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AUDIT OF  
USAID/EGYPT'S TECHNICAL COOPERATION  
AND FEASIBILITY STUDIES  
PROJECT NO. 263-0102

Audit Report No. 6-263-89-3  
January 30, 1989

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

January 30, 1989

MEMORANDUM FOR USAID/Egypt Director, Marshall D. Brown

FROM : RIG/A/Cairo, F. A. Kalhammer 

SUBJECT : Audit of USAID/Egypt's Technical  
Cooperation and Feasibility Studies  
Project No. 263-0102

This report presents the results of audit of the above-mentioned project, and contains two recommendations. Based on the Mission's response, Recommendation No. 2 is considered closed and requires no further action. Recommendation No. 1 is resolved and can be closed upon completion of corrective action. Please advise this office within 30 days of any additional action taken on the open recommendation. We appreciate the cooperation and courtesy extended to our staff during the audit.

Background

Technical Cooperation and Feasibility Studies (TC&FS) project activities assist the Government of Egypt (GOE) and local private sector organizations by providing technical assistance, and by financing feasibility and technical studies as well as other pre-project activities. Project funds also finance sector studies and assessments, and U.S. private voluntary agency programs that address areas of concern not included under other projects, but which are considered important for development purposes. It should be noted that USAID/Egypt does not receive "program development and support (PD&S)" funds from the Asia and Near East Bureau in A.I.D. Instead, a relatively small amount of ESF monies earmarked for Egypt by the Congress is "projectized" for purposes closely similar to those normally financed by "PD&S" funds in other A.I.D. Missions.

Project 0102, Technical Cooperation and Feasibility Studies, was obligated in August 1983 for an initial \$10 million. In addition to financing "PD&S-like" activities, Project 0102 also finances technical assistance and FVO activities that

are considered important for Egypt's economic development but for which no other sources of funding are available. The project was amended in successive fiscal years and its funding was increased to \$39.1 million as of September 30, 1988. As of that date, \$15.4 of the \$39.1 million had been committed to specific activities, and \$10.6 million of the committed funds had been disbursed. Prior to Project No. 263-0102, USAID/Egypt had financed similar activities under four Technology Transfer and Feasibility Studies projects, (263-0003, 0013, 0025, 0042) for a total of \$60.3 million.

It is generally understood that project funds are to be used to provide support for the Mission's development activities, not to augment their numbers or authorized budgets. Additionally, TC&FS funds should be used for dollar costs only. Local currency costs associated with this activity are defrayed with program trust funds. Such funds are taken from the Special Account which is the recipient of local currencies produced by the sale of A.I.D.-financed commodities under the Commodity Import Program in Egypt.

Activities funded under the TC&FS project are regulated by Mission Order No. 3-22, dated 20 June 1988, as amended (copy attached as Exhibit 1).

#### Audit Objectives And Scope

In conjunction with a worldwide Inspector General review of project development and support funded activities, the Office of the Regional Inspector General for Audit/Cairo made a compliance audit of USAID/Egypt's Technical Cooperation and Feasibility Studies (TC&FS) Project No. 263-0102. The audit was limited to 13 of 60 activities funded under the current grant and associated program trust funds. Of the 13 activities reviewed, 3 were funded only by local currency totaling LE 512,800 1/. The remaining 10 activities accounted for \$8.9 million plus LE 4.4 million.

The audit objective was to determine if project activities were implemented in accordance with A.I.D. regulations and USAID/Egypt Mission Order 3-22. The audit included interviews with GOE and Mission officials; a review of TC&FS

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1/ US\$1=LE2.35 approximately, as of 12/31/88.

and associated trust fund activity files, programming reports, and obligating documents. The audit was done in Cairo, Egypt during the period from February to December 1988.

The review of compliance and internal controls was limited to the findings in this report. The Mission's TC&FS activities had not been audited previously. The audit was done in accordance with generally accepted government auditing standards.

### Results of Audit

During the past five years of implementation, the project has financed over sixty discrete activities. The majority of these activities were well managed, and have had a positive impact on their beneficiaries. The TC&FS project financed such diverse activities as: technical assistance, project design, feasibility studies, private voluntary organizations, science and technology, physical infrastructure, aquaculture, and seminars on subjects such as health, industry, the private sector, and construction management. In the main, these activities were quite successful and well managed. The Aswan High Dam Seismic Activity, the Automated Insurance System for the Ministry of Social Affairs, and Aswan fisheries development are specific, good examples.

The audit found, however, that Mission guidance and project documents did not adequately define the nature, source, and purpose of project funds nor the relevant terminology used in connection with TC&FS activities. As a result, we found instances in which activities were not in compliance with what we understand the intent of published guidance to be, and in which the Mission could improve its programming and use of project funds. For example, funding needs for certain activities were overestimated; TC&FS funds were used to support existing USAID/Egypt projects; costly feasibility studies had been completed but the recommended projects were not implemented; and, finally, certain financial and management issues had not been adequately addressed.

In its overall response, USAID/Egypt noted:

"Because of the purpose and nature of this TC&FS project, Project 0102 was designed and has been implemented with a significant degree of flexibility. This feature has greatly enhanced the usefulness of the Project, as it has been able

to respond to diverse Mission and GOE needs complementary to the implementation of the AID program in Egypt.

"While this project has been of significant benefit to implementing the USAID program, the Mission recognizes that project management can be further improved. To this end, in response to the audit's major recommendations, Mission Order 3-22 will be revised while preserving the much needed flexibility that is inherent in a project of this nature."

The report recommends that USAID/Egypt: (1) thoroughly review and amend Mission Order 3-22 to provide clear guidance on the nature, purpose and uses of TC&FS grant funds; and (2) rectify the financial and management problems discussed in finding 2.

1. USAID/Egypt's Guidelines for Implementing the Technical Cooperation and Feasibility Studies Project Need to Be Clarified - Mission Order 3-22, as amended, entitled, "Guidance for Use of Project Development and Support Funds, etc." established policies and procedures for the use of appropriated dollars under Project 263-0102, Technical Cooperation and Feasibility Studies, and for associated program trust funds. The Mission Order did not, however, set any guidelines regarding the timing of funding commitments, nor did it require that the prospects for A.I.D. and other donor funding of proposed projects to be the subjects of feasibility studies be evaluated prior to funding the studies. The Mission Order did not clearly define the authorized uses of these funds, and what uses are prohibited, such as augmenting ongoing USAID projects and defraying local expenses.

The audit found that grant 263-0102 funds remained uncommitted for periods ranging from 15 to 36 months because planned activities did not materialize as expected. Costly feasibility studies were paid for but the recommended projects were not implemented for a variety of reasons. The audit also found that at least \$1.3 million in project 263-0102 funds was used to augment existing USAID projects experiencing various implementation problems.

Discussion - Mission Order 3-22, the project paper, and other official documents (e.g., the USAID's CDSS) erroneously identified TC&FS funds as "PD&S" funds. An amended Mission Order should clearly identify the source of these funds, as well as the nature of the project and its related activities.

The Project Agreement was signed August 9, 1983, for \$10 million. The project paper supporting the initial \$10 million grant identified a variety of studies that were proposed for possible financing. The agreement was later amended and the project budget was increased by \$5 million in FY84, \$5 million in FY85, \$6.3 million in FY86, and \$12.8 million in FY88, to reach a total of \$39.1 million on September 30, 1988. However, by September 30, 1988, only \$15.4 of the \$39.1 million obligated had been committed. Project funds were not being used as quickly as expected because of delays in activity approval and implementation by both A.I.D. and the GOE. Funds obligated under this project remained uncommitted for long periods contrary to AID's policy, stated in Handbook 19, page 2-3, which is to obligate funds for reasonably foreseeable requirements. Cognizant Mission staff should periodically review long-term budget needs and uses, before attempting to add more funds to this project.

A major purpose of TC&FS funds is to finance feasibility and technical studies that identify and shape development projects for possible A.I.D. financing. Project 263-0102 financed two feasibility studies for: (1) a highway from Cairo to Assiut; and (2) a 1200 MW power plant outside Cairo. The first study was completed in September 1986, at a cost of \$700,000 plus LE600,000; the second study cost \$1.2 million and was completed in December 1985. The two studies recommended that the proposed highway and power plant were feasible and justifiable development investments.

USAID/Egypt, however, declined to finance the highway because the financing of roads, in general, had fallen out of favor. Additionally, the Mission will not finance the power plant until other major donors can be found to participate in this activity. The end result was that the two studies, costing over \$2 million, did not result in development projects.

Mission Order 3-22 did not require that the prospects for A.I.D. or other donor funding of the projects be evaluated prior to funding the related feasibility studies. However, it would seem prudent that where constraints to A.I.D.'s

participation in a project proposal can be predicted prior to initiation of the study, those constraints should be clearly defined and considered before A.I.D. funds the study.

The audit found that USAID/Egypt had committed \$1.3 million in TC&FS funds to finance consulting and technical services for two nearly completed USAID/Egypt projects. Some \$850,000 in TC&FS funds were used under for the National Energy Control Center Project No. 263-0023 because the Project Assistance Completion Date (PACD) was not extended to cover the guaranty period for the last portion of the project through May 1989. The other USAID/Egypt Project No. 263-0040, Irrigation Pumping Stations, encountered certain mechanical design problems after the PACD of August 31, 1985. The Ministry of Irrigation and the contractor signed an agreement in June 1987 addressing the problem, and USAID/Egypt was asked to finance the additional technical services needed. We do not question the decision to support the two projects with additional funding. We do question whether the use of TC&FS funds for such activities was appropriate.

For the above reasons, we have concluded that USAID/Egypt's policies and procedures governing the use of these flexible and therefore especially valuable resources should be reviewed and clarified.

#### Recommendation No. 1

We recommend that USAID/Egypt thoroughly review and, as necessary, revise its Mission Order No. 3-22 in order to better regulate the uses of economic support funds under project No. 263-0102, Technical Cooperation & Feasibility Studies. At a minimum, such revisions should include:

- (a) elimination of any references to "Project Development & Support" ("PD&S") funds, which these are not;
- (b) clarification of terminology and procedures as regards the obligation, commitment, reservation, etc., of TC&FS funds, and the reversal of these procedures, when appropriate;
- (c) establishment of appropriate approval procedures/levels for the uses of TC&FS funds by category and/or amount, including appropriate notifications to the GOE Ministry of International Cooperation;

- (d) definition of preconditions that would have to be met when TC&FS funds are to be used in, or prepare for, multidonor activities and/or for feasibility studies;
- (e) periodic review of obligations, commitments, and reservations of TC&FS funds to occur not less than annually in order to ensure the continuing validity and priority of TC&FS funds in each status; and
- (f) specific determination of uses of TC&FS funds which are not authorized under this project, e.g., to meet local currency costs or to "top off" the funding of other activities, in order to conserve the free-standing nature of the project and to avoid any appearance of a "slush fund."

In general, the Mission agreed with the above recommendation, which is considered resolved upon issuance of this report. The reader is referred to the Mission's response to the draft report at Appendix 1, pp. 2-5.

2. Certain TC&FS-Funded Activities Require Management Scrutiny - USAID/Egypt's controls over TC&FS activities were generally adequate, but three activities required management attention. The audit found that: (1) U.S. dollars were used to meet local currency expenses; (2) a grantee was paid certain amounts for questionable expenses without appropriate documentation; and (3) a physician was chosen, on a noncompetitive basis, to perform medical examinations required before USAID/Egypt-funded participants could travel abroad. (The charges for the second and third activities were to associated program trust funds only.) These anomalies arose because project managers were not fully aware of the project's requirements.

Discussion - Problems in the use of USAID grant funds and associated program trust funds were observed in three instances. These problems related to Project HOPE, an AIDS conference, and medical examination fees.

The Assiut High Institute of Nursing (HIN) was established in the fall of 1982 and has been supported since then by a grant from A.I.D. to Project HOPE. The grant was to assist the university to establish, develop, and institutionalize

the HIN with technical assistance provided by Project HOPE consultants. The grant also financed teaching materials and some equipment needed to carry out this effort.

A.I.D. has provided: \$1.2 million funding since 1982 (\$850,288 was obligated under the TC&FS project to pay U.S. expenses related to Project HOPE, Virginia); and LE283,185 from associated trust funds for Project HOPE/Cairo local expenses.

Because its LE283,185 local currency budget was exhausted in April 1988, Project HOPE/Cairo requested \$10,000 from its Virginia headquarters office to meet local expenses. The Cairo office planned to convert the \$10,000 to local currency. During our visit on July 6, 1988, we noted that three conversions for a total of \$8,000 had been made. The local currency had been used for salaries, telexes, social security, office rental, insurance, and other expenses. Project HOPE/Cairo had requested transfer of an additional \$8,235.

TC&FS funds are to be used exclusively to finance the foreign exchange cost of U.S. source and origin goods and services required for the project; they are not to be used to meet local expenses. The conversion of TC&FS grant dollars provided by Project HOPE headquarters office is therefore viewed as inappropriate.

The second TC&FS activity involved an AIDS and Sexual Diseases Conference held in Cairo during March 1988. The Egyptian Medical Society was granted LE135,000 to meet seminar costs. A review of the Society's billings showed that: (1) a return airline ticket, Cairo/London, was purchased at a cost of LE563 for one of the Society's officials; (2) an advance of LE40,000 was made to advertising agencies, but never liquidated; (3) funds totaling LE9,000 were used to purchase stamps to mail brochures to potential participants which seemed excessive; and (4) an offer for LE10,000 to make posters may have been mistaken for an invoice. Prior to the end of the audit, these matters were satisfactorily resolved.

The third TC&FS activity involved a physician's fees for predeparture medical examinations. This is a relatively minor activity: LE27,000 in 1986, and LE28,800 in 1987, but an increase to LE240,000 is expected in 1988-90. Each A.I.D.-funded participant trainee must complete these examinations before departing Egypt. The charge was LE50 per person for a complete checkup.

While the physician's fee may be competitive, neither we nor the technical officer were certain because, for unknown reasons, the doctor who had examined the participants had been chosen year after year without competition. According to the technical officer, in the future bids will be requested from interested medical firms and the lowest responsive bidder will be awarded the work.

#### Recommendation No. 2

We recommend that USAID/Egypt rectify the problems discussed with respect to Project HOPE's use of TC&FS dollars for local currency expenses under its assistance to the High Institute of Nursing at Assiut, and for the selection of physician services for predeparture examinations of A.I.D.-funded participants.

Again, the Mission was in general agreement with the recommendation. The recommendation is closed upon report issuance. (See Appendix 1, p. 6 for the full text of the Mission's response.)

Other Pertinent Matters - We have found that USAID/Egypt, despite being the largest overseas A.I.D. Mission, does not enjoy sole control over any portion of funds appropriated by Congress every year for its programs. The Congress "earmarks", from Economic Support Funds, a determined amount (\$815 million in FY88) over all of which the GOE exercises effective concurrent control. Under the Technical Cooperation and Feasibility Studies project (263-0102), for example, whose purposes generally parallel "PD&S" activities financed from the Development Assistance account in other Missions, the GOE either initiated and/or approved the utilization of funds for all activities, while the USAID Program Office was responsible for overall management and monitoring. These procedures allowed the GOE to jointly control all earmarked funds, and deprived the Mission of discretion over any portion of them. Thus, the Mission could finance only those activities agreed to by the host government.

USAID/Egypt representatives were naturally supportive of the auditors' concern at this matter but advised that, very recently, the GOE had agreed to new procedures in programming both TC&FS and associated program trust funds. These procedures permit the Mission to proceed with activities funded from those sources upon simple

notification to the GOE of its intent to do so, provided the GOE does not advise of any objection within two weeks. Although the new arrangement falls short of the degree of discretion the Mission would prefer to have, Mission representatives felt that this change provided them with sufficient flexibility to operate and, as a result, we are not making any recommendations on this matter. We shall, however, follow up at some point in the future to gauge the efficacy of this modus operandi.

Appendix 1, p. 7, contains the Mission's comments on the foregoing section of the report.

AUDIT OF  
USAID/EGYPT'S TECHNICAL COOPERATION  
AND FEASIBILITY STUDIES  
PROJECT NO. 263-0102

EXHIBIT AND APPENDICES

11

# MISSION ORDER

UNITED STATES AID MISSION TO EGYPT

|  |  |                 |
|--|--|-----------------|
| Guidelines for Use of Project Development and Support Funds; Technical Cooperation & Feasibility Studies (0102), and AID Activity Trust Account (PT800)                              |  | ORDER NO. 3-22  |
| M.O. 3-22 dated 9/21/86  |  | DATE 8/20/88    |
| Handbook 3, Project Assistance; FM Bulletin No. 50, dated November 10, 1983; AID/W cable: State 327494 - Supplemental Guidance on Programming Local Currency, dated October 21, 1987 |  | PAGE 1<br>OF 10 |

## I. PURPOSE

This Mission Order establishes policies and procedures for the use of Project Development and Support (PD&S) funds from:

- The Technical Cooperation and Feasibility Studies Project (No. 263-0102)
- The AID Activity Trust Account (PT800)

## II. POLICY

Project 263-0102 and the PT800 Account are designed to finance PD&S activities such as feasibility, pre-project and project design studies that identify and lead to the development of projects for AID financing; evaluations; and sector assessments. They also fund technical assistance and activities of private voluntary organizations (PVO's) that are considered important for development but have no other appropriate source of funding.

## III. PROCEDURES

### A. General Funding Criteria:

The nature of the activity normally will determine the choice of funding source - either Project 0102 or PT800. The project authorization, project paper and PP amendments for Project 0102 and the Trust Account Agreement for PT800 provide the general framework for utilization of funds. General guidelines are as follows:

1. Technical Cooperation and Feasibility Studies (Project 0102). This project finances U.S. dollar costs of goods and services related to:

a. Feasibility, pre-project and project design studies and analyses necessary to identify, analyze and prepare development projects that could be considered for AID financing;

b. Activities that support the accelerated implementation of the AID program by preparing projects and programs for implementation, carrying out pre-implementation and post-implementation actions, and strengthening the operations of Grantee organizations charged with the implementation of A.I.D programs;

c. Short and long term advisory services of consultants, technical experts, institutions and other organizations required for the introduction of new technological processes, improved management practices, or the solution of specific technical or managerial problems, etc.

d. Project/sector evaluations and assessments, surveys and non-federal audits;

e. Private Voluntary Organization activities;

f. Miscellaneous short-term activities such as invitational travel, observational tours and participation of Egyptian officials in conferences, seminars, etc. in the U.S. and third countries; and the participation of U.S. professionals in similar in-country functions.

2. A.I.D. Activity Trust Account (PT-800). This Account is funded from the GOE-AID Special Account. PT800 finances the local currency costs of activities funded under Project 0102, such as:

a. Advisory services of Egyptian consultants, experts and institutions;

b. In-country per diem and international and in-country travel (where appropriate);

c. In-country seminars, conferences and workshops (in priority sectors of direct relevance to USAID activities);

d. Supporting services and purchase of commodities available in Egypt;

e. Local costs of PVO activities; and

f. Small-scale ad hoc demonstration/pilot activities, not related to dollar-funded activities. (Please refer to STATE 327494 dated October 1987 for guidance on USAID review and monitoring requirements for discrete activities financed under Trust funds).

**B. Administration and Programming of Funds:**

The USAID Program Office (PDS/P)\* is responsible for the overall management of Project 0102 and the FT800 Account. PDS/P reviews and analyzes activity funding proposals to determine their conformance with project funding criteria and guidelines and their compatibility with priority development areas outlined in the Mission CDSS and the GOE five-year development plan.

The Ministry of International Cooperation (MIC) must approve the utilization of funds from Project 0102 or FT800.\*\*

Although the Program Office is the main negotiator with MIC on the selection and funding of PD&S activities, technical offices also have the responsibility of responding (through PDS/P) to queries or requests for further information from MIC during the latter's review of funding requests. Technical officers and project managers initiating the various activities assume responsibility for monitoring the activities once funds are approved.

**C. Implementation Procedures:**

**1. Developing and Processing Funding Proposals:**

An illustrative list of planned activities is included in Project 0102's project paper and its amendments. If individual sub-activity funding proposals are initiated by the Mission, they should include appropriate supporting material, including a description of the proposed activity, its estimated cost and duration, and its relationship to GOE and USAID priorities and interests. It is also advisable to attach or refer to GOE counterpart agency concurrence with the activity.

Within USAID, the AD/PDS must approve all activities financed by 0102 and/or FT800. PDS/P reviews and clears all PD&S funding proposals. Activities over \$5 million or the LE equivalent and where the Mission is involved with new contractors or organizations require the approval of the Mission Director. (See Mission Order 5-4, dated March 21, 1988).

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\* Program Development and Support/Program (PDS/P)

\*\* The Mission has unilateral authority to use a specific portion of Project 0102 funds. See paragraph V, page 9.

14'

Funds requested under PD&S projects require prior approval by MIC (except for the unilateral portion of Project 0102) before implementing actions can occur. To use funds for a specific activity, a funding request signed by the AD/PDS is sent to the Administrator of the Department for Economic Cooperation with the U.S., MIC. MIC's letter of approval makes funds available for subsequent commitment.

a. Clearance and Signature of Approval Documents

The Associate Director of PDS signs the activity funding request that is submitted to MIC. Note that outgoing funding proposals must be cleared by the respective Office Director and/or Associate Director, and PDS/P. (PDS/PS is required to clear if the activity relates to project design or development).

Funding proposals to the MIC (see Exhibit A) should:

- (1) Be addressed to:  
(Incumbent)

Administrator of the Department for  
Economic Cooperation with the U.S.  
Ministry of International Cooperation  
8, Adly Street, Cairo

(2) Describe the proposed activity, giving specific reference to the request for assistance from the participating Ministry or Government entity (name of official, title, and office); previous approvals, if any, under the same activity; and other pertinent data such as the duration and impact of the activity. A detailed budget breakdown should also be attached.

(3) Specify the most appropriate source of funds -- Technical Cooperation and Feasibility Studies (263-0102) and/or AID Activity Trust Fund (FT-800).

(4) After PDS/P reviews and clears an activity proposal, PDS/P gives it a MACS Office Code (See page 6) and project serial number and retains it to maintain accurate records and follow-up with MIC. The proposal then goes to the originating office for further action requirements and eventual transmittal to MIC. Alternatively, it is also acceptable to obtain MIC's approval by means of a signed PIO/T. In cases where a PIO/T is sufficiently developed in a clear and concise manner, it may be transmitted to MIC for its concurrence. PDS/P is also a required clearing office on the PIO/T, and will give the outgoing PIO/T its appropriate MOC and serial number.

(5) Upon USAID receipt of MIC approval/disapproval, the approval document will go to PDS/P with a copy given to the technical office. If the technical office receives the original letter, it should be sent to PDS/P for effective project monitoring.

Correspondence with the counterpart government entity that will implement the activity must not commit funds until MIC approval is obtained. In cases where funding levels are discussed, letters should be qualified by stating: "assuming availability of funds and approval of the Ministry of International Cooperation." PDS/P must clear letters and cables referring to the use of project funds, even if the correspondence is not addressed to MIC.

b. GOE-Initiated Funding Proposals

Occasionally, ministries and government agencies request MIC to transmit requests for assistance to USAID, or assistance requests may come directly from the MIC or GOE agencies. Upon receipt of either type of request, action will be given to the technical office most closely associated with the activity.

After analysis, appropriate correspondence for the AD/PDS's signature will be prepared by the technical office. PDS/P will clear USAID's response. The letter to MIC should state USAID's concurrence, the suggested estimated costs, and the source of funding. In the event that funding by USAID is not appropriate, the letter should give reasons and suggest alternative approaches.

The Mission's MACS office codes (MOC) are as follows:

| <u>Office</u>  | <u>MOC</u> |
|----------------|------------|
| <u>PDS</u>     | 400        |
| <u>P</u>       | 402        |
| <u>E</u>       | 403        |
| <u>PS</u>      | 404        |
| <u>IS</u>      | 500        |
| <u>CMT</u>     | 502        |
| <u>IR</u>      | 503        |
| <u>FI</u>      | 504        |
| <u>DR</u>      | 600        |
| <u>LAD</u>     | 603        |
| <u>UAD</u>     | 604        |
| <u>AGR</u>     | 700        |
| <u>ACE</u>     | 703        |
| <u>AG</u>      | 704        |
| <u>ILD</u>     | 705        |
| <u>HRDC</u>    | 800        |
| <u>E&amp;T</u> | 802        |
| <u>S&amp;T</u> | 803        |
| <u>H</u>       | 804        |
| <u>POP</u>     | 805        |
| <u>FM</u>      | 100        |
| <u>FO</u>      | 102        |
| <u>FA</u>      | 103        |
| <u>DMS</u>     | 104        |
| <u>LEGAL</u>   | 201        |
| <u>MGT</u>     | 301        |
| <u>CS</u>      | 302        |

2. USAID Procedures for Executing and Accounting for Activity Agreements:

Individual activity agreements under Project 0102 and/or the FT800 Account should follow normal Mission procedures. (Please refer to Mission Order 5-4 and FM Bulletin No. 50, Project Officer's Guide to Implementing Documents, dated November 10, 1983 for more details).

a. When executing activity agreements under Project 0102, the same procedures should be used as those for other USAID-funded projects:

(1) For AID direct contracts and Operating Program Grants (OPGs), funds are earmarked by a PIO/T and committed by an AID direct contract or grant.

(2) For invitational travel, funds are earmarked by a request for Travel Authorization (TA) and committed by a TA.

(3) For activities carried out by GOE entities, funds are earmarked by a Project Implementation Letter (PIL) and committed by a PIL.

(4) For host country contracts, funds are earmarked by a PIL and committed by an approved host country contract.

b. Because the FT800 Account is a Trust Fund and not a project, there is no overall project obligation document (such as the Grant Agreement for dollar-funded projects). Therefore, funds are reserved and obligated as individual agreements are executed:

(1) For AID activity direct contracts and OPGs, funds are reserved by a PIO/T and obligated by an AID direct contract or grant.

(2) For invitational travel, funds are reserved by a request for TA and obligated by a TA.

(3) For activities carried out by GOE entities, funds are reserved by an FT800 Activity Agreement/Implementation Letter (See Exhibit B). Funds are obligated by the same document signed by an authorized officer. (See Mission Order 5-4).

(4) For host country contracts, funds are reserved by an FT800 Activity Agreement/Implementation Letter and obligated by an approved host country contract.

Unsolicited proposals that require either Project 0102 or FT800 funding should meet established criteria and should be appropriately reviewed within the Mission. (See Federal Acquisition Regulations, Subpart 15.5).

18

### 3. Review of Approved, Earmarked and Committed Funds:

Project 0102 and the FT800 Account finance hundreds of activities. A great deal of funding that is no longer required may be tied up in approval, earmarking and/or committing documents. Therefore, the following actions will be required on a regular basis:

a. PDS/P will provide to the technical offices copies of PDS/P and PM reports listing approved, earmarked and committed amounts for each individual activity.

b. Officers responsible for the activities should note on the printout which activities no longer need the balance of approved, earmarked or committed funds. This is particularly important for completed activities.

c. Individuals should return the marked-up printouts to PDS/P. To untie approved but unused funds, the technical office should prepare a brief memorandum to PDS/P. To de-earmark unused funds, a PIO/T facesheet amendment should be prepared by the technical office and sent to PDS/P and PM for clearance and action. To de-commit unused funds, the technical office should prepare a brief memorandum to PDS/P and PM.

PDS/P will regularly review the status of funding proposals pending MIC approval. In consultation with the technical office, PDS/P will untie funds if the activity is modified, cancelled or inordinately delayed. Technical project officers are encouraged to promptly release any unused PD&S funds.

#### IV. ACTIVITY COST OVERRUNS

The actual implementation costs of a PD&S - financed activity sometimes exceed the illustrative budget included in the initial funding proposal submitted to MIC. For activities funded out of the FT800 Account, USAID is authorized to fund a cost overrun without prior approval from MIC if it is less than L.B. 25,000 and does not exceed twenty five percent (25%) of the amount originally approved for the activity.

The authority to spend more than MIC approved amounts does not change any of AID's internal funds control procedures. Obligating documents funded from FT800 must be amended before originally obligated funds are exceeded. USAID must notify MIC whenever the cost overrun provision is applied.

Project 0102 does not have a similar cost overrun provision. In the case of an activity cost overrun, a letter to MIC requesting additional funds should be prepared by the technical office. PDS/P clears and the AD/PDS signs the letter.

V. UNILATERAL AUTHORITY TO USE PROJECT 0102 FUNDS

The Mission is authorized to utilize a small portion of funds from Project 0102 without seeking prior approval from MIC. USAID has unilateral authority over the allocation, commitment and disbursement of these funds.

These funds finance high priority policy dialogue needs, studies, assessments, project design and technical assistance requirements. Unilateral funds also are used for PD&S activities

- which are considered high priority by the Mission but not by MIC. Every effort should be made to use Project 0102 regular funds before tapping into the unilateral funds;
- for which the emergency need is such that they cannot wait to be processed through regular approval channels;
- and/or which are legislatively mandated (such as environmental assessments, etc), but which the GOE does not believe are warranted.

Project development activities may be financed out of this set-aside for projects that we believe will be favourably received by the GOE and for which concept papers and/or PIDs have been approved by the Mission.

Project unilateral funds should not be used for the following:

- to substitute for Operating Expenses. Any functions which are the legitimate role of a direct hire employee should not be done through program-funded technical assistance.
- to "fill in" for USAID staff shortages. This goes hand in hand with the prohibition above.
- to augment on-going projects. Where on-going projects have a TA line item, this should be tapped rather than 0102 funds.
- for activities that should be approved by a counterpart Ministry, if they are to be implemented. Once a Ministry has requested an activity under Project 0102, MIC almost never disapproves the request even though budgetary changes are often made.
- for local currency costs. Project 0102 finances dollar costs only. It cannot be used to finance the LE costs of Egyptian consultant services or other local currency costs associated with project activities. (NOTE: The Mission expects to obtain MIC approval of a LE 2 million unilateral set-aside under the FT800 Account. The same conditions and procedures presented here will be applied to a unilateral FT800 Account.)

20

In 1988, Project 0102 unilateral funds were equally allocated among the Mission's technical directorates, including PDS. The technical associate directors have approved unilateral funds under their control according to the guidelines presented in this Mission Order. Future such allocations will depend on this initial experience. Before any new unilateral funds are allocated to the directorates, PDS will review actual use of the funds for conformance to the project guidelines.

Mission officers should prepare an action memorandum to their Associate Director for proposals identified for unilateral funding. (See Exhibit C). Unilateral funding proposals are authorized by the appropriate technical Associate Director subsequent to clearance by PDS/P.

PDS/P reviews and clears unilateral funding proposals to ensure conformity with general project and specific unilateral funding criteria, as well as to keep track of project activities. PDS/PS also should clear if the activity is for project design or development.

Unilateral funds are earmarked and committed under a separate project budget element. For effective control and monitoring of unilaterally allocated funds, the action memoranda will be given a MACS office code, but different serial numbers from funding requests submitted to MIC. (For example, if the first unilateral action memorandum is from IS/PI, it would be numbered ACT-0102-504-1).

Whenever the Mission uses unilateral funds from Project 0102, MIC will be notified for informational and project accounting purposes. PDS/P will prepare the after-the-fact notification, which is signed by the AD/PDS.

#### VI. ACTIVITIES INITIATED BY PRIVATE VOLUNTARY ORGANIZATIONS (PVO's)

Normally, after a PVO submits a funding proposal, USAID will hold a project review committee (PRC) meeting to review the proposed activity. After USAID gives its approval in principle, the formal request for financing PVO-initiated or sponsored activities should be forwarded directly by the technical or backstopping GOE entity to MIC. A copy of the request will be sent to the USAID PVO Officer for information and follow-up.

Final USAID approval and execution of the grant will come after receipt of MIC approval. While the initiative for these actions rests with the PVO, the GOE and the PVO Officer, PDS/P, where appropriate, will facilitate clearance of the proposal with MIC. For more details on policy and procedures for review and implementation of PVO proposals, see Mission Order on PVOs.

21

**VII. STATUS AND EVALUATION REPORTS ON PD&S FUNDED ACTIVITIES**

Technical offices are responsible for preparing and submitting to PDS/P periodic status reports on long-term activities (more than 6 months) and brief evaluation reports on short-term activities. This will enable the Mission, and particularly the Program Office, to remain informed of progress and issues involved. In addition, these reports provide information on the quality of the study or service provided, the results and/or recommendations of the study or activities, contractor performance, and any special problems encountered.

Follow-up and evaluation of the activities in a systematic fashion will also provide valuable lessons learned, as well as help in the overall evaluation of the PD&S program. MIC and the relevant technical ministries will also receive copies of these reports. PDS/P will forward reports to MIC. The technical offices should ensure that their GOE technical counterparts receive copies.

To the extent possible, the Mission will also share with MIC and the GOE technical counterparts copies of completed studies, surveys, assessments and evaluations.



Marshall D. Brown  
Director

(SAMPLE)

EXHIBIT A  
Funding Request to MIC

(MACS Office Code No.  
and Serial No.)

Mr. Ahmed Abdel Salam Zaki  
Administrator of the Department for  
Economic Cooperation with U.S.  
Ministry of International Cooperation  
8, Adly Street, Cairo

Dear Mr. Zaki:

The Department of Seed Production and Improvement in the Ministry of Agriculture has requested financial and technical assistance to initiate an Oilseed Production Project with special emphasis on sunflower, peanuts and soybeans.

This letter is to request your concurrence in the use of \$69,000 from Project 263-0102, Technical Cooperation and Feasibility Studies, and L.E. 24,000 from the AID Activity Trust Account (PT-800), to pay for the services of a five member Oilseed Production Project design team. This team, working with Egyptian counterparts, will spend eight weeks working with Ministry of Agriculture technicians from the Agricultural Research Center and the Extension Service to develop a coordinated, multi-disciplinary, applied research program in oilseed production.

The end result of the team's activity will be a project paper, outlining the project's inputs and objectives as well as the funding level. We plan to share the completed project paper with you and your staff at MIC.

We have tentatively identified the following kinds of technical design assistance : two production specialists, two agricultural extension systems specialists, and one agricultural data and policy analysis specialist.

The funds requested will cover the services of these specialists, international travel, local logistical support and per diem. A budget breakdown is attached.

Should you approve, please sign in the space provided below.

Sincerely yours,

Associate Mission Director,  
Program Development and Support

APPROVED: \_\_\_\_\_

DATE: \_\_\_\_\_

Clearances:

Tech. Office: \_\_\_\_\_  
PDS/P : \_\_\_\_\_  
PDS/PS : \_\_\_\_\_

(if activity relates to project design)

\*Note: On the following page are two examples of budget breakdowns. They do not relate to this letter, but are meant to illustrate the form that these budget tables can take.

- 241

Budget Breakdown - Example 1:

\$US

|  |               |
|--|---------------|
| A. Salaries (no. of persons X<br>daily rate X no. of days) | 67,500        |
| B. Per Diem (rate X no. of days)                           | 25,650        |
| C. International Travel (cost X<br>no. of trips)           | 24,000        |
| D. In-Country Travel (rate X no.<br>of days)               | 3,000         |
| E. Other Costs (Secretarial, Print)                        | 15,000        |
| F. Overhead (USDA fixed - 27%)                             | <u>39,300</u> |
| Total  | 174,450       |

Budget Breakdown - Example 2:

|                              | <u>L.E.</u>    | <u>\$US</u> |
|------------------------------|----------------|-------------|
| Feasibility Studies          | 45,000         | 30,000      |
| Data Collection and Analysis | 100,000        | -           |
| Training                     | 20,000         | 40,000      |
| Consultants                  | 75,000         | 25,000      |
| Computer Facilities          | 100,000        | -           |
| Operational Expenses         | <u>200,000</u> | <u>-</u>    |
| Total                        | L.E. 540,000   | \$95,000    |

25

(SAMPLE)

EXHIBIT B  
PT800 Activity Agreement

Dr. Alia Ayoub  
Project Director  
Secondary Technical Nurse Training (STN) Activity  
Ministry of Health  
Magless El Shaab Street,  
Cairo

Subject: PT 800 Trust Account  
Activity Agreement  
Secondary Technical Nurse  
Training Activity

Dear Dr. Alia:

Thank you for your proposal regarding the subject activity, transmitted to us by the Ministry of International Cooperation on February 3, 1988. We have reviewed the proposal, and we are pleased to inform you that USAID concurs in the use of LE 350,000 from the AID Activity Trust Account (PT800) to finance this two year activity.

By this Activity Agreement, USAID indicates its agreement to obligate the amount of LE 350,000 from the PT800 Account for the Secondary Technical Nurse Training activity.

A budget is attached which the MOH should use for all fiscal reports. This budget is illustrative in nature and the Ministry of Health may adjust cost lines as necessary, without exceeding the total budget amount, in order to implement this activity. The attached budget will provide the MOH with funds to accomplish the following activities:

- Develop procedure manuals for clinical nursing in fundamentals of nursing and pediatrics.
- Procure necessary lab supplies for clinical nursing at selected STN schools that will be used as prototype training centers.
- Develop material for and print the teacher's guide, and distribute it to all STN schools in the country.
- Pay required professional and administrative fees, and process domestic travel and transportation.
- Conduct a curriculum evaluation at the end of the second year of the activity.

26'

The STN activity will be administered in accordance with the terms and conditions as set forth in:

- Attachment 1: Activity Proposal/Description, with illustrative budget for the period of May 1, 1988 through April 30, 1990.
- Attachment 2: Trust Account Agreement between the United States Agency of International Development and the Government of the Arab Republic of Egypt dated October 3, 1985.
- Attachment 3: General Provisions for LE Trust Fund Grants.
- Attachment 4: Payment Provisions for Periodic Revolving Advances. These provisions provide the mechanism by which the MOH will request funds from AID and report on their use.

AID will make payments to the MOH in accordance with the budget and payment provisions as shown in Attachments 1, 2 and 3.

Upon notification of the approval of the Ministry of Health as indicated by your signature in the space provided below, AID will authorize an advance for the STN activity.

Sincerely yours,

Approved by: \_\_\_\_\_  
Dr. Alia Ayoub  
Project Director

\_\_\_\_\_  
Mission authorized officer\*

For : Ministry of Health

USAID/Cairo

Date : \_\_\_\_\_

\_\_\_\_\_

Clearances:

Tech. Office: \_\_\_\_\_  
PDS/P : \_\_\_\_\_  
PM/PA : \_\_\_\_\_  
PM/PO : \_\_\_\_\_  
LEG : \_\_\_\_\_

\*Technical Office Director if the amount is up to the LE equivalent of \$250,000. Technical Associate Director if the amount is up to the LE equivalent of \$5 million and does not involve new contractors or organizations; otherwise, Mission Director. (See item 19 in M.O. 5-4)

27

(SAMPLE)

EXHIBIT C  
Action Memo for use of Project 0102 Unilateral Funds

ACT-0102-803-7

ACTION MEMORANDUM TO THE ASSOCIATE DIRECTOR, HRDC

FROM: HRDC/S&T

THRU: OD/S&T

SUBJECT: Unilateral Use of Project 0102 Funds - Biological  
Diversity Assessment for Egypt

Issue: You are requested to approve the use of \$35,000 from HRDC's allocation of unilateral funds under Project 0102, Technical Cooperation and Feasibility Studies. These funds will finance a biological diversity assessment for Egypt.

Discussion: Section 119d of the 1986 amendment to the FAA requires AID Missions to identify actions necessary to conserve biological diversity. This information is needed to complete our current CDSS. ANE/PD/ENV has advised Congress that an assessment of biological diversity for Egypt is being planned for FY 1988.

USAID and ANE/PD/ENV have developed a scope of work for a one-month assessment to be funded through a current AID/W PASA with the U.S. Fish and Wildlife Services. The cost of this assessment is estimated at \$35,000. The assessment will produce a report which will be of use to the GOE and USAID in establishing priorities and identifying opportunities for supporting biological diversity activities.

Justification: We propose using unilateral funds from Project 0102 because there are no other available funding sources in HRDC/S&T. Also, this biological diversity assessment is legislatively mandated, and accordingly is of high priority to both AID/W and the Mission.

Authority: This request is in compliance with Mission Order 3-22, Guidelines for Use of Project Development and Support Funds. According to Section V of the Mission Order, you are authorized to approve the use of Project 0102 unilateral funds allocated to the HRDC directorate.

28

Recommendation: That you approve the amount of \$35,000 from Project 0102 unilateral funds to enable the S&T Office to conduct a biological diversity assessment.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

Date \_\_\_\_\_

Clearance:

PDS/P: \_\_\_\_\_

29'

|  |   |   |   |  |
|--|---|---|---|--|
| AID 350-1<br>(10 79)   | UNITED STATES INTERNATIONAL<br>DEVELOPMENT COOPERATION AGENCY<br>AGENCY FOR<br>INTERNATIONAL DEVELOPMENT  | 1. Cooperating Country<br><b>EGYPT</b>  | Page 1 of Pages   |  |
| PIO/T  | PROJECT IMPLEMENTATION<br>ORDER/TECHNICAL<br>SERVICES   | 2. PIO/T No.<br><b>ASSIGNED BY FM</b>   | 3. <input type="checkbox"/> Original or<br>Amendment No. _____  |  |
|  |   | 4. Project/Activity No. and Title<br><b>TECHNICAL COOPERATION AND FEASIBILITY STUDIES<br/>PROJECT 263-0102 AND/OR<br/>AID ACTIVITY TRUST ACCOUNT (FT800)</b>  |   |  |
| DISTRIBUTION   | 5. Authorization Symbol<br><b>ASSIGNED BY FM</b>  |   | 6. Amendment Symbol and Charge<br><b>ASSIGNED BY FM</b>   |  |
|  | 7. Obligation Status<br><input type="checkbox"/> Administrative Reservation <input type="checkbox"/> Implementing Document  |   | 8. Project Assistance Completion Date<br>(Mo. Day, Yr.) <b>5/15/1990</b>  |  |
|  | 9. Authorizing Agency   |   | 10. This PIO/T is in full concurrence with PRO/AC<br><b>PROJECT 0102</b> Date <b>8/9/1983</b>                       |  |
|  | 11a. Type of Action and Governing AID Handbook<br><input type="checkbox"/> AID Contract (IMB 14) <input type="checkbox"/> PASA/RSSA (IMB 12) <input type="checkbox"/> AID Grant (IMB 13) <input type="checkbox"/> Other |   | 11b. Contract/Grant/PASA/RSSA<br>Reference Number (if this is an<br>Amendment)<br><b>PROVIDED BY TECHNICAL OFFI</b> |  |
|  | 12. Estimated Financing (A detailed budget in column (2) is attached as attachment no. _____)   |   |   |  |
|  |   | (1) Previous Total      (2) Increase      (3) Decrease      (4) Total to Date   |   |  |
| Maximum<br>AID<br>Financing  | A. Dollars  |   |   |  |
|  | B. CIE Currencies<br>Local Currency   |   |   |  |
| 13. Mission<br>References  | 14a. Instructions to Authorizing Agent  |   |   |  |
|  | 14b. Address of Voucher Paying Office   |   |   |  |
| 15. Clearances—Include typed name, office symbol, telephone number and date for all clearances.  |   |   |   |  |
| A. The project officer certifies that the specifications in the attachments of work are technically adequate<br><b>INITIATING OFFICER</b>                                    |   | Phone No.<br>Date   | B. The resources of work are within the purview of the initiating and approved agency programs<br><b>FDS/P</b>      |  |
| C. <b>AD/MANAGEMENT</b>  |   | Date  | D. Funds for the activities requested are available<br><b>FM/TA</b>   |  |
| E. <b>FDS/PS</b>   |   | Date  |   |  |
| 16. For the cooperating country. The terms and conditions set forth herein are hereby agreed to<br><b>PER MIC APPROVAL LETTER DATED _____,</b><br>Signature _____ Date _____ |   | 17. For the Agency for International Development<br><b>TECHNICAL OFFICE DIRECTOR IF NOT EXCEEDING \$250,000; TECHNICAL AD IF NOT EXCEEDING \$ 5 MILLION; MISSION DIRECTOR IF OVER \$ 5 MILLION.</b> |   |  |
| Title <b>MOC No. _____ (Attached)</b>  |   | Signature _____ Date _____<br>Title <b>EXCEEDING \$ 5 MILLION; MISSION DIRECTOR IF OVER \$ 5 MILLION.</b>   |   |  |

\*If Project 0102 unilateral funds are used, block 16 should read: PER UNILATERAL ACTION MEMO (ACT-\_\_\_\_) Attached.

30



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

January 17, 1989

JAN 23 REC'D

M E M O R A N D U M

TO: Frederick A. Kalhammer, RIG/A/Cairo

FROM: Marshall D. Brown, Director *MB*

SUBJECT: Audit Report: Audit of Project 263-0102,  
Technical Cooperation and Feasibility Studies

The Mission's comments on the audit of Project 0102 will follow the audit report's organization, and are divided into two sections: specific responses to the two recommendations, and general comments on the last section called Other Pertinent Matters. Our portion of the executive summary is attached as a separate item (Attachment One).

AUDIT RECOMMENDATION NO. 1

We recommend that USAID/Egypt thoroughly review, and as necessary, revise its Mission Order No. 3-22 in order to better regulate the uses of Economic Support Funds under Project 263-0102, Technical Cooperation and Feasibility Studies. At a minimum, such revisions should include:

- (a) elimination of any references to "Project Development & Support" ("PD&S") funds, which these are not;
- (b) clarification of terminology and procedures as regards the obligation, commitment, reservation, etc., of TC&FS funds, and the reversal of these procedures, when appropriate;
- (c) establishment of appropriate approval procedures/levels for the uses of TC&FS funds by category and/or amount, including appropriate notifications to the GOE Ministry of International Cooperation;
- (d) definition of preconditions that would have to be met when TC&FS funds are to be used in, or [to] prepare for, multidonor activities and/or for feasibility studies;

*21*

- (e) periodic review of obligations, commitments, and reservations of TC&FS funds to occur not less than annually in order to ensure the continuing validity and priority of TC&FS funds in each status; and
- (f) specific determination of uses of TC&FS funds which are not authorized under this project, e.g., to meet local currency costs or to "top off" the funding of other activities, in order to conserve the free-standing nature of the project and to avoid any appearance of a "slush fund."

USAID RESPONSE:

In response to the six specific sub-recommendations under Recommendation 1, we will revise Mission Order 3-22 (Reference 2) to include the following:

- (a) Mission Order 3-22 will be revised to clearly identify the source of Project 0102 funds, and will eliminate any references to "Project Development and Support" (PD&S) funds.
- (b) When the Mission Order is revised, we will also eliminate any confusion with respect to terminology so that all procedures are clear and concise. The obligation of project funds will be discussed in sub-recommendation (e).
- (c) The Mission's internal approval procedures for use of project funds require the clearance of the 0102 project officer and PDS/PS (if the activity is related to project design). Substantive issues are brought to the attention of the Office Director of PDS/P. The PDS Associate Mission Director signs the letter to MIC notifying the Ministry of USAID's intent to use project funds.

There are different USAID levels of authority for the earmarking of funds (e.g., PIO/T's) according to the amount of the sub-activity: the technical Office Director approves up to \$250,000; the technical Associate Mission Director approves up to \$5 million; and the Mission Director approves over \$5 million. These approval procedures are outlined in Mission Orders 3-22 and 5-4\* (No. 19, Reference 3).

\*Responsibilities and Authorities: Approval, Negotiation and Implementation of Projects. Dated March 21, 1988.

-32'

Under the current project implementation procedures, (recently revised to further streamline project management) USAID notifies MIC of its intention to use project funds for mutually agreed upon purposes (Mission Order 3-22, section III.B, page 3, and 0102 PIL no. 18 dated September 26, 1988, Reference 4). The second part of this recommendation, pertaining to GOE notification, recommends a system that is already in place.

- (d) The audit report states that costly feasibility studies were completed but that USAID had not implemented the recommended projects. Project 0102 provides for the funding of feasibility and technical studies that identify and prepare development projects for possible AID financing (0102 Project Paper, page 1). The project does not require that AID finance projects after funding their feasibility studies.

Project 0102 has already funded feasibility studies for at least eight projects that the Mission is now supporting. If USAID does not follow up on a "costly" feasibility study by financing a project, that does not mean that TCFS funds have been wasted. Completed feasibility studies can be used by the GOE with or without the assistance of other donors to finance important projects, or may be funded by USAID at a later date.

The Quraymat power plant technical study, one of the two studies referred to in the audit report, involved policy and funding issues related to tariff increases and multi-donor financing. The Ministry of Electricity had specifically requested USAID to fund a study to determine the feasibility of constructing a power plant looking at different sites and sources of fuel. The original request was not for the construction of a power plant.

The Mission currently is financing a follow-up study that is measuring the impact on the plant of natural gas rather than coal. In the event that the tariff issue is satisfactorily addressed, USAID would be willing to consider supporting the power plant assuming that other donors will participate.

The second study, on the Cairo-Assiut highway, was not funded as a project by USAID because of a change in Mission infrastructure strategy as contained in the CDSS.

However, Mission Order 3-22 will be revised to include guidance to ensure that major feasibility studies will be undertaken only for potential investments in CDSS approved areas. The Mission Director will approve feasibility and technical studies that involve a prospective change in policy or strategy.

We do not believe that it is practical to define "preconditions" to using TCFS funds for multi-donor financed activities and/or feasibility studies. However, Mission Order 3-22 will indicate that studies involving prospective donors will not be undertaken unless there have been discussions with donors beforehand, and that willingness to consider such proposals is expressed by other donors.

- (e) PDS/P, as the office that manages Project 0102, determines the need for additional project obligations. This determination is based on a review of project activities, their implementation and financial status, and their need for additional funding. Also, PDS/P gauges the need for more TCFS funds by assessing the requirements of the various technical directorates. This analysis is included in project paper amendments and is the basis for requesting incremental obligations to the project.

Under our current project monitoring system, PDS/P undertakes annual portfolio reviews and expenditure projection exercises to review the status of the project, and to determine the need for additional funding. In addition, PDS/P and FM undertake periodic reviews of reserved, earmarked and committed sub-activities on a monthly and/or quarterly basis to ensure that 0102 funds are not tied up in completed activities and that they are promptly released to support other new activities.

To address the audit's concern for more careful obligations based on actual need, guidance will be included in the Mission Order on a more rigorous planning process by the technical directorates to accurately identify the need for TCFS funds. A review in this regard will be carried out by PDS/P on an annual basis. PDS/P will closely scrutinize Mission plans to use TCFS funds for specific activities, and will require better information as to the amount, timing and duration of proposed activities. This should result in more realistic estimates for project obligations.

- (f) The grant agreement for Project 0102 states that project funds will be used exclusively for goods and services having their source and origin in the U.S, unless exceptions are made in writing by USAID (0102 grant agreement, section 6.1, page 5). Mission Order 3-22 specifically states that Project 0102 will fund the U.S. dollar costs of goods and services related to the various categories of activities supported by the project.

Similarly, the Mission Order states that the AID Activity Trust Account (FT800) should finance the local currency costs of activities funded under Project 0102. Given the above, the first part of sub-recommendation (f) should be considered resolved.

The audit report discussed two cases where TCFS funds were used to support other AID-financed projects. The two examples cited in the audit involved limited financial support to address a specific purpose or problem that was hindering implementation in these two completed projects. In such cases, the use of project funds conforms with the guidance in the Project paper (page 1) and in Mission Order 3-22, which allow the financing of "activities that support the accelerated implementation of the AID program by preparing projects and programs for implementation, carrying out pre-implementation and post-implementation actions, and strengthening the operations of Grantee organizations charged with the implementation of AID programs" (Mission Order 3-22, p.2).

The revised Mission Order will strengthen the above guidance by providing specific examples of when TCFS funds can be used to support such activities, and the level of authority required to approve these activities. The Mission Director will clear all Mission and/or GOE requests for TC&FS funding related to pre- and post-project implementation activities, as well as those related to ongoing projects. Mission Order 5-4 will be revised accordingly.

The audit's concerns about using project funds for unauthorized purposes as reflected in item (f) are already addressed by our existing approval and monitoring systems. For example, with reference to the Mission's unilateral authority to use a portion of Project 0102 funds, Mission Order 3-22 clearly spells out what these funds may and may not be used for. (Section V, page 9).

Based upon the above explanations and actions taken, we request that recommendation no. 1 be resolved in its entirety. We also request that recommendation no. 1 be closed upon issuance of the revised Mission Order 3-22.

25

AUDIT RECOMMENDATION NO. 2

We recommend that USAID/Egypt rectify the problems discussed with respect to Project HOPE's use of TCFS dollars for local currency expenses under its assistance to the High Institute of Nursing at Assiut, and for the non-competitive selection of physician services for predeparture examinations of A.I.D - funded participants.

USAID RESPONSE:

According to the grant agreement for Project 0102 (page 5, section 6.1), project funds are to be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the U.S., except as AID may otherwise agree in writing. This restriction is also stated in Mission Order 3-22.

With regards to the HOPE/Assiut High Institute of Nursing activity, the audit report is correct in pointing out that U.S. dollars should not have been converted to LE to finance local currency costs, without AID's agreement in writing. This problem has been rectified. The technical project manager verbally gave HOPE specific instructions on November 2, 1988 not to convert any more dollar funds to finance local currency costs for this activity. These instructions also were sent to HOPE in writing (Attachment 7).

In fact, USAID recently requested and received MIC's approval to add more FT800 funds to finance an extension for the HOPE activity (Reference 5). Also, in a new follow-up activity involving a consortium for High Institutes of Nursing, HOPE has presented two separately detailed budgets for dollar and local currency expenses.

The second issue in this recommendation is the physician's fees for pre-departure medical examinations. The issue of non-competitively selecting the same physician over a number of years has now been resolved. The Mission plans to compete a new multiple year contract for this activity. USAID has requested MIC to approve funds for this purpose (Reference 6).

Based on the above, we therefore request that audit recommendation no. 2 be closed.

36

Other Pertinent Matters

In September 1986, the Mission acquired unilateral authority to use a small portion (\$1,296,000) of Project 0102 funds without the approval of MIC. USAID has unilateral authority over the allocation, commitment and disbursement of these funds. These funds have been used to finance high priority policy dialogue needs, studies, assessments and technical assistance requirements, in addition to activities that are legislatively mandated but to which the GOE does not give priority. Guidance on the use of these funds is in Mission Order 3-22 dated June 20, 1988. (Page 9, section V).

USAID acquired this unilateral authority after exerting considerable pressure on the GOE. Because this issue is politically sensitive, MIC has resisted Mission efforts to obtain similar unilateral authority over a portion of FT800 funds.

However, USAID recently was able to add more flexibility to the management of project funds by reaching an agreement with MIC on new approval procedures (0102 PIL No. 18, dated September 26, 1988, Reference 4). Under this new system, USAID notifies MIC of its intent to use Project 0102 and/or FT800 funds, and proceeds with the activity within two work weeks if MIC has no substantive issues of the type or category specified in PIL no. 18.

Since the implementation of this system in early October 1988, project implementation has significantly improved. Lengthy approval delays previously experienced have been cut down, and a number of activities already have been funded.

We consider these efforts in making Project 0102 more flexible to be responsive to the concerns presented in this section of the audit report. We will continue testing this new system to determine its effectiveness. Accordingly, we have no current plans to ask the GOE for unilateral authority over additional TCFS funds.

RIG/A/C Note: Attachments too long to be included in report.

31

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