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AUDIT OF
USAID/EGYPT'S ACTIONS ON
CLOSED RECOMMENDATIONS OF AUDIT REPORT
"CLOSEOUT OF EXPIRED CONTRACTS"
Audit Report No. 6-263-86-10
September 30, 1986

memorandum

DATE: September 30, 1986

REPLY TO
ATTN OF: Joseph R. Ferri, RIG/A/CairoSUBJECT: Audit Of USAID/Egypt's Actions On Closed
Recommendations of Audit Report "Closeout Of
Expired Contracts", No. 6-263-85-4 dated March 31, 1985

TO:

Mr. Frank B. Kimball, Director USAID/Egypt

This report presents the results of audit of USAID/Egypt's Actions On Closed Recommendations of Audit Report "Closeout Of Expired Contracts". Please advise this office within 30 days of actions planned or taken to implement the two recommendations reopened in this report. We appreciate the cooperation and courtesy extended to our staff during the audit.

Background

The Regional Inspector General for Audit, Cairo issued an audit report entitled "Closeout Of Expired Contracts" on March 31, 1985. The report, which covered 16 contracts totaling \$87.2 million, made six recommendations. All six recommendations were subsequently closed based on actions taken, or promised to be taken, by USAID/Egypt and/or the Government of Egypt (GOE). OMB Circular A-50 emphasizes the importance of monitoring implementation of resolved audit recommendations in order to assure that promised corrective action is actually taken.

Audit Objectives And Scope

The objective of this follow-up compliance audit was to verify that actions reported by USAID/Egypt officials on the six closed recommendations in the audit report "Closeout of Expired Contracts" were actually taken. The audit included a review of records, reports, and interviews with officials at responsible USAID/Egypt offices.

Audit field work began in April 1986, and was completed in May 1986. The audit was made in accordance with generally accepted government auditing standards.

Results Of Audit

The audit showed that adequate corrective measures were taken on Recommendations 1(a), 5, and 6, and that these recommendations were satisfactorily closed. Recommendations 1(b), 2, 3, and 4 were not fully resolved, and further actions by USAID/Egypt were required. These four recommendations addressed the need to: (a) initiate required closeout procedures for expired contracts; (b) assess, arbitrate, or excuse four contractors for liquidated damages and penalties totaling almost \$2.0 million; (c) arrange for an analysis by the Misr Spinning and Weaving Company of the \$93 million of contracts financed by AID under a project to determine if liquidated damages or penalties should be assessed for late delivery of equipment; and (d) issue a Bill of Collection for an outstanding local currency advance.

A shortage of professional staff in the USAID/Egypt Contract Services Office, a lack of action by GOE counterparts to address the issue of liquidated damages, and untimely action by the Project Officer in extending an expired contract, resulted in these recommendations not being fully resolved at the time of the follow-up audit. As a result, USAID/Egypt was without proper procedures to close out expired contracts, millions of dollars of potential penalties for late deliveries were not addressed, and the Egyptian pound equivalent of \$37,435 remained as an outstanding local advance. At the completion of this follow-up audit, these issues were still outstanding except for the local advance which was settled. Accordingly, two recommendations previously closed were reopened regarding closeout procedures and liquidated damages.

Discussion - Recommendation Nos. 1(b), 2, 3, and 4 of Audit Report No. 6-263-85-4 had been closed based on documentation considered satisfactory at the time. Subsequent events, however, changed the picture as described in the following sections:

a. Closeout Procedure Not Initiated - Recommendation No. 1(b) required USAID/Egypt's project offices and the Office of Financial Management to initiate required closeout procedures and to identify unneeded funds remaining under completed AID-financed contracts. The recommendation was closed on February 23, 1986, based on information from USAID/Egypt's Contract Services Office that a Mission Order on AID direct contract closeout procedures had been drafted, with an intent to also include regulations for close out of host-country contracts.

This draft Mission Order was not finalized as of mid-August 1986. USAID/Egypt officials said that the requirement to initiate closeout procedures had not been achieved due to a heavy workload and a shortage of staff. At the time of the audit, the Contract Services Office had one person assigned to it. Another person arrived in August 1986 to specifically handle the contract closeout workload and reduce the existing backlog.

Without proper procedures to close out expired contracts, unneeded funds can remain idle for extended periods under these contracts or under Letters of Commitment. Moreover, there are other possible drawbacks such as unsettled advances, unaccountable property, and uncompleted performance evaluations.

These problems were demonstrated in another audit of controls over project unliquidated obligations completed in May 1986. That audit showed that in March 1986, there were about \$82 million committed, but not yet disbursed, for various expired documents. This \$82 million included expired letters of commitment, project implementation letters, and contracts; and \$20.5 million for documents that had expired more than 6 months earlier.

Thus, USAID/Egypt's Financial Management Division was not effecting timely deobligation or decommitment actions. The earlier March 31, 1985 report, Closeout of Expired Contracts, Audit Report No. 6-263-85-4, had recognized this problem stating that USAID/Egypt should establish internal controls to assure that future expired Letters of Commitment (and contracts) are promptly deobligated or reprogrammed. Although USAID/Egypt officials concurred in the recommendations made, the necessary controls were not established until April 2, 1986.

Since the second quarter of 1984, the Financial Management Division had provided Project Officers with a report which showed the information necessary to review expired commitment documents and to determine if such funds should be decommitted, reprogrammed, or deobligated. Nevertheless, the review process needed strengthening. For example, an advance of \$281,000 was still open under a project implementation letter for a procurement reportedly completed by the Government of Egypt in 1982.

Proper closeout procedures are a necessary management tool for project officers and/or other Mission officials in establishing appropriate control systems to minimize such risks.

Recommendation No. 1

We recommend that USAID/Egypt establish definitive closeout procedures and issue a Mission Order, or other appropriate document, for Project Officers to follow in closing out expired contracts.

USAID/Egypt concurred with the recommendation and hired a contractor on August 11, 1986, to close out expired contracts. The contractor also was directed to develop a Mission Order establishing definitive contract closeout procedures for future use. It is estimated that this work will be completed on or before December 31, 1986. The complete text of USAID/Egypt comments on closeout procedures is included as Appendix 1.

Since the completion of audit field work in May 1986, USAID/Egypt's Financial Management Division has taken significant actions to reduce unliquidated balances of expired documents, including expired contracts. Reviews of expired, unliquidated commitments have been increased from quarterly to monthly. This has resulted in reducing unliquidated balances of expired commitments from about \$82 million in March 1986 to about \$40 million as of July 31, 1986. The complete text of USAID/Egypt's comments regarding these reviews is included as Appendix 2.

The recommendation will be closed when the planned actions are completed.

b. Liquidated Damages Not Assessed, Arbitrated, Or Excused - Recommendation No. 2 required USAID/Egypt to ensure that possible liquidated damages and penalties were assessed, arbitrated, or excused for four contractors. The recommendation cited two contracts each under the Mehalla Textile Plant project (263-0010) and the Urban Electric Distribution project (263-0033). Potential penalties for late delivery were estimated to be about \$1.98 million.

Recommendation No. 3 of the report required USAID/Egypt to arrange for an analysis by the Misr Spinning and Weaving Company of the \$93 million of contracts financed by AID under the Mehalla Textile Plant project. The analysis was to determine if liquidated damages should be assessed against contractors for the late delivery of equipment and plant.

Recommendations 2 and 3 were closed on January 26 and February 23, 1986, based on assurances from USAID/Egypt that the Egyptian Electricity Authority had acted on the two contracts cited, and

that the Mehalla Textile contracts were being studied by the Misr Spinning and Weaving Company. We were told that the company had identified late delivery on about 30 contracts and was deciding what action to take.

The audit follow-up showed that the actions taken, or intended to be taken, had not resolved the issues raised in the recommendations.

On the Mehalla Textile Project (No. 263-0010), the analysis that was supposed to be done by the Misr Spinning and Weaving Company was not completed. According to a USAID/Egypt memorandum dated February 4, 1986: "The Misr Spinning and Weaving Company is still studying the matter of liquidated damages under contract (L/Comm) K-03306. They have advised that the results of their investigation will be made available in due course." The results were not reported to USAID/Egypt, and the determination on whether to assess liquidated damages was still outstanding.

Concerning the \$93 million in contracts that were to be studied under the same project, USAID/Egypt received a telex from Mehalla dated May 26, 1986, stating that possible damages may be considered for one contract, and that three other contracts did not have delivery problems. In our opinion, these actions did not fully address the issue of liquidated damages raised in the report, nor could the actions reported be considered as an analysis of the \$93 million of contracts financed by AID.

Concerning the contracts financed under the Urban Electric Distribution project (263-0033), USAID/Egypt and the Egyptian Electricity Authority acted on contract Nos. 1004-2, 1004-5, and 1004-6, and assessed liquidated damages against these contractors. However, contract Nos. 1004-4 and 1004-7 were never addressed by USAID/Egypt, or acted upon by the Egyptian Electricity Authority. Thus, the recommendation should have remained open until determinations were made on these contracts.

Recommendation No. 2

We recommend that USAID/Egypt:

- a. arrange with the Misr Spinning and Weaving Company to assess, arbitrate, or excuse the delays in delivery of the AID-financed contracts under Project 263-0010; and
- b. arrange with the Egyptian Electricity Authority to assess, arbitrate, or excuse the delays in delivery of contract Nos. 1004-4 and 1004-7 under Project 263-0033.

Mission action with respect to the Misr Spinning and Weaving Company was not furnished. Thus, Recommendation No. 2a. was reopened.

USAID/Egypt provided evidence, in its comments on a draft of this report, that the Egyptian Electric Authority had taken acceptable actions on contract Nos. 1004-4 and 1004-7. Recommendation No. 2b., therefore, was closed upon issuance of the report. The complete text of USAID/Egypt's comments is included as Appendix 3.

c. Outstanding Local Advance Not Settled - Recommendation No. 4 required USAID/Egypt to: (a) issue a Bill of Collection to a contractor for the outstanding local currency advance incurred under AID-direct contract No. 263-0078-C-00-1049; and (b) request a final invoice from the contractor.

At the end of March 1985, USAID/Egypt requested the contractor to provide the status of the advance. When no response was received, a Bill of Collection was supposed to be issued. Later, in June 1985, the contractor submitted the final invoice for the equivalent of \$37,435 (LE31,134.23) to be offset against the advance equivalent of \$47,219 (LE39,271). The balance of \$9,784 (LE8,137) was recovered from the contractor on June 26, 1985.

Based on this action, the recommendation was closed on January 22, 1986. USAID/Egypt, however, did not process the contractor's final invoice for the payment because the costs were shown on the final invoice as having been incurred after the contract expired. Thus, the Mission had no basis for offsetting the invoice against the advance amount.

The follow-up audit showed that the USAID/Egypt Financial Management Division returned the voucher to the Project Officer on June 27, 1985. Financial Management requested additional actions involving the contractor, including an extension of the contract period through an amendment, obtaining administrative approval and Contracting Officer approval of the final voucher, and getting the contractor's final release statement. Over a year passed and the project office still was unable to process the final invoice. Thus, the final invoice for the equivalent of \$37,435 (LE31,134) was not approved, and this amount was still an outstanding advance that needed to be settled.

Recommendation No. 3

We recommend that USAID/Egypt issue a Bill of Collection for \$37,435 (LE31,134) under contract 263-0078-C-00-1049-00 to settle the outstanding advance.

After the audit was completed, USAID/Egypt liquidated the advance in July 1986 when the contractor's final voucher was accepted and processed. We were told that the basis of acceptance was a contractor official's statement that the costs claimed were incurred prior to the contract termination date. Thus, an amendment to the contract was unnecessary. The Mission's written comments are included in Appendix 2.

The recommendation, therefore, was closed upon issuance of this report.

UNITED STATES GOVERNMENT
memorandum

DATE: September 23, 1986
REPLY TO
ATTN OF: James A. Ezlerwa, CD, IS/CS
SUBJECT: Closeout of Expired Contracts

APPENDIX 1

SEP 23 RECD

TO: Joe Ferri, RIG/A

To fulfill recommendation 1(b) of the Audit Report "Closeout of Expired Contracts" 6-263-85-4, IS/CS has hired a Personal Services Contractor as of August 11, 1986 specifically to close out expired direct contracts and to establish definitive contract closeout procedures for future use.

Work has already begun to close out approximately 200 contracts expiring in fiscal years 1983-1985. Final closeout for these years should be accomplished smoothly because the financial, technical and contractual records are readily available within the Mission. IS/CS' ability to complete the process of closeout will depend heavily upon the cooperation of other offices, particularly FM/FO, and, to a lesser degree, the appropriate technical offices.

Work will begin in the next several weeks to close out the approximately 700 contracts which expired in fiscal years 1978-82. Because these contracts were not formally closed in a timely fashion, we anticipate the need for making management decisions in lieu of being able to follow written policy. The Personal Services Contractor will consult with AID/W in early November regarding the legality and applicability of these management decisions before any are implemented.

IS/CS has also directed the Contractor to develop a Mission Order or other appropriate document to establish definitive, Mission-wide contract closeout procedures. These procedures will be used for the closeout of contracts expiring in the years beyond 1985.

It is anticipated that these actions - - establishing and promulgating definitive contract closeout procedures and beginning the process of actual closeout on all expired contracts - - will be completed on or before December 31, 1986.

Ref: A) Audit Report 6-263-85-4
B) Memo from T. Johnstone, FM/FO, 09/15/86

cc: Tom Johnstone, FM/FO

OPTIONAL FORM NO. 10
(REV. 1-60)
GSA FPMR (41 CFR) 101-11.6
5010-114

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CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

September 18, 1986

MEMORANDUM

TO: Mr. Joseph Ferri, RIG/A/Cairo ✓

FROM: William A. Miller, AD/FM

SUBJECT: The Draft Audit Report dated 6/30/86 on USAID/EGYPT's Actions on Closed Recommendations, (Audit Report "Closeout of Expired Contracts" No. 6-263-85-4 Dated March 31, 1985)

Tom Clarkson has responded to 1) the statement on page 5 of your report and 2) recommendation no. 3 (see attached). Please close recommendation no. 3.

IS/CS and DR/ID have been contacted to respond to recommendations 1&2.

We will send you their responses when received. Thank you.

Auditor's Note:

The exhibits referred to on page 2 of this Appendix 1 were not included as part of the final report. These documents are available for review in the files of the Regional Inspector General for Audit/Cairo.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

September 18, 1986

MEMORANDUM

To: Thomas Johnstone, Audit Liaison

From: *for* Tom Clarkson, FM/FO/PA *Thomas Johnstone*

Subject: Draft Audit Report Dated 6/30/86 on Review and Follow up on USAID/Egypt's Actions on Closed Recommendations (Audit Report "Closeout of Expired Contracts", No. 6-263-85-4 Dated 3/31/85)

Ref.: Joseph Ferris' Memo to Terrence McMahon Dated June 22, 1986

I. Page 5 of the subject draft report stated that, "The audit found no indication that the Financial Management Division was systematically reviewing expired documents with view towards effecting timely deobligation or decommitment actions".

At the time of the follow up audit which extended through April and May of 1986 certain procedures were in place to systematically review expired documents. Beginning in December 1985 a quarterly review was conducted, (exhibit A.) and on April 2, 1986, an FM Statement No. 02/86 was published defining procedures for closing expired Bank L/Com's. (exhibit B.)

Shortly after the follow up audit, in May or June of 1986, the frequency of reviews was increased from once a quarter to once a month. These monthly review procedures have been recently reduced to written form in FM Statement No. 08/86 dated September 8, 1986. (exhibit C)

Significant progress has been made in reducing unliquidated balances of expired commitments. In July of 1986 such balances totalled approximately \$40 million (exhibit D), down from \$82 million in March of 1986. Total decommitments during the period exceeded \$42 million since new commitments expire every month.

II. Recommendation No. 3 of the draft report states "USAID/Egypt issue a Bill for Collection for \$37,435.35 (L.E. 31,134.23) under contract 26J-0078-C-00-1049-00 to settle the outstanding advance".

The advance was liquidated in July of 1986 when the final voucher was accepted and posted. On September 8, 1986, the unspent balance of the contract totalling approximately L.E. 8,000 was de-committed and de-earmarked.



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

September 24, 1986

MEMORANDUM

TO: Mr. Joseph Ferri, RIG/A/Cairo

FROM: William A. Miller, AD/FM 

SUBJECT: The Draft Audit Report dated 6/30/86 on USAID/EGYPT's Actions on Closed Recommendations, (Audit Report "Closeout of Expired Contracts" No. 6-263-85-4 dated March 31, 1985).

Attached is the project officer's response to recommendation no. 2b of subject report. Please close this part of the recommendation.

Auditor's Note:

The attachments referred to on page 2 of this Appendix 3 were not included as part of the final report. These documents are available for review in the files of the Regional Inspector General for Audit/Cairo.

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memorandum

APPENDIX 3

Page 2 of 2

DATE: September 23, 1986 67

REPLY TO
ATTN OF: Hosam G. Ismail, DR/ID

SUBJECT: Urban Electric Distribution, Project No. 263-0033
Review and Follow-up on Audit Report No. 6-263-85-4
dated March 31, 1985

TO: Thomas Johnstone, FM/FA

EEA, the implementing agency has acted on contracts No. 1004-4 for EBASCO and 1004-7 for PHELPS DODGE as follow:

1. EEA reviewed Contract 1004-4 and closed this contract without liquidated damages. See attached letter of Harza to EBASCO dated 2/27/85. Such action is ample evidence that EEA determined that no liquidated damages were due or if due, were excused.
2. EEA reviewed contract 1004-7 with their staff and consultant and determined that some materials was undelivered. The value of the undelivered materials, consisting of five sets of specified written standards is \$692.50. The contractor has indicated that he delivered the written material and was paid for it. See EEA letter to Phelps Dodge dated November 21, 1985 and Phelps Dodge response of January 7, 1986. The status of this contract after EEA's review is evidence that it has determined that no liquidated damages were due or if due, were excused.
3. EEA is assessing liquidated damages and charges for undelivered, or short material when such action is, according to their determination, appropriate. See attached evidence consisting of:
 - a. EEA letter to Phelps Dodge dated 2-3-1986 for Contract 1004-11 parts 1 & 3.
 - b. EEA letter to Ingersoll Rand dated 1-2-1986 for Contract 1004-2 parts 1 & 3.
 - c. EEA letter to General Electric dated 1-2-1986 for Contract 1004-5.
 - d. EEA letter to General Electric dated 1-2-1986 for Contract 1004-6 part 1.

We are of the opinion that EEA is well aware of their right and responsibility to assess liquidated damages. They are basing their decisions on the fact in their files and their decision is the final decision.

Drafted by: DR/ID:HGIsmail:sy:09/23/86:Doc. HGIMEMO (36)
Clear: DR/ID:RCJohnson (Draft)

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
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APPENDIX 4

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