



*Office of Inspector General
for the Millennium Challenge Corporation*

May 31, 2011

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

This letter transmits the Office of Inspector General's final report on the Review of Millennium Challenge Corporation-Funded Contracts with Government-Owned Enterprises in Mali (Review Report No. M-000-11-004-S). In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II of this report.

The review report contains three recommendations to address (1) vehicle safety, (2) documentation related to employee training, and (3) employee health and safety. We assessed whether selected government-owned enterprises adhered to MCC policies and procedures that address (1) worker health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices when implementing MCC compact projects; and whether the Millennium Challenge Account-Mali adhered to MCC's Program Procurement Guidelines when selecting government-owned enterprises to implement compact projects. We consider that management decisions have been reached on Recommendations 1, 2, and 3. Additionally, we consider final action taken on Recommendation 3. Final action will not be reached on Recommendations 1 and 2 until the action plans are fully implemented by MCA-Mali.

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

Sincerely,

/s/

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

SUMMARY

This review is in response to Congressman Frank R. Wolf's September 29, 2010, request to review Chinese government-owned enterprises (GOEs) that receive contracts for Millennium Challenge Corporation (MCC)-funded programs. Congressman Wolf requested that the Office of Inspector General (OIG) review the extent to which Chinese GOEs adhere to health and safety, environmental, quality construction, and labor policies, and whether the procurement process was open, fair, and competitive.

On September 27, 2010, MCC amended its Program Procurement Guidelines (Interim Amendment Notice 2010-001) to prohibit GOEs from competing for MCC-funded contracts.¹ MCC made this amendment to help ensure a level playing field for commercial firms from all countries. Owing to the challenge of determining whether a company is actually government-owned, MCC has identified a process to recognize GOEs if they bid for contracts.

On November 13, 2006, MCC and the Government of the Republic of Mali signed a 5-year, approximately \$461 million compact. The compact aims to support policy reform and key infrastructure development by addressing Mali's constraints to growth and capitalizing on two of the country's major assets: (1) the Bamako-Sénou International Airport as a gateway for regional and international trade and (2) the Niger River Delta for irrigated agriculture.

This review covered two contracts under the compact awarded to the Chinese GOE Sinohydro in Mali: (1) the \$71.6 million airport improvement contract and (2) the \$46.3 million canal expansion contract. The objective of this review was to answer the following questions:

- Did the selected government-owned enterprises adhere to MCC policies and procedures that address (1) worker health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices when implementing MCC compact projects?
- Did the Millennium Challenge Account (MCA) adhere to MCC's Program Procurement Guidelines when selecting government-owned enterprises to implement compact projects?

Sinohydro, the Chinese GOE with two MCC-funded contracts in Mali, generally adhered to the health and safety plan, but can take several actions to improve worker health and safety (page 4). For example, there is a need for more regular vehicle inspections, better documentation related to employee training, and additional or replacement equipment, particularly respiratory masks and gloves. The review team did not identify any noncompliance with the environmental management plan or problems with the quality of Sinohydro's construction. Also, nothing came to the OIG's attention that would indicate unsound labor practices or non-compliance with MCC's Program Procurement

¹ As of September 2010, contracts were awarded to government-owned enterprises that totaled \$400 million (see Table 2 in Appendix IV).

Guidelines. Sinohydro was awarded the two contracts prior to the MCC bid prohibition against GOEs. In fact, for the airport improvement project, Sinohydro was the only firm that submitted a bid.

The report recommends that MCC require MCA-Mali to ensure that Sinohydro:

1. Regularly inspects its vehicles for safety compliance, and performs routine maintenance on the vehicles to keep them in good operating condition (page 4).
2. Institutes a process to substantiate that all employees receive health and safety training (page 4).
3. Replaces, as needed, health and safety equipment such as masks and gloves, and installs first aid kits at the airport construction site (page 5).

Detailed results appear in the following section. Appendix I contains the scope and methodology. Management decisions have been reached on Recommendations 1 and 2, but final action will not take place until MCA-Mali's action plans are fully implemented. For Recommendation 3, OIG considers that a management decision has been reached and final action taken.

REVIEW RESULTS

Vehicles Not Routinely Inspected

Four of nine drivers working at Sinohydro's base camp for the canal expansion activity stated that sometimes they were required to drive unsafe vehicles. The main complaint was that some vehicles had very worn tires. Further, the drivers stated that Sinohydro was largely unresponsive to their concerns regarding the poor condition of the vehicles.

It is important to keep vehicles in safe operating condition because not doing so increases the risk of accidents to employees and the community. Furthermore, not adequately maintaining vehicles lessens their efficiency, and therefore may negatively impact project performance. To address this issue, we are making the following recommendation.

***Recommendation 1.** We recommend that the Millennium Challenge Corporation require the Millennium Challenge Account-Mali to ensure that Sinohydro (1) regularly inspects its vehicles for safety compliance, and (2) performs routine maintenance on the vehicles to keep them in good operating condition.*

Better Documentation Needed for Health and Safety Training

In addressing the responsibilities of Sinohydro, Section 3.3 of the Environment Management, Health, and Safety Plan requires that employees receive health and safety training. However, only 13 (43 percent) of 30 Malians interviewed on the canal expansion activity stated that they had some form of health or safety training. The 17 remaining Malian employees stated that they had received no health or safety training. In contrast, the supervisory engineer and Sinohydro believed that all employees had received some form of training. However, adequate documentation was not available to verify which employees had received health and safety training, and as a result the review team was not sure how many employees actually received training. It was unclear why Sinohydro did not keep adequate training records. To address this issue, we are making the following recommendation.

***Recommendation 2.** We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require the Millennium Challenge Account-Mali to ensure that Sinohydro institutes a process to substantiate that all employees receive health and safety training.*

Replacement Health and Safety Protection and First Aid Kits Needed

Basic health and safety items such as masks and gloves should routinely be replaced as needed to protect employees' health and to minimize the risk of accidents and injuries. Section 3.3 of the Environment Management, Health, and Safety Plan for the canal expansion activity requires that Sinohydro provide employees with personal protective equipment. Although all 52 Malian employees interviewed had some personal protective equipment, 8 of them needed a new or replacement mask for dust or smoke and 9 of them needed new or replacement gloves. Some employees indicated that the lack of personal protective equipment negatively affected their morale.

At the three airport construction sites, the review team observed no first aid kits, although the largest of the three sites does have an adjacent health clinic. Sinohydro management stated that the lack of first aid kits resulted from employees stealing them immediately after they are placed onsite. Nevertheless, best practices and prudence suggest that adequate first aid kits be available on all sites so that accidents and injuries requiring treatment can be promptly attended to. To address this issue, we are making the following recommendation.

Recommendation 3. *We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mali to ensure that Sinohydro replaces, as needed, health and safety equipment such as masks and gloves, and installs first aid kits at the airport construction site.*

EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation (MCC) provided written comments on the draft report that are included in their entirety in Appendix II of this report. In its comments, MCC agreed with all three of our recommendations.

MCC agreed with Recommendation 1, to require the Millennium Challenge Account-Mali (MCA-Mali) to ensure that Sinohydro (1) regularly inspects its vehicles for safety compliance and (2) performs routine maintenance on the vehicles to keep them in good operating condition. MCA-Mali has already outlined and begun implementing an action plan to ensure that Sinohydro's vehicles are regularly inspected for safety compliance and that Sinohydro performs routine maintenance on the vehicles. The plan is expected to be fully implemented by June 23, 2011. OIG considers that a management decision has been reached. However, final action will not take place until the plan is fully implemented.

MCC agreed with Recommendation 2, to require MCA-Mali to ensure that Sinohydro institutes a process to substantiate that all employees receive health and safety training. MCA-Mali has already outlined and begun implementing an action plan to ensure that Sinohydro institutes a process to substantiate that all employees receive health and safety training. The plan is expected to be fully implemented by June 23, 2011. OIG considers that a management decision has been reached. However, final action will not take place until the plan is fully implemented.

MCC agreed with Recommendation 3, to require MCA-Mali to ensure that Sinohydro replaces, as needed, health and safety equipment such as masks and gloves, and installs first aid kits at the airport construction site. As of May 10, 2011, first aid kits have been placed at all airport worksites. Three large kits are protected by the site guards at the Sinohydro office, the terminal site, and at the base camp, and two smaller kits are protected by the guards at the water tower site and the wastewater treatment station. Upon MCC inspection on May 10, 2011, all kits appeared to be well stocked.

As of May 9, 2011, MCA-Mali has confirmed that personal protective equipment (gloves, safety boots, dust masks, goggles) has been provided for all workers in accordance with the contract terms. MCA-Mali's Health and Safety Specialist regularly performs worksite inspections to ensure compliance with these requirements. For Recommendation 3, OIG considers that a management decision has been reached and final action taken.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General (OIG) conducted this review as a response to Congressman Frank R. Wolf's September 29, 2010, request to review Chinese government-owned enterprises (GOEs) that receive contracts for Millennium Challenge Corporation (MCC)-funded programs. To put the results in a broader context, OIG expanded the review to other GOEs that received infrastructure contracts for MCC-funded programs. Congressman Wolf had four specific areas of concern regarding the contractors' compliance with MCC policies and procedures: (1) health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices. He also asked whether the procurement was open, fair, and competitive.

Although this review was not an audit, we conducted this review in accordance with *Government Auditing Standards*, July 2007 Revision (GAO-07-731G) specifically Chapter 3 and Chapter 7, Sections 7.55 and 7.74, 7.76 to 7.79. We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

OIG conducted its fieldwork for this review from November 15, 2010 to March 30, 2011, at MCC's headquarters in Washington, DC, with site visits to Mali from January 22 to February 11, 2011, and February 28 to March 4, 2011. OIG selected Mali because it had two compact-funded GOEs that had contracts totaling \$117.9 million, and both contracts were in the implementation stage. However, because the request focused specifically on government-owned enterprises that received MCC funds, OIG did not review private sector companies implementing MCC projects.

Methodology

The review team met with MCC staff in Washington, DC and Mali. While in Mali, the team reviewed supporting documentation on the procurement process that was prepared by the procurement agent. We interviewed personnel at Millennium Challenge Account-Mali (MCA-Mali), supervisory engineering firms AECOM and SNC-Lavalin, Sinohydro, and the procurement agent. We conducted site visits to the airport project and the canal expansion activity.

In addition, the review team conducted a statistical sample, with a 95 percent confidence level, of selected Malian employees who worked for Sinohydro. To ensure a 95 percent confidence level, 5 percent error rate, and 4 percent precision, the OIG team determined the sample size to be 22 of 49 Malian employees and 30 of 63 Malians employed by Sinohydro at the airport and canal expansion sites, respectively. Appendix III summarizes the results of our interviews of those employees.

Further, we judgmentally selected and interviewed 24 of 168, and 20 of 86 Chinese employees employed by Sinohydro at the airport and canal expansion sites, respectively.

The review team assessed, through observations and interviews, whether selected GOEs adhered to MCC policies and procedures that address (1) worker health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices when implementing MCC compact projects; and whether MCA-Mali adhered to MCC's Program Procurement Guidelines when selecting GOEs to implement compact projects.

To answer the objective questions, the team—

- Interviewed supervisory engineers responsible for overseeing the infrastructure projects and the GOE.
- Interviewed local and expatriate staff working on the construction sites to learn about their experiences working for the GOE.
- Performed document reviews of worker wage records and Health and Safety Plans that each contractor must develop.
- Engaged an engineer to review the quality of construction and ensure that substandard materials were not used in the compact project.
- Conducted a statistical sample to select a percentage of workers employed at the GOE.
- Relied on the reports of the independent procurement agent.²

² The procurement agent is an entity separate from MCA-Mali that is responsible for facilitating and monitoring the procurement process.

MANAGEMENT COMMENTS



MEMORANDUM

Date: May 12, 2011

To: Alvin Brown, Assistant Inspector General
Millennium Challenge Corporation

From: Patrick Fine, Vice President /s/
Millennium Challenge Corporation
Department of Compact Operations

Subject: Notice of Management Comments and Management Decision on Findings
and Recommendations in the Review of Millennium Challenge Corporation-
Funded Contracts with Government-Owned Enterprises in Mali.

This memo serves to transmit Millennium Challenge Corporation's comments and management decision for Findings and Recommendations in the Review of Millennium Challenge Corporation-Funded Contracts with Government-Owned Enterprises in Mali, Report # M-000-11-00X-S.

MCC is very appreciative of the referenced report's findings that MCA-Mali did adhere to MCC's Program Procurement Guidelines when it selected a government-owned enterprise to implement a compact project, and that the selected government-owned enterprise did adhere to MCC policies and procedures that address (1) worker health and safety, (2) environmental protection, (3) quality construction, and (4) sound labor practices.

Recommendation 1:

"We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require the Millennium Challenge Account-Mali to ensure that Sinohydro (1) regularly inspects its vehicles for safety compliance, and (2) performs routine maintenance on the vehicles to keep them in good operating condition."

MCC Response:

MCC agrees with the above recommendation. MCA-Mali has already outlined and begun implementing an action plan to ensure that the contractor's vehicles are regularly inspected for safety compliance and that Sinohydro performs routine maintenance on the vehicles:

Corrective Measure	Timeline	Responsible
Develop and implement a written procedure for the inspection and maintenance of vehicles	June 23, 2011	Sinohydro, MCA-Mali Health and Safety Specialist, Supervisory Engineer
Prepare a monthly report for the inspection of vehicles and monthly report for the maintenance of vehicles	June 23, 2011	Sinohydro, MCA-Mali Health and Safety Specialist, Supervisory Engineer

Recommendation 2:

"We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require the Millennium Challenge Account-Mali to ensure that Sinohydro institutes a process to substantiate that all employees receive health and safety training."

MCC Response

MCC agrees with the above recommendation. MCA-Mali has already outlined and begun implementing an action plan to ensure that Sinohydro institutes a process to substantiate that all employees receive health and safety training:

Corrective Measure	Timeline	Responsible
Develop and implement a written procedure for the training of workers	June 23, 2011	Sinohydro, MCA-Mali Health and Safety Specialist, Supervisory Engineer
Define the training modules in a database	June 23, 2011	Sinohydro, MCA-Mali Health and Safety Specialist, Supervisory Engineer
List all of the workers who have attended training in the database	June 9, 2011	Sinohydro, MCA-Mali Health and Safety Specialist, Supervisory Engineer

Recommendation 3:

"We recommend that the Millennium Challenge Corporation Vice President of Compact Operations require Millennium Challenge Account-Mali to ensure that Sinohydro replaces,

as needed, health and safety equipment such as masks and gloves, and installs first aid kits at the airport construction site.”

MCC Response:

MCC agrees with the above recommendation and notes that MCA-Mali has already ensured that the proper measures have been taken to bring Sinohydro into compliance with the terms of their contract in this area.

As of May 10, 2011, first aid kits have been placed at all Airport work sites. Three large kits are protected by the site guards at the Sinohydro office, the terminal site, and at the base camp, and two smaller kits are protected by the guards at the water tower site and the waste-water treatment station. Upon MCC inspection on May 10, 2011, all kits appeared to be well-stocked. The Sinohydro infirmary staff is responsible for regular replenishment of the kits. All employees have access to the kits; however most workers appear to prefer to visit the infirmary instead of using the kits on site.

As of May 9, 2011, MCA-Mali has confirmed that personal protective equipment (gloves, safety boots, dust masks, goggles) has been provided for all workers in accordance with the contract terms. MCA-Mali’s Health and Safety Specialist regularly performs worksite inspections to ensure compliance with these requirements. This constitutes management decision and final action.

The actions specified above constitute management decision for recommendations 1 & 2 and final action for recommendation 3. If you have any questions, please contact Pat McDonald, MCC Compliance Officer at 202-521-7260 or mcdonalda@mcc.gov.

Table 1: Summary of Responses of Sinohydro Local Employees

Sample Size: 52 of 112 Malian employees		
Questions	Number of Employees Interviewed	Population Percentage
Number of employees who work overtime	19	27%
Number of employees who do not work overtime	33	54%
Number of employees who are not sure if they work overtime	0	N/A
Number of employees who received overtime pay	7	6%
Number of employees who did not receive overtime pay	12	14%
Number of employees who are not sure if they were paid for overtime	0	N/A
Number of employees with medical expenses paid by the employer	9	10%
Number of employees whose medical expenses were not paid	1	N/A
Number of employees for which this does not apply	42	73%
Number of employees who wear safety gear	52	100%
Number of employees who do not wear safety gear	0	N/A
Number of employees who wear safety gear every day	52	100%
Number of employees who do not wear safety gear every day	0	N/A
Number of employees who attended health and safety training	33	54%
Number of employees who did not attend health and safety training	19	27%
Number of employees who did not have accidents	49	89%
Number of employees who had accidents	3	1%
Number of employees who were aware of accidents on the site ³	2	N/A

³ This excludes accidents in which the employees were personally involved.

Table 2: Government-Owned Enterprises Awarded MCC-Funded Contracts

MCA Country⁴	Company Name	Nationality of Company	Value of Contract Award
Benin	GTZ	Germany	\$ 11,969,525
Burkina Faso	GTZ	Germany	9,628,943
Georgia	Oil & Gas Construction Trust	Azerbaijan	6,345,230
Georgia	Khazardenizneftgastikinti Trust	Azerbaijan	8,358,967
Georgia	Khazardenizneftgastikinti Trust	Azerbaijan	4,679,535
Georgia	Oil & Gas Construction Trust	Azerbaijan	2,806,440
Ghana	China Railway Wuju Corporation	China	42,168,601
Ghana	Arab Contractors, Osman Ahmed Osman & Co	Egypt	9,484,800
Madagascar	GTZ	Germany	3,415,396
Mali	SinoHydro	China	71,619,477
Mali	SinoHydro	China	46,328,142
Namibia	GTZ	Germany	7,826,423
Namibia	China Jiangsu International Ltd	China	4,587,734
Tanzania	SinoHydro	China	53,131,189
Tanzania	SinoHydro	China	59,845,418
Tanzania	China New Era	China	57,050,577
Total			\$ 399,246,397

Source: Millennium Challenge Corporation. Nonaudited data

⁴OIG selected Millennium Challenge Account (MCA) countries in which Chinese government-owned enterprises were implementing Millennium Challenge Corporation infrastructure projects (Ghana, Mali, Namibia, and Tanzania). OIG also included any non-Chinese firms implementing infrastructure projects in these countries (Arab Contractors, Egypt). For MCA countries without a Chinese government-owned enterprise presence, OIG did not review the non-Chinese firms.

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