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**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF CUSTOM REFORM  
ACTIVITIES UNDER USAID'S  
ASSISTANCE FOR CUSTOMS  
REFORM AND TRADE  
FACILITATION PROJECT IN  
EGYPT**

AUDIT REPORT NO. 6-263-07-002-P  
September 24, 2007

CAIRO, EGYPT



*Office of Inspector General*

September 24, 2007

**MEMORANDUM**

**TO:** USAID/Egypt Acting Director, John Groarke

**FROM:** Regional Inspector General/Cairo, Lloyd J. Miller /s/

**SUBJECT:** Audit of Custom Reform Activities Under USAID's Assistance for Customs Reform and Trade Facilitation Project in Egypt (Report No. 6-263-07-002-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and have included your responses in their entirety in Appendix II of this report.

This report includes three recommendations to USAID/Egypt to (1) update the project implementation plan, (2) monitor the Government of Egypt's cost sharing contributions as outlined in the project agreement, and (3) better define and monitor activity outputs. Based on your comments, we consider that management decisions have been made on all three recommendations. Please coordinate final action with USAID's Audit, Performance and Compliance Division.

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

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# SUMMARY OF RESULTS

The Regional Inspector General in Cairo, Egypt, conducted this audit to determine whether USAID-financed customs reform activities under the Customs and Trade Facilitation Project in Egypt achieved planned outputs.

The accomplishments of these activities included (1) legislative approval of revised customs law and the approval of implementing regulations; (2) approval of a new organizational structure for the Egyptian Customs Authority being implemented; (3) establishment of modern customs centers that consolidate and streamline the customs clearance process for importers; and (4) completion of standardized customs manuals (see page 3).

Despite these accomplishments, USAID/Egypt could improve its monitoring of planned outputs. Of the two sets of activities, one implementer, Bearing Point, achieved 19 of 37 outputs planned for the year. Of the remaining 18 outputs, 9 were in progress, 5 were cancelled for appropriate reasons, 2 were placed on hold, and 2 were not started as planned (see page 5). For the second implementer, the Customs Reform Unit, we could not determine whether USAID/Egypt achieved the intended outputs. USAID/Egypt did not clearly define measurable outputs for approximately 62 percent of the outputs for the Customs Reform Unit activities. Therefore, the Mission could not objectively monitor progress (see page 3).

USAID/Egypt did not use an implementation plan outlining the customs reform activities required and timelines for these activities to be completed. Without an implementation plan detailing the remaining activities that need to be achieved and measuring the impact of the 18 outputs not completed, the Mission cannot objectively demonstrate whether these results are appropriate and acceptable (see page 4).

USAID/Egypt did not monitor the Government of Egypt's planned and agreed-upon \$2.6 million (U.S. dollar equivalent) cash and in-kind contributions to the program. USAID/Egypt neither received nor requested annual reports detailing the amount of cash and in-kind contributions provided by the Government of Egypt since the inception of the project in 2002 (see page 5).

This report includes three recommendations to USAID/Egypt to (1) update the implementation plan, which identifies the critical path and milestones for each major set of activities for the remaining life of the project; (2) determine the amount of cost sharing that the Government of Egypt has provided through fiscal year 2006 and remind the Government of Egypt to submit required annual reports so that USAID/Egypt can ensure that the Government of Egypt will meet its obligations in the project grant agreement; and (3) require the Customs Reform Unit to modify its annual work plan to contain clearly defined and measurable outputs and to report against the achievement of those outputs in their quarterly progress reports. The Mission agreed with the report findings and the three audit recommendations. Based on the information provided and the steps taken by USAID/Egypt, we consider that management decisions have been reached on all three recommendations (see pages 5, 6, and 8).

# BACKGROUND

USAID/Egypt's Customs and Trade Facilitation Project<sup>1</sup> supported the Government of Egypt's program of economic policy reform, which aimed to increase productive private sector employment through increased trade and investment.

Because customs and trade facilitation are politically sensitive, the Customs and Trade Facilitation Project included the flexibility to investigate and examine different approaches and sequences of reform. USAID/Egypt coordinated assistance to the Government of Egypt for customs reform activities through the Customs Reform Unit of the Egyptian Customs Administration. The Customs Reform Unit coordinates all technical assistance for customs reform activities under the Customs and Trade Facilitation Project with the Egyptian government agencies.

USAID and the Government of Egypt initiated the Customs and Trade Facilitation Project in September of 2002. The project's original design envisioned the provision of technical support for a period of 5 years at a funding level of \$30 million. In October 2005, USAID/Egypt consolidated the Customs and Trade Facilitation Project along with other technical assistance for economic policy formulation and private-sector development, under a single-source contract for technical assistance. This consolidation took place through the awarding of a technical assistance contract to Bearing Point.

In September 2006, USAID/Egypt extended the completion date for the project from September 2007 to September 2009, to allow for the completion of the original activities planned under the Customs and Trade Facilitation Project as well as to increase the scope of the project's activities. The increase in scope included expanding the trade facilitation activities supported, requiring an increase in funding from \$30 million to \$59.5 million. As of September 30, 2006, the project had expended \$7.8 million of the \$59.5 million authorized. In addition to the USAID funding, the Government of Egypt agreed to provide about \$2.6 million (the U.S. dollar equivalent of 15 million Egyptian pounds) as cash and in-kind contributions to the program. As of the time of our audit, USAID/Egypt had initiated few of the trade activities under the Customs and Trade Facilitation Project.

## AUDIT OBJECTIVE

We conducted this audit as part of the Office of Inspector General's audit plan for fiscal year 2007 to answer the following question:

- Have USAID-financed customs reform activities under the Customs and Trade Facilitation Project in Egypt achieved planned outputs?

Appendix I contains a discussion of the audit's scope and methodology.

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<sup>1</sup> The complete title of the project is "Assistance for Customs and Trade Facilitation."

# AUDIT FINDINGS

USAID/Egypt customs reform activities for one implementer, Bearing Point, generally achieved planned outputs for the fiscal year ending September 2006. Specifically, of 37 intended outputs, Bearing Point completed 19, was in progress for an additional 9, and cancelled 5 others for appropriate reasons. The success of the second implementer, the Customs Reform Unit, in achieving intended outputs was unclear because USAID/Egypt did not define in measurable terms 50 of the 81 outputs (about 62 percent of total outputs) for the fiscal year ending June 2006.

**Table 1. Status of Intended Outputs**

	<b>Bearing Point</b>	<b>Customs Reform Unit</b>
Not defined in measurable terms	0	50
Completed	19	21
In progress	9	8
Cancelled for appropriate reasons	5	1
On hold	2	1
Not started	2	0
<b>Total =</b>	<b>37</b>	<b>81</b>

The customs reform activities achieved progress in several important areas, including (1) legislative approval of revised customs law and the approval of supporting implementing regulations; (2) approval of a new organizational structure for the Egyptian Customs Authority being implemented; (3) establishment of modern customs centers that consolidate and streamline the customs clearance process for importers; and (4) completion of standardized customs manuals for customs officials and the trade community, which are intended to support the consistent, transparent application of national and international customs programs by the Egyptian Customs Authority. Nevertheless, USAID/Egypt could improve its management over the Customs and Trade Facilitation Project by the following:

- Updating and monitoring progress against an implementation plan that identifies the critical path and milestones for each major set of activities for the remaining life of the project;
- Monitoring the Government of Egypt's cash and in-kind contributions to the program; and
- Establishing clearly defined and measurable outputs for the Customs Reform Unit activities in the annual work plan.

## Project Implementation Plan Needs To Be Updated

Summary: Customs reform activities do not have a life-of-project implementation plan outlining required activities and their time for completion during the life of the project. USAID policies require operating units to conduct adequate activity planning. The project managers and implementers initially developed an implementation plan for the project in April 2004 in accordance with these policies. However, the project managers and implementers did not use the plan as a progress-monitoring tool, and it became more of a reference guide for the project reforms and activities to be undertaken. As a result, the Mission could not objectively demonstrate whether the progress made in the annual work plans are appropriate and acceptable progress.

Automated Directives System (ADS) 201.3.12.4 requires operating units to conduct adequate activity planning. This planning is based on several principles intended to promote flexible and speedy responses while minimizing internal processes and reducing costs. To this end, the ADS does not specify what constitutes “adequate” planning, but instead leaves this determination to the implementing operating unit. In addition, ADS 201.3.12.8 provides that—

When appropriate, host country governments should have major involvement in activity planning decisions, particularly when considering the use of expatriate technical assistance or local non-governmental organizations.

In April 2004, the Egyptian Customs Authority, through the Customs Reform Unit, developed a detailed implementation plan for customs reform. The Egyptian Ministry of Finance subsequently approved the implementation plan. The plan described the reforms planned in customs over a 3-year period and covered near-term (12 months) and long-term activities in all areas, including procedures, human resources, tariffs, legislation, and information and communications technology. The activities were divided into foundational and implementation activities. Foundational activities referred to the activities that set program controls and help manage the reform process. Implementation activities were activities related to the specific technical areas, such as procedures, information and communications technology, and human resources. The implementation plan contained a detailed project management Gantt<sup>2</sup> chart for the implementation.

This implementation plan was the basis for determining the technical assistance that would be provided for the customs reform activities. The technical assistance contract signed in October 2005 recognized the importance of the implementation plan and included requirements for the contractor to use the implementation plan as the basis for its activities. The project managers and implementers initially utilized the 2004 implementation plan to manage the activities under the Customs and Trade Facilitation Project. Shortly following the creation of this plan, however, the Egyptian Ministry of Finance’s priorities changed, and the project managers and implementers stopped using the implementation plan as a tool to evaluate progress against the timetable established

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<sup>2</sup> A Gantt chart provides a graphical illustration of a schedule that helps to plan, coordinate, and track specific tasks in a project.

in the implementation plan. Project managers and implementers stopped updating the implementation plan and instead it became a reference guide.

According to USAID/Egypt and implementing partner managers, the nature of the technical assistance work, with the exception of the information technology component, did not always lend itself to the linear nature of the original implementation plan. For example, some activities may be performed at any time during a given period without having a negative impact on the completion of the project, while other activities needed to be performed in a set sequence to ensure that follow-on activities were not delayed. Additionally, the Mission based the technical assistance on a demand-driven model. That is, USAID/Egypt provided assistance to the Customs Reform Unit to assist in the implementation of its initiatives when the Customs Reform Unit was ready and requested assistance in a given area. Therefore, the project managers and implementers relied on the yearly work plans that outlined the approved activities.

This approach, while providing flexibility, did not enable USAID/Egypt to objectively measure the project's progress in meeting overall goals and objectives within the approved budget and project completion date. For example, Bearing Point completed 19 of 37 outputs planned for the fiscal year ending September 2006. Of the remaining 18 outputs, 9 were in progress, 5 were cancelled for appropriate reasons, 2 were placed on hold, and 2 were not started as planned. Without an implementation plan detailing the remaining activities that need to be achieved and measuring the impact of the 18 outputs not completed, the Mission cannot objectively demonstrate whether these results are appropriate and acceptable.

In response to our audit, USAID/Egypt and its implementing partners prepared a document identifying the principal objectives and milestones of the customs reform activities for fiscal years 2006 through 2009. This document broadly identified the main activity areas, core outcomes, timeframes for completion, and funds required. This document provided a high-level view of the project's overall direction, but it lacked sufficient detail to usefully assess progress over the life of the program. Developing a workable implementation plan identifying the key critical paths and milestones for each set of major activities, and plotting the yearly work plan activities against this implementation plan, will better enable the Mission to objectively demonstrate whether the results of its outputs are appropriate and acceptable, while maintaining the flexibility for the demand-driven nature of the project.

*Recommendation No. 1: We recommend that USAID/Egypt update the implementation plan, which identifies the critical paths and milestones for each major set of activities for the remaining life of the project.*

## **Cost Sharing Contributions Need To Be Monitored**

USAID/Egypt did not monitor the Government of Egypt's cash and in-kind contributions to the project. The project grant agreement required the Government of Egypt to provide not less than the U.S. dollar equivalent of approximately \$2.6 million as cash and in-kind contributions to the program. In addition, the project grant agreement required the Government of Egypt to provide annual reports detailing the extent of its contributions. USAID/Egypt neither received nor requested these annual reports since the inception of

the project in 2002. Therefore, the extent to which the Government of Egypt met its cost sharing contributions in accordance with the project grant agreement could not be determined. USAID/Egypt personnel overseeing the project stated that through their oversight role they were aware of the Government of Egypt's contributions and believed the Government of Egypt was meeting its obligations. However, they also agreed there was a need to document the contributions through the annual reporting by the Government of Egypt.

As a result, USAID/Egypt could not determine the extent to which the Government of Egypt was meeting its cost sharing contributions in accordance with the project grant agreement. To address this issue, the Office of Inspector General is making the following recommendation:

*Recommendation No. 2: We recommend that USAID/Egypt (a) determine the amount of cost sharing the Government of Egypt has provided through fiscal year 2006 and (b) remind the Government of Egypt to submit required annual reports so that USAID/Egypt can ensure the Government of Egypt will meet its obligations in the project grant agreement.*

## **Outputs Need To Be Better Defined and Monitored**

Summary: The outputs for the Customs Reform Unit activities in the annual work plan were not clearly defined or measurable. USAID policy recognizes the ability to monitor the quality and timeliness of outputs as a significant management tool, which is essential when managing for results. USAID staff did not use the work plans to monitor the Custom Reform Unit's progress. Rather, the USAID staff relied on the Customs Reforms Unit's efforts and success in facilitating the Bearing Point activities to monitor progress. Therefore, USAID/Egypt could not objectively measure and monitor the specific outputs expected of the Customs Reform Unit and the progress made toward accomplishing these outputs.

USAID's ADS 200.6 defines an output as—

A tangible, immediate, and intended product or consequence of an activity within USAID's control. Examples of outputs include people fed, personnel trained, better technologies developed, and new construction. Deliverables included in contracts will generally be considered outputs, as will tangible products and consequences of USAID grantees.

USAID recognizes the importance of monitoring the quality and timeliness of outputs produced by implementing partners. ADS 202.3.6, *Monitoring Quality and Timeliness of Key Outputs*, states that—

Outputs are specifically described in contract statements of work, and grant agreement program descriptions. Outputs are critical to achieving results. Delays in completing outputs, or problems in output quality, provide an early warning that results may not be achieved as planned. Timeliness of key outputs may affect the achievement of performance

targets that the SO [Strategic Objective] Team presents in the Annual Report. Early action in response to problems is essential in managing for results.

Each year, USAID/Egypt approved the expected outputs for the Customs Reform Unit in the yearly work plan. The Customs Reform Unit's work plan for fiscal year ending June 30, 2006, provided for 81 outputs during the period. However, the approved work plan did not clearly define in measurable terms 50 of the 81 outputs in the plan (approximately 62 percent of the total outputs). That is, outputs did not define tangible immediate and intended products or consequences of the activities of the Customs Reform Unit as required by ADS guidance. Rather, the outputs were a compilation of individual elements in job descriptions rather than activity outputs. Examples of these 50 work plan outputs included the following:

- Reporting regularly to the project director on the progress of work of each committee
- Managing and preserving the project assets
- Monitoring the establishment of unit for warehousing information
- Participating in the temporary committees that are established to coordinate with the other ministries and governmental authorities
- Monitoring the implementation of reform as indicated in the first article in accordance with the work plan
- Participating in restructuring the Customs Tariff Structure through the General Technical Secretary for Tariff

In addition, progress reports from the Customs Reform Unit, which USAID/Egypt accepted, did not provide a sufficient description of the activities accomplished to allow an objective determination as to whether the Customs Reform Unit accomplished the planned outputs. The quarterly progress reports also did not report against all the outputs in the work plan. The following are examples of the status reported for outputs in the progress reports of the Customs Reform Unit.

Output: Reporting regularly to the project director on the progress of work of each committee.

Status: Reports are submitted regularly.

Output: Monitoring the establishment of unit for warehousing information.

Status: Ongoing.

Output: Participating in restructuring the Customs Tariff Structure through the General Technical Secretary for Tariff.

Status: Ongoing.

USAID personnel monitoring the work of the Custom Reform Unit acknowledged that not all outputs in the annual work plan were clearly defined in measurable terms. However, they stated that the annual work plan for the Customs Reform Unit was not the primary means by which they determined progress in implementing the project. The Customs Reform Unit was responsible for both the overall implementation of the reforms and the coordination of the work of the USAID/Egypt contractor, Bearing Point, with other Government of Egypt authorities involved in the reform process. USAID staff relied on

the Customs Reform Unit's efforts and its success in facilitating the Bearing Point activities to monitor progress rather than the annual work plan. Therefore, USAID/Egypt did not measure the effectiveness and progress of the Customs Reform Unit against the results of the annual work plan, but rather against the overall progress of the program.

As a result, USAID/Egypt could not objectively measure and monitor the specific outputs expected of the Customs Reform Unit and the progress made toward accomplishing these outputs.

*Recommendation No. 3: We recommend that USAID/Egypt require the Customs Reform Unit to modify its annual work plan to contain clearly defined and measurable outputs and to report against the achievement of those outputs in their quarterly progress reports.*

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Egypt's comments to the draft report are included in their entirety in Appendix II. Partly in response to the management comments, we slightly modified the wording of each recommendation. The Mission agreed with the report findings and audit recommendations. Furthermore, USAID/Egypt stated that the audit was conducted in full collaboration with the Mission's technical officers managing the activities and in an atmosphere of goodwill. In addition, the Mission requested that we include in the final audit report a reference to a World Bank report that ranked Egypt as the most prominent country for custom reform. However, we decided not to cite that particular accomplishment because it is based on 2004 data, whereas our audit covered 2006 activities of the two project implementers.

In response to Recommendation No. 1, the Mission stated that by June 30, 2007, it will have updated its comprehensive customs reform plan to include targeted objectives to be achieved by the program as well as the critical path and the different milestones for each set of activities. The Mission further agreed that progress reports comparing achieved outputs and planned outputs will be submitted to USAID on a semiannual basis. Based on this information, we consider that a management decision has been reached on this recommendation.

In response to Recommendation No. 2, USAID/Egypt recognized the need for the cost sharing contributions official report to be submitted by the Government of Egypt on an annual basis and has already requested and received a report that details total cash and in-kind contributions through December 2006. USAID/Egypt has also informed the Government of Egypt that the cost sharing report is required on an annual basis. Based on this information and the steps already taken, we consider that a management decision has been reached on this recommendation.

In response to Recommendation No. 3, the Mission has already begun working with its implementing partners to create a new work plan for the Customs Reform Unit for the period of July 2007 to June 2008. In addition, the Mission will receive quarterly reports by the Customs Reform Unit reflecting progress against the identified outputs and deliverables. Based on this information and the steps taken, we consider that a management decision has been reached on this recommendation.

# SCOPE AND METHODOLOGY

## Scope

This audit was made in accordance with generally accepted government auditing standards. The Regional Inspector General/Cairo performed fieldwork for this audit in Egypt from November 26, 2006, to March 29, 2007, at USAID/Egypt, Bearing Point Egypt, and Government of Egypt offices.

As part of its fiscal year 2007 audit plan, the Regional Inspector General/Cairo performed this audit to answer the following question: Have USAID-financed customs reform activities under the Customs and Trade Facilitation Project in Egypt achieved planned outputs?

In planning and performing the audit, the audit team assessed the effectiveness of USAID/Egypt management controls related to the Assistance for the Customs and Trade Facilitation Project. These USAID/Egypt controls included the following:

- Receiving and analyzing performance reports to track progress and to ensure that the implementing partners were achieving outputs
- Maintaining contact with the grantees for feedback on activity implementation

The audit covered the results of the two implementing partners, the Customs Reform Unit of the Egyptian Customs Administration and Bearing Point, whose implementation letter and contracting agreements contained annual work plans. USAID/Egypt signed an implementation letter agreement with the Government of Egypt for the activities of the Customs Reform Unit dated March 26, 2003. USAID/Egypt provided \$977,711 in funding for the Customs Reform Unit over 3 years ending June 30, 2007.<sup>3</sup> USAID/Egypt signed a contract with Bearing Point for a broad range of technical assistance for economic policy formation and private-sector development. This 4-year contract was awarded on October 3, 2005. Within the contract, USAID/Egypt provided approximately \$25 million for technical assistance work for custom reform activities. For the two implementers, as of September 30, 2006, USAID/Egypt had expended \$489,769 on the Customs Reform Unit's implementation letter agreement and \$1,334,000 on customs reform activities as part of the Bearing Point contract. The audit covered the last full year annual work plan of each of the two project implementers. The audit team reviewed all of the outputs in each of the respective work plans.

The only relevant prior audit of this project was a financial audit of the Customs Reform Unit.<sup>4</sup> The audit had no findings.

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<sup>3</sup> USAID incrementally funds the assistance provided to the Customs Reform Unit on an annual basis. Further funding will be provided to the Customs Reform Unit over the remainder of the project.

<sup>4</sup> Financial Audit of USAID Resources Managed and Expenditures Incurred by Customs Reform Unit (CRU), USAID/Egypt Grant Agreement No. 263-0284, Implementation Letter No. 3, for the Period From April 1, 2003, to December 31, 2005.

## Methodology

To form a conclusion about the audit objective, the audit team interviewed the USAID/Egypt cognizant technical officer and program manager for the grantees, the head of the Customs Reform Central Directorate (Government of Egypt), Customs Reform Unit personnel, and line personnel at the Egyptian Customs Authority. In addition, the team interviewed Bearing Point employees and examined project documentation.

The audit team first gained an overall understanding of the project, the history of progress since the project's inception, and the primary challenges to the project's success. The team reviewed the project agreements and contracts, annual performance plans, progress reports, and deliverables. The team then reviewed the work accomplished as reported in the implementers' reports and compared actual accomplishments against the specific outputs as defined in the approved work plans. The team assessed the quality of the annual work plans and the progress reported against these work plans, as well as how the progress fit into the long-term success of the overall program. The team conducted site visits of Egyptian Customs Authority facilities to verify the project's implementation and to gain a better understanding of the implementation work performed and the results reported against the annual work plans.

Because the work plans identified numerous outputs of varying complexity and importance, the audit team did not develop a specific materiality threshold relating to the number of outputs delivered. Rather, the team relied on its professional judgment in determining accomplishments and confirmed these judgments through discussions with appropriate USAID/Egypt personnel.

# MANAGEMENT COMMENTS

June 3, 2007

## MEMORANDUM

To: Regional Inspector General/Cairo, David H. Pritchard

From: Joseph Ryan, AD/PPS //Signed//

Subject: Audit of Custom Reform Activities under USAID's Assistance for Customs Reform and Trade Facilitation Project in Egypt (Report No. 6-263-07-00x-P)

The Mission would like to take this opportunity to thank the Office of Inspector General Audit Team which conducted the audit of Customs Reform Activities under the Assistance for Customs and Trade Facilitation Project. The audit was conducted in full collaboration with the Mission's technical officers managing the activities and in an atmosphere of goodwill.

In addition to what the report included, it is worth mentioning other accomplishments made by the customs reform activities:

- **Reduction in Release of Shipments:** A major reduction was achieved in the release time of shipments of imported goods (defined as the time elapsed from arrival of goods at the port to their exit from the port) from 22 days in 2004 to 13.2 days in 2007, and
- **Training and capacity building:** Over 65 customs managers have been enrolled in different Masters Programs (Masters of Business Administration, Masters of Public Administration, and Masters of Court Procedures and Dispute Settlement) and more than 250 customs employees have been trained in Advanced Valuation techniques and Tariff Classification over a period of 16 months.

It is also worth mentioning that the above cited accomplishments in the customs reform activities were recognized by the World Bank Report on “Doing Business in 2006” (Attachment 1). The report ranked Egypt as the most prominent country in customs reforms (page 2 of Attachment 1). The Mission requests adding this declaration to the report.

The Mission has considered the report findings/recommendations and agrees with them.

Following are the Missions responses to address the audit report recommendations 1, 2 and 3:

**Recommendation No. 1: We recommend that the USAID/Egypt Director re-establish the use of an implementation plan which identifies the critical path and milestones for each major set of activities for the remaining life of the project.**

The Mission agrees with the need to update the comprehensive customs reform plan that was prepared in April 2004. The updated plan will show the targeted objectives to be achieved by the Program as well as the critical path and the different milestones for each major set of activities. The Technical Assistance for Policy Reform II (TAPRII) consultants are currently preparing the plan which is expected to be ready by end of June.

Progress reports which compare achieved outputs and planned outputs will be submitted to USAID on a semi-annual basis (September and March of each year). The plan will also be revised on a semi-annual basis as needed.

**In view of the above, the Mission believes that a management decision has been made for Recommendation No. 1.**

**Recommendation No. 2: We recommend that the USAID/Egypt Director determine the amount of cost sharing the Government of Egypt has provided through fiscal year 2006 and monitor future contributions annually to ensure the Government of Egypt will meet its obligations in the project grant agreement.**

The host country contribution (Government of Egypt) consists of two types:

1. **LE5 million from the FT800 Account:** USAID has complete records to show the use of the FT800 funds under ACTF Grant Agreement, (Attachment 2).
2. **LE10 million Cash and In-kind Contribution:** USAID was monitoring closely the different components of the GOE contribution over the life of ACTF (from October 2002 till the present) but no official reports have been submitted to USAID prior to the Audit Report.

USAID recognizes the need for such official reports to be submitted by the GOE on an annual basis and has already requested and received a report which details total cash and in-kind contribution through December 2006 (Attachment 3).

USAID has informed the GOE that such a report is required on an annual basis.

**In view of the above, the Mission believes that a management decision has been made for Recommendation No. 2.**

**Recommendation No. 3: We recommend that the USAID/Egypt Director ensure that (a) the approved annual work plans for the Customs Reform Unit contain clearly defined and measurable outputs; and (b) the quarterly progress reports submitted by the Customs Reform Unit sufficiently describe the activities performed to allow an objective determination as to whether outputs were accomplished.**

The new work plan for the Customs Reform Unit (CRU) is currently being prepared to be submitted to USAID by end of June for the fiscal year July 2007-June 2008. To address this recommendation the following actions were taken:

- USAID met several times with the CRU management and explained to them how to develop the new work plan based on clearly defined outputs and deliverables and not activities.

- TAPRII consultants are also working with the Customs Reform Unit to ensure consistency between the overall customs reform plan that TAPRII technical assistance is supporting and the Customs Reform Unit work plan.

Quarterly reports by the CRU will show progress against the identified planned outputs and deliverables.

**In view of the above, the Mission believes that a management decision has been made for Recommendation No. 3.**

**Request for closure (final action) including the supporting documents will be submitted to USAID/Washington, Chief Financial Officer, Audit Performance and Compliance (M/CFO/APC).**

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