reported in our prior audit report (No. 5-276-77-24, dated September 30, 1977) that the JAO was not performing its administrative functions in conformance with AID requirements and directives. We found during our current review that a great deal of progress has been made; however, there are still certain functions that are not being performed in accordance with AID requirements. Our findings are discussed below:

1. In our previous audit we reported that the required annual report on vehicle operating and maintenance costs (U-540/1) had not been prepared and submitted to AID/W. During this review we found that the U-540/1 has still not been prepared nor was there any record that AID/W has ever requested that the report be submitted.

According to a JAO official, the report has not been prepared because it was too complicated and time consuming.

2. Property Accountability

The value of AID's non-expendable property, based on an inventory taken in September 1978, is $258,798. We conducted a sample test in 15 property areas and compared them to both stock record cards and actual receiving reports. In all cases of this sample test check, we found the records to be accurate. However, we were unable to completely verify the accuracy of total property values because the inventory was not carried out in accordance with applicable regulations.

The inventory is to be documented on numbered worksheets prepared in advance. The accountable property officer is required to maintain an inventory worksheet file by fiscal year showing the current inventory taken and the adjustments made. We found no evidence that this was done.

We were shown a computer print-out provided by AID/W that is now being used by AID world-wide to standardize property accounting records and to more accurately reflect the amounts and value of its property. We found that this print-out was updated and corrections made upon it from a combination of existing individual property record cards, purchase orders, and receiving reports, thus arriving at the value cited above. The required Certificate of Inventory Reconciliation was not made by the accountable property officer nor did the USAID/S Controller submit the required certification to AID/W on the value of AID-owned property at the end of the fiscal year.

It is also required that at the end of each quarter USAID/S and JAO reconcile the total dollar value reflected on the general ledger account with the stock record cards. We found this was not being done because USAID/S is still in the process of setting up a property general ledger account and individual property record cards and composite record cards are still being updated to conform with AID's new regulations on property control.

3. Disposals

We found AID's warehouse was cluttered with various inoperable appliances and office equipment. The acquisition value of this property was approximately $10,500.

We were told that stringent local laws make it difficult to dispose of this property. However, we suggest that an appropriate solution be found to dispose of the property and thus remove it from the property records and save needed warehouse space. (Audit Note: In response to our draft audit report, the Embassy advised that the unusable property would be disposed of during May 1979, therefore, we do not consider a recommendation necessary.)

Recommendation No. 6

We recommend that USAID/S set up a property general ledger account, begin quarterly reconciliations of the dollar values with the stock record cards, and submit to AID/W the required certification of property values for the past fiscal year.

FINANCIAL STATUS OF GRANTS AND LOANS TO SYRIA
AS OF MARCH 31, 1979
($ thousands)

Title	Loan/Grant Number	Date Signed	Obligations 1/	Expenditures Amount	Expenditures Percent	Pipeline Amount	Pipeline Percent
Capital Assistance Loans							
Damascus Water Supply I	276-J-008	6/30/75	$48,000	$ 295		$ 47,705	
Damascus Water Supply II	276-K-010	6/28/76	14,500	-		14,500	
Euphrates Basin Irrigation	276-K-011	7/22/76	17,600	569		17,031	
Damascus - DERA'A Highway	276-K-012	7/22/76	45,900	491		45,409	
Rural Electrification	276-K-016	9/27/77	34,700	-		34,700	
Lattakia - Tartous Highway	276-K-018	9/28/78	60,000	-		60,000	
Total			$220,700	$ 1,355	.6%	$219,345	99.4%
Commodity Import Program Loans							
Agricultural Machinery and Production Inputs I	276-J-007	2/27/75	30,000	$29,900	99%	100	
Basic Inputs and Production	276-K-013	9/30/76	15,000	11,891	79%	3,109	
Agricultural Machinery and Production Inputs II	276-K-015	9/20/77	40,000	12,816	32%	27,184	
Development Imports I	276-K-017A &B	8/21/78	20,000	-	-	20,000	
Development Imports II	276-K-019	1/24/79	20,000	-	-	20,000	
Total			$125,000	$54,607	43.7%	$ 70,393	56.3%
Technical Assistance Grants							
Technical Services and Feasibility Studies I	276-0001	2/27/75	$ 4,000	$ 3,203		$ 797	
General Participant Training	276-0004	2/27/75	4,933	2,683		2,250	
Development of Health Services	276-0006	6/28/76	1,075	397		678	
English Language Training	276-0002	6/30/76	2,367	729		1,638	
Technical Services and Feasibility Studies II	276-0005	9/20/77	3,500	252		3,248	

FINANCIAL STATUS OF GRANTS AND LOANS TO SYRIA
AS OF MARCH 31, 1979
($ thousands)

Title	Loan/Grant Number	Date Signed	Obligations 1/	Expenditures Amount	Expenditures Percent	Pipeline Amount	Pipeline Percent
Technical Assistance Grants (Contd.)							
Technical Services and Feasibility Studies III	276-0026	7/12/78	$ 2,000	-		$ 2,000	
Technical Health Institute	276-0019	7/12/78	4,050	-		4,050	
Land Classification/Soil Survey	276-0020	9/28/78	2,200	-		2,200	
Total			$ 24,125	$ 7,264	30.1%	$ 16,861	69.9%
Grand Total			$369,825	$63,226	17.1%	$306,599	82.9%

1/ Reflects $21,825,000 in obligations of the FY-1979 Appropriation of $90 million. The Balance of $68,175,000 in obligations will increase the existing pipeline to $374,773.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

We recommend that the Assistant Administrator, Near East, reassess the political situation in Syria and determine what impact it will have on future AID assistance efforts in Syria. If it is decided that the program will be continued, we recommend that the Assistant Administrator Near East evaluate our alternatives presented above together with the SARG's proposal and select the most appropriate course of action to effectively achieve project implementation. 15

Recommendation No. 2

We recommend that USAID/S establish and maintain a formal arrival accounting system. 18

Recommendation No. 3

We recommend that USAID/S follow-up to ensure that all the cardiovascular medical equipment is installed and operating within one year from the date of arrival of the commodities in Damascus as required by AID regulations. Should this time-frame fail to be met, USAID/S should file a claim for refund. 19

(Audit Note: In response to our draft report USAID/S advised that they were reserving judgement on this recommendation because it is premature since four months still remain before the one year period has run. We find this to be an unusual comment considering almost $ 100,000 was spent to airfreight the equipment to Syria on an urgent basis.

LIST OF RECOMMENDATIONS

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Recommendation No. 4	
We recommend that USAID/S initiate a formal follow-up program on returned participants as required by Handbook 10.	24
Recommendation No. 5	
We recommend that the Office of International Training (DS/IT) strengthen their procedures to assure that exit interviews for all participants are conducted before leaving the United States.	26
Recommendation No. 6	
We recommend that USAID/S set up a property general ledger account, begin quarterly reconciliations of the dollar values with the stock record cards, and submit to AID/W the required certification of property values for the past fiscal year.	32

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Auditor General	1
Auditor General, Office of Policy, Plans and Program(AG/PPP)	1
Communications and Records Office (C&R) of the AG/EMS)	12
Assistant Administrator/Near East (AA/NE)	1
Office of Jordan, Lebanon and Syria (NE/JLS)	1
Bureau for Near East/Executive Management Staff (NE/EMS)	1
Assistant Administrator/DS (AA/DS/SA)	1
Office of International Training (DS/IT)	1
Office of Development Information and Utilization (DS/DIU)	4
Deputy Administrator (DA/AID)	1
OTHER	
U.S. General Accounting Office (GAO/W)	1
Inspections and Investigations Staff (IIS/Karachi)	1
Area Auditor General/East Africa	1
Area Auditor General/West Africa	1
Area Auditor General/East Asia	1
Area Auditor General/Latin America	1
Area Auditor General/Egypt	1
Area Auditor General, AID/Washington	1