

memorandum

DATE: March 22, 1981

REPLY TO
ATTN OF: Russel E. ~~Ault~~, RIG/A/CairoSUBJECT: Memorandum Audit Report No. 6-263-81-8 of March 22, 1981 263003500180
Survey of AID Loan No. 263-K-040 and Grant No.
263-0035 for Canal Dredging Equipment

TO: Mr. Donald S. Brown, USAID Director

PURPOSE AND SCOPE

In accordance with our planned audit schedule, we have made a limited review of the Canal Dredging Equipment project funded under AID Loan No. 263-K-040 and Grant No. 263-0035. The purpose of this review was to briefly evaluate the progress and status of the project, test internal controls and procedures being used to determine whether a full audit should be scheduled during the audit planning period beginning October 1, 1981. This was a very limited survey of selected phases of the project and should not be construed as a full scope audit.

To accomplish the purpose of our survey, we briefly reviewed project documentation and related files in the USAID, discussed the project with USAID officials and the contractor. Additionally, we examined the procurement procedures for the Loan by reviewing each major step involved in the process from the issuance of Invitations for Bid (IFB) to the signed contract. All equipment purchased for this project had not yet arrived in-country; that which had arrived was not yet in use and therefore could not be observed.

SUMMARY OF CONCLUSIONS

As of January 31, 1981, it appears that the reviewed project completion date of March, 1982 will be met unless unforeseen problems develop. Most of the funds are being spent for equipment. Our limited review of procurement transactions showed that procedures were generally adequate.

The Consultant, Louis Berger International, Inc., is now providing the training required in this project; this is a change from initial plans calling for formal training.

As of the time of our review, all equipment had not yet been received in-country; that which had arrived was not yet in actual use. All equipment is expected to be delivered to the GOE by May, 1981 to enable project completion under the revised schedule. We suggest that the USAID/E Office of the Controller schedule an end-use review of all project equipment in the near future, after deliveries are completed. At this time, we do not see the need for the Regional Inspector



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General for Audit (RIG/A/Cairo) to schedule a full-scope audit of this project during the upcoming Fiscal Year.

BACKGROUND

On September 27, 1977, AID signed a \$26.0 million Loan Agreement (AID Loan No. 263-K-040) with the GOE and its Ministry of Irrigation (MOI) to finance approximately 88% of the foreign exchange costs of the Canal Maintenance Project.

The purpose of the Canal Maintenance Project is to assist the GOE to restore and maintain about 26,000 miles of irrigation supply and drainage canals which are crucial to maintaining required levels of agricultural productivity throughout the country. Technical assistance and equipment provided under the Project will enhance the canal maintenance capability of the principal public sector entities engaged in this work under the aegis of the GOE Ministry of Irrigation.

Funds are provided under this \$26.0 million loan to procure earthmoving equipment, principally draglines, backhoes, scrapers and hydraulic dredgers, supporting transportation equipment, and shop and field maintenance equipment; also, for related engineering and management consulting services and the training of Egyptian operating staffs. Equipment purchased for the project will be assigned by the Ministry of Irrigation to the Egyptian Dredging Company and to the General Irrigation Company for Mechanical Dredging for utilization on irrigation canal maintenance projects throughout Egypt.

Original plans called for AID financing the foreign exchange costs of the Project and the GOE financing the local currency costs. However, due to funding limitations at the time, only \$26.0 million (of the estimated \$29.5 million in required foreign exchange costs) was provided under Loan No. 263-K-040; the remainder was to have been provided by the GOE from free foreign exchange, Arab development funds, or other sources. AID included a covenant in the Loan Agreement in which the Borrower agreed to provide or cause to be provided for the Project all funds, in addition to the loan, and all other resources required to carry out the Project effectively and in a timely manner.

In 1979 the USAID/E determined that the GOE would not be able to finance the additional \$4.5 million required for this project for two reasons: (a) the GOE did not have the needed free foreign exchange available, and (b) Arab development funds did not materialize after the signing of the Peace Treaty. Additional funds needed increased by \$700,000 due to inflation. As a result, USAID/E granted an additional \$5.2 million on June 21, 1979. The ceiling of the project increased to \$31.2 million. Exhibit A shows the type of equipment and services planned for procurement.

RESULTS OF SURVEY

The status of funding for the \$31.2 million project as of January 31, 1981 is shown below. (Exhibit B contains more details.)

<u>F O R :</u>	<u>IN US \$ 000</u>			
	<u>Obligated</u>	<u>Sub- Obligated</u>	<u>Expended</u>	<u>Balance of Undisbursed Funds</u>
Equipment	\$ 30,787	\$ 30,721	\$ 16,225	\$ 14,562
Consulting Services	413	413	221	192
Training	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ 31,200 =====	\$ 31,134 =====	\$ 16,446 =====	\$ 14,754 =====

As shown, project procurement involved three major components: equipment, consulting services and training.

The Project Implementation Schedule of the 1977 Project Paper called for equipment awards by September 1978 and completion of equipment deliveries before August 1979. However, delays were experienced in fulfilling Conditions Precedent, and approval of IFB's, which resulted in a two-year delay in project completion. At the time of our survey, the bulk of the equipment had begun to arrive in country. It is expected that all equipment will be delivered by May 1, 1981, and that the project will be completed by March 1982. All equipment had not yet been received in-country, at the time of our survey; that which had arrived was not yet in use. Accordingly, we did not make any field visits to observe the equipment in operations. Since we are not scheduling an in-depth full-scope audit within the next fiscal year, we suggest that the USAID/E Office of the Controller schedule an end-use of all equipment purchased under Loan No. 263-K-040 and Grant 263-0035 after deliveries are complete (sometime after May, 1981).

Consulting services are being provided by Louis Berger International Inc., under a contract totaling \$413,000. Services provided by the consultant are professional services relative to the procurement of dredging and excavating equipment to be utilized by two public sector companies responsible for the maintenance of irrigation canals and drains through Egypt. The Consultant will also provide services to the companies in procurement contract administration and in improving the equipment management and maintenance system and overall planning and execution procedures. Special emphasis will be given to developing a computerized management information system for unit productivity cost accounting with identification of those units which are operating inefficiently.

Training plans have changed. Rather than formal training as initially planned, the Consultant is now providing the training required in this project. We were told during the survey that the Consultant has already initiated work in training personnel and establishing procedures for the utilization and maintenance of the equipment. These project functions are on schedule and should be completed by the revised project completion date, barring unforeseen problems.

Our limited review of procurement transactions showed that procurement was made according to applicable regulations. All procurement was advertised in the USA and awards were made to the lowest responsive bidder. Considering all aspects of our limited survey, as of January 31, 1981, we do not see the need for the Office of the RIG/A/Cairo to schedule a full-scope audit of this project during the Fiscal Year beginning October, 1981.

EXHIBIT A

USAID/EGYPT
SURVEY OF THE CANAL DREDGING EQUIPMENT PROJECT
TYPE OF COMMODITIES AND SERVICES PLANNED FOR PROCUREMENT

	<u>US \$ 000</u>
Dredging Equipment	\$ 3,058
Earthmoving Equipment	2,985
Transport Equipment	3,273
Draglines Backhoes	11,243
Shop/Field/Maintenance	3,465
Spare Parts	2,784
Freight	3,882
Training Services	105
Consulting Services	<u>429</u>
Sub-Total	\$ 31,224
Cost to the GOE	<u>(24)</u>
Total Project Cost	\$ 31,200 =====

EXHIBIT B

USAID/EGYPT
SURVEY OF THE CANAL DREDGING EQUIPMENT PROJECT
FUNDING STATUS OF LOAN NO. 263-K-040 AND GRANT NO. 263-0035
AS OF JANUARY 31, 1981

	IN US \$ 000			
	<u>Obligated</u>	<u>Sub- Obligated</u>	<u>Expended</u>	<u>Balance of Undisbursed Funds</u>
<u>Loan 263-K-040</u>				
Equipment	\$ 25,825	\$ 25,771	\$ 15,746	\$ 10,079
Consulting Services	<u>175</u>	<u>175</u>	<u>175</u>	<u>-</u>
Sub-Total	\$ <u>26,000</u>	\$ <u>25,946</u>	\$ <u>15,921</u>	\$ <u>10,079</u>
<u>Grant 263-0035</u>				
Equipment	\$ 4,962	\$ 4,950	\$ 479	\$ 4,483
Consulting Services	<u>238</u>	<u>238</u>	<u>46</u>	<u>192</u>
Sub-Total	\$ <u>5,200</u>	\$ <u>5,188</u>	\$ <u>525</u>	\$ <u>4,675</u>
Grand Total	\$ <u>31,200</u> =====	\$ <u>31,134</u> =====	\$ <u>16,446</u> =====	\$ <u>14,754</u> =====

BEST AVAILABLE DOCUMENT

APPENDIX I

LIST OF REPORT RECIPIENTS

USAID/Egypt

Director	5
Regional Inspector General for Investigations and Inspections (RIG/II/Cairo)	1

AID/Washington

Deputy Administrator	1
Assistant Administrator/Near East	5
Office of Middle East Affairs (NE/ME) (Egypt Desk)	1
Bureau for Near East (Audit Liaison Officer)	1
Bureau for Program and Policy Coordination (PPC/E)	1
IDCA's Legislative and Public Affairs Office	1
Bureau for Development Support (DS/DIU)	4

Inspector General	1
Inspector General (IG/PPP)	1
Inspector General (IG/EMS/C&R)	5
Inspector General (IG/II/W)	1
Regional Inspector General (RIG/A/W)	1

Other RICs

RIG/A/Nairobi	1
RIG/A/Mavila	1
RIG/A/Karachi	1
RIG/A/Karachi--New Delhi Sub Office	1
RIG/A/Panama	1
RIG/A/Panama--La Paz Sub Office	1