

Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Basic Education
Project No. 263-0139

Report No. 6-263-92-04
March 26, 1992





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

March 26, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM :

RIG/A/C, *Philippe L. Darcy*
Philippe L. Darcy

SUBJECT:

Audit of Basic Education Project No. 263-0139

Enclosed are ten copies of our audit report on the Basic Education Project, Report No. 6-263-92-04.

We have reviewed your comments on the draft report and considered them in the preparation of the final report. Your comments are included as Appendix II to the report. The report contains seven recommendations, all of which are considered resolved. Recommendations No. 1 and 3 are considered closed upon issuance of this report. Recommendations No. 2, and 4 through 7 can be closed upon the Mission providing this office with evidence that action outlined in your comments has been completed.

Please provide a response to this report within 30 days indicating what further actions you have taken to address the open recommendations.

I appreciate the courtesies and cooperation extend to my staff during the audit.

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EXECUTIVE SUMMARY

Background

Begun in August 1981 with a scheduled completion date of June 30, 1992, the Basic Education Project (Project No. 263-0139) is designed to enhance Egyptian Government efforts to improve the physical quality of life in Egypt as measured by increased literacy among rural youth. The project is to expand school enrollments and increase the efficiency and effectiveness of basic education. To achieve this objective, A.I.D. has authorized \$190 million in life-of-project funding which has been obligated, and of which \$154 million had been expended as of October 31, 1991 (see page 2).

Audit Objectives

We audited the Basic Education Project in accordance with generally accepted government auditing standards (see Scope and Methodology, Appendix I). Our field work was conducted from February 1991 through October 1991 to answer the following questions:

1. What is the reported progress of the project? (see page 4)
2. Did USAID/Egypt monitor that schools were constructed and maintained in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders? (see page 6)
3. Did USAID/Egypt monitor that A.I.D.-financed materials and equipment were accounted for, and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders? (see page 34)

Summary of Audit

In reporting the progress of the project, the Mission claims that it has expanded the capacity and increased the relevancy, efficiency and effectiveness of basic education in Egypt by meeting targeted outputs and exceeding those outputs in terms of the schools built and teachers trained. Among this project's achievements are the construction of over 1,800 schools, increased enrollments of approximately 1 million students and making schools available where there were none before (see page 4). With regards to monitoring, the audit found that the Mission system did not provide the monitoring and reporting information necessary to ensure that schools were properly constructed and maintained. As a result, there was widespread substandard construction, a lack of maintenance, and a lack of basic utilities such as electricity, sewer and water. These problems went unabated and largely unreported for years (see page 6). In addition, USAID/Egypt did not adequately monitor that A.I.D.-financed materials and equipment were accounted for and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders. Therefore, much of the equipment had limited utilization and/or usefulness (see page 34).

Audit Findings

A.I.D. Did Not Ensure Acceptable Construction and Maintenance

To ensure that projects are properly managed and that significant implementation problems are dealt with as they occur, Missions have to monitor, report and evaluate project activities. For years, the Mission system of monitoring school construction and maintenance did not provide the necessary information to ensure that Mission management could identify and solve problems as they surfaced. As a result, substandard school construction, essentially no maintenance of school facilities and lack of electricity, sewer, and water, continued for years, without the Mission taking action. In our opinion, if this situation is not changed, the \$124 million invested thus far by A.I.D. for school construction will depreciate quickly and the effectiveness of the basic education program itself will be jeopardized. This audit could not identify how these conditions could go on for years without the Mission being aware of them and if aware, not taking corrective action. It appears that the Mission was so concerned with production, which will exceed planned school construction of 1,300 schools by 600 schools, that it overlooked making sure that these schools were well constructed and well maintained (see page 6).

Equipment and Instructional Materials Were Not Adequately Accounted For and Effectively Used

A.I.D. is responsible for monitoring that A.I.D.-financed equipment is properly accounted for and effectively used in the project. However, effective commodity control systems were not in place to ensure that equipment and instructional materials were properly accounted for and effectively used in the project. This occurred primarily because USAID/Egypt had not adequately planned for the procurement nor provided sufficient oversight to ensure that commodity control systems were in place which could effectively account for the receipt, storage, distribution, and use of equipment and instructional materials. As a result, approximately \$20 million in project funds in addition to \$20 million previously provided under the Commodity Import Program have been expended for equipment which has not been adequately utilized and may not even be appropriate for the project (see page 34).

Summary of Recommendations

We recommend that the Director of USAID/Egypt:

- Strengthen internal controls over (1) project construction and maintenance, (2) data provided by the project maintenance system, (3) use of Mission Engineering office to oversee the project, (4) use of outside architectural and engineering firms and (5) implementation of an acceptable school maintenance plan (see page 6).
- Ascertain whether the commodities financed by A.I.D. can be (1) effectively used in the project, (2) transferred to other projects, or (3) otherwise disposed of as approved by the Mission (see page 34).

Management Comments and Our Evaluation

A draft of this report was provided to Mission officials for their comments, which we considered in preparing the final report. In responding to the draft report, the officials indicated their concurrence with all of the recommendations and outlined substantive actions already taken to satisfy them. In addition, the Mission indicated it had decided not to finance any additional construction for new schools and will not have a follow-on project. We consider USAID/Egypt's actions to be fully responsive to the concerns expressed in this audit report (see page 51). The Mission's complete response is included as Appendix II to this report.

Office of the Inspector General

Office of The Inspector General
March 26, 1992

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INTRODUCTION

Background

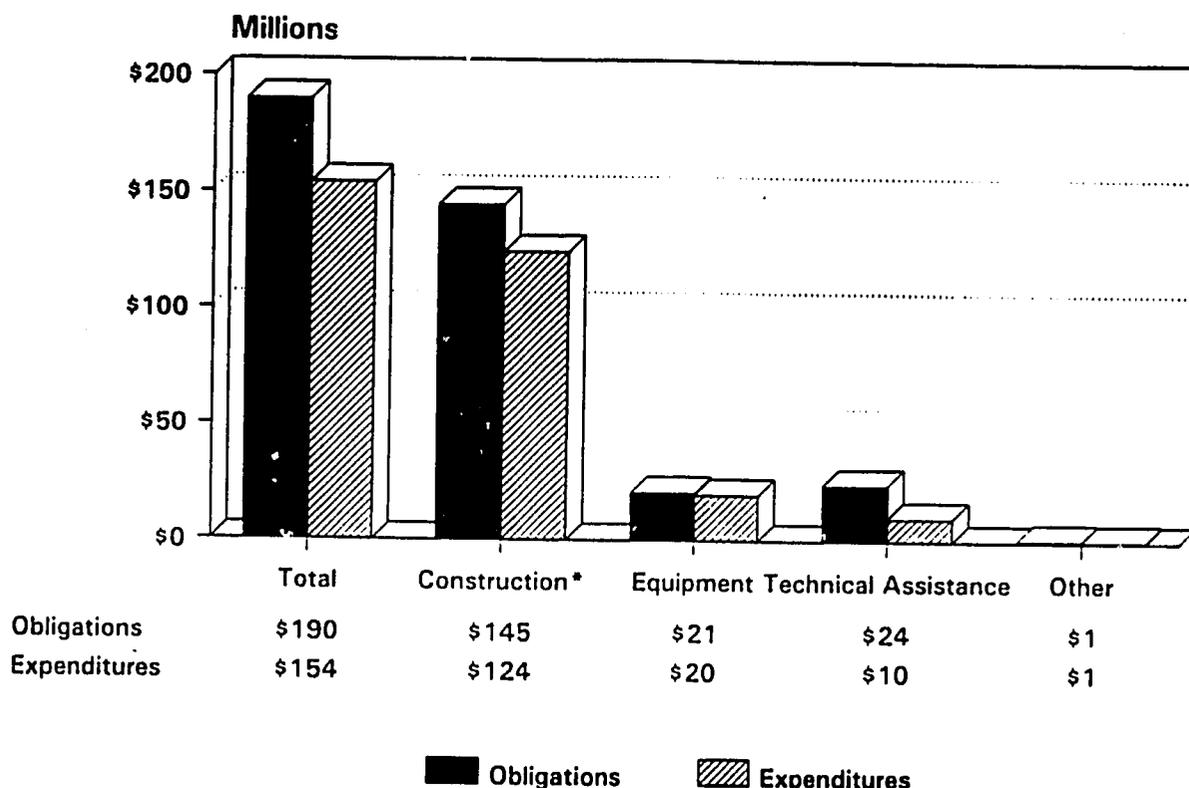
The goal of the Basic Education Project is to enhance Egyptian Government efforts to improve the physical quality of life in Egypt as measured by increased literacy among rural youth. The project's stated purpose is to expand enrollments and increase efficiency and effectiveness of basic education (grades 1-8). The project is designed to assist the Ministry of Education to improve its capability to provide an effective and relevant education system by constructing 1,840 schools in 24 of 26 governorates. A.I.D. is also to provide instructional materials and equipment for over 15,000 basic education schools in all 26 governorates. In addition, A.I.D. funds technical assistance in educational planning, cost analysis, teacher education and curriculum design, as well as provides funding for curriculum development, special education and teacher training.

The Ministry of Education is responsible for project implementation while the housing departments and/or city councils of the participating governorates are responsible for construction oversight. The National Investment Bank, working with the participating education zones in the governorates, exercises financial control on behalf of the Grantee, inspects school construction, and monitors maintenance of the project-financed schools.

The Grant Agreement was signed on August 19, 1981. Originally the project was scheduled for completion by June 30, 1986, but was expanded from 5 to 10 governorates, and then to 24 governorates, resulting in a current Project Assistance Completion Date of June 30, 1992. A.I.D. life-of-project funding is \$190 million consisting of a \$39 million original grant on August 19, 1981, a \$46 million first amendment on November 7, 1983, and a \$105 million second amendment on July 3, 1986. The Government of Egypt (GOE) agreed to life-of-project contributions totalling \$201 million. Mission records show that GOE contributions, including in-kind, far exceed agreed to life-of-project contributions. As of October 31, 1991, USAID/Egypt had obligated \$190 million and incurred expenditures of about \$154 million.

Obligations & Expenditures

As of October 31, 1991



*Includes furniture costs

Audit Objectives

The Office of the Regional Inspector General for Audit/Cairo conducted an audit of the Basic Education Project to answer the following audit objectives:

1. What is the reported progress of the project?
2. Did USAID/Egypt monitor that schools were constructed and maintained in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders?
3. Did USAID/Egypt monitor that A.I.D.-financed materials and equipment were accounted for, and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders?

In answering these audit objectives, we tested whether USAID/Egypt followed applicable internal control procedures and complied with applicable provisions of laws, regulations, grants and contracts. Our tests were sufficient to provide reasonable - but not absolute - assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, we did not continue testing when we found that for the items tested, USAID/Egypt followed A.I.D. procedures and monitored compliance with the terms of the grant agreement. For these items, we limited our conclusions concerning positive findings to items actually tested. When we found problem areas, we performed additional work to:

- determine conclusively whether USAID/Egypt was following procedures or monitoring compliance with grant requirements;
- identify the cause and effect of the problems; and
- correct the condition and causes of the problems by making recommendations.

Appendix I contains a complete discussion of the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

What is the reported progress of the project?

The Mission reports that it has expanded the capacity and increased the relevancy, efficiency and effectiveness of basic education in Egypt by meeting targeted outputs and exceeding those outputs in terms of the schools built and teachers trained. Specifically, the Mission reports that the project has:

- Financed the construction of more than 1,800 schools (original plan was to build 1,300 schools) throughout Egypt resulting in increased enrollments of approximately one million students of which one-half are female pupils.
- Distributed about \$20 million worth of equipment and materials to some 15,000 primary and preparatory schools.
- Trained not 10,000 as planned, but 13,505 teachers and inspectors, to use and maintain USAID donated equipment.
- Provided technical assistance to the Center for Curriculum and Instructional Materials Design resulting in the center being able to coordinate learning objectives between grades and subjects, train personnel to test the new curriculum, and create textbooks that are colorful, keep the students' interest and orient them away from strict memorization of text.
- Installed a mini-computer and provided a training course in 22 governorates.

Besides meeting or exceeding targeted outputs, the Mission points out that the project led to collateral benefits such as creating work for 40,000 teachers and staff, and employing about 40,000 construction workers and 20,000 furniture workers to build and furnish the schools financed by the project. In addition, approximately 1,500 construction firms were involved in constructing the schools.

The Mission believes that the major achievement of this project was to make schools available where there were none before. The auditors agree that increased school

availability is by far the most commendable achievement of this project and that the construction of schools and the hiring of teachers to operate them, increase the capacity of the educational system. Further details on reported project achievements are provided in the Mission's response attached as Appendix II. However, without extensive analysis, the auditors cannot comment on whether achievement of the other outputs have increased the relevancy, efficiency and effectiveness of basic education.

This audit found that while schools have been built, increased capacity will be difficult to sustain, unless the schools are better constructed and maintained. Some schools must also be provided with basic utilities - electricity, sewer and water. In addition, the equipment and instructional materials provided by this project are of limited value to the students, not accounted for and/or not effectively used. As discussed below, these problems are significant. Unless they are solved now, A.I.D.-financed schools will continue to deteriorate, equipment will remain unused, and future A.I.D. investments in school construction and equipment will encounter the same problems and waste. Aware of these facts, the Mission has begun to take convincing action.

Did USAID/Egypt monitor that schools were constructed and maintained in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders?

No. The Mission system to monitor and report project construction and maintenance did not provide the monitoring and reporting information necessary to identify and solve problems as they occurred, and thus ensure that schools were properly constructed and maintained. Without complete monitoring, reporting and evaluating information, widespread substandard construction, complete lack of maintenance, and lack of basic utilities such as electricity, sewer and water went unabated and largely unreported for years. In addition, A.I.D. marking requirements were not being met.

By the time the audit was completed, the Mission had already taken substantial action toward remedying these problems and indicated it was cancelling new school construction on this project and a planned follow-on project.

A.I.D. Did Not Ensure Acceptable Construction and Maintenance

To ensure that projects are properly managed and that significant implementation problems are dealt with as they occur, the Mission has to monitor, report and evaluate project activities. For years, the Mission system of monitoring school construction and maintenance did not provide the necessary information to ensure that Mission management could identify and solve problems as they surfaced. As a result, substandard school construction, maintenance of school facilities and lack of electricity, sewer, and water, continued unabated for years, without action. In our opinion, if this situation is allowed to continue, the \$124 million invested by A.I.D. in construction will depreciate quickly and the effectiveness of the basic education program itself will be jeopardized. This audit could not identify how these conditions could go on for years without the Mission being aware of them and if aware, not taking corrective action. It appears that the Mission was so concerned with production, which will exceed planned school construction of 1,300 schools by 600 schools, that it overlooked making sure that these schools were well constructed and well maintained.

Recommendation No. 1: We recommend that USAID/Egypt establish internal controls to monitor the project so construction and maintenance meet the standards established by the Mission. Such controls are to provide the project officer with reports of construction acceptance and the maintenance required.

Recommendation No. 2: We recommend that USAID/Egypt review data provided by the project maintenance system and ascertain that appropriate action has been undertaken.

Recommendation No. 3: We recommend that USAID/Egypt require the engineering office to oversee and report on the technical aspects of project implementation.

Recommendation No. 4: We recommend that USAID/Egypt arrange for the services of architectural and engineering firms to assist in procuring and overseeing A.I.D.-financed construction services and maintenance.

Recommendation No. 5: We recommend that USAID/Egypt condition continued new construction funding of this and the follow-on project by A.I.D. upon implementation of an acceptable school maintenance plan.

In accordance with A.I.D. Handbook 3, Chapter 11E, the project officer is responsible for tracking project implementation and ensuring that problems and issues are identified and dealt with as they occur. This includes establishing a suitable project monitoring system, operating it effectively and seeing that reports are prepared on time. Specific duties include overseeing compliance with covenants, making periodic field visits, analyzing implementation progress and preparing reports for the Mission Director on progress and problems.

In addition to the project officer, the Mission usually has a project review committee which looks at a project every six months or more, and the Mission produces a Project Implementation Report, at least once a year. Based on project officer and committee input, Mission management can assess project implementation and reach decisions such as the appropriateness of project design and the need for in-depth evaluations. The project officer should solicit the assistance of the project committee and the Mission technical support staff in resolving problems and issues effecting project implementation. In addition to monitoring and reporting activities, the project officer and the Mission rely on periodic (usually at mid-point and at the end of the project) A.I.D. project evaluations to assess the effectiveness of the project in meeting its purpose and outputs. The following sub-sections discuss the monitoring and reporting system that was in place, what went wrong with the system, what happened as a result, and why it may have happened.

Monitoring and Reporting System That Was in Place

Through the Grant Agreement, project implementation letters, project amendments and under the authority provided by Mission Orders, the Mission had established a system to monitor and report on project activities. This system was to provide information about project activities, including the adequacy of school construction and maintenance.

Project Amendment No. 1, dated May 31, 1983 stated that project performance would be monitored following procedures set forth in Mission Order 3-26, "Portfolio Review" and Mission Order 3-20, "Site Reports". The portfolio review process was intended to keep Mission managers current and fully informed of the design and implementation status of the project. Portfolio reviews by the project officer and office director were to take place once a month. Mission Order 3-20 also held the project officer accountable for the input of project progress information to the Quarterly Implementation Report. Project Amendment No. 1 required quarterly site visits to each governorate involved in the project. A.I.D.'s internal responsibility for monitoring the construction and commodity procurement components of the project from early 1984 has been vested primarily with USAID/Egypt's Office of Education and Training.

In accordance with the Grant Agreement, construction oversight was the responsibility of the GOE Housing Department in individual governorates. Project Implementation Letter No. 10 required the National Investment Bank to inspect each construction site five times prior to acceptance by the GOE. Actual acceptance was to be made by a committee of GOE officials in each governorate. Project Amendment No. 2, dated July 3, 1986 increased the number of governorates involved in the project from 10 to 24 and decreased the number of site visits to each governorate to twice a year.

The GOE Ministry of Education was responsible for the oversight of maintenance. To assist the Ministry in carrying out its oversight, Project Implementation Letter No. 6 Amendment No. 3 - Element No. 1, dated August 31, 1987 required National Investment Bank engineers/consultants to prepare and distribute to all schools a set of guidelines to be followed in establishing a maintenance program. Guidelines were to cover preventive maintenance as well as repair provisions. Before receiving funds for maintenance, each school was to submit its maintenance program following recommended guidelines to the educational zone office.

To follow up on implementation of maintenance plans, National Investment Bank engineers/consultants were to visit each finished school financed by USAID at least once a year and prepare a report to USAID on maintenance including recommendations. Educational zones were responsible for implementing the recommendations. Funds were to be provided to the governorates through a special program approved by the Ministry

of Planning and International Cooperation and the Ministry of Finance. If recommendations were not implemented by the educational zone, project funds were to be withheld from the governorate until the recommendations were implemented.

Underpinning the monitoring and reporting system was a set of standards developed by the Mission to ensure consistency of quality. In its 1987 audit of the project (Audit Report No. 6-263-87-5), the Inspector General concluded that standards needed to be established which could be applied to the acceptance of school construction and to the performance of subsequent maintenance. Accordingly, the Mission issued an implementation letter establishing standards as well as tasks to be performed to inspect and follow-up on both construction and maintenance activities. Project Implementation Letter No. 6 Amendment No. 3 - Element No. 1, dated August 31, 1987, established maintenance standards to be followed to ensure that repairs were undertaken on an on-going basis to fix broken door jambs, broken door handles, broken toilets, broken electrical fixtures, broken floor tiles, broken steps, exposed electrical wires, broken glass windows, flooded lavatories or poor drainage, leaking water pipes, peeling plaster, cracks in walls, leaking roofs, and non-functioning water and/or electricity.

In short, the monitoring and reporting system called for the Mission to follow the guidelines outlined in Mission Orders and various project documents. It also relied on host government agencies to oversee the construction and maintenance of schools through inspections before acceptance of construction, and through subsequent site visits to assess maintenance against standards and maintenance plans. The system even included a penalty of "no funding", when recommendations for maintenance were not implemented. Finally, the National Investment Bank was to visit each finished school financed by USAID at least once a year and prepare a report for USAID on maintenance. In our opinion, this system of monitoring and reporting, if properly implemented, was an acceptable means of tracking project construction and maintenance activities.

What Went Wrong With The System

Over several years, a number of things went wrong. First, the 112 schools we sampled during this audit never received or implemented the guidance for establishing a maintenance program which was to be prepared and distributed by the National Investment Bank. Second, the National Investment Bank had visited none of these schools, until almost three years after the standards were established. Even in 1990, the bank only made 33 maintenance inspections to all governorates, at a time when over 1,500 schools had already been constructed. Third, when the inspections were made, they were not effective. But, just as important, as discussed below, the system used by

the Mission to monitor and report project activities failed to provide Mission management with the information necessary to identify and remedy the problems at particular schools. We found that: (1) crucial information was not reaching the Mission, (2) project site visits were not effective, (3) advice of competent Mission and outside architect/engineers was not sought, (4) the host country did not fund maintenance, (5) monitoring of utility services was inadequate and (6) project evaluations were not useful.

(1) Inspection Information Showing That Construction and Maintenance Standards Were Not Being Followed Was Not Provided To The Project Officer and Mission Management Nor Was it Sought by Them

The reports on maintenance inspections which were to be submitted to the Mission each year were not prepared. The project officer did not insist they be submitted. These reports were crucial since they were the only link between the host government and the Mission on the quality of construction and maintenance. It was not until 1990, three years after Implementation Letter No. 6 Amendment No. 3 - Element No. 1 was signed, that the host government started to provide the Mission with maintenance inspection reports. This was about the same time that the issue of inadequate school maintenance was first noted in the Mission portfolio review process. Our review of Mission Quarterly Implementation Reports covering the period April 1, 1989 through September 30, 1991, disclosed that the project office reporting to management started to identify construction or maintenance as a problem only after we initiated the audit.

(2) Project Site Visits Were Not Effective

Even if host government reports do not identify maintenance and construction problems, a Mission, through project site visits, has the means to ensure that it knows what is happening on a project. Thus site visits are vital to the Mission project monitoring system. A.I.D. Handbook 3 outlines the importance of site visits and provides ample guidance on how thorough they must be to be useful, including the need for detailed site visit reports.

While it was evident during our travel to the governorates that the project officer had made a number of visits, there were only 14 site visit reports in Mission project files, to cover a period of ten years of activities. The reports were superficial in that they did not address implementation problems or issues requiring resolution, who was responsible, or a timeframe for resolution. Based upon our review of the reports and our discussions with the project officer, we concluded that the site visits did not provide the Mission with

adequate information on construction and maintenance problems. As a result, management was not presented with an adequate description of the project problems in order to take timely action to resolve them.

(3) Competent Mission or Outside Architects/Engineers Were Not Part of the Monitoring Process

While the project officer is the key element in the Mission's monitoring, reporting, and evaluation system, he can call upon the services of the Mission technical support staff for assistance and advice. Given the amount of money allocated to the construction component alone under this project (approximately \$145 million), the number of schools constructed (over 1,800), and the number of different contractors involved in construction (approximately 1,500), it would seem prudent to have involved the engineering office in project planning and implementation. Mindful of this need, the Mission engineering office had solicited a role in the Basic Education Project for over two years, but it was not until February 1991 that they played an advisory role in the project.

In accordance with Handbook 11, Chapter 2, the services of an architectural and engineering firm would normally have been acquired to assist in procuring and overseeing A.I.D.-financed construction services. Architectural and engineering personnel would not only supervise the actual construction, but would also monitor the construction contractor's daily progress in implementing its contract. The firm thus serves as the host country's and A.I.D.'s "eyes and ears" at the construction site.

The need for such services was not acknowledged by the Mission until July 1991. In a letter to the National Investment Bank, the Mission indicated its willingness to have the bank contract with an architectural and engineering firm in order to intensify the inspection of schools to be constructed under the project.

(4) Lack of Grant Agreement Requirements for a Host Country Maintenance Plan and Funding of the Plan Contributed to the Maintenance Problem

In addition to other responsibilities relating to the monitoring and reporting on project implementation, the project officer is responsible for assessing the adequacy and relevancy of the project design as required by Handbook 3, Chapter 11. This includes monitoring the project design assumptions and complying with the related covenants to the project agreement.

Covenant 5.5 in the Grant Agreement required the GOE to provide all maintenance to operate project-financed schools. Unfortunately the agreement did not specify how much money the GOE would contribute toward maintenance and it did not require the GOE to provide a maintenance plan. Thus over the years, the GOE provided the schools with insufficient funds for maintenance. Lacking funds, the schools provided no maintenance. Recently the Mission has been able to get the GOE to budget some funds for the maintenance of schools funded by A.I.D. However, without estimates of what funds are needed, and without specific agreement on funding between A.I.D. and the GOE, there is no guarantee that the amount of the funds provided will be sufficient or that the GOE will continue to budget the funds.

(5) Inadequate Monitoring of Utility Services

Since the schools constructed with A.I.D. funds were to be utilized at a capacity of 40-45 students per classroom, the Mission should have done a better job of monitoring to ensure that adequate electricity, sewer and water were provided. The Mission did not obtain information on whether utilities had been provided to the school. For electricity, Project Implementation Letter No. 6 (Amended) of August 31, 1987 required power generators be placed in those schools without access to local electricity lines. With the exception of one governorate, the generators were not purchased.

(6) A.I.D. Project Evaluations Were Incomplete

If the day-to-day Mission project monitoring and reporting system fails, the Mission can still assess how well a project is performing through A.I.D. project evaluations. The purpose of an A.I.D. project evaluation is to assess how effective a project is in achieving the purpose and outputs set forth in the project paper, and to provide formal recommendations to the Mission. Thus, for the Basic Education Project, we would have expected that the project evaluation would have assessed the quality of school construction and how well they were maintained - since these factors would have a significant bearing on the effectiveness of the educational process. Furthermore, they were identified as problems in the earlier Inspector General audit report.

The audit disclosed that in December 1982 a contract was awarded to perform a life-of-project evaluation of the Basic Education Project. The purpose of the contract was to evaluate the impact of project financed construction, commodities and technical assistance on the access to efficient and effective basic education in Egypt. Under the contract, over four years, the same team of evaluators was to collect the same type of data annually concerning key contributions by A.I.D. to the Basic Education Project. A total

of four annual evaluation reports were issued from 1984 through 1987. Our review of these evaluation reports disclosed no mention of any construction or maintenance problems with regard to A.I.D.-financed schools. As documented in the Mission project files and admitted by responsible USAID officials, the evaluations were of limited value.

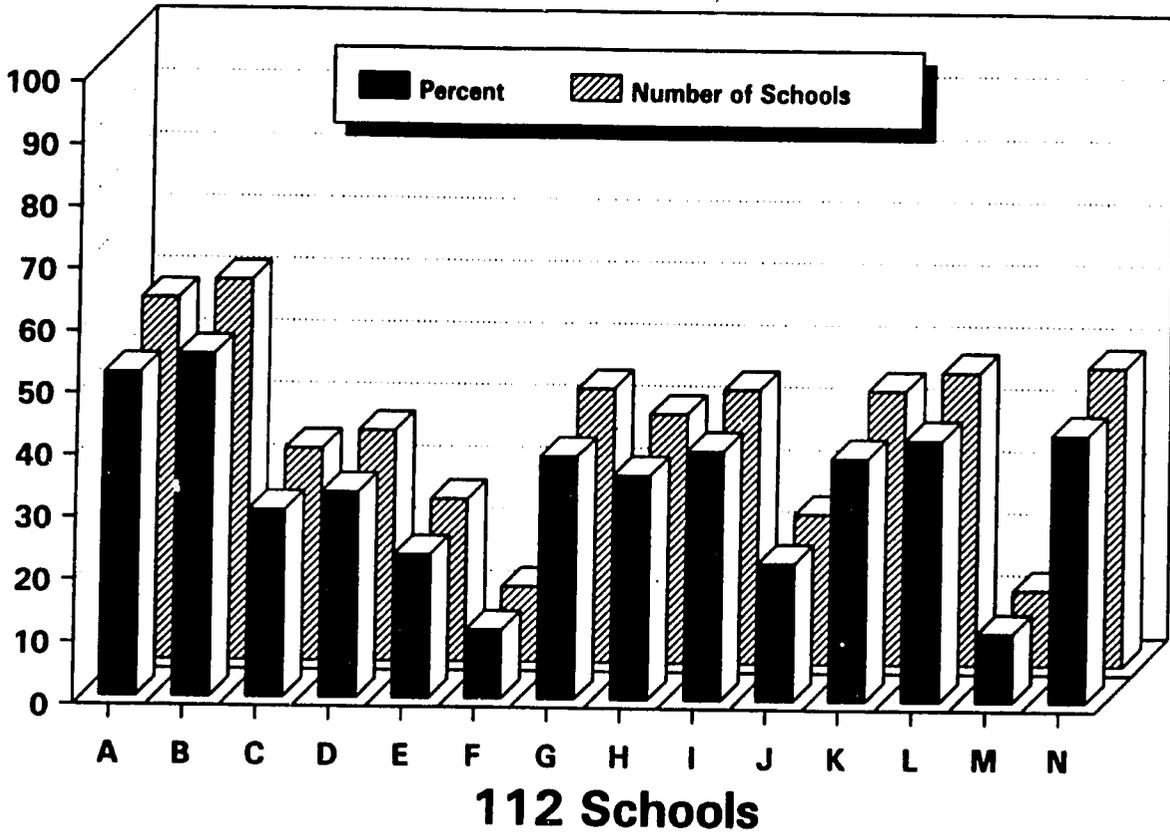
Subsequent to the completion of our fieldwork in November 1991, the Mission developed a statement of work for an A.I.D. project evaluation and fielded a team to start it. The statement included provisions for looking at the adequacy of school construction and maintenance. During the exit conference, USAID/Egypt officials informed us that the tentative findings of the team confirm the findings noted during our audit as presented in this section of the report.

What Happened as a Result

As a result, most of the 112 A.I.D.-financed schools visited in 13 out of 24 governorates during our audit showed visible signs of significant construction defects and/or lack of maintenance, and lack of basic utilities. For example, maintenance problems in 104 of the 112 schools included in our sample were in immediate need of attention. Sixty-six of the schools had significant problems in four to fourteen of the categories established as standards for maintenance. Construction and maintenance defects have resulted in severe deterioration of many structures with attendant maintenance problems, raised the probability of injury and health problems for the occupants, and detracted from a favorable image of U.S. assistance to the GOE.

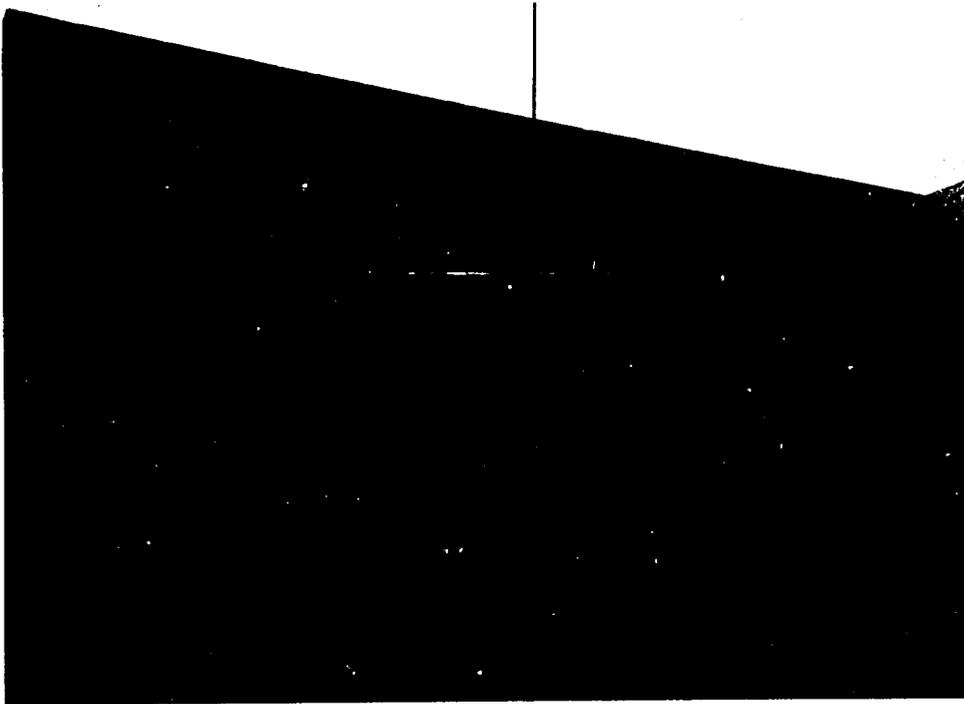
Once a school is constructed, it is difficult to identify those problems which can be attributed to substandard construction from those which are due to lack of maintenance. Substandard construction merely creates a need for maintenance or repair sooner. It does not matter whether the cause is construction or maintenance, since the net effect is that the schools continue to deteriorate if action is not taken. Thus, many of the problems noted in the following graph arose from substandard construction while others reflected the failure to maintain the schools. The graph represents **significant** problems in the 112 schools visited during our audit. These problems require immediate attention in order to prevent further deterioration and added cost of maintenance.

SIGNIFICANT CONSTRUCTION AND MAINTENANCE PROBLEMS

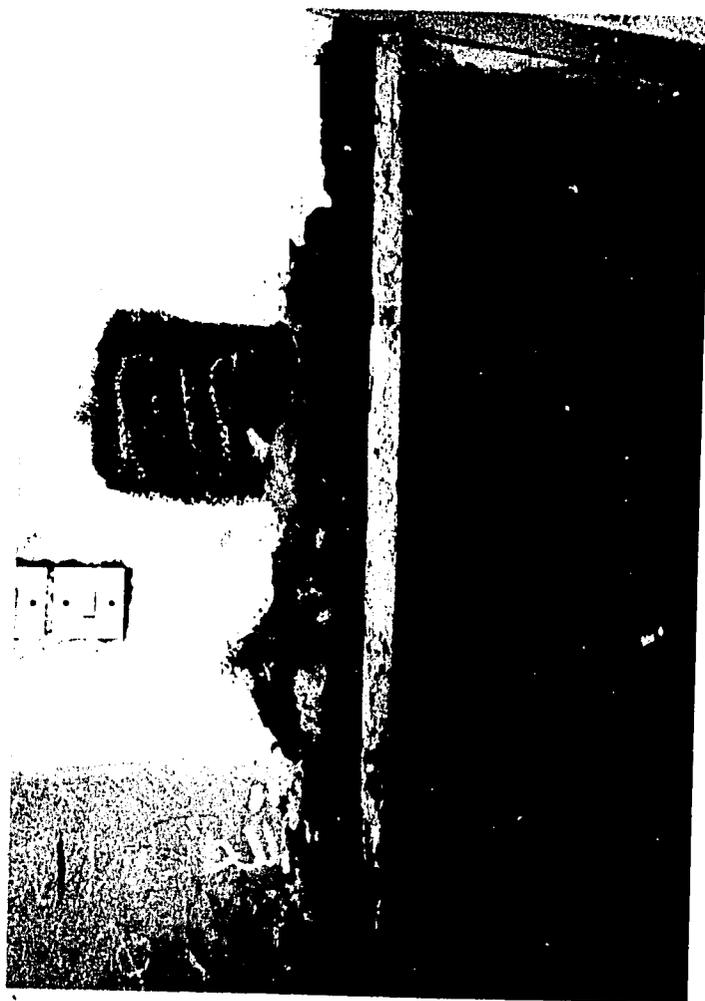
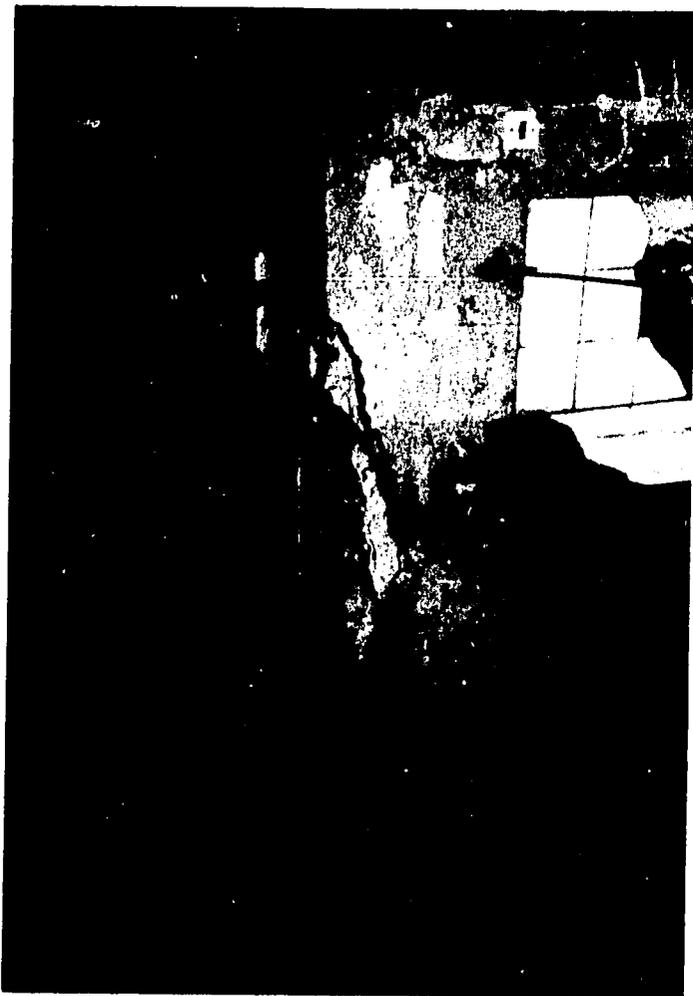


<i>Types of Problems</i>			
A	Broken Door Jambs	H	Broken Glass Widows
B	Broken Door Handles	I	Flooded Lavatories or Poor Drainage
C	Broken Toilets	J	Leaking Water Pipes
D	Broken Electrical Fixtures or Light Switches	K	Peeling Plaster
E	Broken Floor Tiles	L	Cracks in Walls
F	Broken Steps	M	Leaking Roof
G	Exposed Electrical Wires	N	Water and/or Electricity Functioning

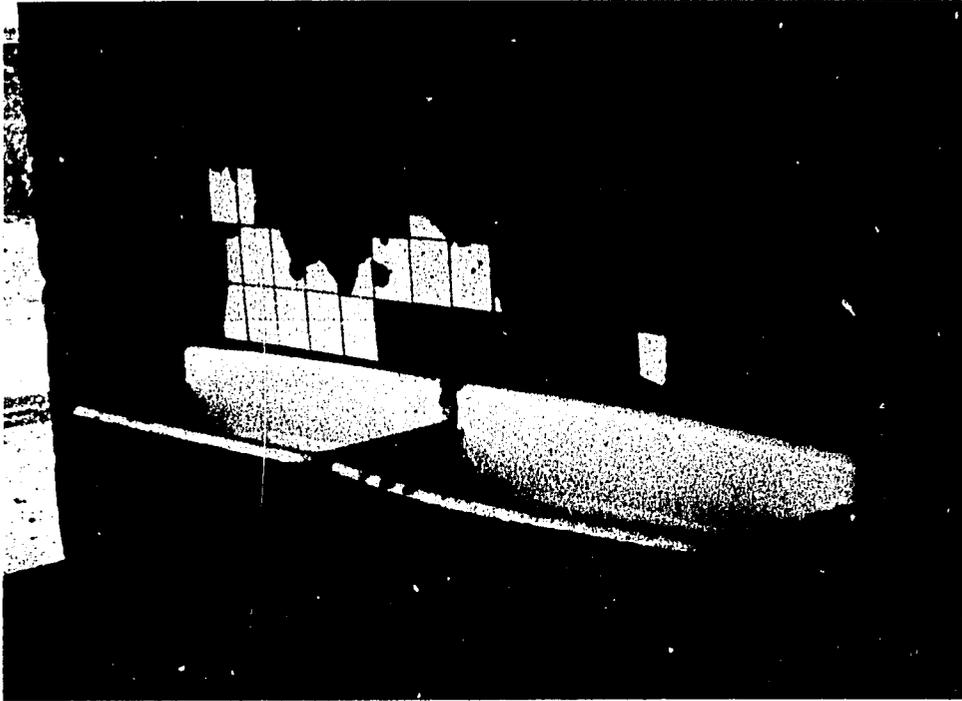
In general, schools presented a shabby appearance due to peeling plaster, surfaces in need of painting, numerous cracks in walls and ceilings, flooded lavatories and/or school grounds resulting from poor drainage, broken windows, missing light fixtures, broken or exposed electrical wiring and toilets that were broken or did not function properly. Erosion existed around building foundations, and floor tiles were broken or missing. Below and on the following pages are photographic examples of the typical conditions found during the auditors' visits of the schools.



Peeling Plaster and Surface In Need of Painting
Beheira Governorate May 1991



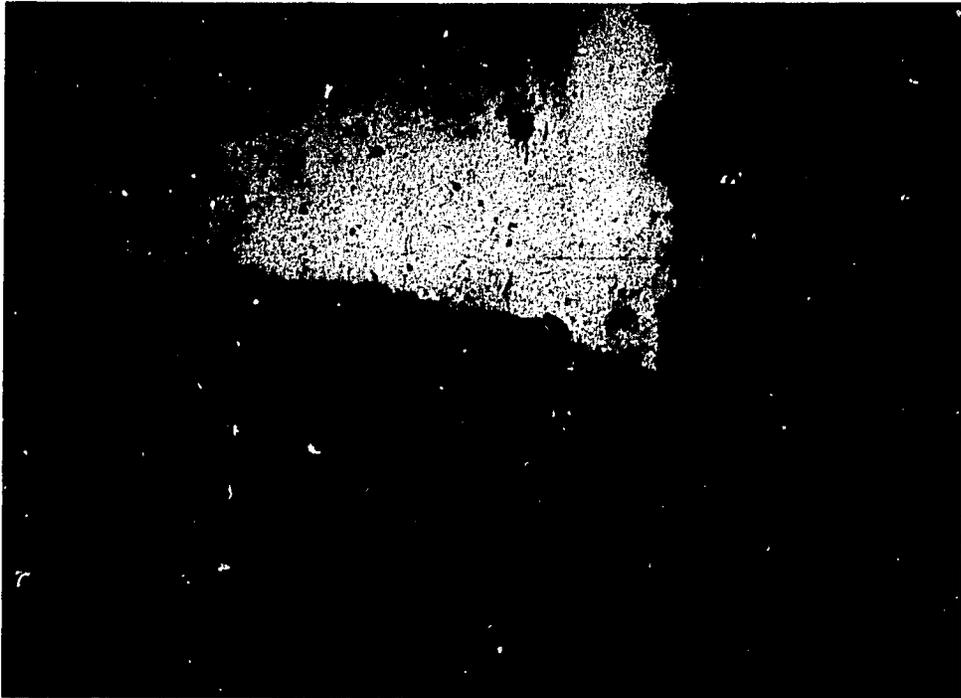
Broken Door Jambs
Beheira Governorate June 1991



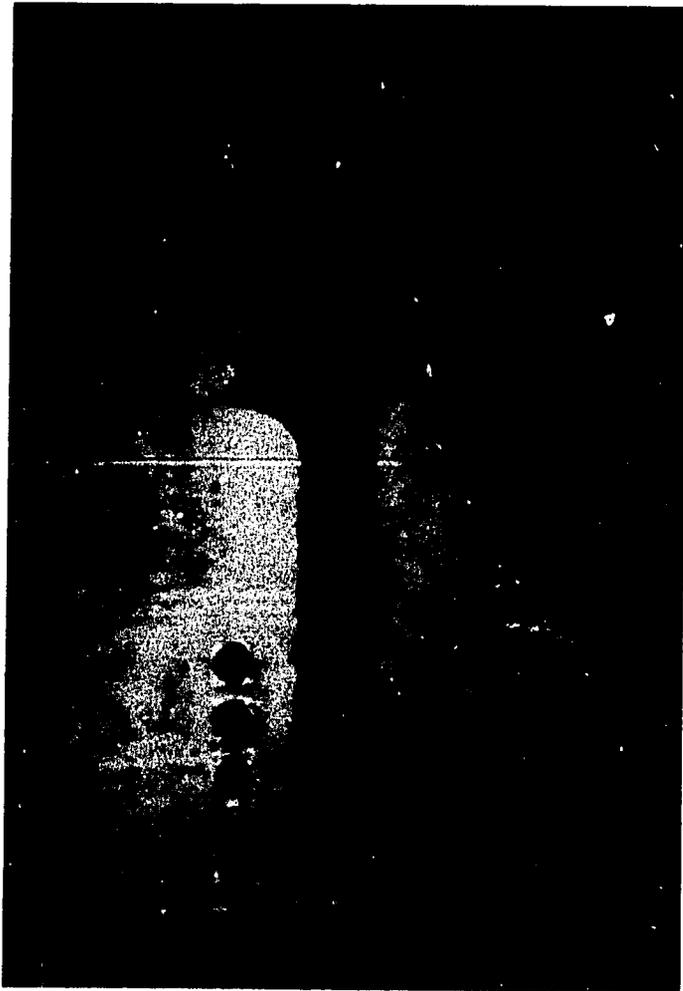
Missing Faucets and Urinals
Beheira Governorate May 1991



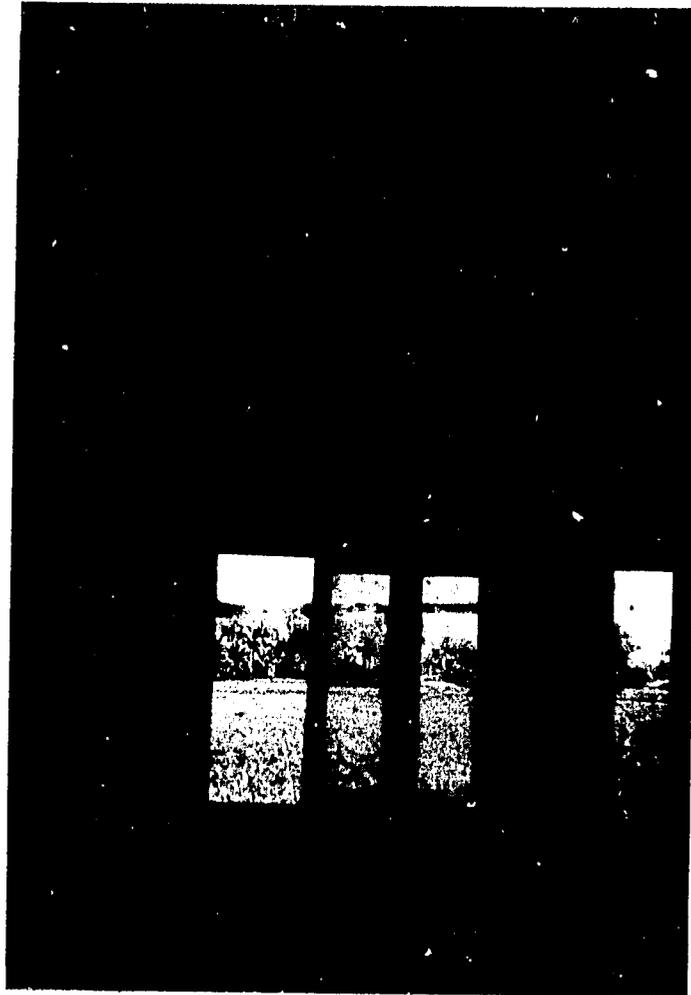
Broken Floor Tiles
Beheira Governorate June 1991



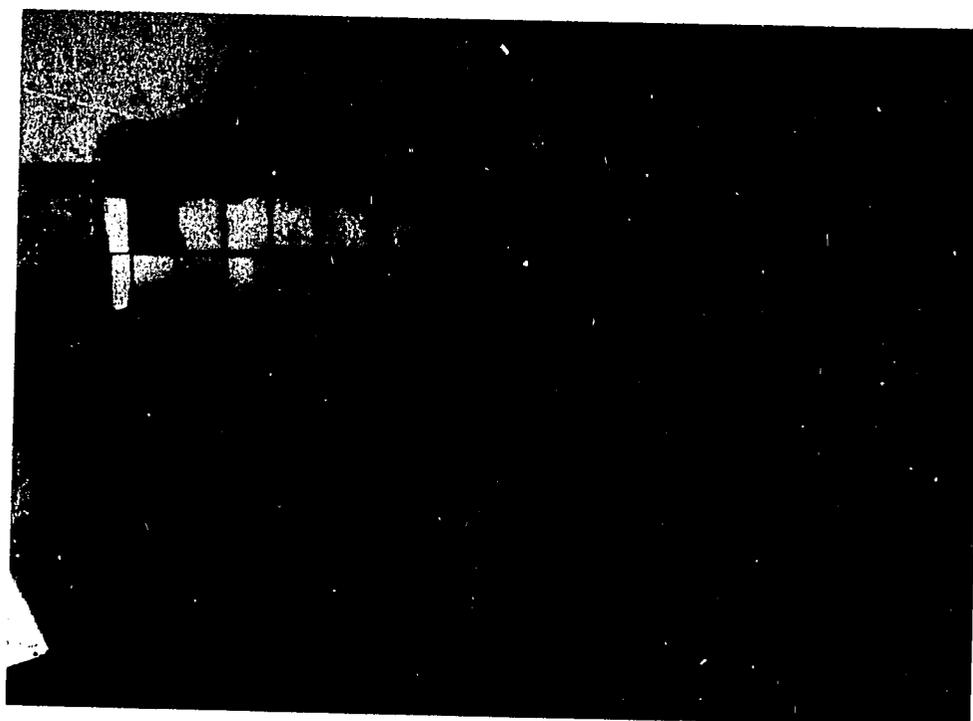
Poor Drainage and Resulting Foundation Erosion
Beheira Governorate June 1991



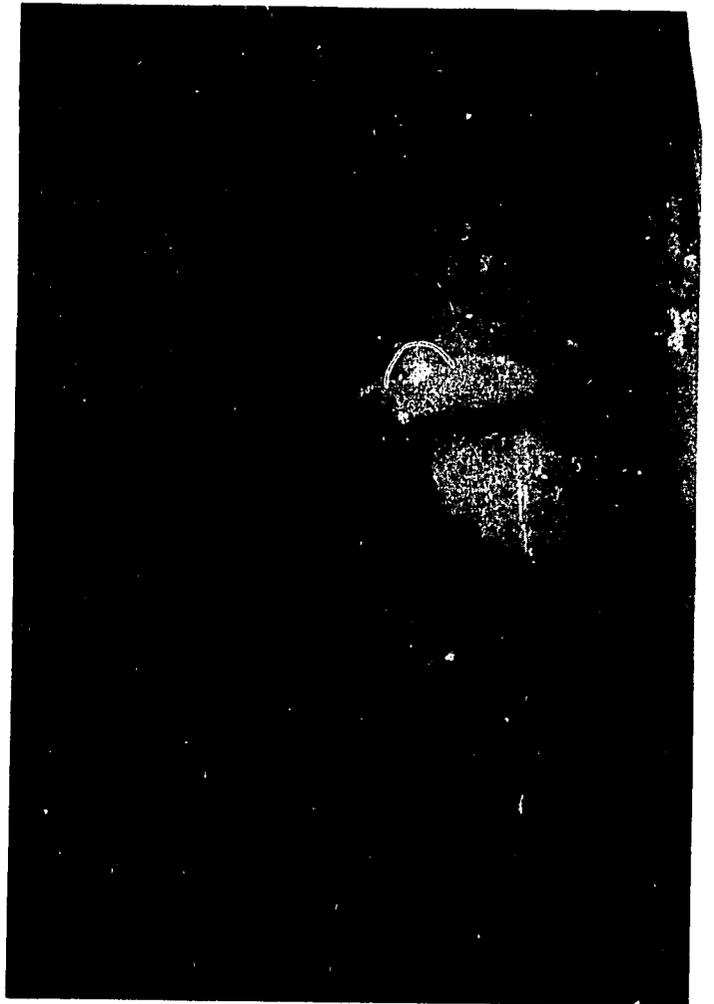
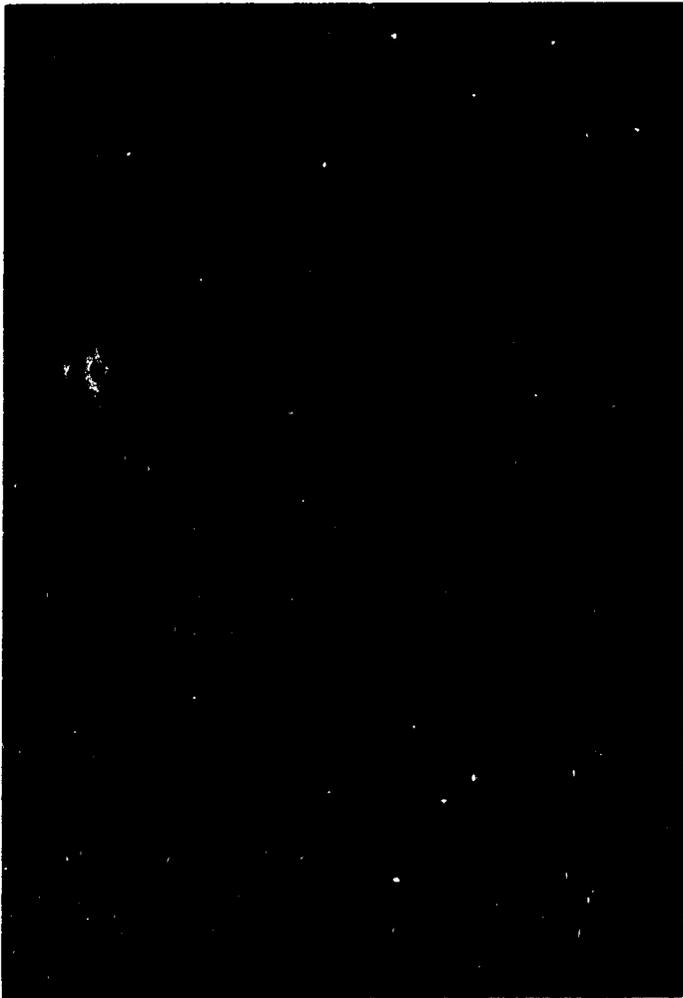
Exposed Electrical Wires
Qena Governorate March 1991



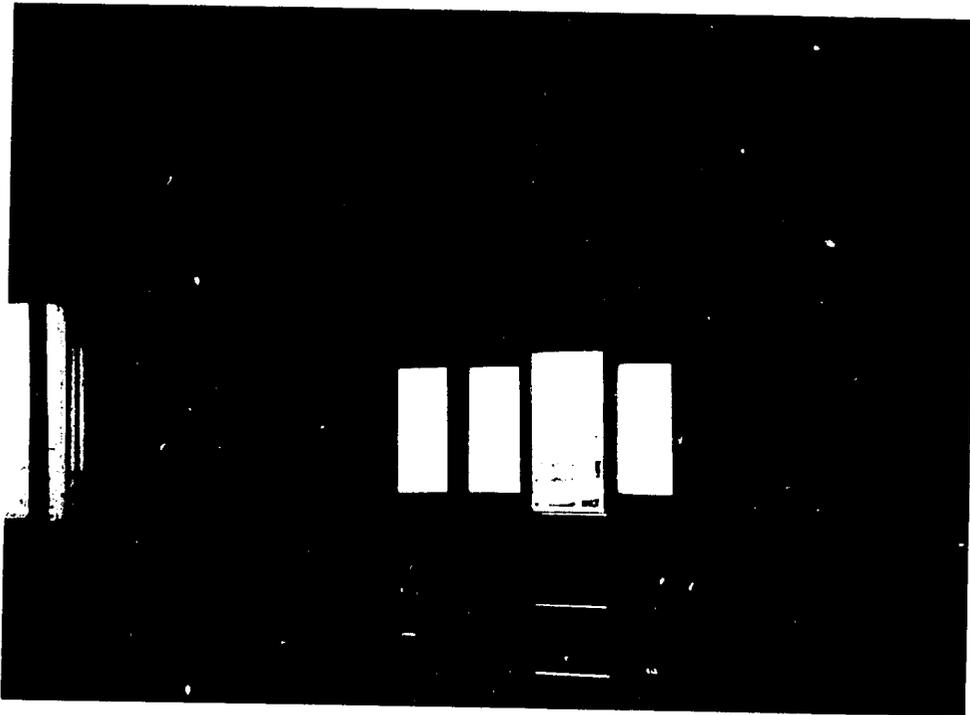
Broken Glass Windows
Beheira Governorate May 1991



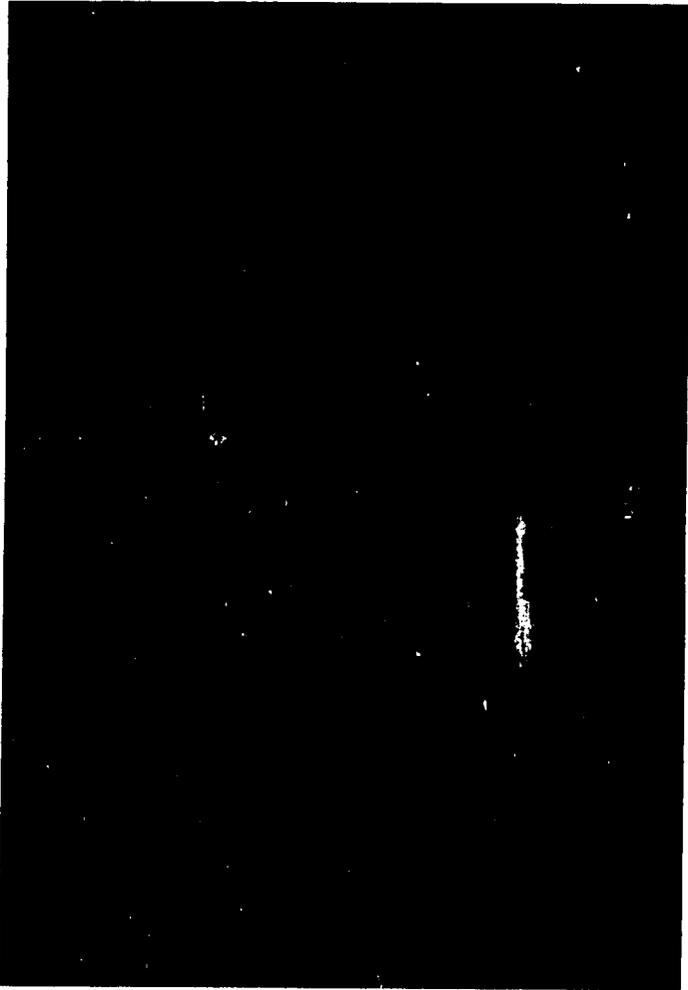
Broken and/or Leaking Wash Basins
Qena Governorate April 1991



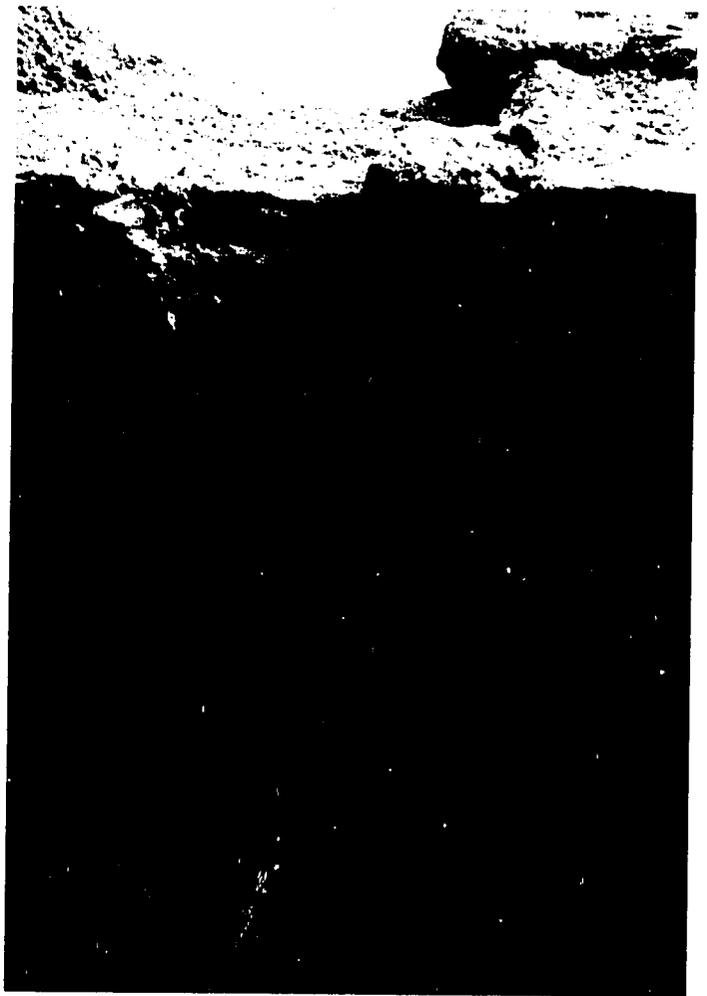
Leaking Water Pipes
Beheira Governorate May 1991



Peeling Plaster
Qena Governorate March 1991

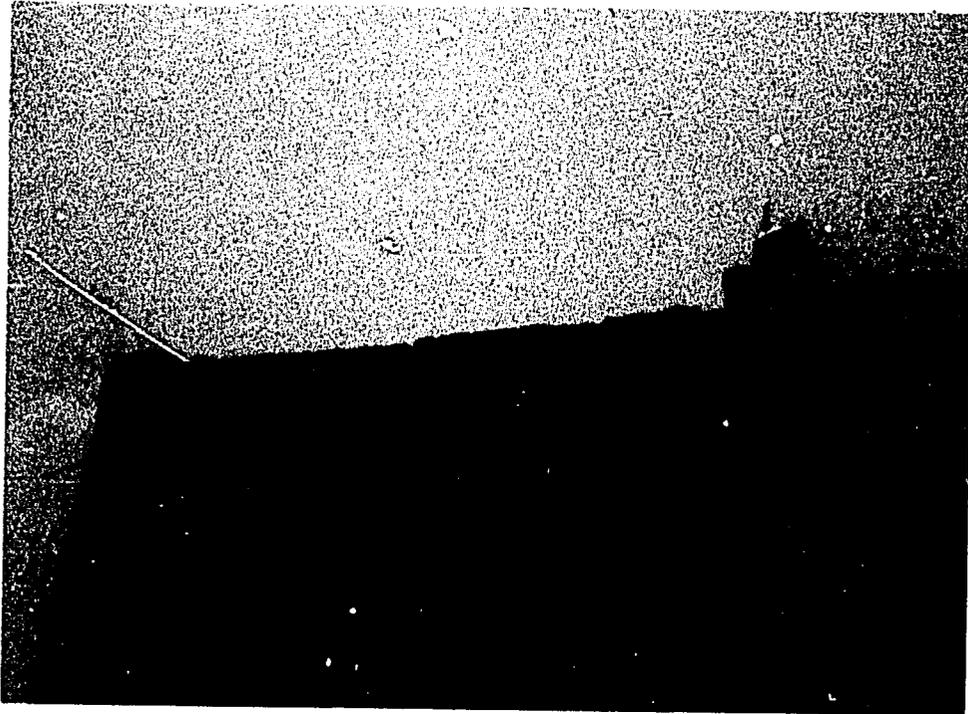
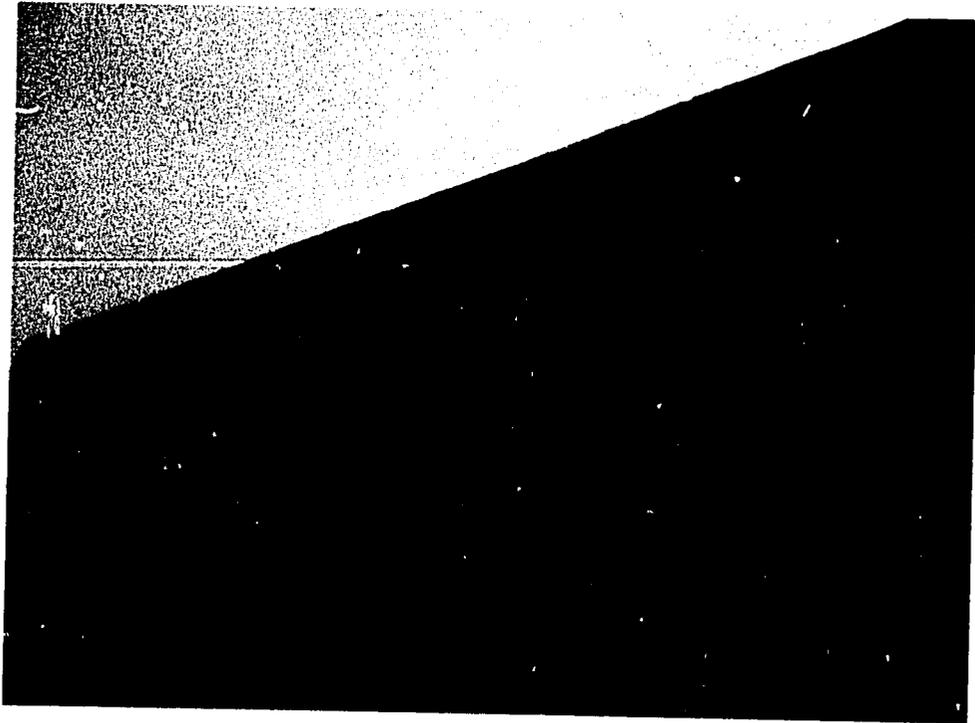


Crack in Wall



Crack in Balcony

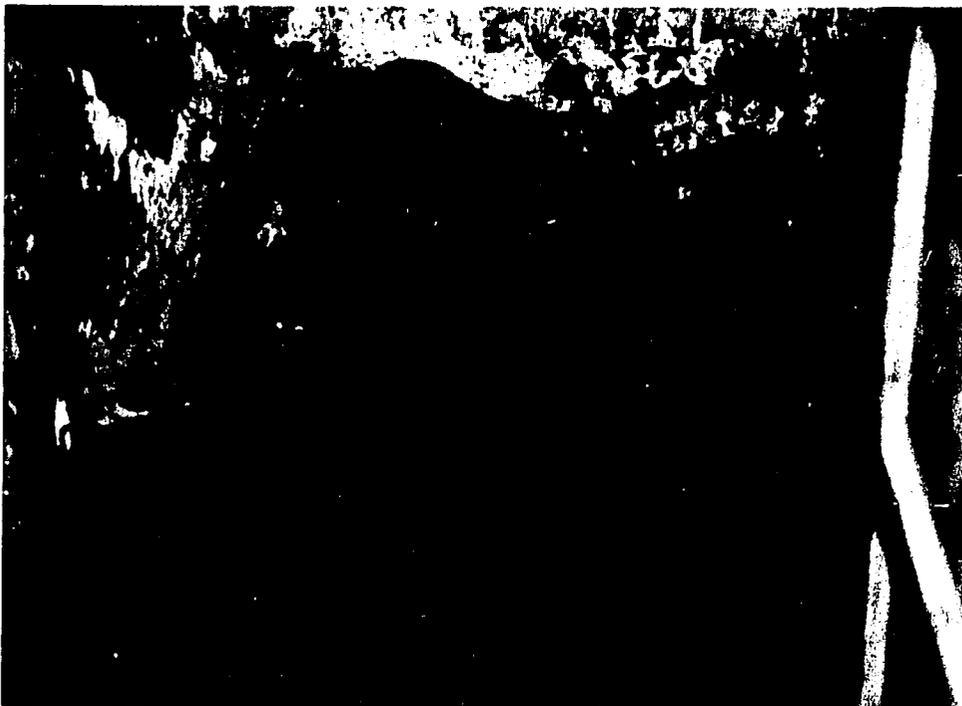
Qena Governorate March 1991



Leaking Roof
Beheira Government June 1991



**Broken Toilets Resulting In
Children Using the Floor**
Beheira Government May 1991

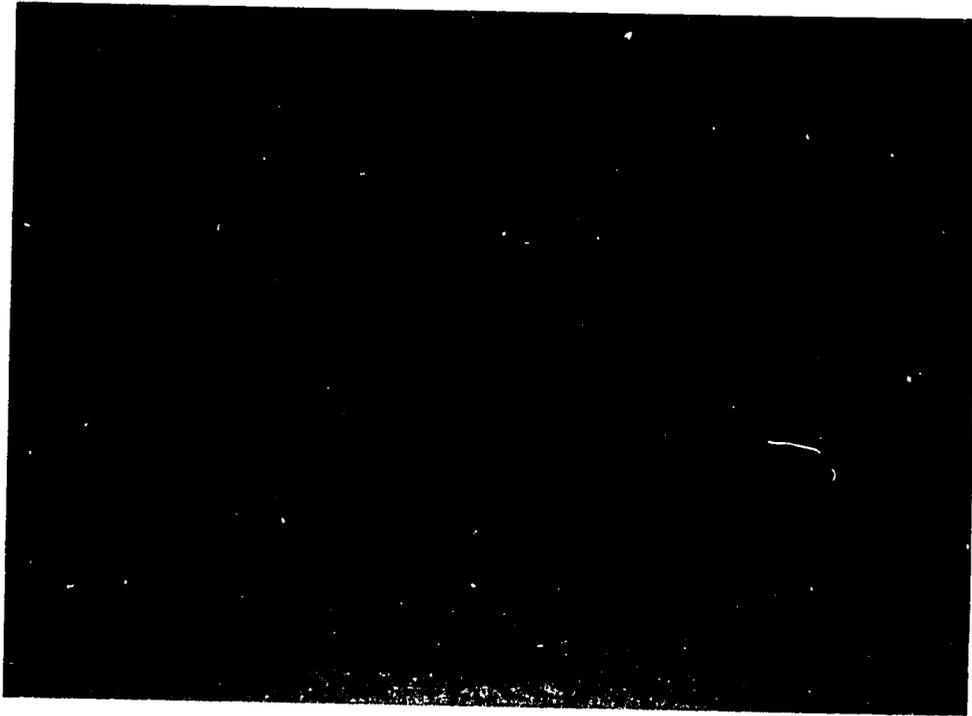


Clogged Toilets
Qena Government March 1991

Again, while it is difficult to distinguish between maintenance problems arising from defects in construction or just normal wear and tear, it appears that many of the problems are attributable to poor construction. We believe this to be true because many of the newer schools, which one would not expect to have maintenance problems, already show many of the same problems and degree of deterioration noted in the older schools. For example, out of the 112 schools visited, 38 were completed in the past three years. Yet of the 38, 11 had broken door jambs; 7 had broken door handles; 5 had broken toilets; 7 had broken electrical fixtures; 3 had broken floor tiles; 2 had broken steps; 10 had exposed electrical wires; 6 had broken windows; 6 had flooded lavatories or poor drainage; 2 had leaking water pipes; 5 had peeling plaster; 9 had cracks in the walls; and 19 had no functioning water and/or electricity.

In summary, 31 of the 38 newer schools had one or more defects in need of attention. This was confirmed in a USAID letter to the Deputy Chairman, National Investment Bank, dated July 3, 1991 in which it was stated that many school buildings showed early signs of deterioration resulting from poor construction practices stemming from inadequate inspection and supervision.

Is it possible to have schools without major defects? Our sample showed that 7 of 38 newer schools had no significant defects. As shown in the photographs below, one such school reflects highly on the image of U.S. assistance to the GOE, and more importantly, it provides attractive and healthy facilities for the young children.



School Approximately one year old
Red Sea Governorate April 1991

Our visits to the 112 schools disclosed that 44 were without one or more of the basic utilities. Furthermore, in Beheira Governorate, records showed that 68 of 189 A.I.D.-financed schools had no electricity. Power generators had not been placed in those schools where there was no local electrical hook up, as required in accordance with Project Implementation Letter No. 6 of August 31, 1987.

Why Did it Happen

The audit could not attribute the Mission's lack of good project monitoring to a specific cause. This is because the events discussed in this audit report occurred over many years and thus represent several A.I.D. Mission management teams including three different Mission directors, several project officers and other A.I.D. personnel. In discussions with USAID/Egypt current management officials, the salient cause is likely that construction and maintenance were allowed to deteriorate over the past ten years primarily because emphasis was given on constructing as many schools as possible in order to expand enrollments. Thus, insufficient attention was given to monitoring construction and maintenance.

Conclusion and Mission Action

Lack of information, along with lack of engineering advice from inside and outside the Mission, no specific maintenance fund requirements or a maintenance plan, and inadequate project evaluations, led to a situation where, for years, the Mission was unaware of the magnitude of construction and maintenance problems. Most of the 112 schools visited during this audit, showed signs of significant construction defects and/or lack of maintenance which needed immediate attention. Based upon inadequate inspection by the GOE in accepting new schools, the lack of funds for maintenance, and the lack of GOE maintenance inspections, the auditors believe the conditions found in the 112 schools are likely to represent conditions in a large percentage of the over 1,800 schools constructed with A.I.D. funds.

However, USAID/Egypt's current management team's willingness to immediately remedy the situation once aware of it, is evident by the fact that, when the auditors brought construction and maintenance problems to its attention, the Mission immediately began to take substantive action to (1) implement internal controls to monitor project construction and maintenance, (2) develop a school maintenance plan, (3) increase inspections, (4) seek engineering help, (5) increase maintenance funding, and (6) undertake a project evaluation. As a result, at the time of the exit conference, the Mission reported over 265 schools maintained so far in 1991-1992 in 18 governorates.

These actions are to be applauded and considered congruent with the intent of the recommendations made in this audit report.

**A.I.D. Marking Requirements
Were Not Met**

According to A.I.D. Handbook 1, Supplement 1B, Chapter 22, "Project construction sites and other project locations must display signs suitably marked and indicating participation by the United States in the Project." None of the schools visited were suitably marked to show evidence of A.I.D. being the donor. This occurred because of a misunderstanding as to what constituted being "suitably marked" and failure to properly monitor project implementation which includes ensuring that marking requirements are met. As a result, adequate publicity was not given that the schools were made available by the people of the United States.

Recommendation No. 6: We recommend that USAID/Egypt ensure that suitably marked signs are displayed at all A.I.D.-financed schools indicating participation by the United States in the Project.

According to A.I.D. Handbook 1, Supplement 1B, Chapter 22, "Project Construction sites and other project locations must display signs suitably marked and indicating participation by the United States in the project. These signs should be erected at an early date in the construction or implementation phase and be replaced by permanent signs, plates, or plaques, suitably marked, at the end of this phase." According to Handbook 1, suitably marked means marking with the A.I.D. emblem.

Our review showed that 64 of the 112 schools visited did not have a sign or plaque showing evidence of A.I.D. being the donor. We did find that 48 of the schools had a sign in arabic indicating participation by the United States but the sign did not include the required A.I.D. emblem.

USAID officials advised us that they were unaware that the signs had to contain the A.I.D. emblem. Furthermore, they told us that if the requirement did apply, there must have been a waiver although they were unable to produce such a document. With regard to those schools with no signs indicating participation by the United States in the project there appears to be a direct correlation with the fact that project site visits which could have been used to enforce this requirement, were not effective as discussed in the previous section. While a letter was issued by USAID/Egypt to the Ministry of Education in July 1985 advising them of their disappointment in finding that many of the

schools did not have the project plaque which the Ministry agreed to place on the A.I.D.-financed schools, it was ineffective in getting them to put the plaques on the schools as evidenced by the results of our visits to 112 schools.

Conclusion and Mission Action

A misunderstanding as to what constituted being "suitably marked" resulted in none of the schools visited being suitably marked with the A.I.D. emblem. While 48 of the schools visited had a sign in arabic indicating participation by the United States in the project, the other 64 did not because the Mission was ineffective in getting the Ministry of Education to place or ensure that plaques would be placed on the schools. As a result, adequate publicity was not given to the fact that the schools were made available by the people of the United States. Subsequent to the completion of our audit field work, the Mission reported much greater success in ensuring that plaques were placed on A.I.D.-financed schools although the issue of "suitably marked" still needed to be addressed.

Did USAID/Egypt monitor that A.I.D.-financed materials and equipment were accounted for, and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders?

We found that USAID/Egypt did not adequately monitor that A.I.D.-financed materials and equipment were accounted for and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders.

Equipment and Instructional Materials Were Not Adequately Accounted For and Effectively Used

A.I.D. is responsible for monitoring that A.I.D.-financed equipment is properly accounted for and effectively used in the project. However, effective commodity control systems were not in place to ensure that equipment and instructional materials were properly accounted for and effectively used in the project. This occurred primarily because USAID/Egypt had not adequately planned for the procurement nor provided sufficient oversight to ensure that commodity control systems were in place which could effectively account for the receipt, storage, distribution, and use of equipment and instructional materials. As a result, approximately \$40 million in A.I.D. funds have been expended for equipment which has not been adequately utilized and may not even be appropriate for the project.

Recommendation No. 7: We recommend that USAID/Egypt ascertain whether the commodities financed by A.I.D. can be (1) effectively used in the project, (2) transferred to other projects, or (3) otherwise disposed of as approved by the Mission.

A.I.D. Handbook 15, Section 10A states that it is A.I.D. policy to ensure that A.I.D.-financed commodities are properly accounted for and effectively used in the project. Annex 2, Section B.5, of the Standard Provisions of the Grant Agreement requires the GOE to maintain books and records relating to the project, adequate to show the receipt and use of goods and services acquired under the grant. A.I.D. Handbook 15, Section 10D gives USAID the responsibility to ensure that the Borrower/Grantee commodity arrival and disposition system is operating effectively by monitoring the system in a manner appropriate to local conditions.

A.I.D. provided approximately \$20 million in project funds to finance the purchase of equipment and instructional materials. Previously, another \$20 million had been made available for like commodities under the Commodity Import Program. The equipment and instructional materials purchased consisted of items in 15 categories such as home

economics, science, horticulture, carpentry, bricklaying, audio visual, etc. Purchases were made under Ministry of Education requests for quotation and A.I.D. direct letters of commitment to U.S. suppliers. Commodities arriving in country were stored in two warehouses, Alexandria and Damanhour, before distribution to governorates and then to approximately 15,000 primary and preparatory schools.

USAID/Egypt has not ensured that the Ministry of Education maintained adequate records to show the receipt and use of goods and services under the grant as required by the Grant Agreement. The Ministry of Education does not have a project commodity control system in place which effectively accounts for the receipt, storage, distribution, and use of A.I.D.-financed equipment and instructional materials.

We reported a similar problem in our 1987 audit of property management under USAID/Egypt's Basic Education Project (Audit Report No. 6-263-87-8). The report showed that the Ministry of Education did not maintain proper accountability records of A.I.D.-financed equipment and instructional materials received in the two main warehouses. Warehouse storekeepers could not identify commodities delivered from the port of Alexandria to the warehouses because: (1) they received commodities in shipping containers and not in identifiable units detailed in suppliers' invoices and packing lists; and (2) they were not familiar with the type of commodities received. The storekeepers also did not keep an official record showing commodities issued from the warehouses, although they did have copies of individual slips showing issues of warehouse stock to governorates. In effect, the storekeepers had to gather all issue slips scattered throughout the warehouses to reconstruct distribution of property to various governorates.

Since the previous audit, all of the equipment has been distributed to approximately 15,000 primary and preparatory schools in all 26 governorates throughout Egypt. However, a summary record was not available which showed the quantities of equipment and instructional materials distributed to each of the governorates. At two of the governorates visited to review the accountability for and utilization of commodities, a record was not maintained which showed distribution of the commodities to the schools. At the other governorates visited, it was difficult to determine whether the records maintained by the governorate represented actual or planned distribution.

In accordance with A.I.D. Handbook 15, the Mission is responsible for ensuring that A.I.D.-financed commodities are properly accounted for and effectively used in the project. This includes providing adequate oversight to ensure that the Ministry of Education has an effective commodity control system in place to properly account for and effectively utilize project equipment and instructional materials financed by A.I.D. Handbook 3, Chapter 11 requires project officers to monitor the utilization of A.I.D.-

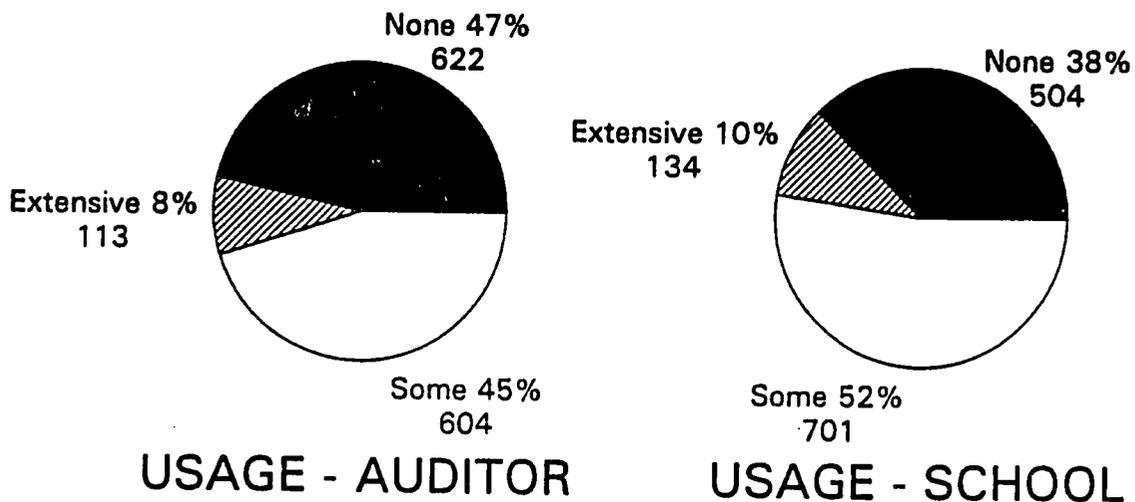
financed commodities and equipment. This includes visual inspection of project activities and reporting on site visits.

As reported in the previous section of this report, only 14 trip reports were in the project files. Three of the trip reports addressed problems with regard to utilization of equipment and instructional materials but nothing was done to correct the situations. In addition, Mission Order 3-33, dated February 20, 1989, required that reports be prepared on the utilization of A.I.D.-financed commodities and equipment. These reports were to be obtained from the grantee or prepared by the project officer, whichever was most appropriate. Utilization reports were not required from the Ministry of Education.

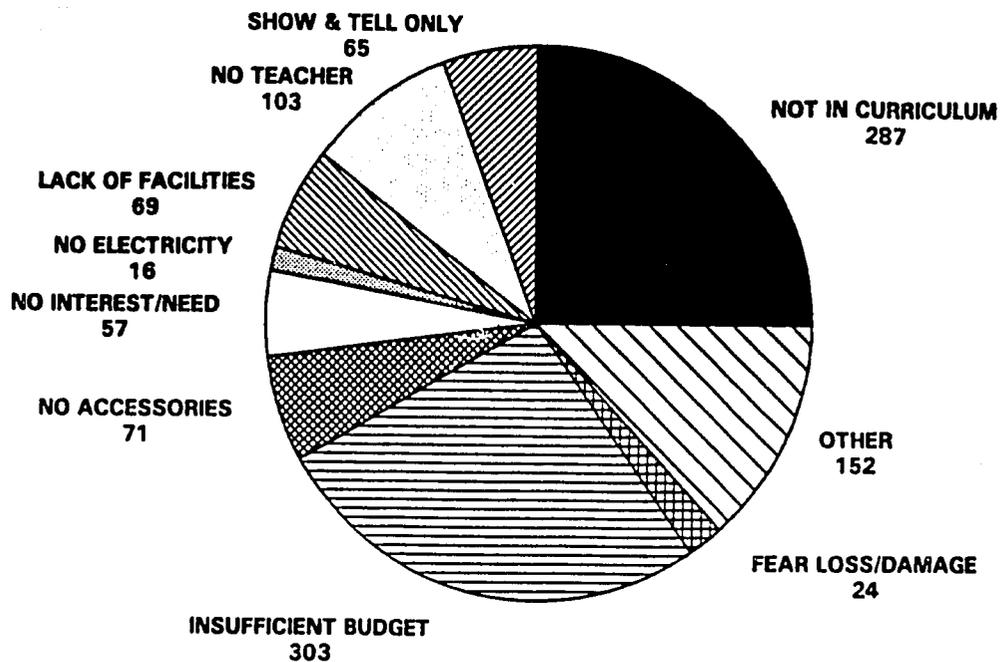
We selected a sample of 150 schools out of approximately 15,000 schools which received A.I.D.-financed equipment from 10 of 26 governorates, as USAID/Egypt agreed that this would be representative of the total universe, to test the utilization of equipment and instructional materials provided to schools. A total of 1,339 packages representing 15 different categories of equipment were examined to determine the extent of utilization. A package of equipment could consist of many items. For example, a carpentry package consisted of many different types and quantities of tools.

We used a questionnaire to determine the extent of utilization of items making up the package, and let both the auditors and school officials estimate the utilization. As shown below, there was only a minor difference between the estimates of utilization by school officials and by the auditors. Much of the equipment and instructional materials had never been used, and most of the remaining items had received little usage.

EQUIPMENT UTILIZATION



School officials gave the following reasons for the lack of equipment utilization.

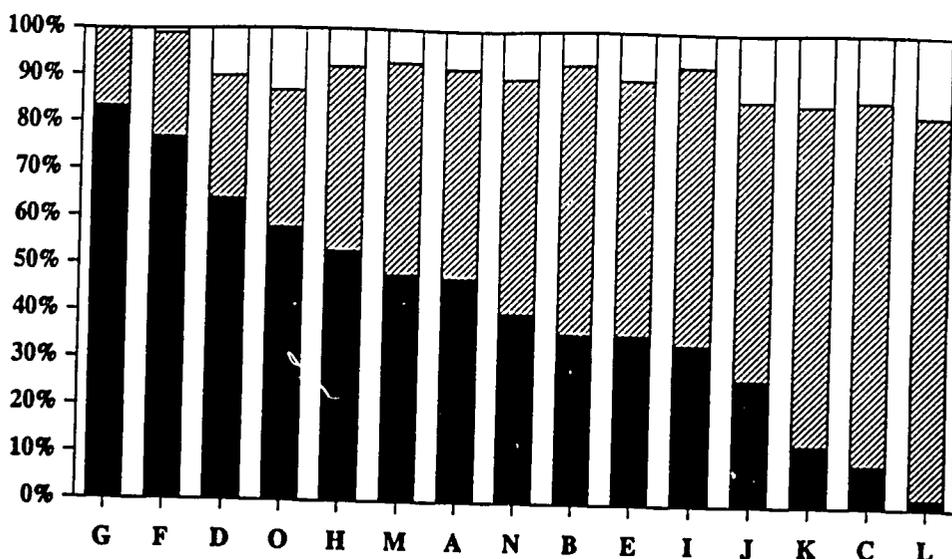


REASONS FOR NON USE OF EQUIPMENT

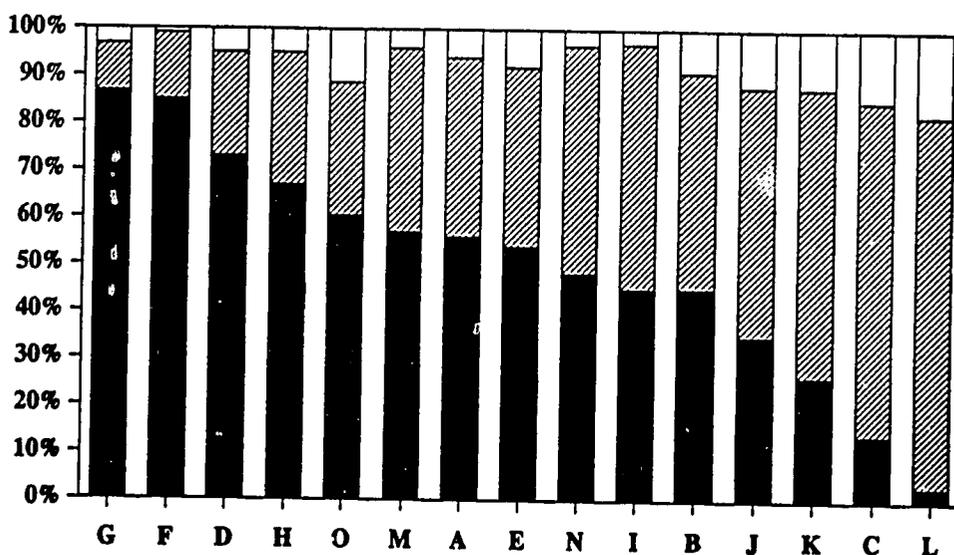
A detailed breakout of commodity utilization by type of equipment as estimated by the auditors and school officials is reflected in the following graphs:

COMMODITY UTILIZATION BY TYPE OF EQUIPMENT

School Officials

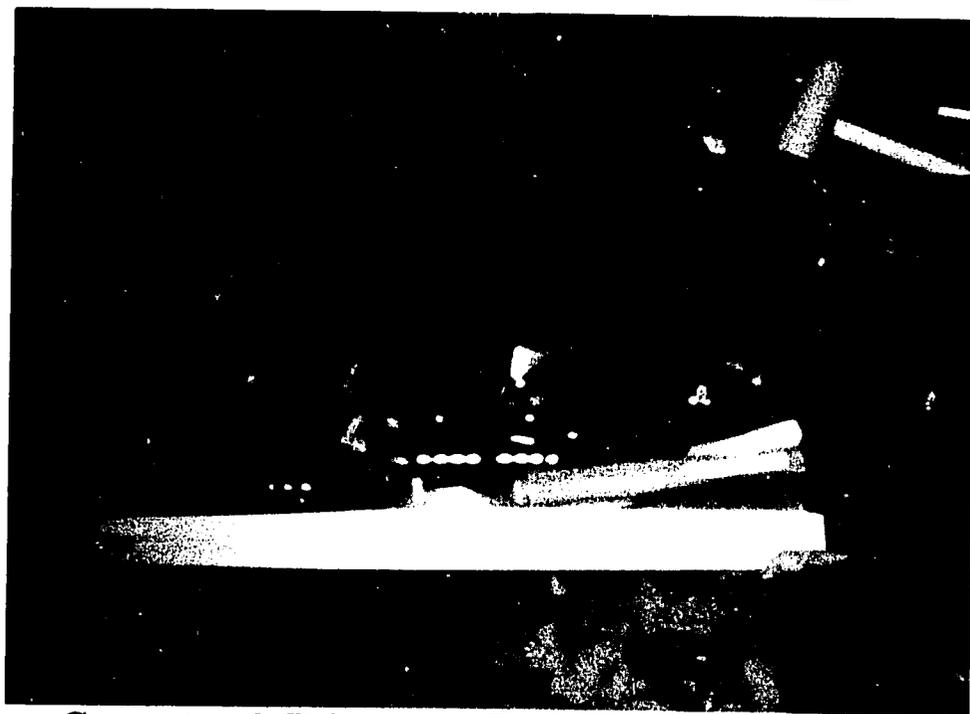
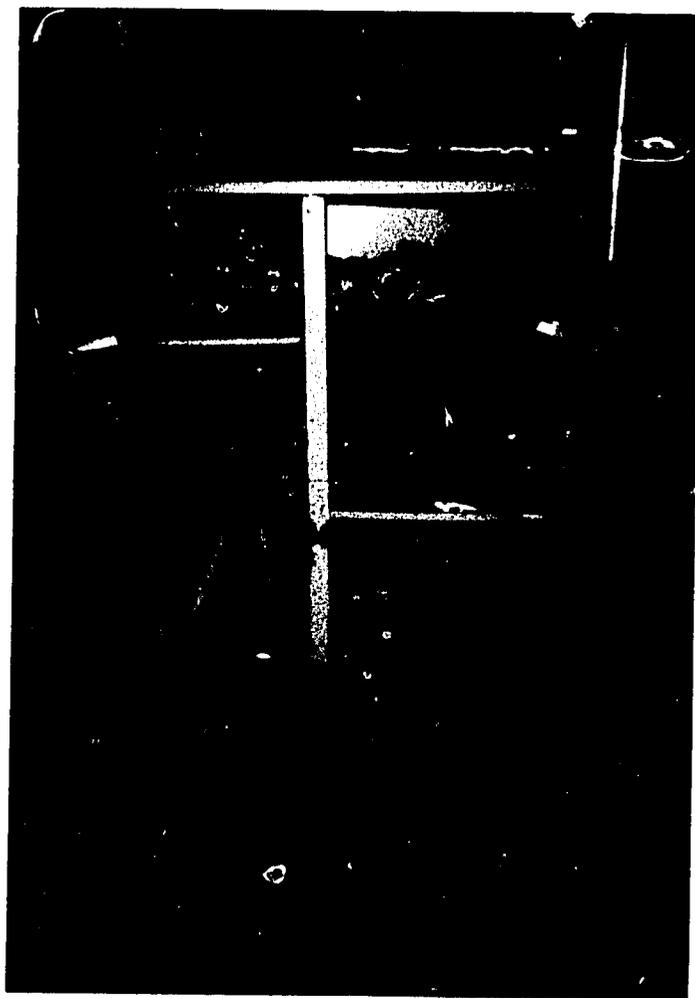


Auditors

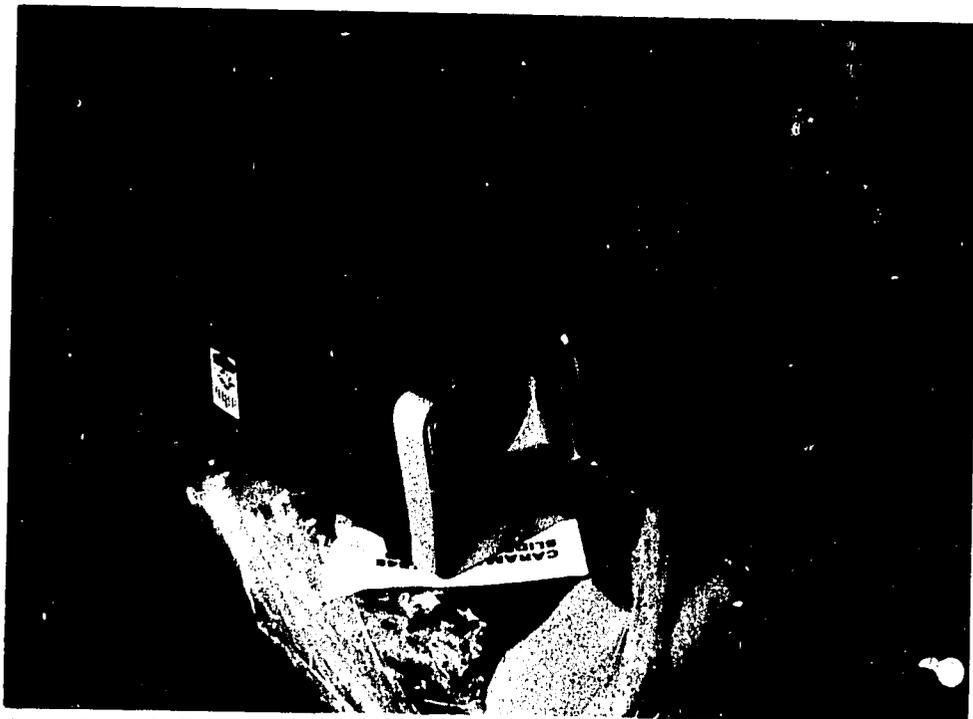
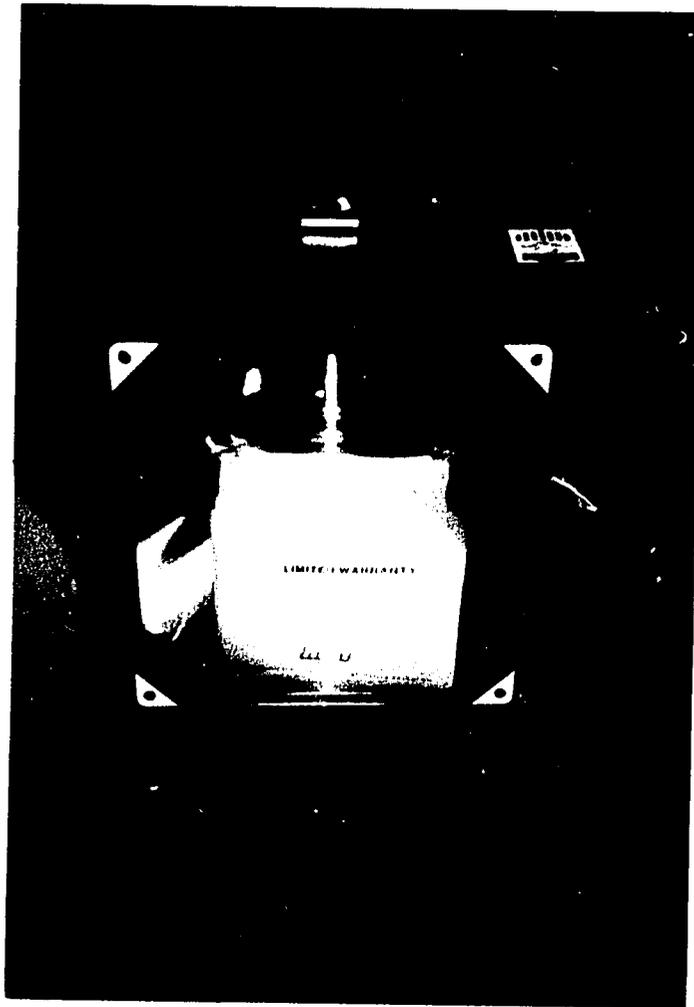


<i>Types of Equipment</i>					
A	Electrical Tools	F	Dairy Products	K	Science (labs)
B	Home Maintenance	G	Poultry	L	Social Scn. Maps
C	Carpentry	H	Horticulture	M	Audio Visual
D	Bricklaying	I	Home Econ. Nutr.	N	Transparencies
E	Food Industry	J	Home Econ. Sewing	O	Stoves

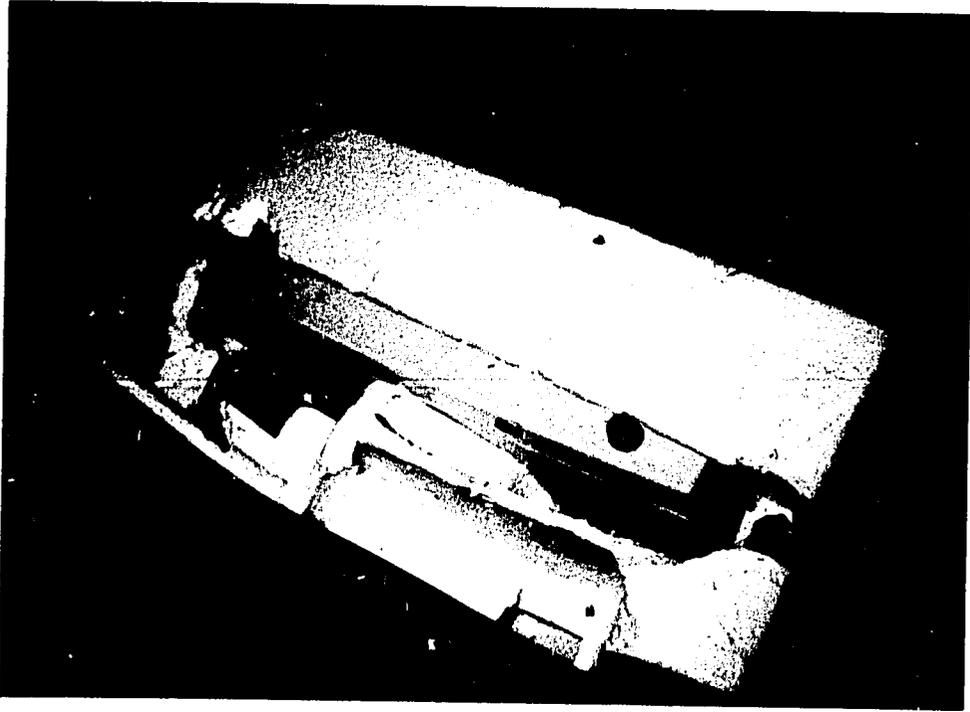
Nearly half of the equipment and instructional materials was like new even though most of it had been distributed to the schools over five years ago. The Commodity Import Program equipment had been distributed more than 10 years ago. Much of the equipment was still in the original cartons. The pictures on the following pages depict examples of the current condition and status of A.I.D.-financed commodities provided under the project and through the Commodity Import Program.



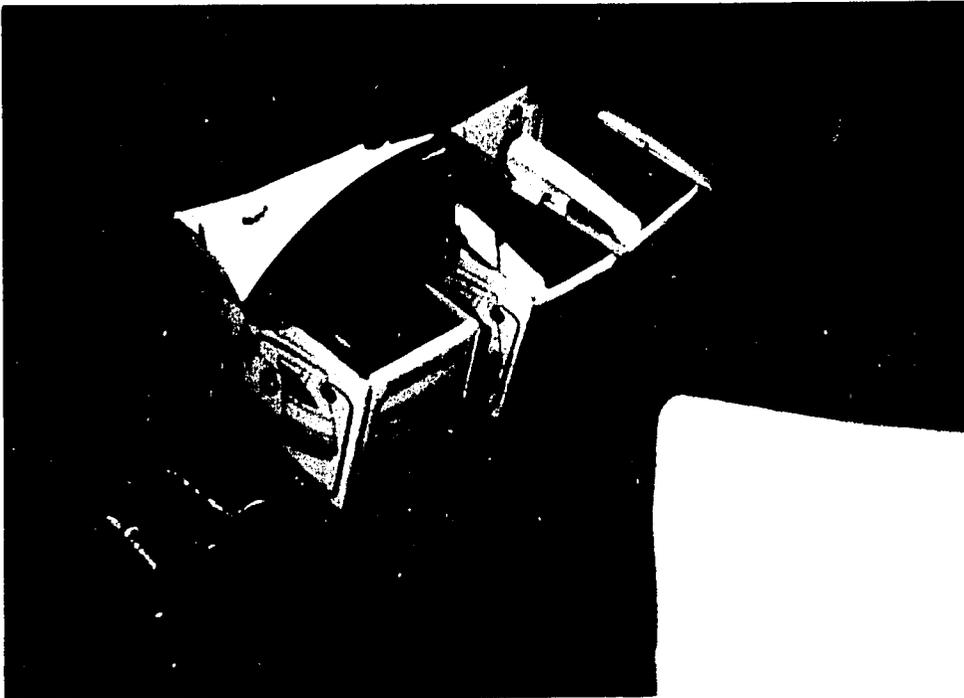
**Carpentry & Bricklaying Tools, Gas Burners, etc.
Shoved in Cabinet, Most Still in Original Carton or Wrapping
*Cairo Governorate June 1991***



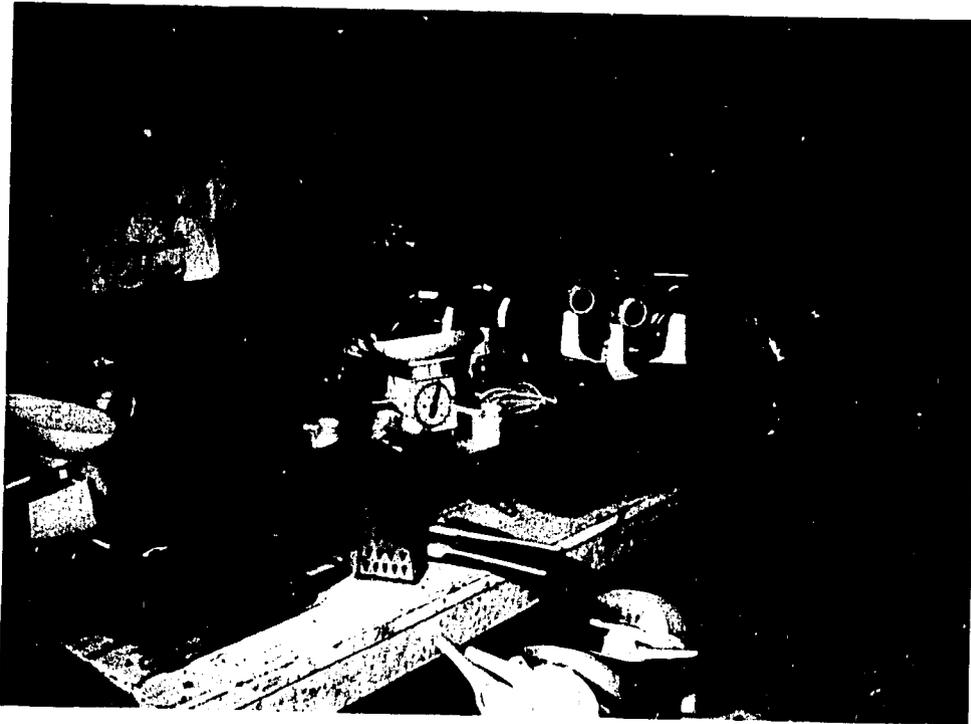
Overhead and Slide Projector Still in Original Carton Never Used
Alexandria Governorate July 1991



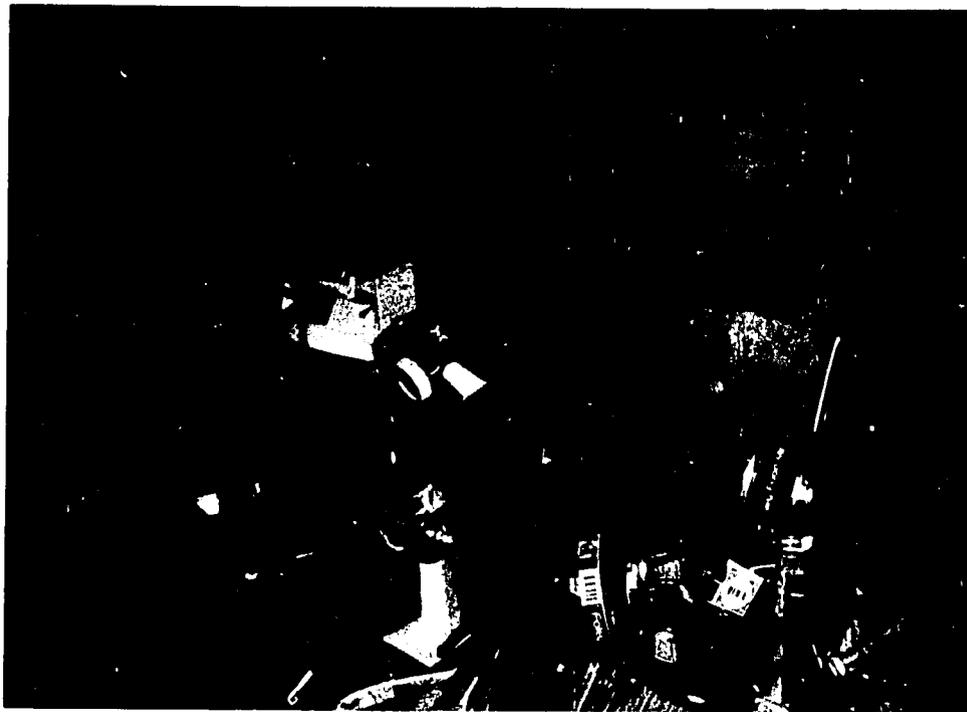
Beheira Governorate July 1991



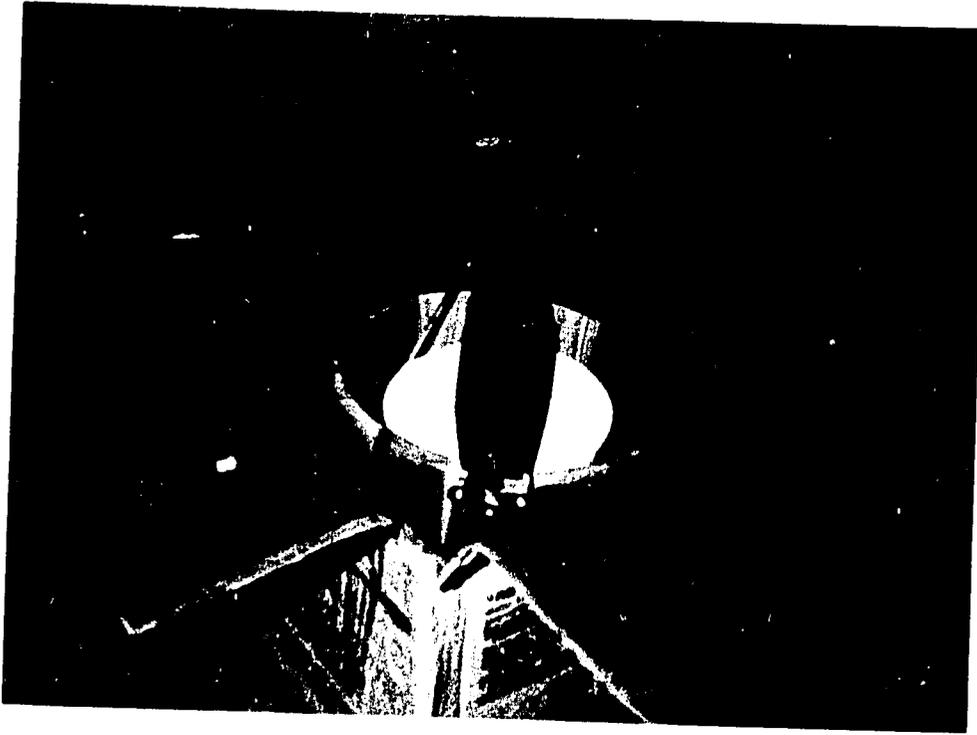
Sewing Machine and Irons in Original Carton, Never Been Used
Alexandria Governorate July 1991



Qena Governorate August 1991



**Home Economics Equipment, Most of it Stored
in Original Carton, None of it Had Been Used
Sohag Governorate August 1991**



**Ice Cream Maker in Original Carton. In 150 Schools
Visited, Not One of These Had Been Used
Dakahlia Governorate July 1991**



**Microscopes in Original Carton
Beheira Governorate July 1991**

In our opinion much of the equipment is not suitable for the project. For example, it would not be appropriate for primary school children ages 6 to 10 to be using power tools, electric sewing machines, butane stoves, sophisticated science lab equipment, carpentry tools, bricklaying equipment, etc. Unfortunately, in distributing equipment, no distinction was made between primary and preparatory schools, whether schools were co-educational or not, if the school had electricity, if it was equipped with facilities to utilize the equipment, whether the equipment could be utilized within the school curriculum, or whether the school had sufficient budget allocation to properly utilize the equipment. In other words, a proper needs assessment was never performed to determine whether the equipment and instructional materials were appropriate and could be effectively utilized within the Ministry of Education school system within Egypt.

Ministry of Education officials explained that commodity requirements were determined at the school and local level and then reviewed by the Ministry before requests for proposals were prepared. These procurements were approved by USAID/Egypt. According to the project officer, the type of equipment and instructional materials purchased under the project was the same as that purchased earlier under the Commodity Import Program.

Conclusion and Mission Action

In conclusion, USAID/Egypt had not adequately planned for the procurement nor provided adequate oversight to ensure that commodity control systems were in place which could effectively account for the receipt, storage, distribution, and use of equipment and instructional materials. As a result, approximately \$40 million in A.I.D. funds have been expended for equipment which has not been adequately utilized and may not be appropriate for the project.

Since the commodities have been distributed, it is too late to implement a system to improve the Mission's oversight to ensure that a good system of commodity control is in place. Therefore, this report does not make a recommendation in this regard. What this report recommends is that the Mission assess what can be done with the equipment. This is a thorny question because the equipment is located in some 15,000 schools. Therefore any solution which the Mission opts for, must consider the cost effectiveness of dealing with that many schools. The Mission has been discussing this matter with GOE officials in an attempt to find an acceptable solution.

REPORT ON INTERNAL CONTROLS

This report provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We performed our work according to generally accepted government auditing standards which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit objectives and not to provide assurance on the auditee's overall internal control structure.

We classified significant internal control policies and procedures applicable to each audit objective by categories. For each category we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation -- and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

The management of A.I.D., including USAID/Egypt, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (the Integrity Act) in September 1982. This Act,

which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

The Office of Management and Budget (OMB) has issued "Guidelines for the Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal controls and procedures for federal foreign assistance are to provide management with reasonable -- but not absolute -- assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusion for Audit Objective One

The first audit objective was to gather information concerning the progress of the project. We noted no reportable conditions that related to this audit objective.

Conclusions for Audit Objective Two

The second objective relates to the construction and maintenance of A.I.D.-financed schools. In planning and performing our audit of Mission monitoring of construction and maintenance of schools, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 11. For the purposes of the report, we have classified the relevant policies and procedures into the following categories: monitoring process to ensure that construction and maintenance meet the standards established by the Mission, review of maintenance data by the Mission, inclusion of appropriate architect and engineering support in the system of project monitoring, and establishment of a maintenance plan.

We noted five reportable conditions relating to the construction and maintenance of A.I.D.-financed schools:

- USAID/Egypt did not ensure that standards were applied in inspection and acceptance of school construction and performance of subsequent maintenance.
- USAID/Egypt did not effectively review project maintenance data.
- USAID/Egypt did not include appropriate architect and engineering support.
- USAID/Egypt did not ensure the actual implementation of a program for continuing maintenance and follow-up as expressed in the Grant Agreement including the actual withholding of additional funding for school construction when maintenance standards were not met.
- USAID/Egypt did not institute a funding mechanism to ensure that funds would be provided by the GOE for maintenance, and provide a maintenance plan.

Conclusions for Audit Objective Three

The third objective relates to the accountability, and utilization of A.I.D.-financed instructional materials and equipment. In planning and performing our audit of commodities, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3 and 15. For the purposes of this report, we classified the relevant policies and procedures into the following categories: commodity planning process and commodity accounting and utilization monitoring process.

We noted two reportable conditions relating to the accountability, and utilization of A.I.D.-financed materials and equipment.

- USAID/Egypt had not adequately planned for the procurement.
 - USAID/Egypt did not ensure that adequate commodity control systems were in place which could effectively account for the receipt, storage, distribution and use of equipment and materials.
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REPORT ON COMPLIANCE

This report summarizes our conclusions on the auditee's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of non-compliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found in connection with the audit.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls.

Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Conclusions on Compliance

The results of our tests of compliance disclosed the following significant instance of noncompliance:

- **Audit Objective No. 2 - USAID/Egypt has not obtained compliance with A.I.D. Handbook 1, Supplement B requiring that project construction sites display signs suitably marked and indicating participation by the United States in the project.**
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MANAGEMENT COMMENTS AND OUR EVALUATION

In its response to the draft report, the Mission agreed with all of the report recommendations and indicated extensive efforts already made to comply with them. Accordingly, all of the recommendations are considered resolved upon issuance of the final report. Recommendations No. 1 and 3 are considered closed upon issuance of this report. Mission actions taken or to be taken and our response follows.

Recommendation No. 1:

The Mission reported that a new FSN engineer has been hired for full time monitoring of Basic Education Project school construction and maintenance; two new engineers have been hired by the National Investment Bank (NIB) to strengthen their coverage of project construction and maintenance; a system has been put in place for regular reporting by NIB field engineers; project funds have been used for the purchase of an NIB personal computer to track school construction and maintenance data; the NIB has hired an architectural and engineering firm to supervise construction of the remaining 100 schools currently under construction; and, the Mission has decided not to finance any additional construction for new schools. Also, the Mission will not fund a \$100 million follow-on Basic Education Project. To ensure that these procedures and systems are adequate for meeting the Mission's standards for construction and maintenance, USAID/Egypt plans to complete maintenance visits and report on all schools constructed under the project as well as review and pass on maintenance reports to the Ministry of Education (MOE) for action. Based on actions taken to establish internal controls and a follow-up system as well as USAID's commitment to ensure the adequacy of the controls and system, we consider Recommendation No. 1 to be closed on issuance of this report.

Recommendation No. 2:

The Mission reported that a maintenance plan has been shared with the Minister of Education which has received his endorsement; maintenance, monitoring, and reporting of needs, along the lines of the plan, has been in process since December 1990; and it has increased its engineering staff and stepped up its school maintenance inspection rate over the past two months. It further reported that it plans to review a statistically relevant sampling of school reports on maintenance requirements from every governorate where school construction has been financed under the project and have the Mission engineers spot check maintenance conducted to verify that appropriate action has been undertaken. We will close the recommendation when evidence is provided that these actions have been completed.

Recommendation No. 3:

The Mission reported a number of actions it has taken to involve the engineering office in the technical aspects of project implementation including the review of drawings prepared by the MOE, the drafting of the statement of work for hiring an architectural and engineering firm, approval of the maintenance plan, attending a NIB workshop for engineers on construction defects and maintenance, participating in field visits, reviewing NIB maintenance reports, and representation on the Basic Education Project Review Committee. Based on actions taken, we consider Recommendation No. 3 to be closed on issuance of this report.

Recommendation No. 4:

The Mission reported that the terms of reference for hiring an architectural and engineering firm have been reviewed and approved by USAID, and NIB has selected the contractor. The contract still needs to be finalized and signed by the awardee and NIB. We will close the recommendation upon receipt of evidence that the contract has been signed.

Recommendation No. 5:

The Mission reported that a school maintenance plan has been drawn up by AID and approved by the Minister of Education; the GOE has authorized LE 500 million (about \$152 million at a rate of LE3.3 per dollar) for school maintenance (LE 100 million/year) in its draft 5-year plan for 1992-1997; and, the Mission has decided not to finance any

additional construction for new schools nor will there be a follow-on project. Mission records indicate follow-on project funding was to be \$100 million. The Mission requested the recommendation be closed upon receipt of a letter from the GOE with an acceptable 5-year plan ensuring sufficient funding for maintenance of schools. We agree and will close the recommendation upon evidence of the Mission receiving an acceptable plan ensuring sufficient funding.

Recommendation No. 6:

The Mission reported that project funds have been secured for suitably marked signs and the MOE has issued a directive to all governorates to immediately comply with marking requirements. The recommendation will be closed upon evidence of the USAID receiving a letter from the MOE indicating that suitably marked signs have been displayed in all project financed schools.

Recommendation No. 7:

The Mission reported that the USAID Office of Education met with the Minister of Education in January, 1992 to follow-up on previous discussions regarding commodities financed under the project; the Minister has sent an official telegram to all Directors of Educational Zones in the country demanding an immediate inventory; and, the MOE is now in the process of analyzing the information in terms of appropriateness to subject level and ways to increase usage through transfer. The recommendation will be closed upon evidence of USAID receiving a letter from the MOE stating that a full assessment of commodity use has been made and appropriate steps have been taken to assure effective use of project donated equipment.

SCOPE AND METHODOLOGY

Scope

We audited the USAID/Egypt Basic Education Project in accordance with generally accepted government auditing standards. We conducted the audit from February 1991 through October 1991 and covered obligations of \$190 million and expenditures of about \$154 million. The audit covered systems and procedures relating to construction and equipment financed by A.I.D. It also covered systems and procedures relating to maintenance to be financed by the Government of Egypt. It did not include an in-depth examination of technical assistance or other inputs financed by A.I.D.

Our audit work was conducted in the offices of USAID/Egypt, the Ministry of Education, and the National Investment Bank. This included visits to education offices in 14 governorates and 48 educational directorates. We visited 112 schools throughout Egypt which were funded by A.I.D. to visually inspect compliance with construction and maintenance standards. In addition, another 150 schools built by the GOE were visited to ascertain the utilization of equipment and instructional materials which were funded by A.I.D.

We limited our assessment of internal controls to those controls applicable to the audit's objectives. See report on internal controls on page 46. We considered the findings contained in previous Office of Inspector General audits of the Basic Education Project, Report No. 6-263-87-5, dated April 27, 1987 and Report No. 6-263-87-8 dated May 31, 1987.

Methodology

Audit Objective One

The first objective was to determine what is the progress of the project. In making this determination, we relied on what the Mission had reported as progress. We did not verify their information. Specifically, we examined the project paper, the project agreement, quarterly implementation reports for the last 3 years, project implementation status reports, and evaluation reports to measure the progress of the project.

We met with USAID/Egypt personnel including the project officer responsible for managing the project and monitoring performance.

Audit Objective Two

The second objective was to determine if USAID/Egypt monitored that schools were constructed, utilized, and maintained in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders. To accomplish this objective, we examined the project paper, project paper amendments, the project agreement, project implementation letters, A.I.D. Handbooks, and applicable Mission Orders.

We visited 112 schools out of 1,800 A.I.D.-financed schools in 14 of 26 governorates to visually inspect the quality of construction and GOE maintenance of schools. The selection of 112 schools was based on a judgmental sample. In selecting the schools we considered a cross section of the following factors: (1) governorates based on the number of schools constructed (small, medium and large), (2) old construction, not so old and new construction, and (3) preparatory and primary schools. We used Mission-established standards for maintenance as criteria in performing this task. In addition, we collected various data to enable us to ascertain the extent of utilization of the schools. We also visually inspected schools to determine whether A.I.D. marking requirements were being met. We examined portfolio review documents, quarterly implementation reports, National Investment Bank maintenance inspection reports, and project office site visit reports.

We interviewed USAID/Egypt personnel including the project officer responsible for managing the project and monitoring performance. This also included program officials

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as well as technical staff in the engineering office. In addition, we interviewed Ministry of Education officials at the national, governorate and local level.

Audit Objective Three

The third objective was to determine if USAID/Egypt monitored that A.I.D.-financed materials and equipment were accounted for, and utilized in accordance with the Grant Agreement, A.I.D. Handbooks, and applicable Mission Orders.

To accomplish the objective, we examined the project paper, project paper amendments, project agreement, A.I.D. Handbooks and applicable Mission Orders. We also reviewed Ministry of Education records maintained at the national, governorate and local level including the schools visited. We visited 150 schools out of 15,000 schools in 10 of 26 governorates to visually inspect A.I.D.-funded equipment and interview school officials regarding the accountability and utilization of equipment and instructional materials. To assist in the gathering and compilation of information relating to utilization of equipment, reasons for non-utilization, a questionnaire was used. The selection of 150 schools was based on a judgmental sample. We selected about 15 schools per governorate. The governorates were selected based on those which had received the largest amount of commodities (over 50 percent of the program). All the schools had received similar types of A.I.D.-funded commodities. We discussed the sample selection with Mission officials to determine whether the Mission considered the sample size sufficient to be indicative of problems with the commodities program, if such problems were found. The Mission agreed that the sample size was sufficient.

We examined portfolio review documents, quarterly implementation reports, and project officer site visit reports. We interviewed USAID/Egypt personnel including the project officer responsible for managing the project and monitoring performance. In addition, we interviewed Ministry of Education officials at the national, governorate and local level including school officials.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

March 18, 1992

RECEIVED
18 MAR 1992MEMORANDUM

TO: Philippe Darcy, RIG/A/C

FROM: George Wachtenheim, D/DIR

SUBJECT: Audit of USAID/Egypt's Basic Education Project
No. 263-0139

Discussed below are the actions the mission has, or will, take to resolve and close the recommendations under the subject audit, as well as other Mission comments.

The current Project Assistance Completion Date (PACD) is June 30, 1992. The mission intends to extend the date by twelve to eighteen months, in order to ensure a timely close out of technical assistance and school construction/maintenance issues. Around 100 schools are in various stages of construction under the project. They will all be completed by September, 1992.

Recommendation No. 1:

We recommend that USAID/Egypt establish internal controls to monitor the project so construction and maintenance meet the standards established by the Mission. Such controls are to provide the project officer with reports of construction acceptance and maintenance required.

Mission Actions Taken:

- a. A new FSN engineer has been hired for full time monitoring of Basic Education project school construction and maintenance. Field visits by DR/ENG and HRDC/ET engineers, driven by NIB reports, have already taken place.
- b. Two new Engineers have been hired by the National Investment Bank (NIB) to strengthen their coverage of project construction and maintenance. This brings the total number to twelve NIB engineers.

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- c. A system is in place for regular reporting by NIB field engineers. Nine hundred reports have been shared with the Mission for school monitoring purposes.
- d. Project funds were used for the purchase of an NIB Personal Computer to track school construction and maintenance data.

Information on eight hundred schools has already been entered. The program keeps track of such things as: school name and location, date of construction, cost, contractor reliability and maintenance issues.

- e. The NIB has hired an A & E firm to supervise construction of the remaining 100 schools currently under construction. An amendment to the contract will be made providing additional responsibilities for maintenance monitoring. This is to enhance the current monitoring system.
- f. The Mission has decided not to finance any additional construction for new schools and will not have a follow-on project.

To ensure that the above procedures and systems are adequate for meeting the Mission's standards for construction and maintenance, USAID will do the following:

- a. Complete maintenance visits and reporting on all schools constructed under the project.
- b. Review (DR/ENG and HRDC/ET) and pass on maintenance reports to the MOE for action. The Mission will also follow-up with the MOE on actions that are required.

Since the Mission has established internal controls (as mentioned above) and a follow-up system, Mission requests that Recommendation No. 1 be resolved and closed upon issuance of the final audit report.

Recommendation No. 2:

We recommend that USAID/Egypt review data provided by the project maintenance system and ascertain that appropriate action has been undertaken.

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Mission Actions Taken:

- a. Shared maintenance plan with Minister of Education and received his endorsement of the plan.
- b. Maintenance, monitoring, and reporting of needs, along the lines of the above plan, have been in process since December, 1990.
- c. USAID has increased its engineering staff and has stepped up its school maintenance inspection rate over the past two months.

Actions to be Taken:

- a. Review a statistically relevant sampling of school reports on maintenance requirements from every governorate where school construction has been financed under the project.
- b. Mission Engineers spot check a statistically relevant sampling of maintenance conducted in a significant number of governorates to verify that appropriate action has been undertaken.

Mission requests that Recommendation No. 2 be resolved upon issuance of final audit report and closed upon completion of the two actions to be taken as discussed above.

Recommendation No. 3:

We recommend that USAID/Egypt officially include the engineering office in the technical aspects of project implementation to oversee and report on the technical aspects of project implementation.

Mission Actions Taken:

- DR/ENG reviewed, modified and approved the new plans and drawings prepared by the Physical Planning Unit (PPU) of the MOE.

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- DR/ENG modified old school drawings and approved them.
- DR/ENG prepared the initial draft for the SOW of the A & E firm.
- DR/ENG prepared the initial SOW for the maintenance monitoring activity.
- DR/ENG approved the proposed maintenance plan designed by ET.
- DR/ENG attended the NIB sponsored workshop for local engineers on construction defects and maintenance.
- DR/ENG participated in field trips to the governorate of Beheira, Fayoum, Port Said, Qaliobeya, Ismailia, Menofeya, etc. to follow-up on construction and maintenance activities.
- DR/ENG reviewed and commented on the maintenance guide prepared by PPU.
- DR/ENG reviewed and modified the NIB maintenance reporting forms.
- DR/ENG receives/reviews copies of NIB maintenance reports.
- DR/ENG is fully represented on the Basic Education Project Review Committee.

Based on the above, Mission requests that Recommendation No. 3 be resolved and closed upon issuance of the final report.

Recommendation No. 4:

We recommend that USAID/Egypt arrange for the services of architectural and engineering firms to assist in procuring and overseeing of A.I.D.-financed construction services and maintenance.

Mission Actions Taken:

- a. Terms of reference for A & E firm reviewed and approved by DR/ENG and HRDC/ET.
- b. NIB has made the final selection for the A & E construction/maintenance contract.

Actions to be Taken:

- a. Contract needs to be finalized and signed by the awardee and the NIB.

Mission recommends that Recommendation No. 4 be resolved upon issuance of final audit report, and closed upon signing of the A & E construction/maintenance contract.

Recommendation No. 5:

We recommend that USAID/Egypt condition continued new construction funding of this and the follow-on project by A.I.D. upon implementation of an acceptable school maintenance plan.

Mission Actions Taken:

- a. A school maintenance plan has been drawn up by AID and approved by the Minister of Education.
- b. The GOE has authorized LE 500 million for school maintenance (LE 100 million/year) in its draft 5-year plan for 1992-1997.
- c. The Mission has decided not to finance any additional construction for new schools and will not have a follow-on project.

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Mission recommends that Recommendation No. 5 be resolved upon issuance of final audit report and closed upon receipt of a letter from the GOE with an acceptable 5-year plan ensuring sufficient funding for maintenance of schools.

Recommendation No. 6:

We recommend that USAID/Egypt ensure that suitably marked signs are displayed at all A.I.D.-financed schools indicating participation by the United States in the Project.

Mission Actions Taken:

- a. Project funds have been secured for suitably marked signs.
- b. MOE has issued directive to all governorates to immediately comply with marking requirements.

Mission recommends that Recommendation No. 6 be resolved upon issuance of final report and closed upon USAID receipt of a letter from the MOE that suitably marked signs are in all project financed schools.

Recommendation No. 7:

We recommend that USAID/Egypt ascertain whether the commodities financed by A.I.D. can be (1) effectively used in the project, (2) can be transferred to other projects, or (3) otherwise disposed of as approved by the Mission.

Mission Actions Taken:

- a. HRDC/ET met with the Minister of Education in January, 1992 to follow-up on previous discussions regarding commodities financed under the project.
- b. The Minister sent an official telegram to all Directors of Educational Zones in the country demanding an immediate inventory.

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- c. The MOE is now in the process of analyzing the information in terms of appropriateness to subject level and ways to increase usage through transfer.

Mission recommends that Recommendation No. 7 be resolved upon issuance of the final report, and closed upon receipt of a letter from the MOE stating that a full assessment of commodity use has been made and appropriate steps have been taken to assure effective use of project donated equipment.

Other Mission Comments:

While we manifest general agreement with the recommendations and earnestness in complying with them, we would like to comment on the following achievements which relate directly to the objectives set out in the Project Paper:

PROJECT ACHIEVEMENTS

The Basic Education Project has made some unprecedented achievements.

- (a) It has achieved 150% of its construction target.
- (b) It is providing increased access to approximately one million students per year. Using a conservative 20-year school life, this translates to twenty million student years in project-financed schools.
- (c) It has provided educational services in remote rural unserved and under served areas. Some are areas that lacked services as basic as potable water and electricity prior to the arrival of the school.
- (d) Selecting sites close to student homes dramatically increased the attendance of female students, one of the main Project objectives.

- (e) Construction costs of USAID financed schools, when compared to GOE financed schools using similar drawings/plans, is 20% less, on average. The Minister announced that fact on more than one occasion. There are three (3) main reasons for this:
1. The project procedures allow NIB engineers to review results of soil testing.
 2. Project procedures also allow NIB engineers to review construction cost reasonableness.
 3. Availability of Project funds is consistent, regardless of fiscal year cycle.
- (f) It has provided equipment and instructional materials for 15,000 schools throughout Egypt.
- (g) It has created work opportunities for 40,000 teachers and staff, in addition to temporary employment of about 40,000 construction workers and 20,000 furniture workers. The cost per job opportunity is \$868 which is significantly lower than World Bank figures of \$5000 per work opportunity.
- (h) - The cost per student per year (school construction & furniture) is LE 9.70 (\$2.90), i.e., less than THE PRICE OF A BIG MAC.
- (i) It has created business for approximately 1500 small business private sector contractors.

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