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AUDIT OF USAID/EGYPT'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

Audit Report No. 6-263-90-01
December 27, 1989

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

December 27, 1989

MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown

FROM : **RIG/A/C, F. A. Kalhammer** Kalhammer

SUBJECT: **Audit of USAID/Egypt's National Agricultural Research Project No. 263-0152**

The Office of the Regional Inspector General for Audit/Cairo has made the subject audit and provided a draft report for your review and comment. Your response is contained in this report as Appendix 1. In addition to copies for you and your Deputy, eight copies of the report have been forwarded to the Mission's Audit Liaison Official for appropriate distribution and action.

The report contains six recommendations with a total of 11 subrecommendations. Recommendation Nos. 1(b), 2(b), 3, and 5(b) are closed upon report issuance. Recommendation No. 1(a) is open and unresolved because of our differing views with regard to Government of Egypt counterpart contributions. Recommendation Nos. 2(a), 4, 5(a), and 6 are open but resolved. They can be closed when corrective actions are completed.

Please advise me within 30 days of any actions planned or taken to close the open recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

U.S. Mailing Address:
Box 10, RIG/A/C
FPO New York 09527-0008

106, Kasr El-Eini St.
Cairo Center Building
Garden City, Cairo, Egypt

Tel. Country Code (202)
No. 357-3345/6/7
Telefax: 355-4318

EXECUTIVE SUMMARY

The National Agricultural Research Project grant agreement was signed on September 12, 1985. The goal of the project is to increase Egypt's agricultural productivity. Its original purpose was to strengthen the capability of the agricultural research community to provide a continuous flow of improved, appropriate agricultural technology. In September 1988, the project was amended to: (1) broaden its scope by adding four new components; (2) clarify Government of Egypt and USAID responsibilities; and (3) better focus the research component. These revisions were designed to address more adequately the entire sequence of activities linking the farmer with new technologies. Total project cost increased from $210 million to $375 million; A.I.D.'s contribution rose from $130 million to $300 million. The duration of the project was extended two years to September 30, 1994. Principal activities to be financed under the revised project include: (1) strengthening agricultural research capability; (2) upgrading policy analysis; (3) improving seed technology; (4) facilitating technology transfer; and (5) improving project management and introducing support for new initiatives in agricultural development. As of August 31, 1989, $100 million had been obligated and $17.1 million disbursed.

The office of the Regional Inspector General for Audit, Cairo conducted a performance audit of USAID/Egypt's National Agricultural Research Project. The audit objectives were to: determine whether the host country has provided evidence verified by USAID/Egypt showing that it has made a contribution to the project, whether in-kind or cash, as required by the grant agreement; evaluate commodity procurement planning; judge the adequacy of project implementation plans; assess the efficacy of participant training design and planning efforts, as well as identify any major problems affecting implementation which could prevent achievement of project objectives.

Although the National Agricultural Research Project has been operational since 1985, the Government of Egypt has provided no evidence acceptable to the Inspector General showing that it has actually contributed to this project, as called for in Mission policy and as required by the grant agreement.

Under the National Agricultural Research Project, the Government of Egypt's Agricultural Research Center and Undersecretariat for Agricultural Economics and Statistics are responsible for planning the procurement of $71.3 million worth of "commodities" including vehicles and laboratory, office, and farm equipment. Plans submitted by the research center and approved by A.I.D. for purchasing laboratory, farm, and library equipment under the project's research component contained no justifications for the purchases.

The audit showed that required annual implementation plans had not been prepared in a timely manner nor did they contain the specifics necessary to provide management with the information necessary to direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose.

The academic participant training program of the research component of the project was inadequately designed and planned. USAID/Egypt approved the training program despite dificiencies in design and planning. As a result, academic participant training has been significantly delayed due to a lack of qualified candidates. This delay will prevent many participants from completing their degrees by the Project Assistance Completion Date, contrary to USAID Handbook 10, which states that all participant training should be completed six months prior to the end of a project.

USAID/Egypt did not have an adequate system to ensure follow-up and evaluation of participants who return from training under the National Agricultural Research Project. This is especially significant inasmuch as this project has a participant training budget of about $40 million.

The Executive Office responsible for administration of the National Agricultural Research Project improperly reproduced computer software acquired with project funds and is using the reproduced software on various microcomputers also purchased with project funds.

The report recommends actions to be taken by USAID/Egypt in order to correct the foregoing deficiencies.

<u>USAID/Egypt's Summary Response to the Audit</u>

"The Mission believes that this audit is a good example of the beneficial results that come from Mission participation in the audit planning process. At the outset of this audit, the Mission was requested to note any areas of special concern and provided the auditors with a written list of project deficiencies and possible problem areas. We fully expected that this audit would identify in a concrete fashion the known problems and make appropriate recommendations for practical solutions, particularly in such areas as the host country's ability to meet project recurrent costs, overall slow project implementation and follow-up on participant trainees. The audit report has proved to be very useful in resolving several long-standing implementation problems. Progress has been made in correcting all of the deficiencies noted and all recommendations have been resolved. Nine of the eleven recommendations should be closed upon issuance of the report. The remaining recommendations will be closed within six months of issuance of the report. Several examples are given below:

"1. The Mission is using the audit report to help resolve the long standing "recurrent cost" or sustainability issue of agricultural research in Egypt as detailed in the Project Paper and other documents.

"2. Through the audit, we have reaffirmed the requirement for needs assessments on all commodity procurements. During the next seven months, we have scheduled with the GOE the development of nine procurement plans and are examining the cost benefit of amending three other procurement plans.

"3. The audit has required greater collaboration by USAID, the GOE, and their consultants in preparing quarterly action and financial plans for each project component. These plans are now incorporated into output summary tables, part and parcel of the NARP quarterly project reports, where planned and actual accomplishments will be reviewed by the Ministry of Agriculture and USAID. The Mission believes this significantly improves project implementation and financial plans, and should lead to improvements in project implementation.

"4. USAID has already scheduled a revision of the research training plan and approved the needs assessment and training plan for the Seed Component. Three additional training plans have also been scheduled. A more effective follow-up system is also being established for all participants.

"We are pleased that the Mission was able to participate so effectively with the auditors in identifying and correcting many of NARP's problems. In conclusion, the Mission has found this audit to be constructive and helpful in improving project implementation."

<u>OIG Response</u>

RIG/A/C appreciates the cooperation and support provided by USAID/Egypt in making this review. This report illustrates how audit results can add to management's ability to detect problems early during the life of a project and correct them before they have a significant adverse impact. While we are gratified at the timely corrective actions taken by USAID/Egypt in response to the audit, we cannot agree with the position taken by the Mission with regard to Government of Egypt counterpart contributions, as explained in the text of the report.

We also wish to register our serious concern at the large amount of A.I.D. funds (some $275 million) scheduled to be spent in the less than five years remaining under this project, and the risks which outlays of this magnitude over such a relatively short period of time pose for prudent management of appropriated funds in this project's control environment.

Office of the Inspector General

AUDIT OF USAID/EGYPT'S
NATIONAL AGRICULTURAL RESEARCH
PROJECT NO. 263-0152

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AUDIT OF USAID/EGYPT'S NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

PART I - INTRODUCTION

A. Background

The Nile Delta and Nile River Valley form one of the world's oldest agricultural areas, having been under continuous cultivation for at least 5,000 years. Except for a few oases and some arable land in the Sinai, most of Egypt's 5.8 million cultivated feddans* are found in these riverfed areas. As late as 1960, Egypt was essentially self-sufficient agriculturally. However, over the last three decades, agricultural production has failed to keep pace with the country's growth in population, income, and consumption. Consequently, the nation has become increasingly dependent on agricultural imports. A significant portion of this is an unnecessary drain on Egypt's limited foreign exchange since the country could potentially double its agricultural production. Agricultural output can be increased by increasing the productivity of existing farmland and, to a lesser extent, by bringing new lands into production.

The goal of the National Agricultural Research Project is to increase Egypt's agricultural productivity. The original project purpose was to strengthen the capability of Egypt's agricultural research community to provide a continuous flow of improved, appropriate agricultural technology. The project grant agreement was dated September 12, 1985. Scheduled for completion by September 30, 1992, the project, whose original funding was $210 million, consisted of an A.I.D. grant of $130 million and a GOE contribution of LE66.5 million (equivalent to $80 million at that time), mostly on an in-kind basis.

In August 1988 the A.I.D. project paper was amended to: (1) broaden the scope of the project by adding four new components; (2) clarify Government of Egypt (GOE) and USAID responsibilities; and (3) better focus the research component. These revisions were designed to address more adequately the entire sequence of activities linking the farmer with new technologies.

The scope of the project was broadened by adding technology transfer, policy analysis, seed technology, and project management/new initiatives components to the originally research-focused project. Total project cost increased from $210 million to $375 million; A.I.D.'s contribution rose from $130 million to $300 million. The GOE's contribution was established at LE219 million (in the revised Project Paper) and the project's term was extended to September 30, 1994. Principal activities to be financed

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* One feddan equals 1.038 acres.

under the revised project include: (1) strengthening agricultural research capability; (2) upgrading policy analysis capacity; (3) improving seed technology; (4) facilitating the technology transfer system; and (5) improving project management and introducing new initiatives in agricultural development.

As of August 31, 1989, $100 million in A.I.D. funds had been obligated and $17.1 million disbursed. A breakdown of obligations and disbursements by component is shown in the following table.

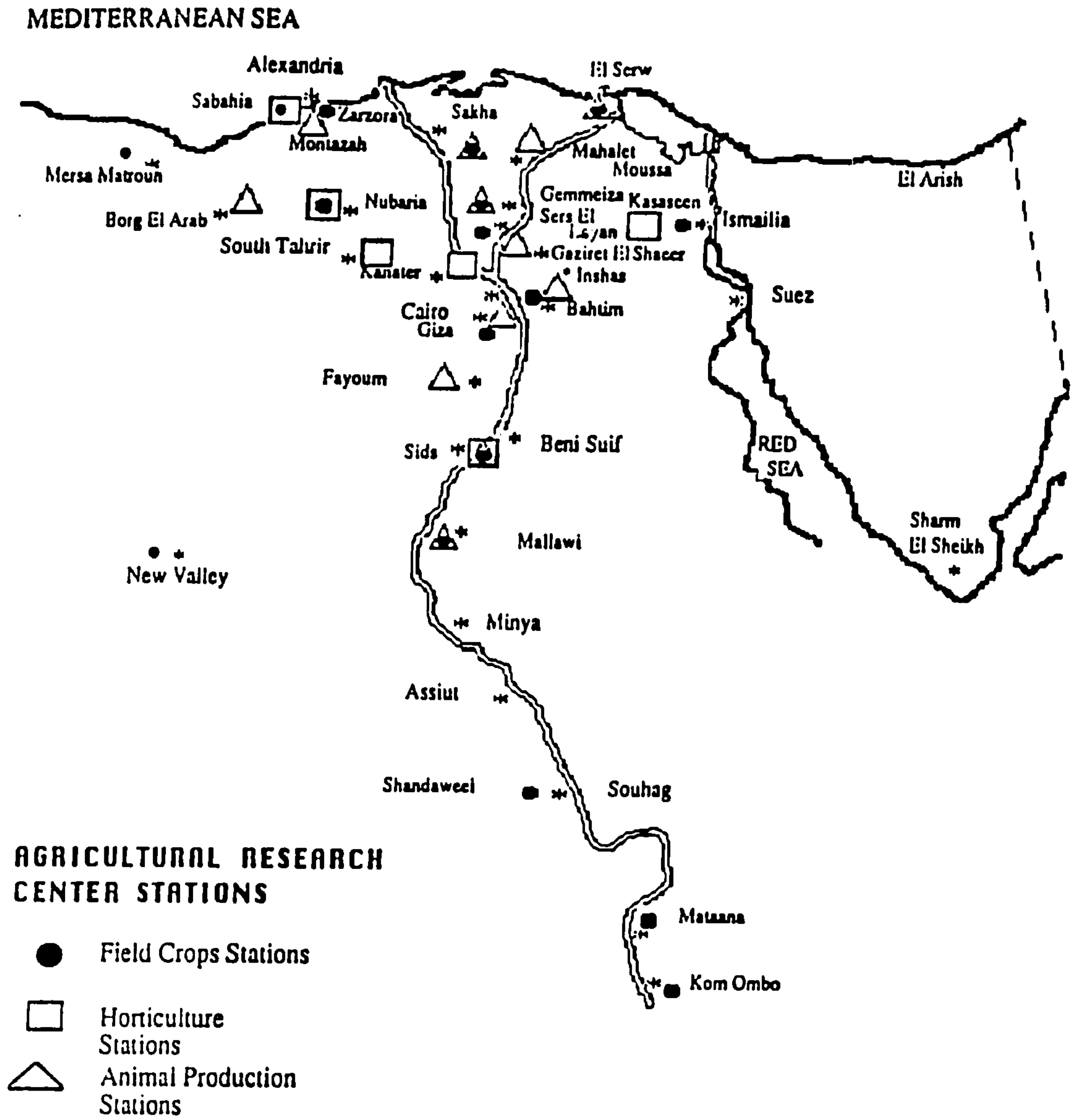
Component	Obligation	Expenditures
Research	$ 60,000,000	$15,071,831
Technology Transfer	18,000,000	-0-
Seed Technology	12,000,000	-0-
Policy Analysis	6,000,000	558,837
Mgmt./New Initiatives	4,000,000	1,478,417
Total	$100,000,000	$17,109,085

B. Audit Objectives and Scope

The office of the Regional Inspector General for Audit, Cairo conducted a performance audit of USAID/Egypt's National Agricultural Research Project (NARP). The audit objectives were to: determine whether the host country has provided evidence verified by USAID/Egypt showing that it has made a contribution to the project, in cash or in-kind, as required by the grant agreement; evaluate commodity procurement planning; judge the adequacy of project implementation plans; assess the efficacy of participant training design and planning efforts, as well as identify any major problems affecting implementation which could prevent achievement of project objectives. To accomplish the audit objectives we interviewed key A.I.D., contractor and GOE officials and reviewed project papers, grant agreements and their amendments, implementation letters, procurement plans, financial reports and other pertinent documentation relative to the project. Our audit included visits to five agricultural research institutes, two central laboratories and six research stations.

Since there had been little implementation under the project, the audit focused primarily on its planning aspects with emphasis on the research component which had accounted for 88 percent of expenditures. The audit was conducted during the period February 1989 through August 31, 1989. It covered the period from project inception in September 1985 through August 1989, including disbursements of about $17 million.

We limited the review of internal controls and compliance to the issues in this report and performed the audit in accordance with generally accepted government auditing standards.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Fayoum
Sids
Beni Suif
RED SEA
Sharm El Sheikh
Mallawi
New Valley
Minya
Assiut
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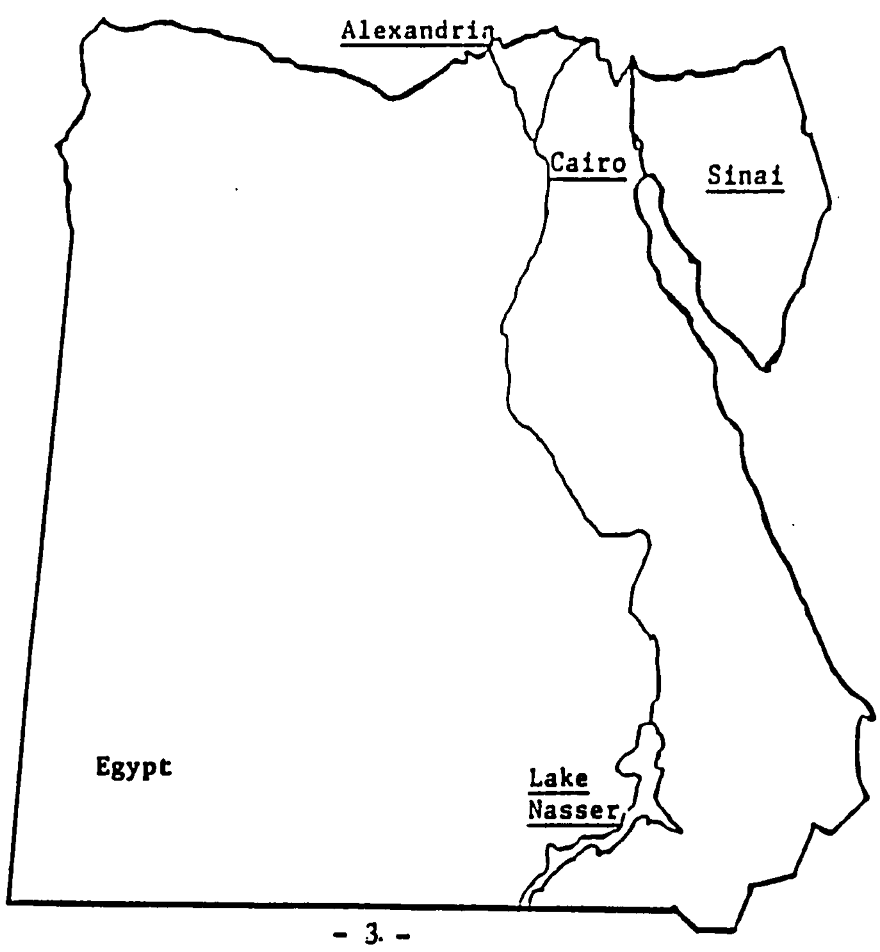
AGRICULTURAL RESEARCH CENTER STATIONS
Mataana
Field Crops Stations
Kom Ombo
Horticulture Stations
Animal Production Stations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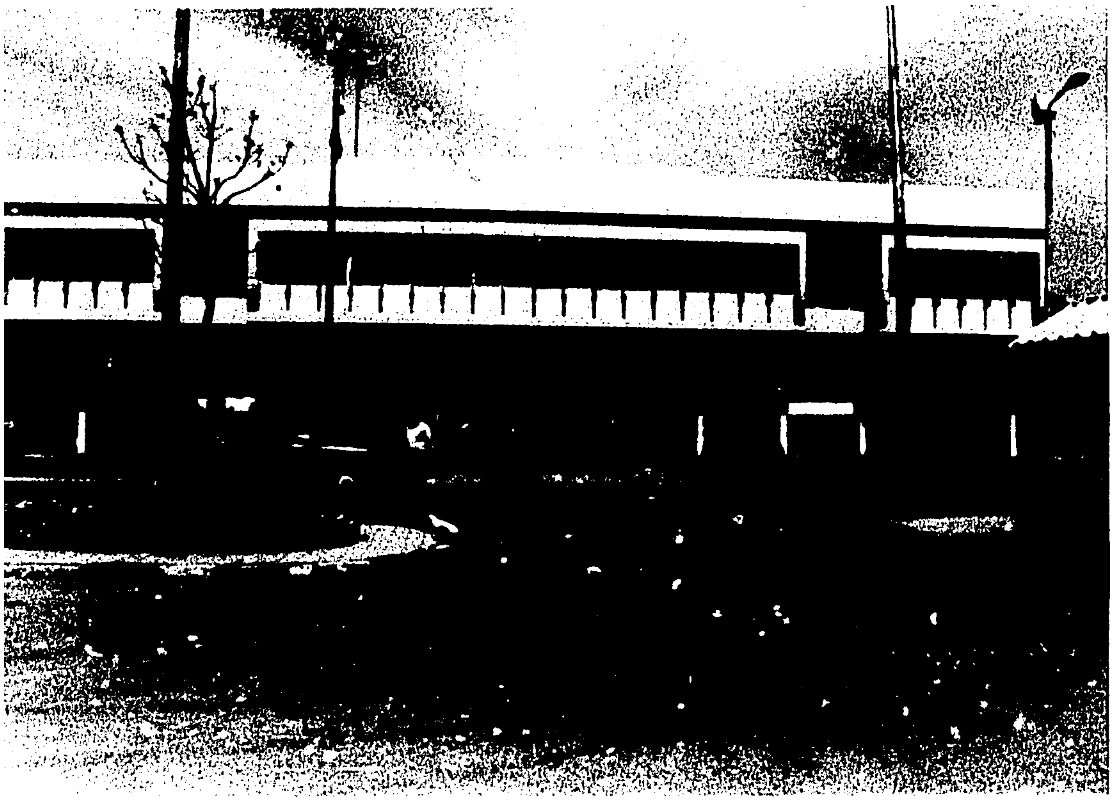

Photo 1. Modern Research Station Office and Laboratory Building.

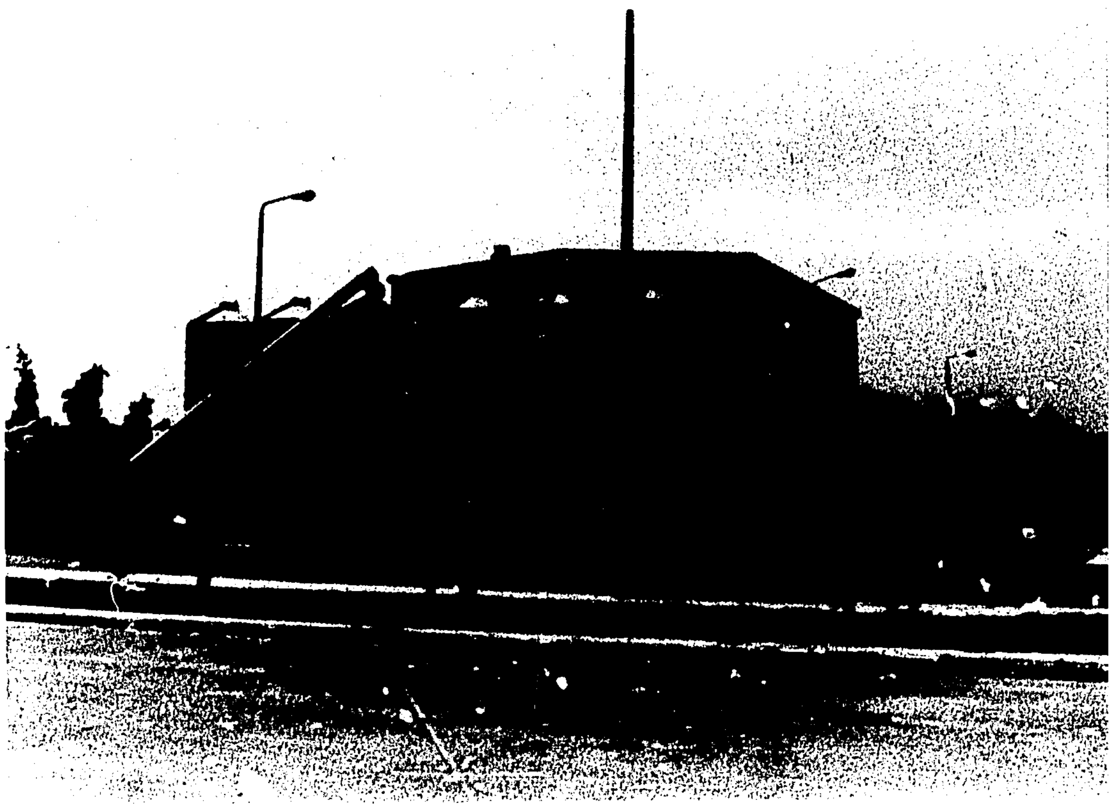

Photo 2. Newly Equipped Research Station Seed Facility.

Photo 3. Dilapidated Inadequately Equipped Research Laboratory.

Photo 4. Modern Well Equipped Research Laboratory.

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PART II - RESULTS OF AUDIT

The audit disclosed serious problems with regard to host country resources made available and/or planned to be made available to support the recurrent costs associated with the project and USAID/Egypt's oversight thereof, the adequacy of commodity procurement planning, project implementation and financial planning, and design and planning of the participant training program, including follow-up and evaluation. Another problem that came to our attention had to do with the unauthorized reproduction of computer software of U.S. origin.

Audit staff recommended that management action was needed in order to:

-- account for and verify any past GOE contributions;

-- ensure that all recurrent costs will be borne by the GOE at project completion;

-- ensure that all future procurement plans are based on needs assessments containing justifications for commodity requests;

-- amend the laboratory equipment plan to require a needs assessment for the purchase of any laboratory equipment whose quantities exceed the totals shown in the plan;

-- issue a Project Implementation Letter* delineating in detail the format and content of implementation and financial plans;

-- require that plans already approved or in process be revised to include quantifiable output indicators necessary to: direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose.

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* A Project Implementation Letter (PIL) is a formal, standardized form of communication between A.I.D. and a grantee on matters which are critical to prompt and efficient implementation of a project. In certain cases, PILs also authorize disbursement of funds.

-- require that the manpower development and training plan for the research component include the minimum elements required by A.I.D. handbooks;

-- ensure that any new academic participants not be approved for training unless they are eligible and fully qualified, and unless they will be able to complete their training and return to Egypt at least six months before the end of the project;

-- design and implement a more effective follow-up and evaluation system for returned participants;

-- require that funds be earmarked for appropriate follow-up activities for returned NARP participants; and

-- require that NARP's Executive Office comply with A.I.D. policy applicable to reproduction of computer software.

A. Findings and Recommendations

1. GOE Support for the Project, and Especially for Its Recurrent Costs, Could Not Be Determined

Although the National Agricultural Research Project (NARP) has been operational since 1985, the Government of Egypt (GOE) had provided no evidence during the audit showing that it had made any contributions to the project, as called for in Mission policy and as required by the grant agreement. Significantly, it had provided no evidence that it had funded or intended to assume the recurrent costs of project-financed activities. Because of its $300 million A.I.D. budget and the lack of GOE support evidence, NARP constitutes a substantial risk regarding the sustainability of A.I.D.-funded activities.* Consequently, we believe that USAID/Egypt should not commit additional funds to NARP activities until the GOE provides evidence of its ability and willingness to fund their recurrent costs as required by the grant agreement. Such evidence should include an accounting for all GOE cash contributions to NARP through June 30, 1989, and a reasonable basis for expecting that cash contributions will increase so that the GOE will have assumed the full burden of the project's recurrent costs when the project ends. The grantee should also be requested to report on all its contributions as called for by Mission policy.

Recommendation No. 1

We recommend that USAID/Egypt:

(a) commit no additional funds after December 31, 1989 to project activities unless the Government of Egypt provides evidence, by December 31, 1989, of its ability and willingness to fund the project's recurrent costs as required by the grant agreement. Sufficient evidential matter shall consist of: (1) an accounting for all host country cash contributions to NARP through June 30, 1989, and (2) a jointly signed Project Implementation Letter reiterating the Government of Egypt's agreement and willingness to increase its contributions to the project in accord with the schedule provided in the project paper and included in the March 1989 Project Implementation Letter #ALL-001 in order to ensure that all recurrent costs will be borne by the host country at project completion; and

(b) review its requirements for counterpart accounting established in Mission Order 3-31, and require that the grantee report counterpart contributions (cash and "in-kind" both) in compliance therewith.

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* The adequacy of GOE counterpart contributions and USAID/Egypt's monitoring thereof is not a new audit subject, as page 13-b of this finding section points out.

Discussion

Mission Order No. 3-31 states that, "it is USAID policy that the Government of Egypt (GOE) should make a significant contribution to the total cost of each bilateral project." According to USAID policy, the "central objective" in requiring aid recipients' financial involvement in projects is to "cause them to reveal their preferences, since the long run viability of any activity depends on the host government's placing sufficient value on project outputs."*

Under the amended grant agreement budget for the National Agricultural Research Project, the GOE will provide LE 219 million (about $75 million) as a life-of-project (LOP) contribution. The grant agreement does not specify what portion of the contribution will be in-kind or cash. However, it does require the GOE to make cash contributions to support the project's recurrent costs. While the grant agreement is silent as to how much will be in-kind or cash, the revised project paper indicated that the contribution would all be cash, of which we would have expected $11.7 million equivalent to have been provided through fiscal year 1989. The agreement also requires the grantee to provide A.I.D. "on an annual basis, with copies of its accounting records on local currency and in-kind contributions provided for the Project."

Because of its size -- the NARP A.I.D. budget totals $300 million -- and the lack of evidence of GOE support, we believe that NARP constitutes a considerable risk regarding the sustainability of A.I.D.-funded activities. This risk is all the greater since the GOE has proved unable or unwilling to fund continuing research under smaller predecessor activities such as the Rice Research and Training (263-0027), Agricultural Development Systems (263-0041), and Egyptian Major Cereals Improvement (263-0070) projects. In fact, according to the project paper, $18 million of A.I.D.'s planned contributions to NARP will fund "recurring operational costs" because "the GOE budget is now constrained" and "A.I.D. wants to maximize the return of the capital infrastructure (research buildings) it financed under previous agricultural projects."

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* This policy stems from Foreign Assistance Act Section 110 which requires not less than 25% counterpart contributions to A.I.D. projects financed from its Development Assistance Account. Since all USAID/Egypt projects are financed with Economic Support Funds, this provision of law does not apply. To its credit, however, USAID/Egypt Project Agreements with the GOE normally contain a similar, if not greater, counterpart contribution requirement.

The GOE's ability or willingness to provide necessary support to NARP has now become a critical issue. The grant agreement requires the GOE to "annually increase its cash contributions in support of the Project's recurrent costs so that, by the PACD [Project Assistance Completion Date] and beyond, allocations to the implementing agencies ... will meet all the Project's recurrent cost needs." A project paper schedule included as part of a March 1989 Project Implementation Letter (PIL) on grantee contributions shows this contribution increasing from about 25% of "operational costs" in U.S. fiscal year 1990 to 100% in 1993. Although NARP has been operational for four years and despite attempts by Mission staff to obtain information on contributions, the GOE had provided no information or evidence during the audit showing that it had made any contribution, whether in-kind or cash.

We attempted to determine what contributions the GOE may have made to NARP but were informed by an implementing agency official that agency records do not separately account for such contributions. If this is correct, we believe the implementing agency's accounting system must be redesigned or separate accounts maintained in order to comply with the grant agreement provision requiring an annual accounting of grantee contributions.

The GOE recently agreed to provide A.I.D. with information on its contributions each year in December. According to a cognizant Mission official, the information to be provided in December 1989 will cover contributions made during the GOE fiscal year ended on June 30, 1989. Information on contributions for the current fiscal year, during which, according to information included in a March 1989 PIL, the GOE is expected to begin to pick up about 25% of the NARP's "operational costs," will not be provided until December 1990. In light of the GOE's inability or unwillingness to fund the recurrent costs of predecessor projects' activities and the expanded scope of NARP's activities, we believe this delay in reporting on contributions, particularly for recurring costs, constitutes a serious problem that needs to be quickly addressed.

We also believe the GOE's proposed reporting arrangement is in conflict with Mission policy. Mission Order No. 3-31 on host country contributions advises that grantees should report quarterly on their financial contributions under project agreements. It states that:

> For continuing projects, where existing PILS do not specify cash and in-kind contribution reporting requirements, reasonable attempts will be made to introduce these requirements over the 6-month period following issuance of this M.O. An ideal time for adding these reporting requirements would be when the project is amended to provide incremental funding.

The 6-month period following promulgation of the Mission Order ended on September 16, 1989. However, we did not find evidence that reasonable attempts had been made to introduce a quarterly reporting schedule.

Management Comments

USAID/Egypt believes that the problem identified in the draft report regarding counterpart contributions was simply an accounting/reporting problem and not a failure by the GOE to fulfill its commitment to contribute to the project. In its judgment, the GOE is reasonably on track with its counterpart commitments to the project.

USAID/Egypt cites a GOE letter dated September 19, 1989 which purports to show cash contributions, which actually refer to certain Agricultural Research Center (ARC) expenditures (for its recurring costs), from July 1, 1986 through June 30, 1989. This report of past GOE budget expenditures for ARC totals over LE35 million. (Salary expenditures are treated as a non-cash contribution by USAID.)

In addition, two letters were recently sent by the Mission to reiterate and clarify the Government of Egypt's recurrent cost commitment. The Mission Director sent a letter to the Deputy Prime Minister and the Minister of Agriculture and Land Reclamation, dated December 7, 1989. By countersigning this letter, the Minister of Agriculture would agree to submit a budget request to the Ministry of Finance for NARP's recurrent costs in FY 1990/91 through the end of the project, currently estimated to occur in 1994. The second letter to the Ministry of International Cooperation (MIC) indicates that: (1) A.I.D. funds and the MIC-managed Special Account will, respectively, finance 75 percent and 25 percent of the recurring costs for the current fiscal year.

With regard to Recommendation No. 1(b), USAID/Egypt has reviewed Mission Order 3-31 requirements and found compliance in all areas except quarterly reporting of counterpart contributions. Since reporting more frequently than on an annual basis is not deemed particularly useful, it is amending Mission Order 3-31 to require annual reporting only. In addition, counterpart reporting has been made an integral part of the recently re-emphasized annual implementation and financial planning process, which should help ensure that reports are obtained on a timely basis.*

OIG Response

RIG/A/C would like to point out that Recommendation No. 1(a) is virtually a verbatim transcript of language suggested by the Mission and agreed to by this office at the Exit Conference for this audit held on 20 September 1989. The Mission's suggested wording is in the audit workpapers.

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* The reader is invited to peruse report Appendix 1 for the full text of USAID/Egypt's response to this and subsequent findings.

We are unable to agree that the somewhat surprising information recently provided by the Mission in its formal response to the draft audit report constitutes evidence that the Government of Egypt has made a cash contribution to the "National Agricultural Research Project." The information presented -- the grantee's September 19, 1989, letter -- states that from 1986 through June 30, 1989, the GOE provided about LE35 million (equal to about $15 million at the exchange rate in effect at the time the project was amended) in general budget support for the operational expenses of the Agricultural Research Center, the project's primary implementing agency. While the amount may be accurate, it has not been verified by the Mission nor does it constitute evidence that these funds or any portion thereof were used to support project, rather than regular ARC, activities. The letter presents assertions about ARC's budget, not evidence of cash contributions to NARP. To conclude otherwise -- that is, simply to attribute ARC's expenses to the project -- is to make no distinction between this pre-existing GOE entity and the A.I.D. project. A cash contribution, if this term is to retain any coherence, is an outlay which, in the absence of the project or grant agreement, would otherwise not have been made. Until evidence is provided that this is the case, we are unable to determine that any cash contribution has been made to date by the grantee. In other words, attribution does not equal "contribution," in RIG/A/C's opinion.

We agree that the Mission's two recent letters, when countersigned by GOE officials, will provide additional assurance of the GOE's commitment to support the recurring costs of project-funded activities. However, the implementation letter addressed to the Deputy Prime Minister and Minister of Agriculture and Land Reclamation proposes that, "since the needed funding for the ongoing fiscal year has not been immediately forthcoming," the host country's cash contribution to support the project's recurring costs be met with Special Account funds. We believe this letter shows that the Mission has concluded that the GOE will not be able to provide its share -- LE3.5 million (25%) as shown in the letter -- of the project's operational costs this year. We also believe the letter tends to refute by implication the Mission's claim that the LE35 million budgeted by the GOE through June 30, 1989 for ARC's operational costs was in fact a cash contribution to "NARP."

In a February 6, 1987 memo to the Assistant Administrator for Program and Policy Coordination entitled: "Host Government Failure to Provide Agreed Upon Financial Support to Developmental Projects," the Inspector General expressed concern at the practice of using special account funds to finance host country contributions to projects as follows:

> I have problems with this use of funds generated from one A.I.D. program and used in another A.I.D. project as part of the host government's contribution... What concerns me is that by doing this, no permanent provision is made within the host government budget to ensure continuing support for the project. When these counterpart funds are not available, it becomes conjectural whether

> the host government can or even will support the project. This financing method, in other words, does not really demonstrate any host government vested interest in the project, the clear requirements of provisions included in the law.

The Inspector General's comments presaged a concern which has since gained prominence among top Agency managers under the term "sustainability," as a recent telegram from the Assistant Administrator for Africa & Near East confirms (copy of STATE 228975 is on page 13-a following).

Since it is unclear to us how the Mission intends to treat the LE35 million alleged past "contribution" which we are unable to accept at face value, this part of the recommendation is considered to be "unresolved" upon report issuance. We urge the Mission to clarify this matter at its earliest convenience and also to undertake a valuation of the GOE's claimed in-kind contributions to NARP which it has yet to accomplish. The Mission is hereby advised that in the view of the Inspector General, all host country project inputs, whether in cash or in-kind, should be "additional," that is, net new resources or net new uses of pre-existing assets, in order to be considered real "contributions" to A.I.D. projects.

With regard to Recommendation No. 1(b), it is the Mission's prerogative to revise its policy as it wishes to respond to changed circumstances and needs. Since the Mission now believes quarterly reporting on counterpart contributions is not particularly useful, we accept its judgment on when to report the contributions and consider this part of the recommendation to be closed. However, we are unaware of any changed circumstances other than this audit report and recommendation that may have prompted the revision of a policy promulgated less than one year ago in March 1989. We should also reiterate that under current reporting arrangements, information on counterpart contributions for the current fiscal year during which the host government is now expected to begin to pick up about 25% of the project's recurrent costs, will not be provided until December 1990.

ACTION: AID 4 INFO: DCM ECON /6

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R 222202Z SEP 89 ZEX ADD:
FM SECSTATE WASHDC
TO USAID MISSIONS IN ASIA AND THE NEAR EAST
XMT AMCONSUL NAPLES
AMEMBASSY RANGOON
AMEMBASSY SINGAPORE
BT
UNCLAS STATE 305590

ACTION TO PDS DIR
ACTION TAKEN DATE 10/1
NAR INITIALS

AIDAC FROM AA/ANE TO ALL MISSION DIRECTORS AND AID/REPS

E.O. 12356: N/A
TAGS:
SUBJECT: SUSTAINABILITY

REF: STATE 228975

1. A RECENT STUDY DONE BY CDIE FOR MARK EDELMAN SUGGESTS WE COULD DO BETTER IN DESCRIBING THE SUSTAINABILITY OF OUR PROJECTS IN CP AND CN FACT SHEETS.

2. I CANNOT EMPHASIZE ENOUGH THE IMPORTANCE OF SUSTAINABILITY TO THE SOUNDNESS AND INTEGRITY OF OUR PROJECTS AND PROGRAMS. AS WE DESIGN NEW ACTIVITIES AND MANAGE ONGOING PROJECTS, I WANT TO SEE RIGOROUS AND SOUND ASSESSMENTS OF THE FINANCIAL AND INSTITUTIONAL SUSTAINABILITY OF EACH PROJECT. THESE ASSESSMENTS SHOULD BE REFLECTED IN ALL KEY PROJECT DOCUMENTATION -- PIDS, PPS, PIRS, CP AND CN DATA SHEETS.

3. ANE/TR IS DEVELOPING EXPERTISE IN THIS AREA THROUGH ITS INSTITUTIONAL SUSTAINABILITY INITIATIVE IN AGRICULTURE, NEW ACTIVITIES IN HEALTH CARE FINANCING AND ENERGY, AND THE BEGINNING OF A NEW STRATEGY IN

MANAGEMENT AND FINANCING OF EDUCATION. I PLACE THE HIGHEST PRIORITY ON BEING ABLE TO ASSIST YOU IN MAKING FINANCIAL SUSTAINABILITY THE BACKBONE OF OUR PROJECTS. WE MUST ASK OF OUR ACTIVITIES: WHEN AID FUNDING ENDS, WHO WILL PAY FOR IT, AND WHO WILL MANAGE IT.

4. AS YOU KNOW, INSTRUCTIONS WERE ISSUED SOME TIME AGO REGARDING TREATMENT OF SUSTAINABILITY IN CP AND CN DATA SHEETS. IT IS A KEY CONGRESSIONAL CONCERN AND LIKEWISE A CENTRAL CONCERN OF MINE AND MARK EDELMAN'S. PLEASE SEE TO IT THAT SUSTAINABILITY IS ADEQUATELY DISCUSSED IN THE CP AND CN DATA SHEETS PREPARED IN THE MISSION HENCEFORTH. EAGLEBURGER
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AUDIT OF
CONTROLS OVER GOVERNMENT OF EGYPT
CONTRIBUTIONS TO USAID-FINANCED
PROJECTS IN EGYPT*

PART II - RESULTS OF AUDIT

The audit showed that USAID/Egypt ineffectively monitored GOE commitments to make the contributions specified in project agreements. Accounting controls were virtually nonexistent.

USAID/Egypt explained that its predominant role in project implementation was to make sure projects were carried out and, in doing so, monitoring the contributions was not of great importance. Nevertheless, to the Mission's credit, most project agreements required substantial GOE contributions. About 40 percent of total project costs were expected to come from the GOE.

USAID/Egypt's monitoring system did not ensure that host country contributions were made. Additionally, Mission project officials did not determine the extent of GOE contributions to completed projects.

This report recommends that USAID/Egypt establish procedures for better monitoring of host country contributions, including developing contractual language for project agreements that will more clearly distinguish between cash and in-kind contributions. The report recommends that the GOE establish discrete project accounts for its contributions. Finally, the report recommends that Project Assistance Completion Reports be prepared as required, and in particular that there be a reconciliation of planned (agreed-upon) contributions with actual contributions. USAID/Egypt generally agreed with the recommendations made.

* RIG/A/Cairo Audit Report No. 6-263-87-4, March 12, 1987 (excerpt from page 4).

2. Procurement Planning Was Inadequate

Under the National Agricultural Research Project, the Government of Egypt's Agricultural Research Center (ARC) and Undersecretariat for Agricultural Economics and Statistics are responsible for planning the procurement of $71.3 million worth of "commodities" including vehicles and laboratory, library, office, and farm equipment. Plans submitted by ARC and approved by A.I.D. for purchasing laboratory, farm, and library equipment under the project's research component contained no justifications for the purchases. Our review of ARC's process for compiling the laboratory equipment plan found little if any attempt to relate equipment requests to specific research needs or equipment inventories. Good management practice requires that expenditures be made for needed purchases only. Otherwise, A.I.D. risks squandering money on unused goods that may needlessly add to an organization's operating expense burden. After we discussed the three plans' shortcomings with A.I.D. officials, they instructed GOE project managers to include "needs assessments" for requested commodities in all subsequent procurement plans. We also found that actual laboratory equipment purchases under the laboratory plan's first two procurement phases exceeded planned totals. Because follow-on procurement phases could be similarly inflated and because the laboratory equipment budget -- $12.8 million -- is large, we believe that A.I.D. should extend the requirement for a needs assessment to all future laboratory equipment purchases whose totals exceed those shown in the laboratory equipment procurement plan.

Recommendation No. 2

We recommend that USAID/Egypt:

(a) obtain from the grantee a needs assessment in all future procurement plans in order to justify commodity requests; and

(b) obtain from the Agricultural Research Center an amended laboratory equipment procurement plan, including a needs assessment, as described in Project Implementation Letter No. ALL-001, Amendment No. 2, for all future equipment purchases whose quantities exceed the totals shown in the plan. This assessment should show where the equipment will be used and what research needs it will address.

Discussion

Under the current budget for the National Agricultural Research Project (NARP), $71.3 million of A.I.D's $300 million life-of-project (LOP) contribution will be for "commodities" including vehicles and office, laboratory, and farm equipment. A.I.D. policy on procurement planning states that "AID requires most projects to have a procurement plan prepared as part of project development." No such plan was prepared under NARP. However, the project agreement required the grantee to "furnish to A.I.D . . . an implementation plan for the procurement of . . . commodities." Guidance subsequently provided in Project Implementation Letters (PILs) instructed the grantee to prepare "sub-plans" corresponding to the project's five components -- Technology Transfer, Policy Analysis, Seed Technology, Management/New Initiatives, and Research -- and to the various commodity categories such as vehicles, office equipment, laboratory equipment, etc. In all, 15 such plans are to be prepared. At the time of the audit, only three plans had been prepared by the grantee and approved by A.I.D. -- those for laboratory, library and farm equipment under the project's research component. These procurements are expected to total $12.8 million for laboratory equipment, $3.5 million for library equipment, and $3.2 million for farm equipment.

We reviewed these three plans, which were prepared in 1987, and found that they included no information as to why the equipment was needed to attain research component objectives. The plans for farm and laboratory equipment state that "equipment needs lists" submitted by researchers were reviewed and analyzed against an overall equipment inventory. However, the plans contain no further information on the lists, the analyses, or the inventories. They simply list the commodities to be procured, their specifications, estimated costs, the phases of procurement, and the locations -- research institutes, stations, etc. -- where the equipment presumably is needed and will be used. We discussed these shortcomings with A.I.D. staff and suggested that the plans explain why the equipment is needed in the requested quantities.

As a result of these discussions, A.I.D. issued a PIL in March 1989 requiring that all subsequent procurement plans "include both evidence that the items to be ordered are appropriate under Egyptian conditions and needs assessments which demonstrate that the items to be ordered will fill the gap between those items needed to meet project objectives and those items on hand, i.e., in relation to the current inventory." The PIL also advised that the three approved plans "should be amended according to the above information if and when commodities which are not included in the original plans are to be considered for procurement under the project."

This PIL was issued in March 1989. At the time we completed our audit, the grantee had submitted no subsequent procurement plan with a needs assessment. Although the three approved plans contained no "needs assessments," we wanted to determine whether an actual assessment of needs had, nevertheless, been made by implementing agency officials. We interviewed these officials and reviewed other documents, as available, to see whether commodities listed in the laboratory and farm plans could be related to actual research needs. We also visited several ARC research stations and institutes and found that some of them were poorly equipped while others were well equipped.

We found little evidence showing that the commodities listed in the plans were related to demonstrable research needs. We also found that the Project Paper contained information actually contradicting the need for some requested equipment. We also found that most laboratory equipment is being purchased in quantities exceeding the totals shown in the plan. Since the plan had not been amended to include the additional purchases, it is not clear where the equipment will be used or what research needs the additional equipment will address. Additional facts relating to these findings are contained in Exhibit 1.

ARC's entire research program is eligible for A.I.D. support under NARP as currently designed. Because the project design has not specified research priorities and because resources are finite, we believe it is important that resources be allocated only to activities in which a demonstrated need for them exists. It is even more important that resources not be squandered on unneeded procurements or contribute to capacities that needlessly add to the recurrent cost burden created by A.I.D.-funded activities.

Our review of ARC's procurement plans for NARP's research component found they contained no justifications for equipment requests. Our review of ARC's process for compiling the plans found little effort to relate requests to specific research needs. Moreover, we believe the apparent inflation of the first two phases of laboratory equipment procurement raises further questions about the implementing agency's process for assessing these needs. Because the amount of commodity procurements under NARP's budget is large, we believe the implementing agency should provide adequate and reasonable justification for its purchases.

Management Comments

USAID/Egypt was in agreement with our finding relative to the necessity for a needs assessment in all future plans in order to justify commodity requests. They expect to receive at least one of the seed technology component procurement plans with a satisfactory needs assessment in December 1989. With regard to requiring an amended laboratory equipment procurement plan, the USAID has provided additional guidance to ARC for all future equipment procurement.

OIG Response

Recommendation No. 2(a) is considered resolved and will be closed when we are able to determine that the grantee has submitted a procurement plan containing an assessment of the need for requested commodities. Recommendation No. 2(b) is closed based on the issuance of PIL ALL-001, Amendment No. 7, which requires the grantee to submit a revised procurement plan for all future equipment purchases that exceed plan totals.

3. Project Implementation and Financial Plans Were Inadequate

In accordance with the third amendment to the project grant agreement and as further specified in Implementation Letter No. ALL-001, amendment No.2, dated March 26, 1989, the grantee is to provide A.I.D. with an annual implementation and financial plan for each of the five NARP components. Specific guidance on the content as well as the need for adequate implementation plans is spelled out in A.I.D. Handbook 3, chapter 9. The audit showed that required annual implementation plans had not been prepared in a timely manner nor did they contain specifics sufficient to provide management with the information necessary to direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose. This came about in large part because the Mission had not formally delineated in detail the format and content of the required plans. The lack of adequate implementation and financial plans for so large and complex an activity was seen as a serious managerial deficiency which casts doubt on the eventual outcome of this important and costly A.I.D. undertaking.

Recommendation No. 3

We recommend that USAID/Egypt, in consultation with cognizant Government of Egypt officials:

(a) issue a project implementation letter providing detailed guidance on the format and content of the required implementation and financial plans; and

(b) for plans already approved or in process, obtain quantifiable output indicators sufficient to direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose.

Discussion

In accordance with the third amendment to the project grant agreement, dated September 29, 1988, and as further specified in Implementation Letter No. All-001, amendment No. 2, dated March 26, 1989, the grantee is to provide A.I.D. with an annual implementation and financial plan for each of the five project components in form and substance satisfactory to A.I.D. Plans are to be approved by A.I.D. before each July (start of GOE fiscal year) and describe both time-phased outputs to be achieved over the grantee's next fiscal year, and review planned outputs achieved over the prior year. The actions required to produce the planned outputs are to be identified, as well as who will take the necessary action, and when. The plans should be submitted to A.I.D. in May of each year in order to allow sufficient time for obtaining A.I.D.'s approval before July.

In accordance with A.I.D. Handbook 3, chapter 9, good management planning should cover: what events must take place; who is responsible for the action; the resources needed to accomplish events; when events should take place; the interdependence among events; how events should be accomplished; the criteria for successful completion of events; how the overall scheme of events is constituted and relates to the project environment. If events are not proceeding in accordance with the original plan, the plan update should identify what actions are off-track, and management's alternatives. How helpful these tools will be to project management will depend upon the quality of the planning tool and the skills and motivation of the user.

An operationa implementation plan must specify all actions to be taken to implement the project, indicate the times when actions are to begin and end, identify the resources needed to complete the tasks, and the responsible parties. Depending on the degree of control needed and the importance of an action to the overall implementation scheme, the scheduled start "time" of an activity should be clearly indicated, e.g., a week, a month, or a quarter. "Actions" should, where possible, be broken down into their component parts. These component parts should represent identifiable, measurable and manageable units. With particular respect to contracting and procurement, all steps of the process and dates for their completion should be shown. Such detail is necessary to enable the GOE and USAID project managers to exercise control, predict slippages, and take appropriate corrective actions. If the steps necessary to complete a given action are not scheduled separately and easily identified as benchmarks in reporting systems, delays may not be discovered until deficiencies in one area cause delays and problems in others.

Planning for more complex projects which include several components, or in which several contractors play a part and must interact, usually involves the preparation of a number of subsidiary schedules which are then combined and summarized in an overall or "master" schedule. The subsidiary schedules should contain all necessary detail while the master schedule might show only those events which will permit an assessment of overall progress -- thereby enabling overall project management control. If networks are used in scheduling, the integrated master schedule must explicitly identify at what points delays occurring in events shown on one subsidiary schedule will affect events of another subactivity or the project schedule itself, e.g., affecting or changing the "critical path" of a network. Examples of subsidiary schedules are a logistics schedule, procurement plan, manpower schedule, financial schedule, administrative actions and evaluation plan.

In August 1989 implementation plans were received late but approved by A.I.D. for three of the five NARP components. These plans were for the research, technology transfer, and seed technology components. The plans for the project management/new initiatives and policy analysis components were expected shortly thereafter.

Our analysis of the research component plan disclosed major deficiencies which could seriously limit the Mission's ability to measure project progress, identify problem areas quickly and reach informed decisions. This is especially significant given that $174 million is budgeted under the project for the research component. Significant elements of the research component were addressed in very general terms only. For example, $16 million budgeted for international collaborative research was dealt with in general terms relating primarily to training and technical assistance to be provided under a separate element of the research component. Limited specifics were provided in terms of planned implementation of the activity. Planned implementation of the $9.5 million research facilities improvement activity was not addressed. The private sector's role in the $16 million research grant program was barely mentioned in passing as requiring no action due to the urgency of funding public sector institutions. Only general outputs were identified for the $8 million land improvement element. Actual implementation was not addressed. Overall, elements of the plan were not always broken into component parts resulting in identifiable, measurable and manageable units. The resources needed to complete the tasks and responsible parties were not specified. Use was not made of subsidiary schedules. Deficiencies were also noted in other plans.

While USAID/Egypt approved the three plans submitted, they were admittedly less than optimum products. This was especially true with regard to the implementation and financial plan submitted for the research component. In this particular case, USAID expressed a number of reservations. Most notably, the research plan lacked specifics and needed to identify much more clearly the outputs or targets in order to measure project progress. Also, USAID considered it unlikely that the research component would be able to expend nearly $18 million as predicted in the plan over the next year. Only a total of $17 million had been disbursed since inception of the project in 1985.

In conclusion, the plans submitted by the implementing agencies and approved by A.I.D. do not provide management with the information necessary to direct the work in an efficient manner, determine progress at any point and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose. The necessary detail was not provided to enable management to exercise adequate control, or predict slippages and take appropriate corrective actions. Without separately scheduled and identifiable detail, delays may be discovered only after it is too late.

While the Mission was well aware of the shortcomings of the research component plan, efforts to bring about necessary revisions were unsuccessful. In the end, the plan was approved with minor qualifications; namely, that in the future it would be helpful to have a conference early each year to discuss and finalize a standardized format. Also, it was suggested that next year's plan should be more specific and have much more clearly defined outputs or targets for all aspects quantified by quarter throughout the year.

While we applaud the Mission's efforts to bring about many of the necessary changes and/or revisions to the revised research component plan, we do not believe it should have been approved in its current state. Also, we believe certain shortcomings exist in the other NARP plans approved by A.I.D.

Management Comments

USAID/Egypt has issued detailed guidance on the format and content of implementation and financial plans which has been sent to the GOE. Also, they have worked extensively with component directors in preparation of an output summary for each component. The new summary format has been incorporated into the quarterly reporting process. The review of quarterly progress against the quantifiable output indicators set in this summary format will provide NARP's managers with the information necessary to direct implementation, stay on schedule or predict slippages, and identify appropriate corrective actions.

OIG Response

Recommendation No. 3 is closed upon report issuance.

4. Planning and Design of NARP's Long-Term Academic Participant Training Program Were Inadequate

The academic participant training program of the National Agricultural Research Project's (NARP) research component was inadequately designed and planned. Requirements in USAID Handbooks 3 and 10 regarding the adequacy and timeliness of a training needs assessment and training plan were not met. Specifically, a sufficient number of qualified candidates was not identified to fill the available training positions. USAID/Egypt approved the training program despite the deficiencies in design and planning with the result that academic participant training under NARP's research component was significantly delayed. This delay will likely prevent many participants not yet approved for academic training from completing their degrees at least six months before the Project Assistance Completion Date (PACD). USAID Handbook 10 states that all participant training should be completed no later than six months prior to the end of a project. We believe that the project will not achieve the targeted number of academic degrees within the time frame required by Handbook 10. Those participants who do not return during the life of the project are likely to experience significant training and work reintegration problems. Furthermore, other project objectives may be adversely affected due to the delayed contributions of returned participants.

Recommendations No. 4

We recommend that USAID/Egypt:

(a) obtain an amended Manpower Development and Training Plan for the research component to include the minimum elements required by Handbooks 3 and 10, namely:

1) a list of the selection criteria,

2) a complete list of qualified candidates, including at least one alternate for each academic position, and

3) detailed, time-phased implementation steps indicating when candidates will be: qualified in English, sent overseas, expected to return home, and the position they will occupy upon their return; and

(b) withhold approval of any further National Agricultural Research Project academic participants absent reasonable assurance that the participants will be able to complete their training and return home at least six months before the Project Assistance Completion Date. This recommendation may require that the number of PhD participants be reduced, and/or the Project Assistance Completion Date be extended again to allow time for completion of targeted PhD's.

Discussion

A complete training needs assessment document was never produced for NARP's research component which has a participant training budget of $23.6 million. The assessment of training needs was more a process rather than the development of a formal assessment report. Research directors submitted training requests to a NARP training committee which approved the requests based on Ministry of Agriculture (MOA) priorities and available budget. A list of 76 desired PhD programs in various agricultural fields was included in the Manpower Development and Training Plan issued by the GOE in November 1987. However, no assessment of the availability of candidates was included.

USAID Handbook 10 specifies:

> Training needs assessments are to be conducted collaboratively with the host country <u>prior to or during project design</u> in order to establish the number of participants to be trained, the type, level and location of their training as well as the availability and general qualifications of the participant candidates (emphasis added).

The assessment of training needs should have been completed before or during project design, but was not scheduled to occur until five months after the project agreement was signed.

As a result of the delay in assessing training needs, the research component training plan was issued by NARP officials 17 months after the preliminary training plan was scheduled in the original project paper. With the training program significantly behind schedule, USAID/Egypt approved the plan, although it lacked some of the minimum requirements set forth in USAID Handbooks 3 and 10. Specifically, it did not include a detailed implementation schedule, the criteria to be used for candidate selection, nor a list of participant candidates, including at least one alternate for each position identified in the needs assessment.

The untimeliness of the research component needs assessment and training plan contributed to significant delays in deployment of participants overseas. The revised NARP project paper indicates that 76 PhD candidates were scheduled to begin training under the research component during USAID fiscal year 1989. As of August 31, 1989 only 2 PhD candidates had actually begun training in the U.S. Twenty-eight other PhD candidates had begun their course work at Egyptian universities with plans to conduct their research projects in the U.S. sometime in the future.

Some candidates had been nominated, but fewer than those needed to fill the 76 PhD training slots. No nominations had been made for three slots while only one name had been proposed to fill another 12 slots. According to USAID Handbook 10, alternate candidates for training should always be nominated to ensure that an individual will be available to fill the targeted position.

USAID Handbook 10 states that all participants should complete their training and return home at least six months prior to the end of a project. We believe that the delay in getting participants started and the lack of nominations in certain areas of study will cause many of the targeted academic objectives for the research component not to be achieved. Originally, NARP's PACD was set for September 30, 1992. Even though the PACD has been extended two years, many of the research component PhD candidates will probably not be able to complete their training at least six months before the project ends.

The Mission's Participant Training Information System showed that past USAID/Egypt participants obtaining a PhD in agriculture during the 1980's took an average of 5.4 years to complete their degrees. Some participants took as long 6-7 years. In order to return at least six months before the PACD, new NARP participants, who begin training after September 1989, must complete their degree in less than 4.5 years. With less than 50 percent of the targeted number of research component PhD participants actually deployed, we believe the achievement of all the research component's academic objectives is unlikely.

USAID Handbook 10 explains that the practice of returning at least six months prior to the end of a project is necessary because:

> . . . experience has shown participants who return close to, or after, the PACD of the sponsoring project frequently experience significant reintegration problems, including misunderstanding of project goals, exclusion from the host country team on the project and/or the actual loss of jobs.

The difficulties experienced by participants whose training extends beyond the end of their original project are illustrated by 29 Egyptian participants studying for PhDs in the U.S. under prior USAID projects, and who were transferred to NARP for funding in August 1986, after their sponsoring projects had ended. They were not part of the total number of participants originally targeted under NARP. Of the 29 candidates, twenty exceeded the 60-month time limit specified in Mission Order 10-1 for completing training, five exceeded the $100,000 spending limitation in Mission Order 10-1, two terminated their training early, and eight did not return directly to Egypt after obtaining their degree.

The scope of this audit finding is limited to NARP's research component, which encompasses the bulk of the academic training budget. Two other NARP components, technology transfer and seed technology, include academic training elements but did not have approved training plans at the time of this audit. While we are making no formal recommendations with regard to those components, we believe that due consideration should be given to these findings and recommendations in the development and implementation of other components' training plans.

Management Comments

USAID has reached agreement with the Agricultural Research Center (ARC) and their consultants, the Consortium for International Development, that the Research Training Plan will be appropriately amended and approved by A.I.D. by March 1, 1990. After receiving the amended Training Plan mentioned above, USAID expects to have sufficient justification to consider an extension of the project to allow all planned PhD candidates to return to Egypt at least six months before the PACD. A PIL has been issued which indicates that in accordance with USAID guidelines and the current PACD, no PhD training program will be approved if the degree training starts after March 1990, unless the PACD is extended.

OIG Response

Recommendation No. 4(a) is considered resolved but will remain open until the training plan has been completely amended. Recommendation No. 4(b) is also considered resolved and will be closed upon receipt of reasonable assurance that those PhD candidates currently in process for departure before March 1990 will be able to complete their training and return home at least six months before the Project Assistance Completion Date. We remain skeptical that all PhD candidates will return six months before the PACD based on the fact that past GOE agricultural trainees took over five years, on average, to obtain their PhDs.

5. A Formal System For Follow-up and Evaluation of Returned Participants Has Not Been Implemented

USAID/Egypt does not yet have in place an adequate system to ensure follow-up and evaluation of participants who return from training under the National Agricultural Research Project (NARP). USAID Handbook 10, Mission Order 10-1, and USAID Staff Notice 87-053, delineate specific responsibilities for follow-up and evaluation, but these requirements have generally not been followed nor has a formal system for follow-up and evaluation been implemented. We believe that without a formal follow-up and evaluation system, USAID/Egypt will not be able to systematically verify that NARP participants have returned to Egypt, nor have the means to measure the impact of participant training in achieving NARP goals and objectives. This is especially significant considering that the project has a participant training budget of about $40 million.

Recommendation No. 5

We recommend that USAID/Egypt:

(a) design and implement a participant trainee follow-up and evaluation system as described in A.I.D. Handbook 10; and

(b) require that funds be earmarked for appropriate follow-up activities for returned NARP participants.

Discussion

Participant training is considered to be a vital element in A.I.D. assistance to Egypt. The amended NARP budget includes over $40 million for participant training. Follow-up and evaluation of returned participants is essential to contribute toward and measure the success of such a large investment in Egypt's agricultural sector. Follow-up is a two-part process that includes the maintenance of Mission records on former participants for the purpose of tracking and evaluation, and promoting activities for returned A.I.D. participants designed to utilize, reinforce, extend and transmit to others the technical and managerial knowledge acquired during their training.

Inspector General Audit Report No. 6-263-87-2, "Audit of Project-Related Participant Training for USAID/Egypt," dated October 30, 1986, showed that effective follow-up and evaluation procedures for returned participant trainees had not been established at that time. It recommended that USAID/Egypt establish a workable follow-up and evaluation system. The resulting Staff Notice No. 87-053, dated March 9, 1987, addressed the audit recommendation by reminding Associate Directors and Office Directors that they were responsible to ensure that project officers, and where appropriate, pertinent contractors, adhered to Mission-approved guidelines. (See Exhibit 2 for the contents of this Staff Notice.)

A Mission Training Office official advised us that USAID still has not implemented a formal follow-up and evaluation system. Evidence lies with several academic participants who were transferred to NARP from prior projects have completed their training but their return to Egypt has not been documented in Mission Training office files, nor have any evaluation reports on their training been prepared. Further, the contract between the Government of Egypt (GOE) and its contractor for NARP academic training, San Diego State University Foundation (SDSUF), does not specify any contractor responsibilities regarding the performance of follow-up on participants once they return to Egypt. Since the contractor is not obligated to perform follow-up activities, the obligation falls on the Mission per USAID Handbook 10, which states:

> It is AID policy that every AID Mission, in collaboration with the host country, provide general follow-up activities to returned AID participants and maintain and update records for a minimum of three years on former participants who were trained for periods of three months or longer.

In addition, Handbook 10 specifies that:

> It is AID policy that when a returned participant demonstrates significant professional achievement in his/her job and/or personal advancement, the Mission will extend the minimum follow-up period beyond three years in order to further track and support the individual.

In our opinion compliance with these two policies will be difficult without a formal follow-up system to establish and maintain contact with returned participants. Also, it will be necessary to maintain current data in the Mission's Participant Training Information System (PTIS).

An adequate follow-up system is also necessary in order to monitor and report on participants who fail to return to Egypt after training. Handbook 10 states that Missions must be able to identify participants who do not return home at the end of their training program. After verification of a participant's intent not to return, the Mission must notify the Office of International Training (OIT) for referral to the U.S. Immigration and Naturalization Service.

USAID Handbook 10, chapter 35, provides detailed guidance concerning the development of a formal follow-up system, and suggests several follow-up activities. An essential step is the assignment of one or more follow-up officers to "plan and develop the Mission's general follow-up program." It is the follow-up officer's specific responsibility to maintain personal and/or written contact with returned participants for a minimum of three years, arrange for formal presentation of "Certificates of Achievement" to <u>all</u> returned AID-sponsored participants, submit to OIT an annual Returned Participants Follow-Up Activities Report, notify OIT of any activities of special merit and participant "success stories," and undertake or assist in suggested follow-up activities, including:

- organization of conferences, workshops and seminars;
- publication of newsletters and professional journals;
- creation and support of Alumni Associations;
- organization of a Technical Literature Service;
- extension of membership in American professional societies; and
- use of returned participants to orient new participants.

These activities should be funded from NARP's training budget. A.I.D. Handbook 10 states:

> It is AID policy that projects with participant training contain additional specific funding for appropriate continuing education and follow-up activities on the participants' return.

To ensure compliance with this policy, specific follow-up funds should be provided within the participant training budget. Activities beyond NARP's PACD will require additional Mission funding. We would also support the use of local currency from the Special Account for this purpose, especially if follow-up is needed portfoliowide, and not confined only to NARP.

NARP participant training plans call for 169 PhD and Master's degrees, and 801 post-doctoral and overseas short-term study courses. We believe that follow-up and evaluation of NARP's participant training is needed in order to measure the success of the training provided under the project.

The Mission Training Office plans to hire a contractor within the next six months to implement a pilot follow-up program as a response to recommendations made three years ago in a prior audit report. If successful, a larger program will be implemented in order to update Mission records, evaluate the training of returned participants, and undertake follow-up activities.

Management Comments

USAID has approved a PIO/T to contract for services to help design and implement a more effective Mission-wide follow-up and evaluation system for returned participants. This contract is expected to be signed this month. Based on the PIO/T, USAID has issued a PIL which earmarks $50,000 for follow-up activities for returned project participants. This earmark will be amended and funding increased if necessary to follow-up on all participants who have returned during the past three years, and who will return in the future. Furthermore, they have taken action to ensure that all project implementation plans contain provisions for training as well as follow-up funding.

OIG Response

Recommendation No. 5(a) is considered resolved and can be closed upon execution of the contract. Recommendation No. 5(b) is closed upon issuance of the report.

6. Computer Software Was Improperly Reproduced

The Executive Office responsible for administration of the National Agricultural Research Project (NARP) has copied computer software acquired under PIL 16 of the project and is using the reproduced software on various microcomputers purchased under the same PIL. U.S. copyright law does not allow a user to reproduce software without purchasing multiple licenses, nor does it allow a user to have the same copy of software on more than one computer. According to a NARP official, and unbeknownst to the Mission, the software was copied on various computers in order to avoid the cost of purchasing multiple original licenses. In the United States, such reproduction and use violate copyright laws and could lead to civil damages as well as criminal penalties. According to a USAID legal officer, these laws are not binding in Egypt. However, it is A.I.D.'s policy to discourage such "pirating" of computer software.

Recommendation No. 6

We recommend that USAID/Egypt require NARP's Executive Office to comply with pertinent A.I.D. policy by: erasing all unlicensed software from existing microcomputers; erasing all unlicensed software on diskettes or other storage media, except as required for backup; and purchasing additional licensed software and/or site licenses as needed for each microcomputer.

Discussion

NARP's Executive Office recently purchased 16 separate microcomputers under PIL 16. They also purchased numerous U.S.-developed software programs. Many of the software programs have duplicate functions. For example, the newly acquired programs include eight different brand-name database programs, eight different art/graphics programs, and four different word processing programs. Only one original license was purchased for each software program. Many of the programs have been copied for use on some or all of the 16 microcomputers.

Department of State telegram 340425 (Exhibit 3), dated 19 October 1988, deals with this subject warning that making unlicensed copies of software, or using the same copy of software on more than one computer at the same time is in violation of U.S. copyright laws. The cable strongly urges project teams to discourage host country institutions and contractors from bypassing U.S. copyright and licensing laws.

A GOE official responsible for procuring NARP Executive Office data processing equipment indicated that software programs were reproduced in order to avoid the cost of purchasing original programs for each microcomputer. Software programs can cost several hundred dollars each. He also stated that many of the more popular programs for word processing or electronic spreadsheets had been copied to some or all of the 16 microcomputers. Other more specialized programs had been copied to only a few microcomputers. Another NARP official estimated that cost savings from reproduction of software for the NARP Executive Office could total as much as $50,000.

Management Comments

USAID/Egypt has issued a PIL asking the Executive Office to either purchase a site license for all software requirements or purchase additional software to meet its needs. NARP's Executive Office has been asked to erase all unlicensed software, except as authorized for backup by the licensing agreement.

OIG Response

Recommendation No. 6 is considered resolved and will be closed upon receiving evidence that NARP's Executive Office has complied with the above mentioned Project Implementation Letter.

B. Compliance and Internal Controls

Compliance

Although the National Agriculture Research Project has been operational since 1985, the Government of Egypt had provided no evidence showing that it had made any contribution, whether in-kind or cash, to the project as called for in Mission policy and as required by the grant agreement.

Annual implementation and financial plans prepared by the grantee were not submitted in a timely manner nor did they contain the specifics necessary to provide management with the information needed to direct project activities in an efficient manner, determine progress at any particular point and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose.

The Executive Office responsible for administration of the project had reproduced computer software contrary to A.I.D. policy.

We limited the review of compliance to the issues in this report and nothing came to our attention that would indicate non-compliance in other areas.

Internal Controls

The first two compliance exceptions noted above also have internal control implications.

Commodity procurement planning thus far under the project was inadequately justified.

Participant training was inadequately planned and trainee identification and selection was delayed.

The Mission did not have an adequate system to ensure follow-up and evaluation of returned participant trainees.

The review of internal controls was limited to the issues discussed in this report. However, we feel it important to take note of an observation made by the local branch of the CPA firm Arthur Andersen resulting from its separate review of PILs 11 and 16 under this project.

> ...internal accounting controls were operating effectively in general. One major exception however relates to the risk of management override of the internal control system. The ultimate responsibility for approval of transactions charged to the project rests with the Director General of NARP. Because of his dominant position in NARP, he has the ability to override any accounting controls as any transaction would not be questioned by the accounting staff if it had his authorization and approval.

C. Other Pertinent Matters

Two Concurrent CPA Audits of NARP Have Raised Further Concerns

In addition to RIG/A/C's own audit of NARP, two other audits of different aspects of this same project were made concurrently at the Mission's request by a local CPA firm under the supervision of this office. In its review of costs incurred under NARP Project Implementation Letters 11 & 16, the local branch of Arthur Andersen identified substantial costs incurred that had questionable relevance to the project. One such charge for about $3,000 had to do with the procurement of two luxury car stereo systems. This transaction has been referred to our investigative counterpart, RIG/I/C. The CPA's letter describing the results of its review was attached to our Audit Related Memorandum #6-90-003.

The same CPA firm has also completed a non-federal audit of a $4 million contract between the GOE Ministry of Agriculture and the International Rice Research Institute (IRRI) financed under NARP. This review, made at IRRI's request, disclosed similar problems having to do with the questionable relevance of certain expenses charged to the IRRI contract. (See RIG/A/Cairo Audit Report No. 6-263-90-02-N)

Use of Dollars to Make Local Currency Cash Advances

We found that USAID/Egypt was financing several activities under the National Agricultural Research Project with local currency cash advances authorized through various Project Implementation Letters. Since this is true under a number of USAID/Egypt projects, we have addressed the matter in a separate report. That report discloses that USAID/Egypt continued to buy local currency with appropriated dollars to make advances to A.I.D. projects even after execution of the latest amendment to the Memorandum of Understanding governing the Special Account. In Egypt, the Special Account receives hundreds of millions of local currency units each year "generated" by the sale of A.I.D.-donated commodities to public and private sector industries.

A Mission Order issued after that amendment was signed revealed that the GOE had implicitly undertaken to provide such support as may be required for the efficient and effective implementation of A.I.D. projects in Egypt. We could therefore find no reason why A.I.D. should continue to finance advances to the GOE to support A.I.D. projects. Moreover, we found that the use of appropriated dollars to buy local currency, at an interest cost of about $1 million per year to the U.S. Treasury, was uneconomical given the availability of hundreds of millions of pounds in the Special Account deposited there as a result of A.I.D.'s $200 million per year Commodity Import Program grants and, more recently, cash transfer dollars used to import wheat. (See RIG/A/Cairo Audit Report No. 6-263-90-02)

USAID/Egypt Cash Advances to NARP

Mission financial records showed that unliquidated balances of A.I.D.-financed local currency advances to NARP had been outstanding for at least six months -- double the limit allowed in A.I.D. regulations -- and totaled the equivalent of nearly $1 million as of 30 June 1989. This situation came about because of unrealistic cash needs projections, slow distribution of funds advanced to their end-users, and delayed reporting of field expenditures. While the issue of management of cash advances has been rendered moot by the Mission's agreement to seek funding for future advances from the GOE Special Account, audit results in this critical area of financial management are included as Exhibit 4 to this report as a matter of record. Also, we are pleased to report that a more recent RIG/A/C follow-up on the Mission's management of cash advances portfoliowide disclosed that control procedures were appropriate and advance levels reasonable.

AUDIT OF USAID/EGYPT'S
NATIONAL AGRICULTURAL RESEARCH
PROJECT NO. 263-0152

PART III - EXHIBITS AND APPENDICES

Additional Facts Relating To Commodity Procurement Planning

The audit disclosed that project commodities requested were not related to specific research needs. Also, actual laboratory equipment purchases exceeded procurement plan totals.

Requested Commodities Not Related to Specific Research Needs

Unlike smaller predecessor projects such as the Rice Research and Training (263-0027), Agricultural Development Systems (263-0041), and Major Cereals Improvement Projects (263-0070), which focused on research in specific crops, NARP's focus has expanded to encompass all the research done by ARC without identifying or specifying particular research areas or subject priorities. The Project Paper makes this point as follows.

> The results of all these discrete projects have been to improve a part of the agricultural research capacity of Egypt.
>
> This Project will complete the task of developing an agricultural network with the capacity to carry out basic applied and demonstrative research on a national level.
>
> The Project will achieve this by building on the base of the existing ARC system as strengthened under previous and on-going projects. It will fill in some blank spots not previously covered and will strengthen the coordination of agricultural research efforts nationwide.

The Project Paper also notes that, "adequate and appropriate equipment, including vehicles, is required for ARC to carry out its research program." However, the "project design ... has not yet identified specific additional equipment required by the various institutes and research stations" since this will be done by ARC.

ARC has 14 research institutes, 3 central laboratories, and 31 research stations located throughout Egypt. The laboratory and farm equipment plans contain tables showing "equipment by location and item number." We reviewed the tables to see where the equipment will be used or located and found that, among the locations, the Field Crops Research Institute (FCRI) will receive the most laboratory equipment in terms of estimated dollar value and next-to-the-most farm equipment. Of the estimated total value ($4,998,970) of laboratory equipment -- excluding supplies and spare parts -- the FCRI will receive $797,023 or about 16 percent of the total. Receiving the next largest amount -- $645,150 -- is ARC's central administration. The total estimated value of the farm equipment is $2,465,950. Of that total, the FCRI will receive $248,000 or about 10 percent. Only the Agricultural Mechanization Research Institute will receive farm equipment whose value is greater, namely $1,285,450.

The Project Paper contains statements which, if correct, cast doubt on the FCRI's need for this equipment. These statements and the lack of any documentary evidence in the procurement plans or elsewhere to the contrary lead to the conclusion that no genuine assessment of research needs was performed or that, if it was performed, its results are not reflected in the procurement plans.

The Project Paper notes that, "The FCRI has received considerable assistance through the AID-funded Egyptian Major Cereals Improvement Project and the Rice Research and Training Project." This observation is echoed in a 1984 study on "Increasing Egyptian Agricultural Production Through Strengthened Research and Extension Programs" by the International Agricultural Development Service. The study notes that, "The FCRI is receiving large amounts of assistance in the development of research facilities through two USAID-supported projects. These are the Egyptian Major Cereals Improvement Project (EMCIP) and the Rice Project (RP)." It also notes that, "A study of the plans and equipment lists clearly indicates the laboratories will be furnished with excellent instruments and materials...."

One year after this study and two years before submission of the laboratory and farm equipment procurement plans, the Project Paper stated that, "Most of the above [ARC] institutes and their associated field stations require upgrading of facilities and/or equipment in order to accomplish their assigned goals. However, some, such as the Field Crops Research Institute, have through donor assistance, facilities and equipment in excess of their ability to effectively utilize" (emphasis added). The Project Paper also states that, "The Major Cereals Improvement Project (EMCIP) has made a substantial contribution to research facilities. Five complete stations are in the process of completion. They will have 64 completely equipped laboratories." Unfortunately, the Project Paper does not identify which stations or institutes -- besides the FCRI -- have "completely equipped" laboratories or "equipment in excess of their ability to effectively utilize."

We also reviewed the "equipment needs lists" or other available documentation submitted by researchers or compiled by other implementing agency staff in the FCRI and other institutes to see what justifications they provided for their requests for laboratory equipment. We found that most staff provided no justification at all while others provided a range of justifications, only a handful of which discussed specific research needs and current inventories. An implementing agency official who reviewed the requests told us he modified them to keep them within budget, to harmonize specifications, and to more accurately reflect actual needs, which he was able to determine based on his personal experience and knowledge in the field of agricultural research. He told us he did not document his reasons for modifying the requests or his discussions with researchers.

While certain ARC institutes or stations may need additional equipment to conduct their work, we conclude from the available evidence that no genuine assessment of needs was performed to serve as a basis for planning the procurement of laboratory equipment.

Laboratory Equipment Purchases Exceeded Procurement Plan Totals

We also obtained information on the status of laboratory equipment purchases and found that 44 types of laboratory equipment have been purchased under two Requests for Quotation (RFQ's), which correspond to the first two phases of procurement shown in the laboratory equipment procurement plan. All of the types of equipment correspond to the commodities listed in the plan. However, most of the commodities--32 of the 44 types of equipment--have been ordered in quantities exceeding the totals shown in the procurement plan. None has been ordered in smaller quantities.

The RFQ's give the purchaser "the right to increase or decrease the quantity of an item ... by twenty (20) percent plus any fraction necessary to equal a whole number, of the quantity offer upon the unit price offered." Most of the increases (23 of the 32 types of equipment whose numbers increased) were by amounts totaling 20 percent or by the maximum allowable amount. Altogether, 118 additional pieces of equipment were purchased at a cost of $243,277. The bid prices in these cases were not necessarily lower than the plan's estimated prices. Nine additional centrifuges, for example, were purchased at a unit cost of $2,426 although the plan had estimated the cost to be $1,250. Similarly, five additional extraction heating apparatuses were purchased at a unit cost of $2,116 although the plan's cost estimate was $1,250.

We do not believe the 118 additional purchases costing nearly a quarter of a million dollars are incidental. Since none of the planned commodity purchases decreased and most increased by the maximum allowable amount under the RFQ's, we believe this may evidence a desire to inflate the procurement. If all procurements under subsequent planned phases exceed the plan's estimated budget by 20 percent, the total procurement will increase by about $[illegible] million. Moreover, there is no evidence to show that the additional purchases reflect research needs any more accurately than the totals shown in the procurement plan. Since the plan has not been amended to include the additional purchases, it is not clear where this equipment will be used or located. It is even less clear what "needs" the additional purchases will address.

PIL No. ALL-001, Amendment No. 2, issued in March 1989, requires that the laboratory equipment procurement plan be amended "if and when commodities which are not included in [it] are to be considered for procurement under the project." Such an amendment would include a needs assessment "which demonstrate[s] that the items to be ordered will fill the gap between those items needed to meet project objectives and those items on hand...." We believe the laboratory equipment procurement plan should be amended to include a justification as described here for all equipment purchased during subsequent procurement phases whose quantities exceed the totals contained in the plan. We believe this is important because follow-on procurements, which themselves have thin justifications, could be similarly inflated and because the life-of-project budget for laboratory equipment is large: $12.8 million.

STAFF NOTICE

UNITED STATES AID MISSION TO EGYPT

STAFF NOTICE NO. 87-053
March 9, 1987

SUBJECT :

Project Related Participant Training:
Need for Greater Project Officer and
Contractor Efforts

BACKGROUND

This Staff Notice concerns Audit Report No. 6-263-87-2, dated October 30, 1986; Project Related Participant Training. The audit objectives were to: (1) assess the adequacy of the design and planning efforts for the participant training components of projects; (2) evaluate the adequacy of the Mission's oversight of training implemented by contractors and (3) determine the effectiveness of the Mission's follow-up and evaluation procedures for returned participants.

The auditors found that USAID/Egypt had not adequately designed, planned and managed project-related participant training in several projects. Specifically, the audit resulted in three recommendations:

1. USAID/Egypt not approve projects with participant training components without comprehensive pre-project assessments of training requirements; and require detailed training plans before beginning training.

2. Realignment of project officer priorities and compliance with AID directives and policies regarding oversight responsibilities for participant training managed by contractors.

3. USAID/Egypt make required follow-ups and evaluations, and establish a workable follow-up and evaluation system.

DISTRIBUTION :

Associate Directors
Office Directors
Project Officers/U.S. and FSN

USAID CAIRO

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NOTICE OF ACTIONS:

Participant training is considered one of AID's most essential contributions to international development and to U.S. long-term foreign policy objectives. Sixty-seven percent of USAID/Egypt's active projects had participant training components in 1986, with obligations totaling more than $90 million.

While USAID/Egypt has designed and managed numerous successful training programs and general project training components, there have been some efforts that have fallen short of the mark. We must make every effort to ensure that all training plans and activities are of the highest quality possible.

Careful review of AID Handbook 10 and USAID/Egypt Mission Order No. 10-1, dated 06/15/86, shows these documents contain the necessary guidelines and regulations for the proper design, planning and management of participant training programs.

Nonetheless, some project managers and Mission and host country contractors have not closely followed the prescribed guidelines and regulations. This resulted in the issuance of the three audit recommendations.

In order to strengthen the Mission's participant training program and to close these recommendations, the following directives will become effective immediately and should be strictly observed by all Mission personnel and contractors engaged in participant training.

A. Regarding Recommendation No. 1:

1. Participant training components for projects should include pre-project assessments of training requirements and corresponding detailed training plans, whether in-country or abroad. In cases where it is not possible to complete the training plans before project approval, the Mission will make no disbursements for training prior to approving a detailed training plan.

2. The Mission Project Support Office will review and the Mission Development Training Officer will be required to approve training plans in Project Papers.

B. Regarding Recommendation No. 2:

Associate Directors and Office Directors are responsible for ensuring project officers strictly adhere to the following guidelines:

1. Providing or arranging for a thorough review and understanding of Handbook 10, Handbook 3, Project Officers' Guidebook and Mission Order 10-1 with contractors responsible for implementing training components.

2. Participation in developing contractor training implementation plans.

3. Participation in selecting trainees to ensure that they have prerequisite academic and management skills to benefit from the proposed training.

4. Training proposed is synchronized with other project components, and represents an identified area of U.S. and GOE interest and priority.

5. Close coordination with host country officials and contractors to ensure proper management of participant training programs.

6. Ensuring that all contracts under their supervision contain a clause requiring the contractor to follow the provisions of Handbook 10 and Mission Order 10-1 in implementing the training components of contracts.

7. The attached checklist will be used by the Training Office when reviewing training assessments and plans.

C. Regarding Recommendation No. 3:

Associate Directors and Office Directors are responsible for insuring that Project Officers, and where appropriate, pertinent contractors, adhere to the following guidelines:

1. Verifying the return of each participant. HRDC/Training has established and will continue to provide each Project Officer a monthly report showing the status of participants under each project. As soon as Project Officers determine

that a participant has completed training and return to his/her place of work, HRDC/Training should be notified. This will enable HRDC/TRG to enter this information into the Participant Training Information System (PTIS) computer records.

2. Establish contact with each participant, shortly after his/her return to Egypt, and prepare a brief evaluation report on the training program. This report should at least include the following:

   (a) Was the training relevant to the needs of the participant and his/her sponsoring agency?

   (b) Did the participant require the skills and experience that he/she were expected to acquire?

   (c) Did the participant fill the post for which he/she was trained?

   (d) Has the training program been effective, and what changes, if any, should be made to improve similar training programs in the future?

   (e) Copies of each evaluation report should be forwarded to HRDC/Training, Mission Evaluation Officer and the participant's sponsoring agency.

3. Contractor responsibilities regarding the implementation of participant training components and the performance of required follow up of returned participants should be clearly defined in any contractual agreement awarded.

Bernard D. Wilder

Bernard D.Wilder
Associate Director
Human Resources and Development
Cooperation Division

ATTACHMENT 1

TRAINING OFFICE PERSONNEL, CHECK LIST

PROJECT TRAINING PLANS

ı developing a training plan for a project, the ›llowing questions should be answered and the methods ıed to arrive at answers should be clear.

1. Who needs to be trained? Has availability manpower been assessed; how, what was found?

   a. Numbers)
   b. Kinds) The greater the specificity the better
   c. Levels)

2. Where will the training take place? (for each kind/level)

   a. In-country
   b. Third country
   c. In the U.S.
   d. Combination of (a), (b) or (c)

3. On what grounds was place of training decided?

   a. Were there alternatives, why/why not?
   b. What method was used to choose between alternatives?

4. Where training abroad is recommended, demonstrate that in-country facilities have been investigated and the grounds upon which the in-country alternative was rejected. AID regulations require that AID attest to all overseas trainees that no suitable in-country facility was available.

5. Is there a plan for replacing the project's TA as a sub-part of the project's overall training plan? (If so, answer items in (1), (2) and (3) above)

6. What actions were taken into account to ensure that returned trainees remain on the job?

7. If the project includes an "institution building" component, how will subsequent waves of trainees be produced after the AID project is finished?

8. If local counterparts cannot themselves answer the above questions in some acceptable, systematic manner, should the first phase of the overall training plan be to train counterparts to answer such questions?

9. How will training effectiveness be measured (evaluation plan)?

   a. Specific skills
   b. Institutionalization

10. Other points (participant preparation):

    a. Has adequate placement time been allowed for (i.e., six to nine months depending on field and level)?

    b. Has English language preparation been allowed for?

    c. Does the project have manpower for managing training activities during and after the project?

    d. Who will handle training activities (selection, placement, monitoring and follow-up)?

       1. Host country (do they have the staff to do the job?)
       2. Contractor (has time been allowed for procuring contractor services?)
       3. USAID

11. Training plan must also include:

    a. A year by year and LOP budget in US and local currency.
    b. An implementation plan (chart0 showing events by time.

ACTION AID 3 INFO DCM GSO /5

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TO USAID MISSIONS IN ASIA AND THE NEAR EAST
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DIST: AIDM

ADM AID ATTN: PROGRAM OFFICE

E.O. 12356: N/A
TAGS:
SUBJECT: SOFTWARE PIRACY AND PROJECT ADP PROCUREMENTS

1. RECENTLY A MAJOR SOFTWARE VENDOR HAS COMMUNICAT D O IRM THEIR CONCERN OVER CASES WHERE A.I.D. PROJECTS MAY HAVE OVERLOOKED COPYRIGHT VIOLATIONS OF PROJECT FUNDED SOFTWARE IN RECIPIENT HOST-COUNTRY INSTITUTIONS. THIS IS OF PARTICULAR INTEREST TO IRM BECAUSE OF THE HIGH VOLUME OF U.S. DEVELOPED SOFTWARE THAT IS FUNDED THROUGH A.I.D. PROGRAMS, AS WELL AS THE NEED O ENSURE THAT A.I.D. IS NOT PERCEIVED AS OVERLOOKING VIOLATIONS OF U.S. COPYRIGHT LAWS OVERSEAS.

1.2 IN VIEW OF THIS, WE ARE HIGHLIGHTING MAJOR COMPONENTS OF THE U.S. COPYRIGHT LAW THAT PROJECT OFFICERS ARE URGED TO TAKE INTO ACCOUNT WHEN INVOLVED IN ANY KIND OF SOFTWARE PROCUREMENT THT IS FUNDED THROUGH A.I.D. PROGRAMS:

2. COPYRIGHT LAW:

A) ACCORDING TO THE U.S. COPYRIGHT LAW, ILLEGAL REPRODUCTION OF SOFTWARE CAN BE SUBJECT TO CIVIL DAMAGES

OF)))) OR MORE, AND CRIMINAL PENALTIES INCLUDING FINES AND IMPRISONMENT. U.S.A.I.D.S SHOULD ALSO SUPPORT THESE LAWS AND REPORT ANY KNOWN INSTANCES OF COPYRIGHT VIOLATIONS.

B) PROJECTS MAY HAVE SOFTWARE WHICH PERMITS MULTIPLE COPIES. FOR EXAMPLE, SOFTWARE PUBLISHERS OFTEN PERMIT MULTIPLE INSTALLATIONS TO EASE THE BURDEN OF OBTAINING REPLACEMENT DISKS. THIS DOES NOT MEAN, HOWEVER, THAT A USER CAN HAVE THE SAME COPY OF SOF WARE ON MORE THAN ONE COMPUTER OR THAT A PIECE OF SOFTWARE THAT IS NOT COPY PROTECTED CAN BE DISTRIBU ED AT WILL. DOING SO IS PERHAPS THE MOST BLATANT VIOLATION OF A COMMERCIAL SOFTWARE COPYRIGHT AGREEMENT AND SHOULD NOT BE PERMITTED.

3. LICENSING AGREEMENTS:

A) MOST SOFTWARE PROCURED BY A.I.D. IS PURCHASED UNDER A

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LICENSING AGREEMENT. THE AGREEMENT IS ONE OF MUTUAL TRUST. THE CUSTOMER EXPECTS A PRODUCT THAT PERFORMS AS PROMISED AND THE SOFTWARE DEVELOPER TRUSTS THAT THE CUSTOMER WILL MAKE USE OF ONLY THOSE COPIES FOR WHICH A LICENSE HAS BEEN PURCHASED.

B) A.I.D. POLICY IS IN STRICT COMPLIANCE WITH LICENSING AGREEMENTS. THESE AGREEMENTS USUALLY, BUT NOT ALWAYS, PERMIT ONE COPY AS A BACKUP, IN CASE THE ORIGINAL COPY IS INADVERTANTLY DESTROYED. ADDITIONAL COPIES ARE USUALLY NOT PERMITTED, UNLESS A SITE LICENSE IS GRANTED WHICH MAY ALLOW UP TO A SPECIFIC NUMBER OF INSTALLATIONS TO OCCUR. ONLY SOFTWARE THAT IS CLEARLY IN THE PUBLIC DOMAIN MAY BE COPIED WITHOUT A LICENSE.

4. ESSENTIAL SYSTEM SOFTWARE:

A) EVERY COMPUTER PURCHASED MUST HAVE ITS CORRESPONDING SYSTEM AND APPLICATIONS SOFTWARE. EXAMPLES OF SYSTEM SOFTWARE ARE THE OPERATING SYSTEM WHICH DIRECTS AND ASSISTS THE EXECUTION OF APPLICATION PROGRAMS, UTILITY PROGRAMS WHICH DO COMMON TASKS SUCH AS SORTING, COMPILERS WHICH TRANSLATE PROGRAMS CODED BY THE PROGRAMMER INTO MACHINE LEVEL INSTUCTIONS, AND DATABASE MANAGEMENT SYSTEMS WHICH MANAGE STORAGE AND ACCESS TO DATABASES. SYSTEM SOFTWARE IS ALSO REQUIRED FOR DATA COMMUNICATIONS.

B) AS A MATTER OF POLICY, IRM WILL NOT APPROVE OF A HARDWARE PROCUREMEN THAT DOES NOT INCLUDE PURCHASE OF

AN OPERATING SYSTEM. OTHER SYSTEM SOFTWARE IS USUALLY PURCHASED SEPARATELY WHEN AND IF THE NEED ARISES (E.G., COMMUNICATIONS PROGRAM FOR DATA TRANSFER BETWEEN PCS). HOWEVER, IF THE INTENDED PROJECT APPLICATION IS DEPENDENT ON A SPECIFIC SOFTWARE PRODUCT, IRM WILL ENSURE THAT THIS ITEM IS ALSO INCLUDED IN THE PROCUREMENT.

5. LEGITIMATE SOFTWARE

A) WHEN DETERMINING IF A PC SOFTWARE PROGRAM IS LEGITIMATE, U.S. COPYRIGHT AND PATENT LAWS (AS WELL AS OTHER FAR OR FIRMR REGULATIONS APPLICABLE) MUST BE OBSERVED FOR BOTH MISSION AND PROJECT RELATED PURCHASES. AS IN MOST A.I.D. CONTRACTS, THE BURDEN OF PROOF IS ON THE VENDOR TO DEMONSTRATE THAT THE PRODUC S SUPPLIED ARE FREE FROM ALL PATENTS, COPYRIGHTS AND OTHER LEGAL CLAIMS AGAINST THEM. PROJECT SHOULD ALSO NOTE, HOWEVER, THAT STANDARD CONTRACT INDEMNIFICATION LANGUAGE AVAILABLE IN FAR, SECTION 52, DOES NOT ALLOW A.I.D. TO

RECOVER DAMAGES FROM A VENDOR THAT DELIVERS AN ILLEGALLY MANUFACTURED PRODUCT. THEREFORE, IRM SUGGESTS THAT PROJECT REQUIRE THE VENDOR TO OBTAIN A MANUFACTURER'S CERTIFICATE FROM EACH ITEM SUPPLIER.

6. CONCLUSIONS

A) WE STRONGLY URGE PROJECT TEAMS WHEN PLANNING AND DESIGNING THE AUTOMATION COMPONENTS OF ANY PROJECT THAT ENOUGH RESOURCES BE ALLOWED TO PROPERLY FUND FOR CRITICAL SOFTWARE AND NOT JUST ALLOCATE FUNDS FOR HARDWARE ALONE. WE ALSO SUGGEST THAT PROJECTS CONVEY TO CONTRACTORS RESPONSIBLE FOR THE IMPLEMENTATION OF AUTOMATION COMPONENTS NOT TO CONDONE VIOLATIONS OF SOFTWARE COPYRIGHT LAWS DIRECTLY OR INDIRECTLY .

B) IN SUMMARY, IRM URGES PROJECTS TO DISCOURAGE HOST COUNTRY INSTITUTIONS FROM BYPASSING U.S. COPYRIGHT AND LICENSING LAWS; EDUCTE HOST COUNTRY INSTITUTIONS ON THE LEGAL SOUNDNESS OF ONE SOFTWARE COPY PER UNIT; AND ENCOURAGE THE PURCHASE OF LEGITIMATE U.S. SOFTWARE PRODUCTS SO AS TO ENSURE MUTUALLY BENEFICIAL TECHNOLOGY TRANSFER. THESE EFFORTS ALONG WITH USG ACTIONS TO ENCOURAGE FOREIGN GOVERNMENTS TO ADOPT TOUGHER SOFTWARE PIRACY LAWS SHOULD HELP THIS SITUATION FROM BECOMING ENDEMIC.

7. IF PROJECTS HAVE ANY SPECIFIC QUESTIONS OR COMMENTS

REGARDING THIS ISSUE, PLESE CONTACT IRM/MPS AT (703) 875-1335. REGARDS. (DRAFTED BY JOE GUERON:AID/M/SER/IRM/MPS) SHULTZ
BT
#0425

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USAID/Egypt Cash Advances to NARP

Summary - USAID is currently financing several programs for the National Agricultural Research Project (NARP) with local currency cash advances authorized through various Project Implementation Letters (PILs). USAID records showed that NARP unliquidated advance balances totalling 2.5 million pounds had been outstanding for at least six months (US$1 = 2.6 pounds, approximately). USAID policy per Handbook 1B, Chapter 15, is that advances cannot exceed 90 days. The slow liquidation of advanced funds is due mainly to problems in NARP's cash management system. The principal areas of concern are, 1) unrealistic cash budgeting, 2) slow distribution of funds to sub-activities, and 3) delayed reporting of field expenditures. This slow advance liquidation by the GOE contributed to serious delays in project implementation and is an unproductive use of USAID funds* resulting in unnecessary interest costs to the American taxpayers.

Discussion

The cash advance problems experienced with NARP reemphasize why Mission Order 19-5 strongly discourages using cash advances. The following schedule summarizes those NARP advances which had unliquidated balances older than six months:

(All Figures in Pounds as of June 30, 1989)

PIL #	Total Advances	Unliquidated Balance	Date of Last Advance
PA001	345,000	345,000	December 1988
PA002	128,000	128,000	December 1988
PA003	7,000	7,000	December 1988
11	12,535,080	2,010,000	January 1989
Total	13,015,080	2,490,000	

* USAID/Egypt requests that an Egyptian pound check be drawn by the U.S. Disbursing Office in Cairo from a local currency account that it maintains at a local bank. This account is replenished as needed by the sale of U.S. Treasury dollar checks to the same local bank. Ultimately, the pounds disbursed are "booked" as dollars disbursed by A.I.D. when the advances are liquidated. Thus, although the GOE entity receives local currency, A.I.D.'s dollar appropriations earmarked for Egypt are the source of the funds being advanced.

The first three PILs deal with NARP's Policy Analysis Program, which had not significantly liquidated any of its initial advances granted in December 1988. PIL II deals with the Research Support Program and had liquidated only L.E. 10.5 million of its L.E. 12.5 million advances received since December 1986. Our audit findings show that three major factors contributed to the slow take up of NARP advances and advance liquidations. They are:

1) Unrealistic Cash Budgeting - Operating budgets for cash expenditures are not realistic. In most cases monthly budgets, upon which advance requests are based, appear to be overly optimistic resulting in less liquidations than anticipated. For example, the last advance issued under PIL 11, was based on a 3-month cash budget for January-March 1989, of 3.8 million. Liquidations for the entire 6-month period January-June 1989, totaled only L.E. 1.8 million.

2) Slow Distribution of Funds to Sub-Activities - The Agricultural Research Center (ARC), where NARP Executive and Accounting Offices are located, has experienced difficulties making timely distribution of advance funds from USAID to the managerial level at which the funds are spent. For example, and advance for over L.E. 2 million under PIL II took about three months to completely distribute to sub-activities because the complete names of the payees were not available to the ARC Accounting Office. According to the ARC Accounting Manager, Egyptian banks will not clear checks if payee names contain an initial rather than having the entire name spelled out.

3) Delayed Reporting of Field Expenditures - Untimely reporting of expenditures from sub-activities to the ARC in Giza where the accounting records are maintained, is the main cause of the slow liquidation of advanced funds. ARC records show that all but L.E. 50.000 of the total unliquidated balance had been distributed to sub-activities as of May 31, 1989. However, the ARC policy is to have sub-activities submit expense reports on a monthly basis. It appears that this policy is not being enforced. The following examples illustrate specific cases:

- The Agricultural Research Station in Ismailia received an advance of L.E. 29,992 on September 21, 1988, but had not reported any subsequent expenses as of July 6, 1989.

- The Sakha Research Station received an advance of L.E. 90,839 in February 1989, and had not submitted an expense report as of July 6, 1989.

- The Vaccine Institute in Cairo submitted an expense report in July, 1989 for expenditures made in April 1989.

As a result, the Research Support Program has experienced significant delays due to erratic funding caused by the above problems. When Research Stations fail to report expenditures promptly, they tie up funds thereby reducing available working capital. Without working capital, NARP Administration has been unable to make additional advances to researchers who do report their expenditures in a timely manner. This tends to make researchers who previously reported promptly overly cautious about spending money in the future. The entire program was underspent by L.E. 5.5 million as of June 30, 1989.

Any unspent funds represent a non-productive use of those funds as none of the NARP bank accounts are interest-bearing. Productive use of advance funds is only possible if they are requested in reasonable amounts and used on a timely basis. Tying up unneeded funds also contributes to increased U.S. Federal borrowing and associated interest costs.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

RECEIVED 07 DEC 1989

DEC 7 1989

M E M O R A N D U M

TO: Frederick Kalhammer, RIG/A/C

FROM: Marshall D. Brown, Mission Director

SUBJECT: Draft Audit Report on USAID/Egypt's National Agricultural Research Project (NARP) 263-0152

Attachment 1 is the Mission's Executive Summary to be included in the final audit report.

We would like to thank the Office of the Regional Inspector General for Audit, Cairo for the detailed work and effort that went into this audit. We found the audit to be a useful conduit through which we could effectively address several long-standing implementation problems. The audit report and recommendations that resulted from this thorough review of a major project in our portfolio are responsive to the needs of management.

The Mission, in conjunction with the Agricultural Research Center (ARC) and its consultants, has taken significant action on the audit recommendations and requests that 9 of the 11 recommendations be closed. Actions on the remaining two (2) recommendations should be completed by March 1990, at which time we expect to request closure.

As stated in the Executive Summary, we are pleased that the audit focused on many of the issues identified by us, and we already find great progress made in many of the areas that were of concern to us. A major concern was that of recurrent cost financing, and audit Recommendation No. 1(a) has helped us address this issue.

USAID would like to take exception and provide corrections to a few comments in the draft audit before providing specific responses to the audit recommendations:

(The reader will find RIG/A/C's responses to these specific comments in report Appendix 2, following.)

1. On page ii line 4 and page 3, para 2 line 2 as well as the table of the Executive Summary and the body of the draft report, expenditures are identified at $17.1 million on August 31, 1989. This figure actually represents disbursements as of August 31, 1989, as accruals are not reflected until the end of each calendar quarter. The cumulative expenditures as of September 30, 1989, the end of the fiscal year, were $22.1 million.

2. On page 4 of the Executive Summary (and referred to on page 39 of the draft report) the report states that:

   "USAID/Egypt approved the training program despite deficiencies in design and planning. As a result academic participant training has been significantly delayed due to a lack of qualified candidates."

   Participant training delays have resulted primarily from the lack of qualified candidates with English language capability rather than lack of design and planning. At present, USAID is providing in-country English language training to 120 otherwise qualified Ph.D. candidates under the project, but the unfortunate reality is that perhaps only 50 will qualify with appropriate passing marks on the English language test.

3. Minor discrepancies in figures still exist on page 42 of the draft report. Our records indicate that 41 participants were transferred to NARP for funding from previous projects and not 29 as reported. At the time the draft report was issued, 11 of the 41 participants had not returned to Egypt. Of the 11, only three were being financed by the project (one has returned since the issuance of the report). The balance eight had converted from project financing to independent or self financing and were studying in the U.S.

4. While we acknowledge the fact that what was reported on page 16 para 2, may be correct, we have been able to ascertain that the counterpart contributions in fact are identifiable and have been provided as a part of our request to close audit Recommendation No. 1(a).

5. Since quarterly reporting of counterpart contributions is not particularly useful to USAID, we are in the process of amending Mission Order No. 3-31 which is quoted on page 17 of the draft report to have host country contributions reported on an annual basis only.

RECOMMENDATION NO. 1(a)

"We recommend that USAID/Egypt:

> (a) commit no additional funds after December 31, 1989 to project activities unless the Government of Egypt provides evidence, by December 31, 1989, of its ability and willingness to fund the project's recurrent costs as required by the Grant Agreement. Sufficient evidential matter shall consist of: (1) an accounting for all host country cash contributions through June 30, 1989, and (2) a jointly signed Project Implementation Letter reiterating the Government of Egypt's agreement and willingness to increase its contributions to the project in accord with the schedule provided in the Project Paper and included in the March 1989 Project Implementation Letter No. ALL-001 so that all recurrent costs will be borne by the host country at project completion."

USAID RESPONSE

The GOE's letter of September 19, 1989, (furnished separately) shows past annual expenditures, i.e., cash contributions, which were from the Agricultural Research Center's Chapter 2 expenditures (recurring cost expenditures) from July 1, 1986, through June 30, 1989. This accounting for past host country cash contributions totals over LE 35 million. (Chapter 1 salary expenditures are treated as a non-cash contribution by USAID.)

Based on the information in the GOE's letter, we believe that the problem identified in the draft report regarding counterpart contributions was simply an accounting/reporting problem and not a failure by the GOE to fulfill its commitment to contribute to the project. In our judgment, the GOE is reasonably on track with its counterpart commitments to the project.

Two letters (furnished separately to the auditors) have been sent to reiterate and clarify the Government of Egypt's recurrent cost commitment. The Mission Director sent a letter to the Deputy Prime Minister and the Minister of Agriculture and Land Reclamation dated December 07, 1989. By countersigning this letter the Minister of Agriculture will have agreed to submit a budget request to the Ministry of Finance for NARP's recurrent costs in FY 1990/91 through the end of the project. The second letter to the Ministry of International Cooperation (MIC) indicates that: (1) the AID-funded GOE project and the MIC-managed Special Account will, respectively, finance 75 percent and 25 percent of the recurring costs for the current fiscal year. We do not foresee any problems in getting these letters countersigned.

Based on the recent GOE counterpart report and the letters to the GOE concerning recurrent costs, we request this recommendation be closed.

RECOMMENDATION NO. 1(b)

"(b) review its requirements for counterpart accounting established in Mission Order 3-31, and require that the grantee report counterpart contributions (cash and "in-kind" both) in compliance therewith;"

USAID RESPONSE

We have reviewed Mission Order 3-31 requirements and found compliance in all areas except quarterly reporting of counterpart contribution. Since reporting more frequently than on an annual basis is not particularly useful to USAID, we are amending Mission Order 3-31 to require annual reporting only. (Memo documenting this decision provided seperately) In addition, we have made counterpart reporting an integral part of the annual implementation and financial plan process (Mission Order 3-35), which will help ensure that reports are obtained on a timely basis. Based on the decision to amend Mission Order 3-31 and our revised procedures for reviewing counterpart contributions (Mission Order 3-35), we request closure of this recommendation.

RECOMMENDATION NO. 2(a)

"We recommend that USAID/Egypt:

(a) obtain from the grantee a needs assessment in all future procurement plans in order to justify commodity requests."

USAID RESPONSE

USAID expects to receive at least one of the Seed Component Procurement Plans with a satisfactory needs assessment by early December. We will provide it upon receipt to the Audit staff to close this recommendation.

RECOMMENDATION NO. 2(b)

"(b) obtain from the ARC an amended laboratory equipment procurement plan including a needs assessment, as described in PIL No. ALL-001, Amendment No. 2, for all future equipment purchases whose assessment should show where the equipment will be used and what research needs it will address."

USAID RESPONSE

Additional guidance, including the wording of this recommendation, has been furnished as a requirement to ARC for all future equipment procurement in the form of PIL ALL-001, Amendment No. 7. A copy of the PIL has been furnished RIG. We request this recommendation be closed.

RECOMMENDATION NO. 3(a)

"We recommend that USAID/Egypt, in consultation with cognizant Government of Egypt officials:

(a) issue a Project Implementation Letter providing detailed guidance on the format and content of the required implementation and financial plans;"

USAID RESPONSE

Detailed guidance on the format and content of implementation and financial plans has been sent to the government in PIL ALL-001, Amendment No. 8. A copy of this PIL has been furnished RIG. We request this recommendation be closed.

RECOMMENDATION NO. 3(b)

"(b) for plans already approved or in process, obtain quantifiable output indicators necessary to direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose".

USAID RESPONSE

USAID has worked extensively with Component Directors and consultants to close this recommendation, and an "output summary" for each component has been furnished RIG. Beginning the quarter ending September 30, 1989, this new summary format is part of the quarterly reporting process and is to be reviewed quarterly at the joint AID and NARP Steering Committee meeting to be chaired by the Minister of Agriculture. The review of quarterly progress against the quantifiable output indicators set in this summary format will provide NARP's managers with the information necessary to direct implementation, stay on schedule or predict slippages and identify appropriate corrective actions. We, therefore, request this recommendation be closed.

RECOMMENDATION NO. 4(a)

"We recommend that USAID Egypt:

(a) Obtain an amended Manpower Development and Training Plan for the Research Component to include the minimum elements required by Handbooks 3 and 10, namely: (1) detailed time-phased implementation steps indicating when candidates will be qualified in English, sent overseas, expected to return home, and the position they will occupy upon their return; (2) a list of the selection criteria; and (3) a complete list of qualified candidates, including at least one alternate for each academic position;"

USAID RESPONSE

USAID has reached agreement with the Agricultural Research Center (ARC) and their consultants, the Consortium for International Development, that the Research Training Plan will be appropriately amended and approved by A.I.D. by March 1, 1990. We will request closure of this recommendation when the plan is approved by USAID.

RECOMMENDATION NO. 4(b)

"(b) withhold approval of any further National Agricultural Research Project academic participants absent reasonable assurance that the participants will be able to complete their training and return home at least six months before the Project Assistance Completion Date. The recommendation may require that the number of Ph.D. participants be reduced and/or the Project Assistance Completion Date be extended again to allow time for completion of targeted Ph.D.s."

USAID RESPONSE

Mission agrees with this recommendation and after receiving the amended Training Plan mentioned above, we expect to have sufficient justification to consider an extension of the project to allow all planned Ph.D. candidates to return to Egypt at least six months before the PACD. A PIL (copy previously furnished RIG) has been issued which indicates that because of USAID guidelines and the current PACD, no Ph.D. training program will be approved if the degree training starts after March 1990, unless the PACD is extended. Based on the issuance of this PIL, we request that this recommendation be closed.

RECOMMENDATION NO. 5(a)

"We recommend that USAID/Egypt:

(a) design and implement a more effective follow-up and evaluation system following the guidelines in USAID Handbook 10;"

USAID RESPONSE

USAID has approved a PIO/T to contract for services to help design and implement a more effective Mission-wide follow-up and evaluation system for returned participants. This contract is expected to be signed this month. Therefore, we request that this recommendation be closed.

RECOMMENDATION NO. 5(b)

"(b) require that funds be earmarked for appropriate follow-up activities for returned project participants."

USAID RESPONSE

Based on the above mentioned PIO/T, USAID has issued a PIL which earmarks $50,000 for follow-up activities for returned project participants (copy provisional furnished RIG). This earmark will be amended and funding increased if necessary to follow-up on all participants who have returned during the past three years, and who will return in future. Furthermore, we have taken action to ensure that all NARP implementation plans contain provisions for funding training as well as follow-up. We, therefore, request this recommendation be closed.

RECOMMENDATION NO. 6

"We recommend that USAID/Egypt requires the Project Executive Office to comply with A.I.D. policy by:

(a) erasing all unlicensed software from existing microcomputer;

(b) erasing all unlicensed software on diskettes or other storage media, except as required for backup; and

(c) purchasing additional licensed software and/or site licenses as needed for each microcomputer."

USAID RESPONSE

USAID supports the policy of protecting U.S. intellectual property rights in USG financed commodities such as computer software. Accordingly, we have issued a PIL (copy furnished RIG) asking the Executive Office to either purchase a site license for all software requirements or purchase additional software to meet its needs. We have also asked the Executive Office to erase all unlicensed software, except as authorized as backup by the licencing agreement. Based on our PIL (copy provided RIG), we request this recommendation be closed.

Att: a/s above

EXECUTIVE SUMMARY

The Mission believes that this audit is a good example of the beneficial results that come from Mission participation in the audit planning process. At the outset of this audit, the Mission was requested to note any areas of special concern and provided the auditors with a written list of project deficiencies and possible problem areas. We fully expected that this audit would identify in a concrete fashion the known problems and make appropriate recommendations for practical solutions, particularly in such areas as the host country's ability to meet project recurrent costs, overall slow project implementation and follow-up on participant trainees. The audit report has proved to be very useful in resolving several long-standing implementation problems. Progress has been made in correcting all of the deficiencies noted and all recommendations have been resolved. Nine of the eleven recommendations should be closed upon issuance of the report. The remaining recommendations will be closed within six months of issuance of the report. Several examples are given below:

1. The Mission is using the audit report to help resolve the long standing "recurrent cost" or sustainability issue of agricultural research in Egypt as detailed in the Project Paper and other documents.

2. Through the audit, we have reaffirmed the requirement for needs assessments on all commodity procurements. During the next seven months, we have scheduled with the GOE the development of nine procurement plans and are examining the cost benefit of amending three other procurement plans.

3. The audit has required greater collaboration by USAID, the GOE, and their consultants in preparing quarterly action and financial plans for each project component. These plans are now incorporated into output summary tables, part and parcel of the NARP quarterly project reports, where planned and actual accomplishments will be reviewed by the Ministry of Agriculture and USAID. The Mission believes this significantly improves project implementation and financial plans, and should lead to improvements in project implementation.

4. USAID has already scheduled a revision of the research training plan and approved the needs assessment and training plan for the Seed Component. Three additional training plans have also been scheduled. A more effective follow-up system is also being established for all participants.

We are pleased that the Mission was able to participate so effectively with the auditors in identifying and correcting many of NARP's problems. In conclusion, the Mission has found this audit to be constructive and helpful in improving project implementation.

RIG/A/Cairo Response to Specific Points Raised by the Mission on Page 2 of Its Comments

1. Appropriate changes have been made in the text of the report.

2. As stated in the audit report, NARP participant training delays are due to the lack of qualified candidates. As is true with most USAID projects containing overseas training components, the main obstacle to overcome is the English language capability of potential candidates. The point of the audit finding is that the project design and subsequent planning should have addressed the known lack of English capability by scheduling English language training early in the project in order to have a sufficient number of qualified participants available to be sent overseas, trained, and returned in a timely manner. Proper design and planning could have prevented the serious delays which exist in NARP's participant training program.

3. As stated in the audit report, the 29 participants transferred to NARP were Ph.D. candidates. The other NARP transferees were Master's candidates. The PhD candidates were singled out because of their documented overruns in costs and training time. The purpose was to point out problems experienced by past USAID-sponsored Egyptian PhD participants in order to avoid similar problems from occurring under NARP.

4. RIG/A/C cannot at this point accept the Mission's assertions regarding GOE support for NARP, as stated in the text of the report.

5. RIG/A/C poses no objection to this change, as stated in the text of the report.

List of Recommendations

Page

Recommendation No. 1 **8**

We recommend that USAID/Egypt:

(a) commit no additional funds after December 31, 1989 to project activities unless the Government of Egypt provides evidence, by December 31, 1989, of its ability and willingness to fund the project's recurrent costs as required by the grant agreement. Sufficient evidential matter shall consist of: (1) an accounting for all host country cash contributions to NARP through June 30, 1989, and (2) a jointly signed Project Implementation Letter reiterating the Government of Egypt's agreement and willingness to increase its contributions to the project in accord with the schedule provided in the project paper and included in the March 1989 Project Implementation Letter #ALL-001 in order to ensure that all recurrent costs will be borne by the host country at project completion; and

(b) review its requirements for counterpart accounting established in Mission Order 3-31, and require that the grantee report counterpart contributions (cash and "in-kind" both) in compliance therewith.

Recommendation No. 2 **14**

We recommend that USAID/Egypt:

(a) obtain from the grantee a needs assessment in all future procurement plans in order to justify commodity requests; and

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(b) obtain from the Agricultural Research Center an amended laboratory equipment procurement plan, including a needs assessment, as described in Project Implementation Letter No. ALL-001, Amendment No. 2, for all future equipment purchases whose quantities exceed the totals shown in the plan. This assessment should show where the equipment will be used and what research needs it will address.

Recommendation No. 3 **18**

We recommend that USAID/Egypt, in consultation with cognizant Government of Egypt officials:

(a) issue a project implementation letter providing detailed guidance on the format and content of the required implementation and financial plans; and

(b) for plans already approved or in process, obtain quantifiable output indicators sufficient to direct project activities in an efficient manner, determine progress at any particular point, and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose.

Recommendations No. 4 **22**

We recommend that USAID/Egypt:

(a) obtain an amended Manpower Development and Training Plan for the research component to include the minimum elements required by Handbooks 3 and 10, namely:

1) a list of the selection criteria,

2) a complete list of qualified candidates, including at least one alternate for each academic position, and

3) detailed, time-phased implementation steps indicating when candidates will be: qualified in English, sent overseas, expected to return home, and the position they will occupy upon their return; and

(b) withhold approval of any further National Agricultural Research Project academic participants absent reasonable assurance that the participants will be able to complete their training and return home at least six months before the Project Assistance Completion Date. This recommendation may require that the number of PhD participants be reduced, and/or the Project Assistance Completion Date be extended again to allow time for completion of targeted PhD's.

Recommendation No. 5 **26**

We recommend that USAID/Egypt:

(a) design and implement a participant trainee follow-up and evaluation system as described in A.I.D. Handbook 10; and

(b) require that funds be earmarked for appropriate follow-up activities for returned NARP participants.

Recommendation No. 6 **30**

We recommend that USAID/Egypt require NARP's Executive Office to comply with pertinent A.I.D. policy by: erasing all unlicensed software from existing microcomputers; erasing all unlicensed software on diskettes or other storage media; except as required for backup, and purchasing additional licensed software and/or site licenses as needed for each microcomputer.

APPENDIX 4

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