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# Auditor General

**AUDIT REPORT**  
**ON**  
**AID SECURITY SUPPORTING ASSISTANCE**  
**TO EGYPT**  
**(NEW MISSION PROGRAM)**  
**As of September 30, 1976**



**Audit Report Number** 5-263-77-4  
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Area Auditor General Near East  
Agency for International Development

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## ACRONYMS USED IN THIS REPORT

<b>AER</b>	- <b>Annual Estimates of Requirements</b>
<b>AID</b>	- <b>Agency for International Development</b>
<b>CARE</b>	- <b>Cooperative For American Relief Everywhere</b>
<b>CIP</b>	- <b>Ccmmodity Import Program</b>
<b>CPs</b>	- <b>Conditions Precedent</b>
<b>CRS</b>	- <b>Catholic Relief Services</b>
<b>DAP</b>	- <b>Development Assistance Plan</b>
<b>FAA</b>	- <b>Foreign Assistance Act</b>
<b>GOE</b>	- <b>Government of the Arab Republic of Egypt</b>
<b>IBRD</b>	- <b>International Bank for Reconstruction and Development (World Bank)</b>
<b>IFB</b>	- <b>Invitation For Bid</b>
<b>JAO</b>	- <b>Joint Administrative Operations</b>
<b>PAAD</b>	- <b>Program Assistance Approval Documents</b>
<b>PD</b>	- <b>AID Policy Determination</b>
<b>SAS</b>	- <b>Shared Administrative Support Agreement</b>
<b>USAID/E</b>	- <b>United States AID Mission to Egypt (Mission)</b>
<b>WSB</b>	- <b>Wheat Soy Blend</b>

**AUDIT REPORT**  
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**INTRODUCTION**

The objective of U.S. assistance to the Government of Egypt (GOE) is to foster economic and social development which will create the preconditions for a continued and more lasting peace in the Middle East. The level of assistance provided in support of this objective during FY 1975-6 was as follows: (See details in Exhibit A).

	<u>(Millions of Dollars)</u>		
	<u>FY 1975</u>	<u>FY 1976</u>	<u>Total</u>
Commodity Import Loans	150.0	315.0	465.0
Capital Assistance Loans	<u>44.3</u>	<u>264.0</u>	<u>308.3</u>
Sub-Total	<u>194.3</u>	<u>579.0</u>	<u>773.3</u>
Capital Assistance Grants	40.0	193.0	233.0
Technical Assistance Grants	<u>2.0</u>	<u>20.3</u>	<u>22.3</u>
Sub-Total Grants	<u>42.0</u>	<u>213.3</u>	<u>255.3</u>
Total AID	<u>236.3</u>	<u>792.3</u>	<u>1,028.6</u>

The approved level of assistance for FY 1977 is \$700 million.

Unlike other AID programs, these annual assistance levels have not been predicated on economic analyses. Hence, a Development Assistance Plan (DAP) supporting the economic justification of the

**Egypt program has not been prepared. The Mission, however, has prepared a strategy document. During the next two years, and with additional elaboration, this document will evolve into a DAP.**

**Nine U.S. direct-hire positions were initially authorized in Cairo for the planning and oversight of the program. This staffing was subsequently increased to 51 and more recently to 68. This increased staffing is more in consonance with the size of the Mission's present planning and monitoring responsibilities.**

**The purpose of this review was to determine whether AID-financed activities were planned and implemented effectively and in accordance with prescribed Agency policies and procedures.**

## SUMMARY

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

- The Commodity Import Program's emphasis on capital goods with high visibility and durability deflected it from addressing the GOE's immediate need for balance of payments relief. (See p. 6).
- GOE's procurement procedures do not mesh with AID's requirements, resulting in delays in the Commodity Import Program implementation. (See p. 7).
- Weaknesses in GOE's control over the CIP program have delayed the use of loan funds. (See p. 9).
- Issuance of Implementation Letters setting forth requirements for meeting Conditions Precedent on projects is being unduly delayed. (See p. 16).
- Status reports on projects are not being submitted by the GOE; as a result of which USAID/E lacks important information regarding the progress of the various projects. (See p. 18).
- Environmental and Feasibility studies have sometimes been severely curtailed in scope to enable rapid processing of project documents. (See p. 19).
- Insufficient attention is being given to the possible use of excess property on USAID/E projects. (See p. 21).
- A waiver of U.S. source procurement is needed for the Rural Health Delivery Grant. (See p. 25).
- USAID/E has not established training priorities for Participant Training nor have they established adequate follow-up procedures. (See p. 26).

- There have been substantial differences between planned and actual commodity usage in the CRS PL 480 Title II program, indicating inadequate monitoring of this program by USAID/E. (See p. 28).
- CARE's PL 480 Title II program was initiated with inadequate planning as to GOE support, recipient needs, monitoring requirements, etc. (See p. 29).
- The Joint Administrative Office's documents controls for USAID/E work requests are inadequate resulting in long, unnecessary delays. (See p. 32).
- The JAO's customs clearance procedures need improvement to preclude long delays in clearing USAID/E goods through customs. (See p. 32).
- No provisions have been made by USAID/E to provide needed services such as customs clearance, for USAID/E contractors. (See p. 34).
- The Joint Administrative Office lacks many basic Property Management controls, such as receiving reports, stock control cards, issue slips, etc. (See p. 34).

The report contains 12 recommendations listed in Exhibit

D.

## STATEMENT OF FINDINGS AND RECOMMENDATIONS

### A. COMMODITY IMPORT PROGRAM

#### 1. General

Egypt's economy in recent years has been characterized by a rising trade deficit. The size of this deficit has risen from \$473 million (in 1972) to an estimated \$3.1 billion in 1976. This worsening exchange situation, augmented by world price increases, has severely constrained Egypt's ability to purchase imports needed for industrial and agricultural growth.

The Commodity Import Program (CIP) was designed to finance imports needed to reactivate idle industrial capacity and increase agricultural production. Five loans totalling \$465 million were provided for this purpose during the past two fiscal years.

<u>Loan Number</u>	<u>(Millions of U.S. Dollars)</u>		
	<u>FY 1975</u>	<u>FY 1976</u>	<u>Total</u>
263-K-026	\$ 80		\$ 80
263-K-027	70		70
263-K-029		100	100
263-K-030		150	150
263-K-036*		65	65
	<u>\$150</u>	<u>\$315</u>	<u>\$465</u>

\* Transition Quarter.

It was intended that the CIP program would accommodate the exchange needs of both the public and private sectors. However, as the public sector dominates the economy, accounting for 90 percent of total investment and 75 percent of industrial production, the GOE has elected to use the AID-financed exchange exclusively for public sector imports. These public sector exchange requirements are contained in the GOE's annual Foreign Exchange Budget.

## 2. 50 Percent Capital Requirement

The CIP loans, as stated, were predicated on Egypt's need to reactivate its idle industrial capacity and increase agricultural production. The underlying economic analyses stress the short-term aspects of this need. The exchange provided under the loans was therefore designed to address the immediacy of this need through the import of raw materials and intermediate and capital goods. Yet, additional demands have been placed on the program which have partially deflected it from addressing this objective.

The most significant of these demands, which has been dictated by political considerations, is that the program finance at least 50 percent capital goods with high visibility and durability. Although capital items are eligible, evidence indicates that this capital requirement is changing the nature of the program. The composition of imports, for example, includes buses, medical and broadcasting equipment which have little to do with reactivating idle industrial capacity. A more important aspect is the lengthening time frame resulting from this emphasis on capital goods. The impact on the pipeline is reflected in the figures below:

### Status of Commodity Import Program Loans As of August 31, 1976

	Loan Numbers 263-K-				
	<u>026</u>	<u>027</u>	<u>029</u>	<u>030</u>	<u>036</u>
	<u>(Millions of U.S. Dollars)</u>				
Loan Amount	\$80	\$70	\$100	\$150	\$65
Letters of Commitment					
Issued	80	70	10	-0-	-0-
Letters of Credit Issued	<u>54</u>	<u>31</u>	<u>7</u>	<u>-0-</u>	<u>-0-</u>
Unused Balance	<u>\$26</u>	<u>\$39</u>	<u>\$ 93</u>	<u>\$150</u>	<u>\$65</u>
Amount Disbursed	<u>\$43</u>	<u>\$26</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>

#### a. Foreign Exchange Budget

Under the first loan the GOE experienced difficulty formulating a list of items acceptable for AID-financing. This difficulty was due to the insistence on more capital goods with greater visibility and durability.

For example, the GOE initially wanted to use the loan for raw materials and intermediate goods; later they wanted to use the funds for food items (which were not eligible). This situation was only resolved after the GOE came up with a Supplemental Exchange Budget containing capital goods. This difficulty, which was unique to the first loan, is nonetheless indicative that the emphasis on capital goods may not have been fully responsive to priorities identified in the original Exchange Budget. The result is that the capital goods financed under the first loan may have increased rather than closed the exchange gap.

#### b. Procurement Procedures

The GOE's procurement procedures do not mesh with AID's requirements and regulations. These differences, particularly for capital goods, have accounted for substantial delays.

There are three aspects in the GOE procurement process which do not mesh with AID requirements. The first is that commodity specifications are stated in general terms to facilitate maximum response and flexibility in inter-negotiations. The second aspect is that negotiations with potential suppliers is permitted after bids have been solicited and opened, this being necessary because of the non-specific nature of the specifications. And finally, awards are based on the most advantageous offer to the importer after negotiations have been completed. The GOE's system is therefore characterized by a flexibility to deal directly with the suppliers in order to obtain the best negotiable price.

AID procedures, on the other hand, are much more restrictive for public sector procurement. The principle difference under AID (Regulation I) procedures is that the procurement process is effected through a formal AID approved Invitation for Bid (IFB) which precludes negotiations with suppliers. It is, therefore, imperative that the commodity specifications in the IFB's be stated in U.S. standards and in sufficient detail to permit maximum response from suppliers. Awards must then be made to the bidder who is lowest in price and meets the minimum requirements and/or specifications.

The GOE has had difficulty adjusting itself to the specificity required under the formal bid procedures. This difficulty is reflected in the six months or more now required to prepare satisfactory IFB's.

Another six months are then required to make the awards, open letters of credit, etc. It thus requires about a year to place a firm order.

Capital goods are additionally subject to long lead times of a year or more. Two or more years are not unusual before the goods are shipped and disbursement is effected. Hence public sector procurement of capital items requires time frames which are more characteristic of capital project type loans.

c. AID Guidelines

Disbursements under program loans should usually be timed to meet balance of payments needs. In this context, AID Policy Determination 57 states:

"These loans are tied to macro-economic considerations generally related to short-range performance considerations, and are linked to a particular budget year of the borrower. Program loans should normally disburse within 12 months and not later than 18 months after initial conditions precedent are met."

It is questionable, given prior experience, whether the program can adequately adjust itself to accommodate the need for highly visible capital imports and still conform with AID's guidelines. The first CIP loan (026) of \$80 million is a cogent example. This loan was signed on February 13, 1975. The terminal disbursement date was initially established at August 31, 1976, or 12 months after the conditions precedent were met. This terminal date has since been extended to September 30, 1977. Yet, as of August 31, 1976, only \$42.6 million, or just a little over half, had been disbursed. More significantly, firm orders for \$25.6 million had not yet been completed. Similarly, under the second loan (027) of \$70 million, only \$25 million, or a little more than one-third of the proceeds, had been disbursed. The terminal disbursement date for this loan is December 31, 1976. Yet firm orders for \$38.7 million still remain to be effected. This terminal disbursement date, no doubt, will also have to be extended.

d. Conclusion

We feel that the procurement process itself and the high content of capital imports will continue to constrain USAID/E's efforts to

reduce the disbursement period. Thus, if the program is to have a more immediate impact on the balance of payments, some thought will have to be given to either modifying the procurement process, the composition of imports or perhaps both.

The CIP program was justified on short-range economic considerations. It is questionable whether the stress on capital goods is fully consistent with these economic considerations or the objective of the program. There is no discussion in the loan papers, the Program Assistance Approval Documents (PAAD) or the Loan Agreements supporting the political rationale for a highly visible program. The justification of the program and the implementation phase therefore appear to be somewhat at odds.

This situation indicates the need for a more clearly defined strategy which elaborates the role of CIP vis-a-vis capital project assistance. It is not now clear why some capital imports are "projectized" and others flow through CIP. One such example is the \$46 million transaction for buses which is being procured through CIP. As this transaction entails more than just an "equipment drop", it could very well have been projectized. Another example is the National Energy Control Center Project which started out as a CIP transaction and wound up as a project. Hence, lacking consistency and a clear cut strategy, questions arise why transactions having some similarity are treated differently. For this reason we suggest that USAID/E in cooperation with AID/W clarify the respective roles of CIP and capital project assistance and reflect this clarification in its strategy documents as quickly as possible.

### 3. Control of Exchange Usage

The GOE is required to submit a procurement plan under the conditions precedent of the loans. This plan delineates the proposed allocation of AID funds among the various ministries. Thus, when approved by AID, the GOE allocates the funds according to the plan. The various ministries are then responsible for the administration of their respective allocations.

Exhibit B contains detailed information regarding the status of loan activity. Of particular concern are the unused balances under loans 026 and 027. These unused balances are indicative of a weakness in the GOE's control over AID-financed exchange.

This weakness pertains to the lack of a central GOE mechanism to ensure that AID-financed exchange is utilized expeditiously. Non-AID exchange, for example, must be used by the ministries within the budget year for which it is provided. AID exchange, however, can be carried forward into the next budget year. There is thus no similar time pressure put on AID exchange usage.

The result is that some ministries have been slow to use AID exchange. One such example, under the first loan, is a \$5 million allocation made to the Ministry of Supply (see Letter of Commitment No. 9 on Exhibit B). This ministry initially used \$3.3 million to import wood pulp, leaving an unused balance of about \$1.7 million. Yet this ministry recently bought \$1.6 million of wood pulp from the same U.S. source with non-AID funds.

Another result stemming from the absence of a central control mechanism is that letters of commitments are being opened under subsequent loans before the unused balances of prior loans have been fully utilized. These unused balances under the respective letters of commitments may not be substantial; but on a collective basis they can be significant. The various unused balances of the first nine letters of commitments under loan 026, for example, total approximately \$2.9 million. Yet, due to the absence of a central mechanism, the GOE has been unable to reallocate these funds.

The GOE has had to rely on USAID/E as the central focal point for addressing such problems. But the USAID, until recently, was inadequately staffed to perform this function effectively. Staffing for the oversight of the CIP program has now been increased to five U.S. personnel of which four are presently on-board. As these additional personnel have arrived more attention has been given to the identification and resolution of such problems. Hence, efforts are now underway to reprogram the unused exchange balances noted above.

Plans have also been made to establish a central coordinative unit within the Ministry of Economy and Cooperation (MEC). Three U.S. personnel and five GOE staff members have been assigned to this unit. USAID/E anticipates that the unit should be in operation by October 1976. Once operational, this unit should provide the oversight management which the program now lacks.

#### **4. Arrival Accounting**

Under the provisions of the loan agreements the GOE is responsible for maintaining accurate arrival records. These records should reflect that the commodities cleared customs and were received by the ultimate user(s).

The GOE has not established a centralized system to monitor the arrival of commodities. The absence of such a system is again due to the lack of a central mechanism within the GOE. Thus, similar to the AID exchange allocations, each ministry is responsible for establishing records to monitor its own arrivals. The deficiency in this system is that the arrival data may be decentralized among 20 or more ministries and/or agencies.

Under AID procedures the Mission is required to determine whether the Borrower/Grantee's (B/G) record-keeping system is adequate to monitor the program. A survey should normally be performed prior to the commencement of the program to ascertain this capability. However, because of the rapid build-up of the program and inadequate U.S. staffing, this survey was deferred.

In April 1976, at USAID/E's request, a survey of the GOE's arrival accounting system was made by AID/W personnel. This survey concluded that the GOE's decentralized system of arrival accounting was deficient. Consequently, based on an understanding with the GOE, it was proposed that a centralized system be established within the Ministry of Economy and Cooperation. However, because of a change in USAID/E management, no decisive action was taken on this proposal until September 2, 1976, or six months later. At that time a letter was sent to the Ministry of Economy and Cooperation setting forth the need to establish the centralized arrival accounting system. A GOE response had not been received prior to our departure from Cairo in mid-October 1976.

The Mission's Office of Financial Management has been performing the arrival function in the absence of an adequate GOE system. The effectiveness of this system is dependent on a USAID/E local employee visiting importers and obtaining the necessary data from them. Our review of Mission's records indicated that this system was not current; that is, the Mission's records had not been up-dated for

those commodities which arrived between February through September 1976. However, as these records were subsequently up-dated during our end-use review, no recommendation has been made.

##### 5. End-Using

As of August 31, 1976, a total of \$66,032,330 in commodities had either arrived or was in-transit. Of this amount, we performed end-use checks for the arrival and utilization of \$22,035,481. The composition of the commodities by category is summarized below:

<u>Description of Commodity</u>	<u>Arrived or in Transit</u>	<u>Verified by End-Use</u>
Scientific Equipment	\$ 1,192,180	\$ 1,192,180
Tallow	38,767,505	8,774,547
Spare Parts for Cairo Power Station	121,820	-
Kraft Liner Board and Fluting	3,552,592	3,552,289
Plastic Materials	654,356	-
PVC Pellets and PVC Compound	256,273	-
Synthetic Rubber	998,437	-
Electrolytic Tinplate	5,912,797	2,523,725
Cigarette Paper and White Cellulose	3,268,238	2,267,386
Sack Kraft Paper	3,426,727	1,644,960
Dissolving Sulphite Wood Pulp	4,881,474	700,394
Graphite Electrodes	2,999,931	1,380,000
Total	<u>\$66,032,330</u>	<u>\$22,035,481</u>

Our end-use examination indicated that, except for one transaction, the commodities were being utilized for the purposes intended. The exception pertained to 4,000 to 5,000 drums of tallow stored at the Alexandria port area. The receiving entity acknowledged these drums as having arrived between May and June 1976.

Port authorities informed us that the drums were being removed from the port in small quantities of 50-60 drums every few days. At this rate it would take several months before the drums were removed from the port area. We therefore concluded that the port area was being used by the Ministry of Supply as a warehouse area.

**This use of the port as a warehouse was of concern because it was experiencing acute congestion. We feel, therefore, that USAID/E should request the Ministry of Supply to instruct its agent, MISR Import-Export Company, to distribute the tallow immediately to the soap manufacturers for whom it was intended.**

**Recommendation No. 1**

**We recommend that USAID/E request the Ministry of Supply to remove the 4,000 to 5,000 drums of tallow from the port area.**

**AID Handbook 15, Section 10 D, outlines Mission responsibilities for monitoring the arrival, disposition and end-using of commodities. Assignment of these monitoring responsibilities within the USAID/E is determined by the Mission Director. These responsibilities have accordingly been assigned to the Office of Financial Management.**

**This office is presently in the process of recruiting a local employee to perform the end-use function. Systematic end-use checks have consequently not yet been started. Responsible Mission officials informed us that these checks would be initiated in the near future.**

**The port monitoring responsibility has been assigned to a U.S. employee who recently arrived. This employee will monitor the expeditious clearance of all program and project commodities flowing through the port area. Steps are therefore being taken to establish the necessary oversight for the physical aspects of the program.**

## B. CAPITAL ASSISTANCE

### 1. General

The Security Supporting Assistance Program to Egypt is AID's largest bilateral economic assistance program. Obligations during the past two fiscal years totalled \$1,028.6 million. Of this amount, the capital assistance portion accounts for \$541.3 million or 53 percent of the funds obligated.

The capital assistance program presently consists of seven loans and four grants. An additional 14 projects are in various stages of planning for which funds will be obligated in FY 1977 or later. The current loans are for improving Egypt's industrial facilities and for expanding grain storage facilities and the Alexandria port complex. The grants are for the reconstruction of the Suez Canal area.

A digest of the capital assistance activities is presented below:

	<u>Date Signed</u>	<u>Millions of U.S. Dollars Amount</u>
Grain Storage Silos Loan 263-K-028	6/29/75	\$ 44.275
Alexandria Port Equipment Loan 263-K-031	7/29/76	31.000
Helwan-Talka Gas Turbine Loan 263-K-032	7/31/76	50.000
MISR Spinning & Weaving Loan 263-K-033	9/ 4/76	96.000
PVC Tile Drainage Loan 263-K-034	7/29/76	31.000
Development Bank of Egypt Loan 263-K-035	7/29/76	32.000
National Energy Control Center Loan 263-K-037	9/30/76	24.000
		<hr/>
Sub-Total (Loans)		\$308.275

	<u>Date Signed</u>	<u>Millions of U.S. Dollars Amount</u>
Electric Distribution of Equipment Grant 263-12-001	5/28/75	\$ 30,000
Road Building Equipment Grant 263-12-004	5/28/75 <u>1/</u>	14,000
Ismailia Steam Power Plant Grant 263-12-009	5/30/76	99,000
Cement Plant-Suez Area Grant 263-012	7/31/76	90,000
Sub-Total (Grants)		<u>\$233,000</u>
Total Capital Assistance		<u>\$541,275</u>

AID's Security Supporting Assistance to Egypt has multiple facets, i.e. to promote economic and political stability which will ameliorate the possibilities for a lasting peaceful settlement in the Middle East. The USAID/E has consequently experienced a great deal of political pressure to identify projects with high visibility and obligate funds as quickly as possible. Yet, at the same time, it was required to do this with a very limited staff in country. For example, with a staff of three people, augmented by TDY assistance, it identified, developed and obligated seven capital projects within a seven month period. Hence, because of this short time frame, it was necessary to defer certain normal considerations from project papers and planning. These deferred actions included additional required studies; the GOE's selection of U.S. consultants for design, planning and oversight of project implementation; and GOE funding arrangements. The result was that these items had to be included as conditions precedent to disbursement in the loan and grant agreements. The GOE thus requires more time to satisfy conditions precedent than would normally be the case. This accounts for the fact that the implementation phase of the program has been slow in getting off the ground.

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1/ Increased from \$10 million to \$14 million by amendment on September 30, 1976.

USAID/E's Capital Development Office had been increased to seven members at the time of our audit. This increase in staff should enable the USAID/E to identify and develop projects in a more normal fashion. And more importantly, it should obviate the need to defer some actions as conditions precedent for future projects.

No disbursements had been yet made under any of the active loans. Only one of the grants (263-12-001) had expenditures as of September 30, 1976 (see Exhibit A).

Our comments on problem areas requiring corrective action are cited below.

## 2. Implementation Letters

USAID/E had issued detailed Implementation Letters to the GOE for only one of the loans and two of the grants as of the audit date. These detailed letters (usually No. 1) should be issued prior to the execution of the respective agreements in accordance with AID's policy as prescribed in PD-57 (Section II. C. 1.).

The purpose of the detailed Implementation Letter is primarily to explain the procedures for meeting the Conditions Precedent and for utilizing the proceeds of the individual loan or grant. This includes information to assist the GOE in implementing the project in accordance with the terms and conditions of the particular agreements.

Our analysis of the detailed Implementation Letters indicated that one of the letters was issued about 10 months after the loan agreement was signed. This was the Grain Storage Silos Loan 263-K-028 which was signed on June 29, 1975. The detailed Implementation Letter (No. 3 in this case) was not issued until May 10, 1976.

The Electric Distribution Equipment Grant 263-12-001 was signed on May 28, 1975, but the detailed Implementation Letter was not issued until September 15, 1975. The Road Building Equipment Grant 263-12-004 was also signed on May 28, 1975, but the detailed Implementation Letter was not issued until November 24, 1975.

Detailed Implementation Letters were not yet issued for the other six capital loans signed in July and September of this year or for

the other two capital grants signed in May and July. USAID/E officials told us that, although these Implementation Letters were not yet issued, this has not held up any of the projects. We were informed that all of these Implementation Letters were being drafted as of the audit date.

The staffing of USAID/E's Capital Development Office has been limited until fairly recently when several additional engineers and loan officers arrived at post. Now that the staff is increased, we believe the Implementation Letters now in process should be completed and issued as early as possible. The issuance of these letters will assure USAID/E that the appropriate ministries are aware of requirements for meeting the Conditions Precedent and implementing the projects. Implementation Letters should be issued in the future prior to the execution of the new agreements in accordance with AID's policy as prescribed in PD-57.

### Recommendation No. 2.

We recommend that USAID/E prepare and issue Implementation Letters for projects prior to the execution of agreements in accordance with AID policy.

### 3. Conditions Precedent to Disbursement

The GOE has experienced difficulties meeting certain Conditions Precedent to first disbursement required by some of the loan and grant agreements. The usual legal opinions and other Conditions Precedent are normally met prior to the terminal date. The problem Conditions Precedent are those which require the GOE to negotiate contracts with U.S. consultants. These Conditions Precedent to first disbursements require that both the consultant and the contract are acceptable to AID. The ineffectiveness of GOE negotiating capabilities are thus a matter of concern in meeting the Conditions Precedent.

An example, which is considered unusual, of the GOE's contracting problems concerns the Grain Storage Silos Loan 263-K-028. This loan for \$44.275 million was signed on June 29, 1975, to finance the design and construction of grain storage silos, one at the Port of Alexandria (with ship unloading facilities), and one near Cairo. One of the Conditions Precedent ((Section 3.01 (e)) requires the GOE's Ministry of Supply to execute a contract for the design and construction supervision of the project. Because of the GOE problems in negotiating

a contract, the terminal date to meet the Condition Precedent has already been extended 3 times, i. e. from December 29, 1975 to the current terminal date of September 27, 1976. At the time of our audit USAID/E was requesting AID/W to extend the terminal date to December 31, 1976. Therefore, in this case, the GOE will have required 18 months to meet the Conditions Precedent to disbursement.

Having an executed contract is a Condition Precedent to first disbursement under other loans and grants as listed below:

Helwan-Talka Gas Turbine	- Loan	263-K-032
MISR Spinning & Weaving	- Loan	263-K-033
PVC Tile Drainage	- Loan	263-K-034
National Energy Control Center	- Loan	263-K-037
Ismailia Steam Power Plant	- Grant	263-12-009
Cement Plant - Suez Area	- Grant	263-012

Additionally, but not Conditions Precedent to the first disbursement, two of the above loans and the two grants require executed contracts for construction or other work to implement the projects. These are required under Loans 263-K-032 and 263-K-033 and Grants 263-12-009 and 263-012. Executed contracts are also required as additional Conditions Precedent (not to first disbursement) under technical assistance grants 263-76-015 (Rural Health Delivery) and 263-11-017 (Water Use and Management).

The various AID-financed projects that require executed contracts involve a number of GOE ministries and related organizations. The USAID/E, in response to our draft report, stated that the GOE's problems in contract negotiations have been substantially resolved. All contracts are now expected to be executed in a timely manner.

#### **4. Loan and Grant Project Status Reports**

Implementation Letters inform the responsible ministries of project status reporting requirements. Compliance with this requirement has been inadequate.

For the Electric Distribution Equipment grant 263-12-001, USAID/E issued Implementation Letter No. 1 to the GOE on September 15, 1975. Implementation Letter No. 1 was issued to the GOE on

November 24, 1975 for the Road Building Equipment grant 263-12-004. Both of the grants require the GOE to submit quarterly project reports. The first report for the Electric Distribution Equipment grant was due on September 15, 1975, and the first report for the Road Building Equipment grant was due on January 15, 1976. Neither of these reports nor subsequent quarterly reports have been submitted by the GOE.

For both grants, USAID/E was aware of the status of GOE procurement because these matters are reviewed and approved by either USAID/E or AID/W. For the Road Building Equipment grant, certain GOE procurement actions were in process but no expenditures were incurred as of September 30, 1976. For the Electric Distribution Equipment grant, expenditures were incurred for \$20.233 million of the \$30 million of grant funds. The shipment of equipment for this project began in June 1976 and some of the equipment had arrived in country. However, because the GOE was not reporting the status of the project to USAID/E, it was not aware of the status of equipment. USAID/E recently requested the GOE to provide data regarding the project and a USAID/E official was planning a field trip with ministry officials to ascertain the status of the equipment as of the audit date.

The requirement that reports be submitted is of little value unless procedures and controls are established to ensure that reports are received or that follow-up action is taken to obtain them. The required reports are intended to be the presentation of a planned program of each project against which actual progress can be measured. To accomplish this, the reports should show availability and utilization of funds and the status of equipment ordered, received, location, utilization, etc. This information coupled with discussions with appropriate GOE officials and their consultants and site visits are essential for proper monitoring of projects. In this connection, we included a recommendation in our draft report for the USAID/E to implement procedures and controls to obtain the required reports from the GOE on a continuing basis. USAID/E subsequently advised us that measures have been taken to obtain the reports systematically; therefore, we have deleted the recommendation.

##### 5. Studies For Projects By Consultants

The feasibility, environmental and other studies for projects in Egypt have been financed under the feasibility studies Grant 263-11-003. Most of these studies were made in a relatively short period of time.

**We have reservations about the utility of the report on one environmental study. This concerns a study made by Sanderson and Porter, U.S. consultants, for the Ismailia Steam Power Plant site. The environmental study made for this grant project site brings up questions which appear to us to be unanswered.**

**The Project Paper (PP) for the project indicates the original plant site represented no major environmental problems but this site was not approved by the Egyptian Military. The PP indicates the environmental aspects of the proposed new site had not yet been evaluated, but that AID's consultants, Sanderson and Porter, will make a thorough (underscoring by us) evaluation of the environmental aspects of the site, and their recommendations will be incorporated in the project planning.**

**We reviewed Sanderson and Porter's report issued in July 1976 (about 2 months after the grant was signed) and made several observations. The report states that the "AID work order encompasses an Environmental Review, very brief in nature, (underscoring by us) due to the short period of time allotted for the study and will not entirely develop the detail normally associated with Environmental Impact Studies".**

**Moreover, the report further states that "this assignment does not include an evaluation of the adequacy of the Ismailia site for the type and size of power station proposed, the adequacy of the cooling water intake and discharge locations and configuration to avoid recirculation nor the suitability of the site with respect to fuel delivery and transmission consideration".**

**Furthermore, the report "emphasized that this study was conducted with certain types of data and information not available to the study team which were requested by Sanderson and Porter in its proposal for the subject work scope dated May 21, 1976", etc.**

**Thus, the AID Project Paper indicated that a thorough environmental evaluation was to be made by Sanderson and Porter, but it turned out that Sanderson and Porter were required by the AID work order to make only an Environmental Review. Consequently, Sanderson and Porter has qualified their report to the extent that the value of the report, in our view, appears questionable.**

### **Recommendation No. 3**

**We recommend that USAID/E make a thorough evaluation of the environmental aspects of the Ismailia Steam Power Plant project site as indicated to be necessary in the Project Paper.**

Given the above situation, we suggest that USAID/E take a second look at other active projects for which feasibility and/or environmental studies were made in a short time frame. Such a review could possibly surface other areas where further work may be required. We understand the rationale of certain AID/W and USAID/E actions in the past may have been for expediency in developing the program in view of the level and nature of the Security Supporting Assistance to Egypt. Our point of view, however, is that all required studies for future projects should be properly completed and given consideration in the Project Papers in the formulation and design of the projects and the loan or grant agreement documents.

#### 6. Consideration of U.S. Excess Property for AID-Financed Projects

Early attention is necessary to ascertain the availability of U.S. excess property for utilization under AID-financed projects in Egypt. As of September 30, 1976, there were 11 capital assistance projects under loan and grant agreements already signed totalling about \$541.3 million. It is possible that some excess property may be consistent with the requirements of at least some of the projects and available within a reasonable period of time. As of the audit date, USAID/E had not explored this possibility. One reason given was that the procurement process is more than a year away for most of the projects.

We were informed that the GOE will contract with U.S. engineering firms to assist in developing specifications and place procurement of equipment for projects. In most instances, however, the U.S. firms have not been selected. GOE contracts with most firms will not be executed until sometime in the future. Until this is done, USAID/E officials indicated the details for equipment for projects will not be known.

Even so, we believe USAID/E should be obtaining information from the Office of Contract Management's Excess Property Division AID/W/SER/CM/EPD in New Cumberland, Pennsylvania. Consideration should be given to the use of excess property in lieu of new procurement whenever practical to do so in accordance with Section 608 of the FAA and AID Handbook 16.

Three Loan Agreements for capital projects do contain a provision that excess property will be considered for the projects. These are listed below:

Helwan-Talka Gas Turbine	- Loan #263-K-032
MISR Spinning & Weaving	- Loan #263-K-033
National Energy Control Center	- Loan #263-K-037

However, one loan and three grants for capital projects and one grant for a technical assistance project which require equipment do not contain an excess property provision as listed below:

Grain Storage Silos	- Loan #263-K-028
Electrical Distribution Equipment	- Grant #263-12-001
Road Building Equipment - Suez Area	- Grant #263-12-004
Suez Reconstruction - Cement Plant	- Grant #263-012
Rural Health Delivery	- Grant #263-76-015

The Project Paper for the above Grain Storage Silos loan stated that a provision for consideration of excess property will be included in the loan agreement, but a provision was not included in the loan document itself. Other AID-financed capital projects are being planned and these should provide for the consideration of excess property for the projects as required.

#### Recommendation No. 4

We recommend that USAID/E give full consideration to the use of U.S. excess property in all appropriate AID-financed projects.

Two of the major AID-financed projects in Egypt are multidonor type which involve IBRD (World Bank) as follows:

Alexandria Port Equipment	- Loan #263-K-031
PVC Tile Drainage	- Loan #263-K-034

Our review of the Project Paper for Loan 263-K-031 indicated that consideration will be given to the use of excess property when practical. However, no consideration was given to the use of excess property in the loan agreement itself. In the Project Paper for Loan 263-K-034 it is stated that excess property is not appropriate for this project. Section 5.09 of the loan, however, contains a provision for consideration of excess property.

From our discussions with USAID/E officials we concluded that no excess property will be used on either of these projects. The reason given was that AID/W advised USAID/E that IBRD does not desire excess property to be used on any projects in which it is involved. We were told that this information was informally passed on to USAID/E by telcon; but no formal notification was given to USAID/E. If this is the case we believe that IBRD's position should be formalized. Otherwise the excess property provision under Loan 263-K-034 is meaningless.

Recommendation No. 5

We recommend that USAID/E obtain formal clarification from AID/W/NE/CD of IBRD's position in regard to use of U.S. excess property on associated AID/IBRD projects.

### C. TECHNICAL ASSISTANCE

#### 1. General

The Technical Assistance Program is composed of the following six grant projects:

	<u>Date Signed</u>	<u>Millions of U.S. Dollars Amount</u>
1. Technology Transfer/Manpower Development I, Grant 263-11-002	5/21/75	\$ 1.0
2. Feasibility Studies I Grant 263-11-003	5/21/75	1.0
3. Technology Transfer/Manpower Development II, Grant 263-76-011	4/22/76	2.0
4. Technology/Feasibility Studies II Grant 263-11-013	5/30/76	<u>2/</u> 15.0
5. Rural Health Delivery Grant 263-76-015	9/30/76	1.8
6. Water Use and Management Grant 263-11-017	6/30/76	1.5
	Total	<u>\$22.3</u>

Technology Transfer/Manpower Development Projects I and II (Grants 263-11-002 and 263-76-011) re to finance primarily participant training and consultants services. Our audit coverage of this program is presented below (see Item C. 3.).

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2/ Initial grant was \$3 million; amended to \$8 million on July 31, 1976 and to \$15 million on September 30, 1976.

**Feasibility Studies Projects I and II (Grants 263-11-003 and 263-11-013) are used to finance pre-feasibility, feasibility and environmental studies for projects. These were made for the active projects and other studies are either ongoing or planned for new proposed loan and grant projects. Our observation on a certain environmental study was presented above. (Item B.5.).**

**Water Use and Management (Grant 263-11-017) and Rural Health Delivery (Grant 263-76-015) were signed recently on June 30 and September 30th respectively. Both of these are at an incipient stage of implementation with no expenditures yet incurred. Our observation on the Rural Health Delivery Project is discussed below,**

## **2. Rural Health Delivery Project**

**The \$1.8 million for Rural Health Delivery represents the initial financing of an expected five year project. These funds are to cover costs of U.S. technicians, short term consultants, training of Egyptian technicians and required equipment and commodities for the first year's operations. We noted a potential problem area in this project which we feel deserves early USAID/E attention.**

**Page 3 of the Project Paper for the Rural Health Delivery grant indicates that communications equipment for the project will cost about \$400,000 and that this procurement may have to be from other than U.S. sources. The reason given was to ensure compatibility of new items with the present communication system in Egypt. The subject grant itself (Article V, Section 5.01) requires that all procurement be from U.S. sources. Therefore a waiver would be required for non-U.S. source procurement in this case. Even though the communication equipment will not be required until early in the second year of the project, we believe this issue should be resolved at an early date to avoid slippage in the implementation of the project.**

### **Recommendation No. 6**

**We recommend that the USAID/E (a) determine if U.S. source communication equipment required for the Rural Health Delivery project will be compatible with the system in Egypt, and if not, (b) request an AID/W waiver for non-U.S. source procurement of this equipment.**

### **3. Participant Training Program**

The participant training program was initiated in May 1975 and financed by Technology Transfer/Manpower Development Grant 263-11-002. The primary purpose of the program is to provide short term training to expose Egyptians to U.S. concepts, techniques and practices in diversified fields of study. The Technology Transfer/Manpower Development II (Grant 263-76-011) was signed in April 1976 to continue the program through FY 1977. Our review disclosed a need for USAID/E to establish training priorities, initiate formal follow-up on returned participants and schedule a full evaluation of this program.

Approximately \$1.4 million has been obligated for training under the two grants and \$658,000 was expended as of September 30, 1976. From inception of the program, in May 1975, through September 1976, 175 participants were enrolled in the program, of which 108 had completed training and returned to Egypt. Seven returnees received 12 months training and the others received short term training up to 4 months. There were 67 participants still in training, 23 for 12 months and 44 for 7 months.

USAID/E follow-up on returnees has been informal and not documented in some cases. Now that the program has progressed to the point that 108 participants have returned, we believe formal follow-up procedures on participants should be initiated as required by AID Handbook 10, Chapter 36. This would provide USAID/E with certain data as to the value of the training received by the participants and to the extent the training is being utilized, etc.

USAID/E officials informed us they are aware of the problem that no training priorities have been established and they plan to do something about it. In this connection, USAID/E has already scheduled a meeting with the GOE to resolve the training issues.

USAID/E made an evaluation of selective studies financed under Technology Transfer/Manpower Development Grant 263-11-002 early this year. This grant, as stated above, also financed participants. The results of the evaluation were communicated to AID/W by cable (CAIRO 3482) on March 17, 1976. We noted, however, that the evaluation of the participant program was very limited. It was limited because USAID/E had very little data or experience with returned participants at that time. USAID/E's evaluation schedule, as presented in its Annual Budget Submission dated August 1976, does not call for a formal

**evaluation of the participant training projects. We believe that a formal evaluation of these projects should be scheduled and performed sometime in FY 1977 to measure progress against objectives and make any necessary changes in the program.**

**Recommendation No. 7**

**We recommend that USAID/E (a) initiate formal follow-up on returned participants as required, and (b) schedule and perform a formal evaluation of the participant training projects.**

## **D. PL 480, TITLE II COMMODITIES**

### **1. General**

PL 480, Title II commodities are distributed in Egypt by two voluntary agencies: Catholic Relief Services (CRS) and the Cooperative for American Relief Everywhere (CARE). These programs are implemented through the GOE's Inter-Ministerial Committee for Foreign Voluntary Aid (IMCFVA). Beneficiaries of both programs include needy children and lactating mothers.

### **2. CRS Program**

The approved CRS commodity level for FY 1976 was about \$6.1 million. The FY 1977 level will double to \$12.6 million. This two-fold increase is due to the start-up of a new School Feeding Program. Recipients of the commodities covering CRS activities for FY 1976-77 are shown below:

	<b><u>FY 1976</u></b>	<b><u>FY 1977</u></b>
Maternal Child Health	322,000	418,000
Other Child Feeding	25,000	25,000
School Feeding	-	672,000
	<b><u>347,000</u></b>	<b><u>1,115,000</u></b>

It was originally anticipated that the School Feeding Program would commence in FY 1975. In anticipation of starting this program, AERs, were prepared and a call forward for Wheat Soy Blend (WSB) was effected. By November 1974, the WSB was beginning to arrive; however, GOE financial support for the program did not materialize as anticipated. Nor did the GOE agree to provide this financial support until FY 1977. This action by the GOE not only deferred the program but resulted in CRS accumulating a large quantity of WSB. This inventory, at June 30, 1975, totalled 10.6 million pounds. For all of FY 1976, CRS's requirements for WSB was only 6.3 million pounds. Thus, as of June 30, 1976, CRS still had an inventory of some 4.3 million pounds which had been in country for over a year.

We found that steps have since been taken to distribute this old stock. The disturbing aspect in this matter is that CRS, and similarly CARE, were permitted to call forward commodities before a full understanding with the GOE had been reached. We therefore suggest that USAID/E be more cautious in accepting assurances of GOE support before call forwards for any new programs are effected.

Our review of CRS operations indicated the need for more realism in its preparation of the Annual Estimates of Requirements (AER). This need is reflected in our analysis of the AER for FY 1976, which showed substantial differences between planned and actual usage. (See Exhibit C). In view of these differences, USAID/E should screen the reports more closely.

We also noted that the Recipient Status Reports were not prepared in accordance with the format prescribed in AID Handbook 9. The Mission is consequently unable to correlate these reports with the Commodity Status Reports. The absence of this comparative information precludes USAID/E from effecting a proper evaluation of the program. USAID/E should, therefore, advise CRS in the preparation of this report.

#### Recommendation No. 8

We recommend that USAID/E (1) perform a more thorough review of the AERs and (2) instruct CRS in the preparation of the Recipient Status Report.

### 3. CARE Program

CARE's Title II program for FY 1976 was to cover 200,000 recipients in Maternal Child Health Nutrition/Health Education. This program, like CRS's, had to be deferred because the formal agreement between CARE and the GOE was not signed until September 1976. Yet the FY 1976 AER was approved by USAID/E and a call forward effected. Consequently, a first quarter allotment of 1.5 million pounds of WSB arrived in country in January 1976. This WSB, which was similarly not needed, was placed in storage until August 1976, when it was finally transferred to the CRS program.

CARE's FY 1977 AER calls for 9.6 million pounds of WSB at an estimated cost of \$1.5 million. It covers the same type program and the same number of recipients as was planned in FY 1976.

CARE is in the process of calling forward one million pounds of WSB for delivery in late 1976 or early 1977. Initially, it plans to distribute the WSB to approximately 25,000 recipients located at 150 centers. The number of recipients and centers is to be gradually expended as the program progresses.

We found that CARE has not identified the locations of the 150 centers nor does it have supporting data regarding the proposed recipients. CARE officials stated that the 200,000 recipients, shown in the FY 1977 AER, was a program goal CARE could properly implement and manage.

We found CARE's staffing to be very limited. It presently consists of two Americans and five locals. Only one of the locals, however, will have direct contact with the project, the other four being administrative types. Therefore, given this limited staffing and the vagueness of CARE's planning, we believe it is essential that USAID/E monitor the program closely.

#### Recommendation No. 9

We recommend that USAID/E thoroughly review the validity of CARE's FY 1977 program including the number of recipients and centers.

#### 4. USAID Monitoring

USAID monitoring of the PL 480, Title II, program has been inadequate. This is illustrated in part by the limited number of field trips which have been made of CRS's activities to date. Moreover, when such trips were made, they were not documented as to findings and/or possible problem areas. Nor were the internal audit reports of CRS reviewed and evaluated. Even the files of the Food for Peace Office were in many cases incomplete, hence resulting in undocumented actions. The cause of these deficiencies has been due to the lack of U.S. staffing. However, as staffing for this office has been increased, the USAID/E should now be able to monitor the program properly and address the deficiencies noted above.

## **E. JOINT ADMINISTRATIVE OPERATIONS**

### **1. General**

The Office of Joint Administrative Operations (JAO), which is headed by the Embassy's Counselor for Administrative Affairs, provides administrative and logistical support to the U.S. agencies in Egypt. The JAO's authorized staffing for Cairo is 26 U.S. direct-hires, 4 of which are AID employees, and 89 local-hires, 13 of which are AID. There are also 156 local employees available through a labor contract to provide janitorial, guard, and other services.

JAO's costs are allocated among the various agencies according to the Shared Administrative Support Agreement (SAS). The additional cost of supporting AID employees will be treated as an offset against AID's portion (about 28 percent) of SAS costs. The exact amount of this cost will be determined at a later date.

The JAO has been operational since January 1976. Yet not all of its organizational responsibilities have been fully clarified. A formal agreement setting forth its objectives, authority, and responsibilities, for example, still remains to be finalized by AID/W and the Department of State. Policies concerning such areas as assignment of residential quarters, furniture and equipment allowances and the JAO Advisory Council, are still in the formulation stage. Additionally, some offices such as Maintenance and Housing are still in the process of preparing internal operating procedures.

USAID/E has experienced very rapid growth during the past year. The urgent task of providing housing and office space plus furniture and equipment severely taxed JAO's capacity and left them little time to evaluate their operations or to establish various procedures which were needed. Not unexpectedly, therefore, we found several weaknesses in JAO's operations which require attention. These deficiencies, in some cases, have had an adverse effect on Mission employee morale. Comments on these aspects as they relate to USAID/E are cited below.

## **2. Administrative Support for USAID/E Employees**

Our discussions with Mission employees indicated that many of them feel the JAO's administrative support has been inadequate. Long delays, for example, have been encountered in getting action initiated on requests. These delays have been mostly due to inactions and to documents being lost and/or misplaced. Difficulties have also been experienced in obtaining accurate information. These problems have affected applications for driver's licenses (in one case documents were lost twice during a three-week period), housing maintenance requests, processing of shipping documents, etc. There is thus an urgent need for JAO to establish operating procedures to respond to and follow-up on employee requests.

### **Recommendation No. 10**

We recommend that USAID/E request the JAO to: (1) act expeditiously on USAID employee requests and (2) establish document controls for suspense and follow-up of employee requests.

## **3. Customs Clearance Procedures**

The JAO has experienced difficulties clearing USAID employee personal and household effects through customs.

Long delays have been encountered between the submission of shipping documents to the JAO Shipping and Travel Unit and the subsequent processing of these documents. Follow-up on the shipping documents submitted to the GOE is inadequate and appears to have contributed to these long delays. Some JAO officials indicated that these problems are due to insufficient JAO manpower. We feel, however, that prior to recruiting additional personnel, an attempt should be made to resolve the problems through the establishment of a document control system.

The 1954 GOE/AID Agreement on Technical Cooperation, which is still in effect, is brief on the matter of customs clearance. It only states that goods for USAID and its employees are to enter Egypt duty free.

It is a common practice for the GOE customs officials to open the personal and household effects of USAID/E employees for inspection prior to clearing them. While this practice is not counter to the agreement, the JAO does not feel inspections should be necessary. Therefore, in an effort to avoid inspections, the JAO issued instructions to all concerned agencies in July 1976, and again in September 1976, directing that all air freight shipments to Egypt be addressed to the American Ambassador. No reference was to be made on the air freight or the shipping documents regarding the individual recipient's name.

The individuals' names have continued to appear on the airway bills, although the bills have been correctly addressed to the American Ambassador, but USAID/E is shown as the billing addressee. Because of the references to USAID/E and the receiving individual on the airway bills, customs officials have continued to require that these goods be inspected. Efforts have been made to permit USAID/E goods to enter Egypt free of inspection but with little success to date.

We noted two instances where goods were removed from the surface shipments of Mission employees by customs inspectors. The goods were later returned. There may, however, be other cases where goods have been removed and not returned. The individuals in these cases were unaware of the removal of their goods until they were returned several months later. If USAID/E, through JAO is unable to prevent the removal of goods during customs inspections, they should then request that receipts be provided for all goods removed.

Further, procedures should be established whereby air and surface freight could only be opened and inspected in the presence of the USAID/E employee or his designated representative. The employee, or his representative, would be present from the time goods are opened for inspection until the containers are resealed.

USAID/E has notified the JAO of the above problems and is attempting, through the JAO, to resolve them. No recommendation has therefore been made.

The problems cited above are being encountered by Mission employees travelling under official passports. We were informed that within the next 12-15 months many contractors will be assigned to work at various institutions under USAID/E projects. These contractors will be travelling under tourist passports and thus are likely to encounter even more problems and longer delays in clearing their goods through customs.

No policies or procedures have yet been developed by the JAO for processing the arrival and custom clearance requirements of USAID/E contractors. Nor, to our knowledge, has the GOE been approached regarding this matter. Hence action should be initiated in the near future to clarify the status and customs privileges of USAID/E contractors.

#### Recommendation No. 11

We recommend that USAID/E establish policies and procedures on the various types of support they will need to provide for contractors.

#### 4. Property Management

Records for expendable and non-expendable property are segregated by JAO according to Agency. Yet we found that its Property Management Office does not maintain many of the basic documents relating to property management. Consequently we were unable to verify inventory levels for USAID/E property.

##### a. Non-Expendable Property

Stock control cards are not being prepared for non-expendable property. This results in very limited, if any, control over the stock. Determining what items should be on hand at any given time would therefore require a time consuming review of all issue slips, receiving reports, and purchase orders with a final reconciliation of these various documents.

A large percentage of issues are made without requisitions being prepared. The General Services Officer has issued a directive requiring the use of requisitions, but it has not been enforced to date.

An inventory of USAID/E non-expendable property was taken in May 1976, but as of October 7, 1976, the results had not been reconciled with USAID/E financial records. It is questionable whether it will be possible to perform this reconciliation due to the absence of so many basic documents.

A factor contributing to these problems is the inexperience of the current staff consisting of seven locals. Of this staff, one has worked in the office since 1962. The other six have an average of only about five months experience. The experienced employee is attempting to train the others, but this may take some time due to the heavy workload resulting from the rapid build-up of the Mission.

b. Expendable Property

Between January 1 and June 30, 1976, USAID/E procured about \$60,000 worth of expendable property. The procedures followed in maintaining records for this property vary depending upon whether it was procured locally or off-shore.

Stock control cards are only prepared for expendable items purchased off-shore. As of October 7, 1976, the majority of the September issues and several of the August issues had not been posted. One reason is that the individual responsible was just recently engaged. Another is that he is also responsible for issuing items. These issuing and posting responsibilities are beyond the capabilities of one man. Moreover, from an internal control standpoint, it is necessary that these two functions be separated.

Receiving reports are not prepared for expendable items, whether purchased locally or off-shore. USAID/E thus has no means of identifying partial shipments which may have required some adjustments to bills submitted by vendors for payment.

Issues of expendable property are made on the basis of signed requisitions. Unfortunately, while some of these requisitions bear two signatures, one for the request and one for receipt of the goods, most do not. Therefore, given this situation, it cannot be determined whether unauthorized issues have been made and, if so, the magnitude of these issues.

Until such time as the Property Management Office has a staff of trained personnel, it will be difficult to maintain adequate records. Due to the current workload, TDY assistance will probably be needed to aid in reviewing the operations of the JAO Property Management Office, revising operating procedures as needed and, training personnel.

## **Recommendation No. 12**

**We recommend that USAID/E request the JAO to establish procedures to ensure USAID/E property is adequately controlled, using TDY personnel, if necessary.**

### **5. Office Space Requirements**

**The building currently being used for USAID/E office is inadequate for the 41 direct-hire and 28 local-hire employees now on board. Space must also be found for the remaining 10 U.S. direct-hire and 43 local-hire positions currently authorized. This space problem will be further augmented by the recent approval of an additional 18 U.S. direct-hire positions.**

**USAID/E has arranged to rent two apartments across the street from the Embassy to use as offices. These apartments will accommodate a maximum of 20 people and should thus ease the immediate congestion until such time as additional personnel arrive. It was expected that the apartments would be ready for occupancy about mid-October 1976.**

**For security and operating efficiency, the Embassy/USAID would clearly prefer the USAID/E offices to be located on Chancery grounds. They have therefore proposed converting the "Econ. Bldg.", now being used as a warehouse, into offices. This will require moving the motor pool to an unused USG-owned lot; converting the motor pool building (leased) into a warehouse; and renovating the "Econ. Bldg." Initial estimates are that this can be accomplished for about EL 100,000, equivalent to \$147,000. This would solve the office space problem until work on the proposed new Chancery is started in 4 to 6 years.**

**Discussions are currently underway on the possible use of "Mondale-Poage" funds to cover the costs associated with the above proposal. As this may require considerable time, USAID/E has requested dollar funding to meet the conversion costs incurred prior to the availability of Egyptian pounds through "Mondale-Poage". Once funds are obtained, it will take about 6 months to complete the conversion of the "Econ. Bldg.".**

The above is only an interim solution to the office space problems. Mission officials indicated that they have given some thought to possible longer term solutions. One such possibility would be to have the Embassy move the individuals now living in the USG-owned Zahra Building, located on the Chancery grounds, to apartments in Cairo. The Zahra Building could then be converted to an office building. This would be more advantageous than leasing office space elsewhere in Cairo. We suggest this possibility be given serious consideration.

## SCOPE

The AAG/NE has performed an examination of the AID Security Supporting Assistance to Egypt to determine whether AID-financed activities were planned and implemented effectively. The examination covered the period from inception on July 1, 1974 to September 30, 1976. The field work was performed in Cairo, Egypt, from September 7 to October 12, 1976.

Our examination was made in accordance with generally accepted auditing standards and included such tests of records, site visits, and discussions as were deemed necessary.

A draft of this report was submitted to the USAID/E for comments. These comments were given due consideration in preparation of the final report.

**FINANCIAL STATUS OF ACTIVE GRANTS AND LOANS TO EGYPT**  
**AS OF SEPTEMBER 30, 1976**

**EXHIBIT A**

<u>T i t l e</u>	<u>Number</u>	<u>Date Signed</u>	<u>C u m u l a t i v e</u>	
			<u>Obligations</u>	<u>Expenditures</u>
<b><u>Commodity Import Program Loans:</u></b>				
Basic Imports and Production I	263-K-026	2/13/75	\$ 80,000,000	\$44,936,502
Basic Imports and Production II	263-K-027	6/30/75	70,000,000	27,173,174
Basic Imports and Production III	263-K-029	12/18/75	100,000,000	-
Basic Imports and Production IV	263-K-030	5/22/76	150,000,000	-
Basic Imports and Production V	263-K-036	9/30/76	65,000,000	-
Total:			<u>\$465,000,000</u>	<u>\$72,109,676</u>
<b><u>Capital Assistance Loans:</u></b>				
Grain Storage Silos	263-K-028	6/29/75	\$ 44,275,000	-
Alexandria Port Equipment	263-K-031	7/29/76	31,000,000	-
Helwan-Talka Gas Turbine	263-K-032	7/31/76	50,000,000	-
MISR Spinning and Weaving (Mehalla)	263-K-033	9/ 4/76	96,000,000	-
PVC Tile Drainage	263-K-034	7/29/76	31,000,000	-
Development Bank of Egypt	263-K-035	7/29/76	32,000,000	-
National Energy Control Center	263-K-037	9/30/76	24,000,000	-
Total:			<u>\$308,275,000</u>	<u>-</u>
<b><u>Capital Assistance Grants:</u></b>				
Electric Distribution Equipment - Suez Area	263-12-001	5/28/75	\$ 30,000,000	\$20,233,000
Road Building Equipment - Suez Area	263-12-004	5/28/75	14,000,000 (B)	-
Ismailia Steam Power Plant - Suez Area	263-12-009	5/30/76	99,000,000	-
Cement Plant - Suez Area	263-012	7/31/76	90,000,000	-
Total:			<u>\$233,000,000</u>	<u>\$20,233,000</u>
<b><u>Technical Assistance Grants:</u></b>				
Technology Transfer/Manpower Development I	263-11-002	5/21/75	\$ 1,000,000	\$ 804,000
Feasibility Studies	263-11-003	5/21/75	1,000,000	462,000
Technology Transfer/Manpower Development II	263-76-011	4/22/76	2,000,000	160,000
Technology and Feasibility Studies II	263-11-013	5/30/76	15,000,000 (C)	-
Rural Health Delivery	263-76-015	9/30/76	1,800,000	-
Water Use and Manpower	263-11-017	6/30/76	1,500,000	-
Total:			<u>\$ 22,300,000</u>	<u>\$ 1,426,000</u>
Grand Total:			<u>\$1,028,575,000 (A)</u>	<u>\$93,768,676</u>

(A) Additionally the FY 1976 PL 480 Title I Program was approximately \$202.9 million and the Title II program amounted to approximately \$9.4 million including the Transitional Quarter.

(B) Increased from \$10 million to \$14 million by amendment dated 9/30/76.

(C) Increased from \$3 million to \$8 million and from 8 million to \$15 million by amendments dated July 31 and September 30th, respectively.

EXHIBIT B

STATUS OF COMMODITY IMPORT PROGRAM LOANS  
AS OF AUGUST 31, 1976

<u>Loan No. 263-K-026</u>				<u>Loan No. 263-K-027</u>				<u>Loan No. 263-K-029</u>			
<u>Letters of Commitment</u>		<u>Letters of Credit Issued</u>	<u>Unused</u>	<u>Letters of Commitment</u>		<u>Letters of Credit Issued</u>	<u>Unused</u>	<u>Letters of Commitment</u>		<u>Letters of Credit Issued</u>	<u>Unused</u>
<u>No.</u>	<u>Amount</u>	<u>Amount</u>	<u>Balance</u>	<u>No.</u>	<u>Amount</u>	<u>Amount</u>	<u>Balance</u>	<u>No.</u>	<u>Amount</u>	<u>Amount</u>	<u>Balance</u>
1	\$ 1,200,000	\$ 1,192,180	\$ 7,820	1	\$ 7,500,000	\$ 7,498,604	\$ 1,396	1	\$10,000,000	\$7,251,562	\$2,748,438
2	2,000,000	1,770,916	229,084	2	6,000,000	5,992,587	7,413				
3	8,000,000	7,802,007	197,993	3	5,000,000	5,000,000	-				
4	7,000,000	6,954,645	45,355	4	5,000,000	4,989,044	10,956				
5	6,000,000	5,509,250	490,750	5	6,000,000	6,000,000	-				
6	4,000,000	3,999,998	2	6	8,000,000	-	8,000,000				
7	5,000,000	4,999,995	5	7	5,000,000	-	5,000,000				
8	15,800,000	15,586,387	213,613	8	3,500,000	-	3,500,000				
9	5,000,000	3,322,100	1,677,900	9	18,500,000	-	18,500,000				
10	3,000,000	-	3,000,000	10	2,000,000	-	2,000,000				
11	3,000,000	3,000,000	-	11	3,500,000	1,817,100	1,682,900				
12	10,000,000	-	10,000,000								
13	10,000,000	-	10,000,000								
	<u>\$80,000,000</u>	<u>\$54,137,478</u>	<u>\$25,862,522</u>		<u>\$70,000,000</u>	<u>\$31,297,335</u>	<u>\$38,702,665</u>		<u>\$10,000,000</u>	<u>\$7,251,562</u>	<u>\$2,748,438</u>

1/

1/ This loan for \$100,000,000 was signed on December 18, 1975.  
Conditions Precedent were met on 4/5/76.

Note: Conditions Precedent on Loan No. 263-K-030 (\$150 million) had not been met by 8/31/76.  
Loan No. 263-K-036 (\$65 million) was signed on 9/30/76.

EXHIBIT C

ANALYSIS OF CRS ANNUAL ESTIMATES OF  
REQUIREMENTS REPORTS

PL 480 Title II - CRS

Comparison of FY 1976 AER vs Actual Data Contained in  
Commodity Status Reports

Inventory as of 6/30/75 (in 000 lbs.)

	<u>Wheat Flour</u>	<u>WSB</u>	<u>Bulgur</u>	<u>Veg. Oil</u>	<u>Total</u>
Estimated Inventory in AER	5,170	8,793	3,747	1,972	19,682
Actual per Commodity Reports	<u>13,240</u>	<u>10,595</u>	<u>5,871</u>	<u>3,959</u>	<u>33,665</u>
Over (Under) Amount Estimated	<u>8,070</u>	<u>1,802</u>	<u>2,124</u>	<u>1,987</u>	<u>13,983</u>
Percentage Over (Under) Amount Est.	<u>156%</u>	<u>20%</u>	<u>57%</u>	<u>101%</u>	<u>71%</u>

Distribution 7/1/75 to 6/30/76 (in 000 lbs.)

Estimated Total Requirements in AER	5,664	18,202	8,628	4,164	36,658
Actual per Commodity Status Reports	<u>12,084</u>	<u>6,272</u>	<u>5,718</u>	<u>3,439</u>	<u>27,513</u>
Over (Under) Amount Estimated	<u>6,420</u>	<u>(11,930)</u>	<u>(2,910)</u>	<u>(725)</u>	<u>(9,145)</u>
Percentage Over (Under) Amount Est.	<u>113%</u>	<u>(66%)</u>	<u>(34%)</u>	<u>(17%)</u>	<u>(25%)</u>

Inventory as of 6/30/76 (in 000 lbs.)

Estimated Reserve in AER	566	1,820	863	416	3,665
Actual per Commodity Status Reports	<u>1,964</u>	<u>4,416</u>	<u>4,430</u>	<u>486</u>	<u>11,296</u>
Over (Under) Amount Estimated	<u>1,398</u>	<u>2,596</u>	<u>3,567</u>	<u>70</u>	<u>7,631</u>
Percentage Over (Under) Amount Est.	<u>247%</u>	<u>143%</u>	<u>413%</u>	<u>17%</u>	<u>208%</u>

Adjusted Total Requirements FY 1976 (in 000 lbs.)

Adj. Total Requirements in AER	1,060	11,229	5,744	2,608	20,641
Actual Receipts per Commodity Status Reports	<u>-0-</u>	<u>250</u>	<u>4,297</u>	<u>-0-</u>	<u>4,547</u>
Over (Under) Amount Estimated	<u>(1,060)</u>	<u>(10,979)</u>	<u>(1,447)</u>	<u>(2,608)</u>	<u>(16,094)</u>
Percentage Over (Under) Amount Est.	<u>(100%)</u>	<u>(98%)</u>	<u>(25%)</u>	<u>(100%)</u>	<u>(78%)</u>

Note: The above analysis was based on statistics taken from CRS's FY 1976 AER and also data taken from a summary of CRS's four quarterly Commodity Status Reports ending June 30, 1976.

**LIST OF RECOMMENDATIONS**

	<b><u>Page No.</u></b>
<b><u>Recommendation No. 1</u></b>	
We recommend that USAID/E request the Ministry of Supply to remove the 4,000 to 5,000 drums of tallow from the port area.	13
<b><u>Recommendation No. 2</u></b>	
We recommend that USAID/E prepare and issue Implementation Letters for projects prior to the execution of agreements in accordance with AID policy.	17
<b><u>Recommendation No. 3</u></b>	
We recommend that USAID/E make a thorough evaluation of the environmental aspects of the Ismailia Steam Power Plant project site as indicated to be necessary in the Project Paper.	20
<b><u>Recommendation No. 4</u></b>	
We recommend that USAID/E give full consideration to the use of U.S. excess property in all appropriate AID-financed projects.	22
<b><u>Recommendation No. 5</u></b>	
We recommend that USAID/E obtain formal clarification from AID/W/NE/CD of IBRD's position in regard to use of U.S. excess property on associated AID/IBRD projects.	23
<b><u>Recommendation No. 6</u></b>	
We recommend that the USAID/E (a) determine if U.S. source communication equipment required for the Rural Health Delivery project will be compatible with the system in Egypt, and if not, (b) request an AID/W waiver for non-U.S. source procurement of this equipment.	25

**LIST OF RECOMMENDATIONS**

	<b><u>Page No.</u></b>
<b><u>Recommendation No. 7</u></b>	
We recommend that USAID/E (a) initiate formal follow-up on returned participants as required, and (b) schedule and perform a formal evaluation of the participant training projects.	27
<b><u>Recommendation No. 8</u></b>	
We recommend that USAID/E (1) perform a more thorough review of the AERs and (2) instruct CRS in the preparation of the Recipient Status Report.	29
<b><u>Recommendation No. 9</u></b>	
We recommend that USAID/E thoroughly review the validity of CARE's FY 1977 program including the number of recipients and centers.	30
<b><u>Recommendation No. 10</u></b>	
We recommend that USAID/E request the JAO to: (1) act expeditiously on USAID employee requests and (2) establish document controls for suspense and follow-up of employee requests.	32
<b><u>Recommendation No. 11</u></b>	
We recommend that USAID/E establish policies and procedures on the various types of support they will need to provide for contractors.	34
<b><u>Recommendation No. 12</u></b>	
We recommend that USAID/E request the JAO to establish procedures to ensure USAID/E property is adequately controlled, using TDY personnel, if necessary.	36

## LIST OF REPORT RECIPIENTS

### USAID/Egypt

Director	5
Inspections and Investigations Staff (IIS)/Cairo	1

### AID/W

Auditor General, Area Auditor General/W (AAG/W)	8
Auditor General, Office of Oversight Coordination, Policies and Procedures (AG/OC/PP)	1
Auditor General, Office of Oversight Coordination, Plans and Evaluations (AG/OC/PE)	1
Auditor General, Office of Operations Appraisal Staff(AG/OAS)	
Assistant Administrator/Near East (AA/NE)	1
Office of Middle East Affairs (NE/ME) (Egypt Desk)	1
Executive Management Staff (NE/EMS)	1
Special Assistant for Program Management (Audit Liaison Officer)	1
Office of Food for Peace (FFP)	5
Office of Private & Voluntary Cooperation (PHA/PVC)	1
Office of Development Program Review and Evaluation (PPC/DPRE)	1
Office of Commodity Management (SER/COM)	1
Office of Capital Development (NE/CD)	1
Office of Management Operations (SER/MO)	1
Office of Financial Management (SER/FM)	1
Office of Housing (SER/H)	1
Office of International Training (SER/IT)	1

### OTHERS

Inspector General of Foreign Assistance (IGA/W)	1
U.S. General Accounting Office (GAO)/W	1