

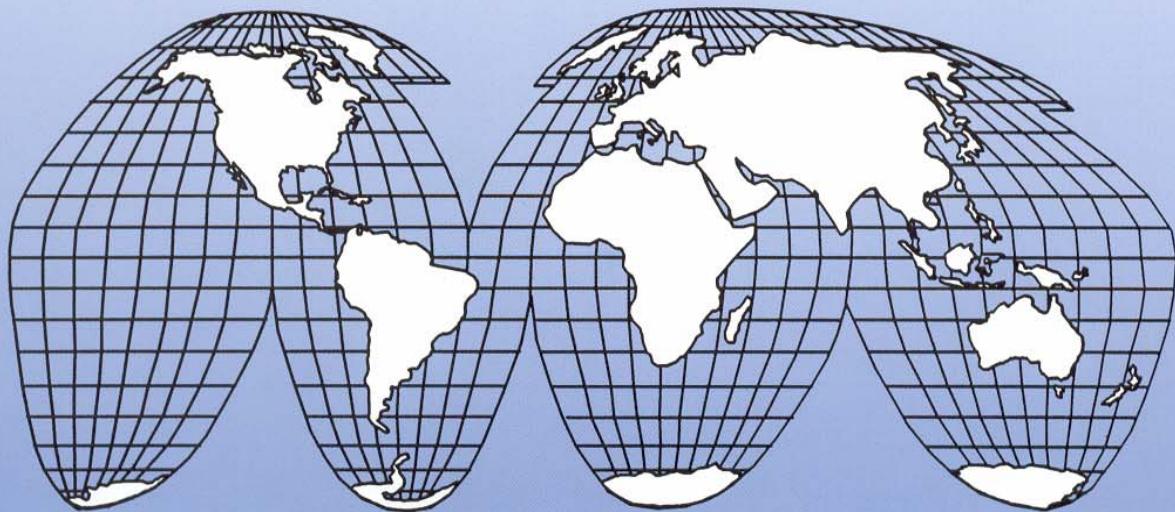
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Egypt's Performance of End-Use Checks on Purchased Commodities

Audit Report No. 6-263-03-001-P

March 12, 2003



Cairo, Egypt



March 12, 2003

MEMORANDUM

FOR: Acting Director, USAID/Egypt, Anne Aarnes
FROM: Acting RIG/Cairo, David H. Pritchard /s/
SUBJECT: Audit of USAID/Egypt's Performance of End-Use Checks on Purchased Commodities (Report No. 6-263-03-001-P)

This is our final report on the subject audit. We received your comments on the draft report and have included them in their entirety in Appendix II.

This report contains one recommendation regarding the need for USAID/Egypt to perform end-use checks on commodities purchased with USAID funds. Based on your comments to our draft report, we consider that a management decision has been made on Recommendation No. 1. Please notify the Bureau of Management's Office of Management Planning and Innovation when final action is complete.

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

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Summary of Results

Regional Inspector General/Cairo audited whether USAID/Egypt performed end-use checks in accordance with USAID's requirements and applicable regulations (see page 3).

Overall, USAID/Egypt performed end-use checks as required on the bulk of commodities purchased. However, commodities purchased for five strategic objectives had not received periodic end-use checks. This report includes one recommendation to address this weakness (see page 7).

Regional Inspector General/Cairo recommended that the Director, USAID/Egypt, implement Automated Directives System 324.5.6, End-Use Checks, to carry out, or to arrange to have carried out, end-use checks on commodities purchased by USAID funds. USAID/Egypt agreed with the recommendation.

Background

USAID/Egypt has procured significant amounts of commodities annually for projects and the Commodity Import Program. For instance, during fiscal year 2001 USAID/Egypt procured \$265,825,685 worth of commodities for the Commodity Import Program. In addition, USAID/Egypt paid almost \$22 million for project commodities during fiscal year 2001¹.

Automated Directives System (ADS), Chapter 324.5.6, End-Use Checks, requires USAID Missions to carry out, or arrange to have carried out, end-use checks on commodities to confirm their use in accordance with the requirements of the underlying agreement.

Audit Objective

Regional Inspector General/Cairo performed this audit to answer the following question:

Did USAID/Egypt perform end-use checks in accordance with USAID Automated Directives System and applicable regulations?

Appendix I provides details on the audit scope and methodology.

¹ This amount does not include commodities purchased through technical assistance contractors because the Mission's accounting system was not capable of segregating commodity purchases procured through technical assistance contracts.

Audit Findings	Did USAID/Egypt perform end-use checks in accordance with USAID Automated Directives System and applicable regulations?
	Overall, USAID/Egypt performed end-use checks as required for the bulk of commodities purchased. However, commodities purchased under five of seven strategic objectives had not received periodic end-use checks.
	USAID/Egypt performed end-use checks on commodities procured under (1) the Environment for Trade and Investment Strategic Objective, including the Commodity Import Program, and (2) the Healthier Planned Families Strategic Objective in accordance with ADS 324.5.6. According to a Mission official, Commodity Import Program purchases accounted for 90 percent of commodities purchased under the Environment for Trade and Investment Strategic Objective.
	In regards to the Commodity Import Program, USAID/Egypt's Financial Management Division designed an annual review plan to perform end-use checks. This division sent the plan to the Commodity Import Program Chief for review and approval. After each end-use check review, the Financial Management Division issued a formal written report to the Commodity Import Program Chief. If the report contained any findings, the Commodity Import Program Chief took necessary actions to resolve such findings.
	In regards to the Healthier Planned Families Strategic Objective, a Program Specialist made various site visits to projects. During these site visits, the Program Specialist performed end-use checks on project purchases to ensure their existence and proper use. At the end of each site visit, the Program Specialist issued a report documenting any findings or observations.
	The Mission's end-use checks for the Commodity Import Program and the Healthier Planned Families Strategic Objective did not disclose any material findings. However, as discussed below, USAID/Egypt needs to provide for end-use checks on commodity purchases under five strategic objectives.

USAID/Egypt Needs to Better Implement USAID Policy for End-Use Checks

Contrary to USAID policy, USAID/Egypt generally did not perform end-use checks on project commodities purchased for five strategic objectives. This occurred because some Mission officials were unaware of the requirement. Consequently, USAID/Egypt did not detect some problem areas related to the use of their commodities.

USAID/Egypt financed the cost of commodities for many projects. As discussed earlier, the Mission performed end-use checks on commodities for two Strategic Objectives, including the Commodity Import Program. However, USAID/Egypt did not perform end-use checks on commodities purchased for the following Strategic Objectives as required by ADS 324.5.6:

- Skill for Competitiveness, Strategic Objective 17
- Sustainable Utility Service, Strategic Objective 18
- Environment and Natural Resources, Strategic Objective 19
- Strengthened Civil Society, Strategic Objective 21
- Basic Education, Strategic Objective 22

USAID Automated Directives System 324.5.6 says: "The USAID Mission shall carry out, or arrange to have carried out, end-use checks on commodities to confirm their utilization in accordance with the requirements of the underlying agreement."

We interviewed various Project Officers to assess their knowledge of the ADS requirement. However, few were aware of it. We brought this issue to Mission management's attention, who said that they would institute measures to ensure that the Mission complies with USAID policies.

We also discussed with Mission staff the possibility of using its Recipient-Contracted Audit Program (RCAP) as a means to help comply with the ADS requirement to carry out commodity end-use checks. The staff said that they thought using the RCAP to help comply with the ADS requirement would require that the Statement of Work be revised so that the audits would be conducted in a way that satisfied both the Mission and the Office of Inspector General, such as:

- requiring the auditors to follow the end-use check procedures contained in the ADS Chapter on post-procurement action, and
- requiring the audit report to have a separate section on commodities that would specifically detail what was done.

In addition, the Mission also noted that the RCAP would not provide audit coverage of commodities for recipients expending less than \$300,000 per year.

At the project level, where the Mission was most vulnerable to loss and misuse, we tested 40 project purchases and 15 vehicles to determine whether they were used for their intended purposes. The tested items were present and accounted for, in a good working condition, and used properly to achieve project purposes. However, we identified the following potential problem areas that could have been detected through end-use checks:

1. At General Dynamics, USAID-financed vehicles were not marked with a USAID emblem as required by ADS 320. USAID/Egypt had issued a Contractor Notice to stop marking USAID project vehicles with USAID emblems for security purposes. However, the Contractor Notice had expired on February 22, 1998. Therefore, USAID/Egypt should determine whether USAID contractors are required to mark project vehicles with a USAID emblem.
2. Save the Children, General Dynamics, and Price Waterhouse Coopers were not reimbursing USAID/Egypt for personal use of vehicles in accordance with Mission Order 1-7, Use and Monitoring of Project Vehicles. This Mission Order states, “The contractor shall reimburse the project for personal use on a monthly basis at the U.S. government rate in effect for the period of use.” Contrary to the Mission Order, Save the Children paid USAID/Egypt \$600 annually as a flat rate for the personal use of a vehicle; General Dynamics signed an agreement with USAID/Egypt to credit the project for 107 kilometers per month per vehicle for the personal use of vehicles; and PricewaterhouseCoopers did not make any reimbursements to USAID/Egypt. USAID contracts and grants should incorporate Mission Order 1-7 requirements to ensure contractor and grantee compliance.

To ensure that USAID/Egypt performs required end-use checks we recommend the following:

Recommendation No. 1: We recommend that the Director, USAID/Egypt, implement ADS 324.5.6, End-use Checks, to carry out, or arrange to have carried out, end-use checks on commodities purchased by USAID funds.

Management Comments and our Evaluation

USAID/Egypt agreed with the audit recommendation and the two problem areas in the report. It had also taken steps to correct those problems.

USAID/Egypt said that it:

1. Will develop a Mission Order to explain roles and responsibilities for conducting end-use verification and issuing reports.
2. Took proactive measures by assigning the Financial Management Office as the Cognizant Office for developing the end-use verification plan.
3. Will develop an end-use verification plan, effective Fiscal Year 2003, for prior year commodities and vehicles.

Based on the Mission's comments, a management decision has been made on Recommendation No. 1.

Scope and Methodology

Scope

The audit was made in accordance with generally accepted government auditing standards. Fieldwork was performed from January 22, 2002 to April 15, 2002. It covered USAID/Egypt's fiscal year 2001 project purchases. During the survey phase, we determined that the risk for the Commodity Import Program and Strategic Objective 20, Healthier Planned Families, was low. Therefore, we did not test the use of any commodities purchased for these strategic objectives.

We did not use statistical sampling because the Mission was not able to provide a verifiable list of all project purchases incurred during fiscal year 2001. However, the Mission was able to provide various project-purchase lists that were prepared by contractors and grantees. We did not verify the accuracy of project purchases data compiled and provided by the various contractors and grantees.

In collaboration with Mission officials, we judgmentally selected a sample of 40 project commodities and 15 project vehicles from the fiscal year 2001 project-purchase lists. We selected the vehicle sample from purchases made during the life of the contracts and cooperative agreements. The value of the 40 tested project purchases amounted to \$157,341. USAID/Egypt's fiscal year 2001 total project purchases amounted to \$21,886,836.

From March 15, 2002, to March 29, 2002, we verified commodities usage at:

- Two Telecommunication Centers in Cairo.
- Cairo University (School of Pharmacy).
- Cairo Court.
- Save the Children/Cairo.
- General Dynamics/Cairo.
- International Institute for Education.
- Academy for Educational Development.
- CARE International.

- PriceWaterhouse Coopers/Cairo.
- International Executive Services Corps.
- Chemonics International/Cairo.

Methodology

We interviewed various Mission employees to gain an understanding of the actual process for conducting, or arranging for, end-use checks. To further our understanding, we accompanied the Program Specialist for Strategic Objective 20 on a site visit to check commodities at two Healthy Mother Healthy Child project sites in Fayoum. These sites were using the medical equipment, medical furniture, medical instruments, tools, and office furniture procured by the John Snow Corporation for the Healthy Mother Healthy Child Project.

We evaluated and assessed the effectiveness of the Mission's internal controls with regard to end-use checks. The level of assurance was limited to the items tested.

We made various site visits to physically locate and examine the sample items. During those visits, we examined the condition of the items, reviewed the contract for any special restrictions, and ensured proper use by the various projects.

Appendix II

Management Comments

MEMORANDUM

To: RIG/Cairo, Darryl T. Burris

From: D/DIR, Anne Aarnes, USAID/Egypt //Signed//

Subject: Audit of USAID/Egypt's Performance of End-Use Checks on Purchased Commodities - Draft Audit Report

Following is the Mission's response to Recommendation No. 1 under the subject draft audit report.

Recommendation No. 1:

We recommend that USAID/Egypt implement ADS 324.5.6, End-use Checks, to carry out, or arrange to have carried out, end-use checks on commodities purchased by USAID funds.

The report stated that the Mission performs end-use checks on commodities procured under (1) the Environment for Trade and Investment Strategic Objective, namely the Commodity Import Program, and (2) the Healthier Planned Families Strategic Objective in accordance with ADS 324.5.6.

The report disclosed at the project level, that the 40 tested project commodities and 15 vehicles were present and accounted for, in good working condition, and utilized properly to achieve the project purposes. But, potential problem areas, as noted below were identified in the report.

The report revealed that USAID financed vehicles are not marked with the USAID emblem as required by ADS 320. Finally, the report noted that some USAID contractors were not reimbursing USAID/Egypt for personal use of project funded vehicle in accordance with Mission Order 1-7.

The report added that the contractor notice relevant to marking requirements (06-98) had expired on February 22, 1999, and suggested that the Mission should determine

whether USAID contractors are required to mark project vehicles with the USAID emblem.

Contractor Notice No. 1-01 of January 25, 2001 erroneously included Contractor Notice 06-98 among the list of still-valid contractor notices (see attached). Currently, the Mission is reviewing a draft Contractor Notice to reinstate the waiver of USAID marking requirements for certain USAID project funded vehicles.

Further, the report referred to Mission Order 1 - 7, VIII titled "Use and Monitoring of Project Vehicles" in which the contractor shall reimburse the project for personal use on a monthly basis at the U.S. government rate in effect for the period of use. It was further requested that the Mission incorporate Mission Order 1 - 7 requirements into USAID issued contracts and grants to ensure contractor and grantee compliance. USAID/Egypt, Office of Procurement will consult with USAID/W Office of Policy regarding adding the Mission Order to contract clauses.

To streamline the end-use verification, a Mission Order will be developed to explain roles and responsibilities of the cognizant technical officers and the Financial Management Office in collecting relevant information on USAID-funded commodities to develop an annual end-use verification plan and to conduct end-use verification and issue reports.

Proactive measures have already been taken by the Mission by assigning the Financial Management Office as the cognizant office with responsibility for developing the end-use verification plan in coordination with the cognizant technical officers and for performing end-use verification and issuing reports.

Effective FY2003, the Mission will develop an end-use verification plan for prior year commodities and vehicles to ensure that USAID/Egypt funded commodities and vehicles are effectively utilized in accordance with the requirements of the underlying agreements and ADS 324.

In view of the above, the Mission believes that a management decision has been made and requests RIG/Cairo to resolve the recommendation. Final action will be effected upon the presentation of evidence to show that

the end-use verification plan has been developed and that its implementation has begun.

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