Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Monitoring of the Use of Project Vehicles

Report No. 6-263-94-004
March 9, 1994

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

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

March 9, 1994

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

FROM : RIG/A/Cairo, Philippe L. Darcy

SUBJECT: Audit of USAID/Egypt's Monitoring of the Use of Project Vehicles

Enclosed are ten copies of the subject report. We received the Mission's comments on the draft report and have considered them in preparing the final report, and have included them as a report appendix. The report contains two recommendations. Based on the Mission's comments, Recommendation Nos. 1 and 2 are unresolved except subpart 2.3 which is resolved as of the date of this report and can be closed when the Mission recovers the amount due.

Please provide us with a written notice within 30 days of any action taken or planned to close Recommendation No. 2.3 and to resolve the remaining six recommendations' subparts.

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

Enclosures as stated

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EXECUTIVE SUMMARY

Background

USAID/Egypt has financed the procurement of about 1,260 vehicles under 25 active projects at a cost of about $17 million.[1] These project vehicles provide transportation to contractor, grantee and Government of Egypt employees for a variety of project purposes such as meetings, supervisory visits, and inspections. Controlling how these vehicles are used is a significant concern because they can be a tempting target for improper use — primarily unauthorized personal use.

USAID/Egypt has established a policy to control the risk of unauthorized use and has codified the policy in a mission order that includes detailed procedures to ensure maximum utilization of vehicles for project purposes. The Mission informs project contractors of these procedures through contractor notices and informs Government of Egypt implementing agencies through project implementation letters. Mission project officers are responsible for monitoring implementation of the procedures.

The Regional Inspector General for Audit/Cairo audited USAID/Egypt's controls over USAID-financed project vehicles to answer the following question:

> Did USAID/Egypt establish and implement policies and procedures to ensure that USAID-financed project vehicles used by contractors and Government of Egypt implementing agencies are devoted primarily to project purposes? (See page 2.)

The audit's scope included assessing the controls for a sample of 5 projects using 424 vehicles. (See Scope and Methodology, Appendix I.) Our answer to this question is qualified to the extent of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. (Appendix I discusses this qualifier.)

[1] To make this estimate, we multiplied 1,260 vehicles by an average procurement cost of $13,600.

Audit Findings

- The Mission had strengthened earlier policies and procedures through a 1991 revised Mission Order and had conveyed guidance to contractors and Government of Egypt implementing agencies. For the most part, these organizations were aware of the guidance and were implementing it. (See page 4.)

- The Mission needed to further strengthen its monitoring procedures to preclude problems, such as: (1) a contractor was reimbursing a USAID project for home-to-office commuting by local staff at only one-fourth of the required rate; (2) another contractor and a grantee did not reimburse USAID projects for home-to-office commuting by local staff; and (3) a contractor had 13 vehicles (of 36 in total) that were unnecessary for official project needs. (See page 7.) These problems amounted to as much as $340,000 of recipient underpayments to projects and as much as $175,000 of unnecessary contractor procurement expense for vehicles. Should similar problems exist regarding the 836 vehicles in the 20 active projects not covered by the audit, the amount of underpayments and unnecessary procurement expense could be significantly greater.

- The Mission needed to better ensure that Government of Egypt implementing agencies keep adequate vehicle utilization records because the lack of such records precluded effective Mission oversight of vehicle use. (See page 12.)

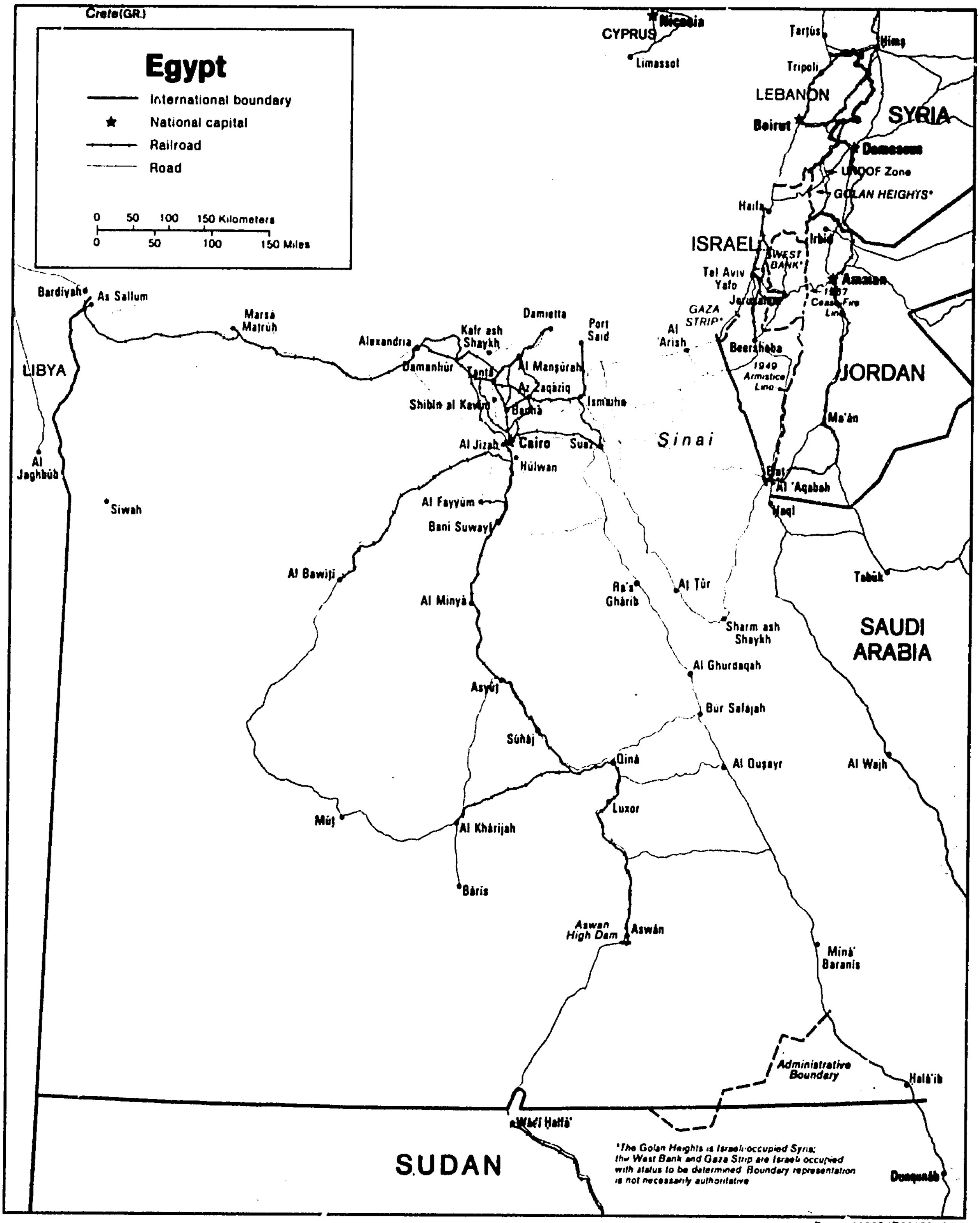
The report recommends that USAID/Egypt: (1) strengthen certain controls for monitoring vehicle utilization, and (2) determine and recover various sums related to unreimbursed personal use of vehicles. (See page 6.)

Management Comments and our Evaluation

USAID/Egypt commented that it will consider the report's recommendation on strengthening controls over vehicle utilization during its current effort to revise the 1991 Mission Order. Based upon this comment, the recommendation is unresolved until the Mission provides a firm plan for improving controls. Regarding the report's recommendation to recover various monetary sums, according to the Mission an adequate basis does not exist for asserting claims. We disagree with the Mission's position as we believe an adequate basis does exist for asserting claims. Therefore, this recommendation remains unresolved. (See page 15.)

Office of the Inspector General

Office of the Inspector General
March 9, 1994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Port Said
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Al Qusayr
Al Wajh
Mut
Al Kharijah
Luxor
Baris
Aswan High Dam
Aswan
Mina' Baranis
Administrative Boundary
Hala'ib
Wadi Halfa'
SUDAN
*The Golan Heights is Israeli-occupied Syria; the West Bank and Gaza Strip are Israeli occupied with status to be determined. Boundary representation is not necessarily authoritative
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INTRODUCTION

Background

USAID/Egypt has financed the procurement of about 1,260 vehicles under 25 active projects at a cost of about $17 million.[2] These project vehicles provide transportation to contractor, grantee and Government of Egypt employees for a variety of project purposes such as meetings, supervisory visits, and inspections. Controlling how these vehicles are used is a significant concern because they can be a tempting target for improper use — primarily unauthorized personal use.

USAID/Egypt has established a policy to control the risk of unauthorized use and has codified the policy in a mission order that includes detailed procedures to ensure maximum utilization of vehicles for project purposes. The Mission informs project contractors of these procedures through contractor notices and informs Government of Egypt implementing agencies through project implementation letters. Mission project officers are responsible for monitoring implementation of the procedures.

Audit Objectives

As part of its fiscal year 1993 audit plan, the Office of the Regional Inspector General for Audit/Cairo audited aspects of USAID/Egypt's controls over project vehicles and project vehicle utilization to answer the following audit objective:

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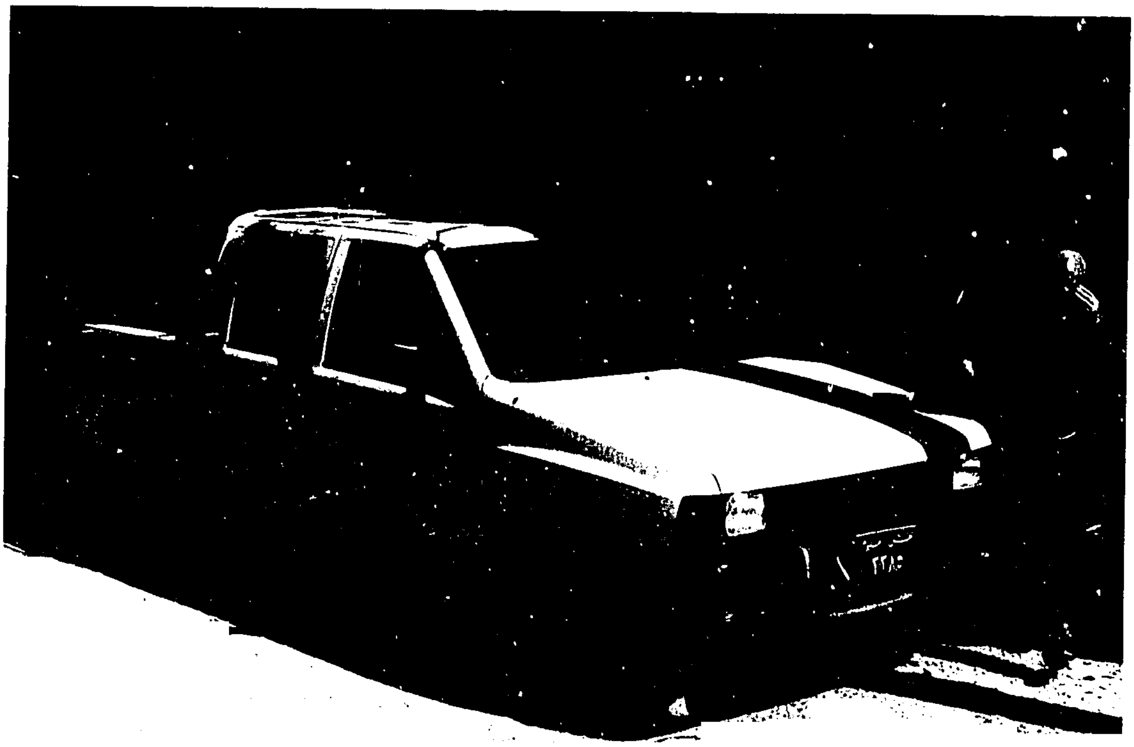
2 To make this estimate, we multiplied 1,260 vehicles by an average procurement cost of $13,600.

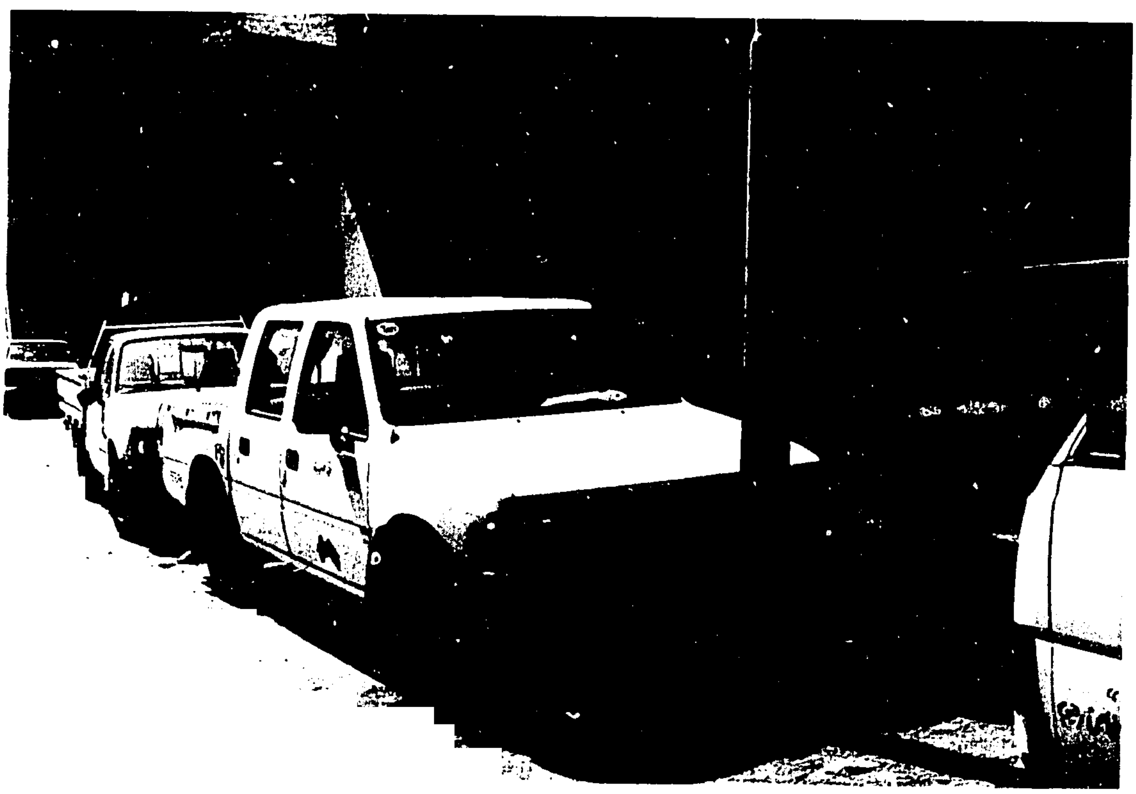
Did USAID/Egypt establish and implement policies and procedures to ensure that USAID-financed project vehicles used by contractors and Government of Egypt implementing agencies are devoted primarily to project purposes?

Appendix I discusses the scope and methodology of the audit.



Regional IG auditors inspecting USAID-financed pickup trucks used to provide free home-to-office transportation to a grantee's local staff. The grantee was also paying local staff a transportation allowance, so USAID, in effect, was paying twice for local staff commuting expense.

(February 1993, Fayoum, Egypt)



REPORT OF AUDIT FINDINGS

Our answer to the following audit question is qualified to the extent of the effect, if any, of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I includes a discussion of this qualifier.

Did USAID/Egypt establish and implement policies and procedures to ensure that USAID-financed project vehicles used by contractors and Government of Egypt implementing agencies are devoted primarily to project purposes?

USAID/Egypt established and implemented policies and procedures to ensure that USAID-financed project vehicles used by contractors and Government of Egypt agencies are devoted primarily to project purposes. However, implementation of certain procedures needed to be strengthened to better ensure that USAID projects are reimbursed for all personal use of project vehicles, that unnecessary vehicles are disposed of, and that adequate records are kept.

USAID/Egypt had strengthened earlier policies and procedures to control vehicle utilization by issuing Mission Order 1-7 dated March 28, 1991. Guidance in the Order included: (1) limiting personal use of vehicles to 25 percent of any vehicle's use; (2) excluding personal use as a factor in determining project vehicle requirements; and (3) requiring recordkeeping that would facilitate monthly reimbursement to projects for personal use. This and other guidance in the Order was designed to ensure maximum utilization of vehicles for project purposes.

Contractors were informed of the Mission Order requirements through contractor notices, and Government of Egypt implementing agencies were informed of pertinent requirements through project implementation letters. Mission officials were unclear as to whether or not grantees had been informed. But for the most part, the recipient organizations we reviewed were aware of the requirements and were implementing them. However, we noted two problem areas, one concerning contractors and a grantee and one concerning Government of Egypt implementing agencies, which are discussed in the following sections.

Recipient Organizations Charged USAID for Personal
Vehicle Expenses And Unnecessary Vehicles

Summary

Contractors are required to reimburse projects for authorized personal use of project vehicles at the established U.S. government rate, limit the number of vehicles to those needed for project work, and keep records that show how vehicles are used. We believe these principles normally should also apply to grantees who use USAID-financed project vehicles. Nevertheless, one of the two contractors we visited (Recipient B) was reimbursing USAID for home-to-office commuting by its local staff at only one-fourth of the established U.S. Government rate. The other contractor (Recipient C) had incorrectly classified local staff's use of the vehicles for home-to-office commuting as official travel and was not reimbursing for this use of the vehicles at all. The grantee (Recipient A) we visited had also incorrectly classified such commuting and was not reimbursing for such use. The grantee's use of USAID-financed vehicles for commuting by its local staff was inconsistent with the fact that the grantee was also paying local staff a transportation allowance for commuting. In other words, USAID was paying twice for local staff commuting expenses. In addition, we estimated that one of the contractors (Recipient C) had about 13 vehicles in excess of the number needed for project purposes. Finally, one of the contractors and the grantee did not keep adequate records to show how vehicles were used. These problems occurred because aspects of the Mission's control system needed to be strengthened, and because project officers could not give priority to monitoring project vehicle use given the competing demands on their time. The Mission should take steps to limit the substantial costs resulting from unreimbursed personal use of vehicles and unnecessary project vehicles, as follows:

Recommendation No. 1 We reccmmend that USAID/Egypt:

1.1 revise Mission Order 1-7 to clearly make project officers responsible for monitoring project vehicle utilization, provide examples of how project officers should monitor vehicle utilization by contractors, grantees and Government of Egypt implementing agencies, and give an example of a vehicle utilization log that includes all of the information that should be recorded by such organizations;

1.2 assign local national staff to help project officers selectively monitor vehicle utilization;

1.3 redesign the semiannual vehicle utilization reports prepared by contractors, grantees and Government of Egypt agencies to include information on each project vehicle's mileage (kilometers) for official and personal use.

Recommendation No. 2 We recommend that USAID/Egypt:

2.1 determine and recover from Recipient B the amount it underpaid for personal use by its employees since January 1992 and ensure that the contractor reimburses the project for future personal use at the U.S. Government rate in effect;

2.2 determine and recover from Recipient C the amount for home-to-office commuting provided to its local staff since May 1990 and ensure that the contractor reimburses the project for such use in the future;

2.3 determine and recover from Recipient A an amount for local staff home-to-office commuting for the period since the USAID-financed vehicles were put in service and ensure that Recipient A reimburses the project for such use in the future; and

2.4 assess the legitimate needs for vehicles by Recipient C, given the Mission policy specifying that personal use shall not exceed 25 percent of any vehicle's use, and obtain evidence that Recipient C has disposed of unnecessary vehicles.

Detailed Discussion

Reimbursement for Personal Use - According to Mission Order 1-7, contractors are required to reimburse projects for authorized personal use of project vehicles (including home-to-office commuting) at the rate of 15 cents per kilometer. We believe this policy should normally also apply to grantees who use USAID-financed project vehicles. Nevertheless, one contractor (Recipient B) used a formula for reimbursement, based on factors like employees' salaries and trip destinations, that was inconsistent with the official rate specified in its contract. For September 1992, this resulted in a reimbursement of LE795 (about $241)[3] instead of LE3,108 (about $942) for the 6,279 kilometers of personal use — a payment amounting to only about 26 percent of what was owed. From June 1989 through August 1993, we estimate the contractor underpaid the project as much as $35,000 of local currency.

Another contractor (Recipient C) and a grantee (Recipient A) incorrectly classified commuting by local staff as official rather than personal use and, as a result, did not reimburse the USAID projects for this use of the vehicles:

- The contractor (Recipient C) used 20 of its 36 vehicles primarily for home-to-office commuting for local staff. We estimate that the vehicles were driven 48,000 kilometers each month for this purpose. If the contractor had reimbursed the project at this monthly rate of personal kilometer use since May 1990, when it certified that it was complying with USAID policies and procedures, it would have reimbursed about $288,000.

- For the grantee (Recipient A), we identified six vehicles at its Fayoum location that were partly used for home-to-office commuting by local staff. Again, such commuting was incorrectly classified as an official use of the vehicles. The top official at this location estimated that the commuting amounted to 3,600[4] kilometers per month. At the USAID approved rate of 15 cents per kilometer, the grantee should have reimbursed the project about $540 in local currency each month. From December 1990 through August 1993, we estimate the grantee underpaid the project as much as $17,000 in local currency for personal use of vehicles at its Fayoum location. According to a grantee official, the grantee uses the same policy at all of its four field locations.

Here and as needed elsewhere in the report we used an exchange rate of LE 3.3 to $1.

Because the vehicle utilization records were incomplete, we could not verify if the grantee's estimate of monthly usage was accurate.

Some USAID-financed vehicles used by contractor employees for home-to-office transportation. The contractor was reimbursing the USAID project for such transportation at only one-fourth of the rate specified in its contract.
(November 1993, Cairo, Egypt)

We noted that the grantee discussed above, in addition to providing free home-to-office transportation to local employees, was also paying them transportation allowances. This was being done even though the grantee's personnel policies for Egypt committed it to provide either a transportation allowance or free commuting to local staff. Since the grantee received payment from USAID to provide transportation allowances to its local staff, we believe the grantee should reimburse the project for its use of USAID-financed project vehicles to commute local staff. In other words, USAID should not pay twice for local staff commuting expenses.

Unnecessary Vehicles - Mission Order 1-7 of March 28, 1991, limited personal use of each project vehicle to no more than 25 percent of the total usage of that vehicle. (An earlier Mission Order limited personal use to 25 percent on a fleet-wide basis.)

Nevertheless, one contractor (Recipient C) had assigned 20 of its 36 vehicles to regular routes to provide home-to-office commuting for its local staff. The August 1992 vehicle utilization records for 6 of the 20 vehicles — our sample — showed that home-to-office commuting comprised 69 percent of the 21,103 kilometers of total use for these 6 vehicles in August 1992. (Commuting use for individual vehicles ranged from 60 to 86 percent.) The Mission Order states that personal use shall not be a factor in determining vehicle needs. Accordingly, the contractor could dispose of 69 percent of the 20 vehicles, that is 13 vehicles procured at a cost of about $175,000, and still have enough vehicles for official project needs.[5] In short, 13 vehicles were excess to the contractor's needs.

Record Keeping - According to Mission Order 1-7, "Contractors ... should maintain written daily records of the use of project vehicles." It also states that "specific trips, mileage and purpose should be noted and regularly monitored." This provision recognizes that such documentation should facilitate tracing vehicle use and help managers and others to control their operations. We believe this policy normally should also apply to grantees who use USAID-financed project vehicles.

Nevertheless, we found that one of the contractors and the grantee did not keep adequate vehicle utilization records. For example, the grantee (Recipient A) did not record the purpose of each trip or indicate whether the trip was official or personal. Often, several trips were lumped together in one entry or no entries were made at all. In the case of one of the contractors (Recipient C), the records did not show when each trip began or ended because the vehicle use forms did not require such information. This contractor, like the grantee, did not record all trips. These instances of inadequate recordkeeping limit effective management and oversight of vehicle utilization.

[5] We assumed the rate of official use is the dominant factor in determining needs and that the August 1992 usage pattern was representative of all 20 vehicles.

Some of the 36 USAID-financed vehicles used by a contractor. Because the contractor was using 20 of the vehicles mostly for personal use — a purpose Mission guidance limits to 25% of the vehicle's total use — we estimated that 13 vehicles were excess to the contractor's project needs.

(November 1993, Cairo, Egypt)

__Why did the lapses in compliance occur?__ Generally, the eight project officers we contacted during the audit concentrated on verifying the existence of systems to record vehicle utilization and verifying that vehicles were marked with the USAID emblem. They did not, however, review the vehicle records to spot check whether all personal use was being recorded.

The project officers did not make such spot checks for several reasons:

- Mission Order 1-7 did not specifically designate the project officer as the person responsible for spot checks of vehicle utilization.

- Some project officers felt that they did not have time to monitor vehicle utilization.

- Some project officers did not know what constituted adequate vehicle utilization records or how to perform spot checks of these records.

- The semiannual reports on vehicle utilization, which contractors were required to submit to USAID, did not include information on official and personal use of the vehicles. Therefore, there was no readily available basis for verifying that all personal use was recorded or that USAID was reimbursed for all such personal use.

Recipient organizations' noncompliance with Mission policy had a significant adverse financial impact on Mission projects. In all, the problems found in our sample amounted to as much as $340,000 of recipient underpayments to projects and as much as $175,000 of unnecessary contractor procurement expense for vehicles. Should similar problems exist regarding the 836 vehicles in the 20 projects not covered by the audit, the amount of underpayments and unnecessary procurement expense could be significantly greater.

__Conclusion__ - The three recipient organizations we audited were not fully complying with USAID/Egypt's policies on vehicle utilization. This resulted in excessive charges for vehicles that were not needed or for vehicle operating expenses that were attributable to personal trips. USAID/Egypt needs to take several actions to strengthen its controls over vehicle utilization:

- Mission Order 1-7 should be amplified to plainly state that project officers are responsible for monitoring the use of project vehicles. The Mission Order should include a sample vehicle utilization log and should describe how to use utilization logs and reports to monitor vehicle use.

- USAID/Egypt should redesign the reports on project vehicles which contractors and grantees are required to submit to USAID every six months. By including information on each vehicle's mileage (in kilometers) for official and personal use, the reports could be used by project officers to verify that personal use is recorded and that USAID projects are subsequently reimbursed for such use. For example, project officers could compare — on a spot check basis — what the contractor report shows for personal use with what the vehicle logs show. Also, such records could be used to verify the amounts contractors reimburse projects for personal use of vehicles. Contractors and grantees are already required to maintain this information but do not have to report it to USAID.

- USAID/Egypt should assign local national staff to support project officers in monitoring the vehicles' utilization, to promote Mission-wide understanding of and consistency in the application of vehicle utilization guidance, and to increase the number of vehicle utilization reviews. We believe that the cost of assigning staff to this function is justified by the large number of Mission-financed project vehicles (1,260 vehicles in 25 active projects) and by the substantial costs that can be avoided by ensuring that contractors and grantees comply with Mission policies.

- Finally, USAID/Egypt needs to recover funds for personal use of vehicles from the three recipient organizations we reviewed and needs to ensure that one contractor disposes of unnecessary vehicles.

Government of Egypt Agencies
Need to Keep Better Records

Summary

Project implementation letters require Government of Egypt implementing agencies to maintain written daily records of the use of project vehicles which include the purpose and mileage of each specific trip. However, six of the seven agencies we audited had inadequate vehicle utilization records and the seventh agency had no records at all. This problem arose because USAID/Egypt project officers did not verify that adequate vehicle utilization logs were being maintained. Therefore, a potential existed for unauthorized and unreimbursed personal use of project vehicles.

Since the recommendations for the previously discussed problem areas are directed at strengthening USAID/Egypt's monitoring of project vehicle use, we are making no additional recommendations.

Detailed Discussion

Project implementation letters issued to the seven Government of Egypt agencies in our sample required the agencies to "maintain written daily records of the use of project vehicles." The letters also stated that "specific trips, mileage and purpose should be noted and regularly monitored." This requirement recognizes that such documentation should facilitate analysis of vehicle usage and help managers control their operations.

Six of the seven Government of Egypt implementing agencies we reviewed relied on work orders to control vehicle use. However, these work orders did not meet the requirements spelled out in the project implementation letters because they covered entire days rather than specific trips.

Since no records on specific trips were kept, we could not establish whether usage was restricted to official purposes. However, we observed circumstances that suggested unauthorized personal use was occurring. For example, a work order was used every day during one month that authorized an employee to be picked up from home and be transported within Greater Cairo. This was in effect an open-ended authorization for use. In another case, a work order authorized the same trips every day for a month from the Cairo suburb of Maadi to Heliopolis (another suburb of Cairo) to downtown Cairo. Again, the effect was an open-ended authorization for use. Many other such examples occurred, suggesting that unauthorized personal use could occur and not be detected.

The seventh agency we reviewed had no utilization records at all for the 16 vehicles it was assigned. The vehicles had all been assigned to senior officials. Fortunately, the project officer had initiated aggressive action to correct this problem before our audit began.

Conclusion - We believe that these agencies kept inadequate records, or no records at all, because project officers did not adequately monitor their vehicle utilization record systems. Since the recommendations on page 8 call for several actions to strengthen monitoring and to ensure adequate vehicle utilization records are kept, we are making no additional recommendations.

Some USAID-financed project vehicles used by two Government of Egypt implementing agencies. These agencies, and five other agencies covered by the audit, did not have adequate vehicle utilization records.

(March 1993, Cairo, Egypt)

MANAGEMENT COMMENTS AND OUR EVALUATION

We provided USAID/Egypt with copies of the draft audit report on November 10, 1993. USAID/Egypt responded with written comments concerning the draft audit report on January 25, 1995. The comments are included in their entirety, along with a representation letter from the Director of USAID/Egypt, in Appendix II of the report. We took the comments into consideration in preparing this final report. USAID/Egypt's comments responded to each of the subrecommendations in this report. Their responses and our evaluation (*in italics*) are summarized below:

<u>General Comments on Recommendation No. 1:</u>

This recommendation was that the Mission revise and strengthen Mission Order 1-7, assign local staff to help monitor vehicle use, and redesign vehicle utilization reports. The Mission commented in general that the audit provided food for thought at a time when it is revising Mission Order 1-7 to more cost effectively manage and monitor vehicle utilization. The Mission said our recommendations would be considered and addressed, as appropriate, in the revision. On the basis of the planned revision, the Mission requested resolution of Recommendation No. 1

We believe the Mission's intention to address this recommendation during its revision of Mission Order 1-7 could lead to resolution of the recommendation. However, under the IG standards regarding resolution, audit recommendations are considered resolved when an agreement has been reached with Agency management on a firm plan of action to correct the reported deficiency. The Mission's planned action does not constitute a firm plan that we can agree with to correct the reported deficiency. Accordingly, this recommendation remains unresolved.

Three general issues reflected in the Mission's total comments are of concern to us. First, the Mission asserted that its primary control for vehicle use, Mission Order 1-7, usually can not be enforced; second, the Mission asserted that the Mission Order was not intended to apply to contractors' local national staff; and third, the Mission asserted that the Mission Order does not apply to grantees. These positions taken as a whole would indicate that the Mission's primary control, Mission Order 1-7, is not really an effective control; that no consistent Mission position exists for control of local staff vehicle use (some contractors reimburse for personal use and *some do not); and no policy or control exists regarding grantee employees' personal use of vehicles. The Mission might respond to our concerns by stating that it relies on the provisions of the individual contracts and grants. If this is the case, then the purpose of issuing Mission Order 1-7 eludes us.*

General Comments on Recommendation No. 2:

This recommendation was that the Mission (1) determine and recover amounts owed for personal use of vehicles by two contractors and a grantee and (2) assess the size of the vehicle fleet maintained by one contractor. The Mission commented that Mission Order 1-7 was neither explicitly nor implicitly incorporated into the agreements with the two contractors and the grantee and therefore was not a sufficient basis for questioning costs or asserting a claim.

In our opinion, the Mission's comments regarding the relevance of the Mission Order are inconsistent with the facts. Contractor Notice 8-90 of April 15, 1990 informed contractors of the contents of the Mission Order and required contractors to certify compliance with the requirements in the Mission Order before personal use of project vehicles would be permitted. Given these circumstances, we disagree with the Mission's position that the Mission order is an inappropriate basis for asserting a claim.

The Mission noted regarding one of the contractors that the implementing agency financed vehicle operating expenses. The Mission did not mention, however, that the implementing agency deducted 20 percent from the total reimbursement made to the project for personal use, as a partial offset for vehicle operating expenses.

Comments on Recommendation No. 2.1:

This recommendation was that the Mission determine and recover the amount underpaid by a contractor for personal vehicle use. The Mission asserted that there was no legal basis to assert a claim against the contractor, since the rate to be charged for personal use of project vehicles was not explicitly stated in the contract or implicitly understood by the concerned parties.

The Mission is mistaken. The rate was specified on page 5 of the contract as follows: "Vehicles may be used for personal purposes only if employees pay the official rate specified by AID." Contractor Notice 36-89 of November 5, 1989 entitled "Mileage Rate for Personal Use of AID Project Vehicles" specified 15 cents per kilometer as the official rate. We also noted that Project Implementation Letter No. 18, Amendment No. 4 of December 30, 1991 on use and disposition of project vehicles stated on page 5: "The contractor shall reimburse the project for personal use. The current rate is 25 cents per mile or 15 cents per kilometer [the official U.S. government rate]." Thus, a clear basis exists for lodging a claim either with the contractor or the implementing agency. Accordingly, this recommendation remains unresolved.

Comments on Recommendation No. 2.2:

This recommendation was that the Mission determine and recover the amount owed by the contractor for home-to-office commuting by it local staff. The Mission disagreed with this recommendation. According to the Mission, the Mission approved the contractor's vehicle policy which required only expatriate employees to reimburse the project for personal use. Further, the contractor's policy did not define home-to-office transportation of local staff as personal mileage. The Mission asserted that this was consistent with the intent of Mission Order 1-7, which takes into account, according to the Mission, the prevailing practice in Egypt of providing Egyptian employees home to office transportation and/or an allowance for same.

We disagree with the Mission's assertion about prevailing practice in Egypt. In fact, no practice prevails as evidenced by the variety of practices used by USAID contractors. An important issue is whether the Mission intends to establish a position whereby it becomes obligated to finance the cost of home-to-office transportation for all contractors' Egyptian staff. We firmly believe this is unnecessary and would result in wasteful contracting. Our audit necessarily relied on the documented record rather than assertions of intent. The documented record showed that (1) the Mission Order did not refer to or classify contractor employees separately to distinguish between expatriate and local staff, (2) the project officer corresponded with the contractor on April 8, 1990 on the subject of vehicle policy stating that "The USAID policy is set by Contractor Notice 27-89, as amended by Contractor Notice 36-89, and Mission Order 1-7 ..."; and (3) the contractor certified in its May 15, 1990 correspondence with the project officer that it was in compliance with the requirements of the project officer's April 8, 1990 letter and with Contractor Notice No. 8-90 of April 15, 1990. Nowhere in this correspondence is expatriate and local staff classified separately. Further, the correspondence clearly established that the contractor would reimburse the project for personal use of vehicles at the U.S. government rate in effect. In the absence of documentation showing that the Mission approved local staff home-to-office commuting as official travel, we believe a basis exists to assert a claim. Accordingly, this recommendation remains unresolved.

Comments on Recommendation No. 2.3:

This recommendation was that the Mission determine and recover the amount owed by a grantee for home-to-office commuting by its local staff. The Mission disagreed with this recommendation and asserted that the Mission Order does not apply to grantees. The Mission agreed, however, that the grantee appeared to be in violation of the grant terms, and therefore the Mission will assert a claim for the amount the grantee owes the project.

We consider this recommendation resolved.

__Comments on Recommendation 2.4:__

This recommendation was that the Mission assess the legitimate needs for vehicles by a contractor and arrange disposal of unnecessary vehicles. The Mission disagreed with the recommendation. It said it had accepted as being in compliance with the Mission Order the contractor's vehicle policy that limited personal use of vehicles to expatriate employees. The Mission stated that the Mission Order was not intended to be applicable to local staff. The Mission also stated that it had agreed for this contract to limit personal use to 25 percent of the entire fleet rather than on a per vehicle basis. The Mission also stated that a significant portion of the travel classified by the auditors as home-to-office transportation was really home-to-site transportation, involving travel of construction personnel to remote locations. The Mission also argued that the costs for the vehicles was sunk and that the implementing agency was paying the vehicle operating costs instead of the project. Therefore, no real savings would accrue to the Mission by reducing the number of vehicles at this time.

Our review of the pertinent documentation indicated that (1) the project officer stated in an April 8, 1990 letter to the contractor on the subject of vehicle policy that "The USAID policy is set by Contractor Notice 27-89, as amended by Contractor Notice 36-89, and Mission Order 1-7 ... "; and (2) the contractor certified in a May 15, 1990 letter to the project officer that it was in compliance with the requirements of the Contractor notice and with the project officer's April 8, 1990 letter which stated: "Personal use, including home to office commuting, should not exceed 25 percent on an overall fleet basis. Nowhere in this correspondence is expatriate and local staff referred to or classified separately. In the absence of documentation showing that the Mission approved local staff home-to-office commuting as official travel, we believe a need exists to assess the legitimate needs for vehicles by the contractor and dispose of unnecessary vehicles.

We agree with the Mission that in 1990, when the contract was amended, the Mission policy limited personal use to 25 percent on a fleet wide basis and not on a per vehicle basis. However, the Mission revised its policy in March 28, 1991, to limit personal use to 25 percent of any vehicle's use. Accordingly, any Mission assessment of needs for vehicles should consider this current standard. Our estimate of excess vehicles in the report was based on the fleet-wide standard to restrict the estimate to a conservative level. We also agree with the Mission that savings to the project at this time may be limited. Nevertheless, we believe the Mission has not adequately analyzed the extent of personal use by local staff and the consequent impact on contract costs. Significant elements of the contract's costs should be clearly understood and agreed to by both parties. Accordingly, this recommendation remains unresolved until the Mission has assessed the need for these vehicles.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's controls over the utilization of project vehicles. We conducted the audit from November 1992 through June 1993, covering one month in late 1992 for each of the three contractors and seven Government of Egypt agencies covered by the audit. We performed the audit in the offices of USAID/Egypt, two U.S. contractors, a grantee, and seven Government of Egypt agencies under the Ministry of Health and Ministry of Agriculture. The audit covered the establishment and implementation of policies and procedures to control the utilization of project vehicles. We conducted the audit in accordance with generally accepted government auditing standards.

Government auditing standards require auditors to obtain management's written representations when the auditors deem them useful. The Office of the Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Acting Director provided us a letter of representation for the audit that contained essential assertions about the activities we audited. However, Mission officials directly responsible for the activities we audited did not provide written representations. As a result, our answer to the audit objective is qualified to the extent of the effect, if any, of not having such representations.

In total, the Mission has 25 active projects that operate about 1,260 vehicles. We audited the control of vehicle utilization in 5 projects that operated 424 project vehicles. We assessed the control systems covering all these vehicles and reviewed utilization records for each of 51 sampled vehicles located in the Cairo, Giza and Fayoum governorates. The sample included vehicles operated by two U.S. contractors, a grantee, and seven Government of Egypt agencies.

Methodology

The objective of this audit was to determine if USAID/Egypt established and implemented policies and procedures to ensure that USAID-financed project vehicles used by contractors and Government of Egypt implementing agencies were devoted primarily to project purposes. To accomplish this objective, we compared the sections of the Mission Order and project implementation letters covering vehicle use with USAID Handbook requirements and the Comptroller General's Standards for Internal Controls in the Federal Government to determine any significant shortcomings.

For five selected projects, we compared the actual controls with the system of prescribed controls to identify any significant differences. For selected vehicles in the five projects, we assessed daily vehicle use records for one month in late 1992. For that month, we determined if adequate information had been recorded to show actual use and to distinguish official from personal use. As a practical concession to the wide geographic distribution and large number of vehicles, we judgmentally selected the projects and vehicles in order to make the best use of our time.

To determine if personal use was within the authorized limit, we calculated the personal use percentage of total use. To determine if personal use was paid for as required, we compared recorded personal use with documented reimbursements to projects.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO EGYPT

January 25, 1994

RECEIVED
26 JAN 1994

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Christopher D. Crowley, A/DIR

SUBJECT: Audit of USAID/Egypt's Monitoring of the Use of Project Vehicles - *Draft Report*

REF: Memorandum from Franklin, AD/FM Dated November 14, 1993 on Above Subject with Attached Copy of a Draft Report on the Subject Audit

Following are Mission's comments on the subject draft audit report:

Recommendation No. 1:

We recommend that USAID/Egypt:

1.1 revise Mission Order 1-7 to clearly make project officers responsible for monitoring project vehicle utilization, provide examples of how project officers should monitor vehicle utilization by contractors, grantees and Government of Egypt implementing agencies, and give an example of a vehicle utilization log that includes all of the information that should be recorded by such organizations.

1.2 assign local national staff to help project officers monitor vehicle utilization;

1.3 redesign the semiannual vehicle utilization reports prepared by contractors, grantees and Government of Egypt agencies to include information on each project vehicle's mileage (kilometers) for official and personal use.

Mission Response:

The audit has presented the Mission with food for thought at an appropriate time when reinventing government is an integral part of our management responsibility. While vehicle utilization is a very small but important portion of all AID or AID Financed contracts, the amount of scarce staff resources spent in monitoring and managing this activity is totally disproportionate to the potential benefits. We are presently revising Mission Order 1-7 to enable the Mission vehicle to more cost effectively manage and monitor vehicle utilization. The audit findings and recommendations shall be considered and addressed, as appropriate.

We ask that this recommendation be resolved. We shall request closure when the new Mission Order is issued.

Recommendation No. 2:

We recommend that USAID/Egypt:

2.1 determine and recover from Recipient B the amount it underpaid for personal use by its employees since January 1992 ensure that the contractor reimburses USAID for future personal use at the U.S. Government rate in effect;

Mission Response:

General:

The audit recommendations require the Mission to either determine and/or recover questioned costs related to the use of project vehicles by contractor personnel. The basis for these recommendations however, is Mission Order 1-7 and not the specific and relevant contract terms. We therefore find the basis for questioning costs inappropriate for asserting a claim. Costs paid/reimbursed or disallowed a contractor by USAID must be based on contractual agreements explicitly stated in the contract or implicitly understood by the concerned parties. A review of the host country contracts with Recipient C and B, and the grant with Recipient A indicates that Mission Order 1-7 was not explicitly incorporated in these agreements. A further review, which included solicitation documents, leads us to believe that an implicit understanding did not exist. As such, we do not believe we have a basis for asserting a claim against these contractors using Mission Order 1-7.

Recipient B:

The audit has questioned this cost on the basis of the Mission Order. Contracts are legal documents and the contractors' bid is based on explicit or implicit factors. We do not have a legal basis to assert and sustain a claim against Recipient B.

Recommendation No. 2:

We recommend that USAID/Egypt:

2.2 determine and recover from Recipient C the amount for home-to-office commuting provided to its local staff since May 1990 and ensure that the contractor reimburses USAID for such use in the future;

2.4 assess the legitimate needs for vehicles by Recipient C, given the Mission policy specifying that personal use shall not exceed 25 percent of any vehicle's use, and obtain evidence that Recipient C has disposed of unnecessary vehicles.

Mission Response:

General Statement:

Recipient C host country contract was originally executed in 1979, prior to the formulation of a Mission Order 1-7, in February 1990. The Recipient C contract required prior AID approvals for specific contractual actions including contract modifications. When Contract Modification # 7 was being executed in 1990, USAID took the necessary steps to ensure compliance with the Mission Order. As documented in our files, we requested that Recipient C establish a vehicle use policy. USAID determined that it was reasonable based on the policies and concepts described in the Mission Order.

Recipient C's vehicle policy required that expatriate employees reimburse USAID for the personal use of vehicles. The standard USG mileage rate was used for reimbursement purposes and home-to-office transportation of expatriate employees was defined as personal use. However, home-to-office transportation of local staff was not considered personal mileage, consistent with the intent of the Mission Order 1-7.

It may be noted that USAID only finances the capital cost of the vehicles and not the operating costs which are financed by the Cairo Wastewater Organization (CWO). In addition, Recipient C has implemented a policy of using AID financed vehicles for transporting workers from home to construction sites and ODA (non-USAID) financed vehicles for transporting office employees from home to the main offices.

Recommendation No. 2.2:

We disagree with this recommendation. The audit does not find that Recipient C violated their vehicle policy and thereby a contractual agreement, but rather indicates that Recipient C violated the Mission Order as interpreted by RIG/A. The Mission Order was not incorporated in the contract. Furthermore, the definition of personal use contained in the Mission Order, in 1990 as well as subsequent revisions was not intended to include home to office transportation of Egyptian employees. Our policy recognized the prevailing practice in Egypt, where Egyptian employees ar provided home to office transportation and/or an allowance for same. The audit recommendation stems from failure to apply this widespread policy to the Recipient C contract related to local staff. Therefore, we request that this recommendation be withdrawn.

Recommendation No. 2.4:

Contracts denote a situation in which rights and duties have risen through agreements between two parties. In 1990, when the contract was amended, there was agreement between the parties concerned with respect to a myriad of clauses, including the size of Recipient C's fleet. AID's agreement was based on a review of its policies enumerated in Mission Order 1-7 which limited personal use to 25% of the entire fleet and not a per vehicle basis. Furthermore, as is the case today, the Mission's definition of personal use for home-to-office transportation extended only to expatriate employees. Therefore, we believe the Recipient C's fleet size was appropriate.

The audit concludes that Recipient C's fleet size was excessive based on the assertion that (1) home-to-office transportation of local employees should be classified as personal use, and (2) that the Mission Order revision of March 1991, after the contract amendment, limited personal use mileage to 25% per vehicle.

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With regard to the first assertion, as we have stated in our response to Recommendation No. 2.2, and also at the exit conference, the Mission's position is that home-to-office transportation of Egyptian employees is not personal use.

Regarding the second assertion, questioning whether Recipient C adhered to the 25% per vehicle use requirement, stated in the March 1991 version of the Mission Order, we assert that a significant portion of the transportation which has been classified as home-to-office transportation is really home-to-site transportation, involving travel by construction personnel to remote locations. Such transportation is necessary to ensure timely performance under construction contracts and adequate vehicles must be available to transport such employees. Based on this need, we do not believe there is a legitimate issue with respect to the size of Recipient C's vehicle fleet.

Finally, regarding the 1991 Mission Order revision resulting in the 25% vehicle specific personal use requirement, we do not believe, even if it can be shown that Recipient C exceeded the maximum 25% per vehicle personal use ceiling, that it would be prudent to negotiate a reduction in Recipient C's fleet size in order to comply with the revised Mission Order. All contract modifications are the result of bargaining between the parties, therefore Recipient C would have requested some benefit in exchange for an agreement to reduce its fleet size. As the financier of the contract, and requester of the change, USAID would have to finance the compensation. This would represent additional costs to USAID because the vehicles cost is a sunk cost. Furthermore, the GOE, party to the contract, not USAID finances the vehicle operating costs. As such, a reduction in the fleet size would not result in a savings for USAID. On the contrary, it is likely that it would have resulted in a greater contract costs borne ultimately by the U.S. taxpayer.

<u>**Recommendation No. 2.3:**</u>

2.3 determine and recover from Recipient A and amount for local staff home-to-office commuting for the period since the USAID-financed vehicles were put in service and ensure that Recipient A reimburses the USAID project for such use in the future.

Mission Response:

Mission Order 1-7 does not apply to grantees. As Recipient A is a Grantee, and as Mission Order 1-7 was not incorporated into the grant, the use of Mission Order 1-7 to establish the basis for a claim is improper.

In reviewing the audit report, however, we noted that Recipient A has apparently violated its personal policy in providing both an allowance and home-to-office transportation to its local employees. As this does appear to be a violation of Grant terms, we shall assert a claim for the amount of the over payment.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

RECEIVED
24 OCT 1993

Mr. Philippe L. Darcy
Regional Inspector General
for Audits
Cairo, Egypt

OCT 24 1993

Dear Mr. Darcy:

This Representation Letter is being issued in accordance with Agency guidance in response to the audit of "**USAID/Egypt's Monitoring of the Use of Project Vehicles**".

Based upon discussions with Mission Staff, and taking into account identified staffing constraints and vulnerabilities as expressed in Mission ICAs, to the best of my knowledge and belief, I confirm that all appropriate financial records in the possession and under the control of USAID/Cairo relating to the function being audited have been made available to you. To the best of my knowledge and belief, the records made available to you are accurate and complete, and they fairly represent the status of **USAID/Egypt's Monitoring of the Use of Project Vehicles** within the Mission. To the best of my knowledge and belief, as a layman and not as a lawyer, in conjunction with A, B, C and D below, USAID/Egypt has reported all known instances pertaining to **USAID/Egypt's Monitoring of the Use of Project Vehicles**, which, in the Mission's judgement, would evidence material irregularities or non-compliance with AID policies, or violations of U.S. laws and regulations. Specifically I represent that:

(A) USAID/Egypt is responsible for the internal control system, for the fairness and accuracy of accounting and management information for the function under audit. USAID/Egypt to the best of my knowledge and belief exercises its best efforts to ascertain and follow applicable U.S. laws and AID regulations and AID interpretations of those laws and regulations.

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(B) To the best of my knowledge and belief, and based on discussions and verbal representations by others in the Mission, USAID/Egypt has made available to you or otherwise provided you at your request all financial and management information related to the audit objectives.

(C) To the best of my knowledge and belief, except for any findings or other matters included in the audit report, USAID/Egypt is unaware of any material instances associated with the function being audited where financial or management information has not been properly and accurately recorded/reported.

(D) To the best of my knowledge and belief, USAID/Egypt has complied with all contractual agreements, to the extent there are such agreements, which could have any material effect on **USAID/Egypt's Monitoring of the Use of Project Vehicles.**

Upon review of your draft report and following further discussion with my staff, I know of no events subsequent to the date of your draft report, (other than those which were included in our response to that report), which to the best of my knowledge and belief would materially alter the statements in (A) thru (D) above.

All representations made herein by me are made in light of my experience since my arrival at post.

Sincerely yours,

Henry H. Bassford
Director

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