

ASIAN DEVELOPMENT BANK

PROJECT PROCUREMENT-RELATED REVIEW REPORT Loan 2238-MON(SF): Third Education Development Project

This report has been redacted in accordance with the Asian Development Bank's Public Communications Policy (PCP). In particular, it excludes confidential and other information in accordance with paragraph 70 of the PCP.

Office of Anticorruption and Integrity
January 2010

CURRENCY EQUIVALENTS

(as of 30 June 2009)

Currency Unit	=	Tugrik
1.00 Tugrik	=	\$0.0006963788
\$1.00	=	1,436.00 Tugriks

ABBREVIATIONS

ADB	-	Asian Development Bank
CTL	-	Controller's Department
EA	-	executing agency
EARD	-	East Asia Department
EASS	-	Urban and Social Sectors Division, EARD
EOI	-	expression of interest
LGFIS	-	Loan and Grant Financial Information Services
MECS	-	Ministry of Education, Culture and Science
OAI	-	Office of Anticorruption and Integrity
MNRM	-	Mongolia Resident Mission
MON	-	Mongolia
NCB	-	national competitive bidding
PIU	-	project implementation unit
PPRR	-	project procurement-related review
PSC	-	project steering committee
QCBS	-	quality- and cost-based selection
SOE	-	statement of expenditures

NOTE

In this report, \$ refers to US dollars.

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EXECUTIVE SUMMARY

1. The Office of Anticorruption and Integrity (OAI) conducted a limited-scope project procurement-related review (PPRR) on Asian Development Bank (ADB) Loan 2238-MON(SF): Third Education Development Project in Mongolia (the Project).¹ PPRRs are part of OAI's proactive efforts in preventing and detecting fraud and corruption in ADB-financed projects, with the aim to enhance project administration and management. The PPRR was conducted on 21 September until 16 October 2009 in conjunction with the Midterm Review Mission by ADB's Urban and Social Sectors Division (EASS), East Asia Department (EARD). This report documents the Review Team's observations and findings, and presents recommendations as a result of the PPRR.

2. The Project's overall goal is to improve employability and income earning opportunities of graduates from secondary and vocational education in Mongolia. Its specific objectives are to achieve enhanced and more equitable access to education, and improve quality and relevance of primary, secondary and vocational education. This Project builds on the achievements of Education Sector Development Project and Second Education Development Project.² The Project, which contributes to two Millennium Development Goals, namely (i) achieving universal primary education, and (ii) eliminating gender disparity in primary and secondary education, comprises three components:

- Component 1: Developing a National Curriculum Framework and Aligned Education Standards;
- Component 2: Improving the Learning Environment in Primary and Secondary Schools; and
- Component 3: Promoting Demand-Driven Vocational Education.

3. The PPRR with respect to the small sample base of Project contracts³ examined the procurement and disbursement documentation, inspected goods, and identified internal controls that should be in place or strengthened to mitigate opportunities for fraud, corruption, or abuse in this Project and future ADB-financed projects and to maximize development effectiveness.

Major Recommendations

4. The key recommendations are:
- for the executing agency and the PIU to reinforce its bid evaluation process to ensure transparency and to make sure that contracts are only awarded to technically qualified bidders; and
 - for EARD and the Government of Mongolia to work together to ensure that procurement integrity and transparency are established at the commencement of every development project, and observed throughout project implementation.

¹ OAI staff members and engaged consultants comprised the Review Team.

² Loans 1507-MON(SF)/1508-MON(SF): Education Sector Development Program (1996) and Loan 1908-MON(SF): Second Education Sector Development Project (2002)

³ The limited-scope PPRR covered only 32% of total number of awarded contracts and 55% in terms of awarded contract values as of 30 June 2009. The nine sample contracts reviewed are similar to the average number of contracts covered in other limited-scope PPRRs which represent sample(s) for each procurement mode.

5. Strong procurement, financial management and internal controls mitigate the risk of improper use of project funds and assets, maximize development effectiveness⁴, and deter fraud and corruption. The executing agency should continue to take the lead in addressing this promptly, and collaborate with ADB to strengthen Mongolia's capacity to manage for development results.

Results in Brief

6. *Procurement.* The Review Team reviewed 55% of the total amount of awarded contracts as of 30 June 2009 and with respect to the nine sample contracts (32%) concluded that the Project generally complied with ADB's Procurement Guidelines and the Guidelines on the Use of Consultants by ADB and its Borrowers, including the Public Procurement Law of Mongolia, as applicable. The Review Team identified a few areas for improvement to ensure transparency in shortlisting of consultants and bid evaluation.

7. *Asset Inspection.* The Review Team determined that construction works under contracts reviewed were generally in line with contract specifications and utilized as intended. However, there were minor defects noted in two construction works, which need immediate repairs.

8. *Financial Management.* The Review Team concluded that for the sample reviewed, the PIU maintained good financial records on ADB accounts and project funds were disbursed properly for their intended purpose. A few minor financial management weaknesses were noted.

Final Comments

9. The Review Team recognizes the challenges faced by the PIU to simultaneously implement three ADB-financed education loan and grant projects which are all civil works intensive. With the inclement weather conditions in Mongolia, and the tight timeframe for procurement and conflicting priorities from the three projects, the capacity of the PIU to provide appropriate monitoring to ensure each Project is moving forward in accordance to expectations, is stretched. Implementation of recommendations made in this report can strengthen Project administration and management.

10. EARD acknowledges these challenges and shall assess the capacity and efficiency of the Joint Project Management Office (JPMO)⁵.

11. The Review Team acknowledges the responsiveness and cooperation of the Project management and staff to the review requirements. ADB values the courtesy and support that the Project officials extended to the Review Team. OAI thanks EASS for the support to the Review Team.

⁴ Comments on development effectiveness throughout this report are limited to and based on limited PPRR observations as to how recommendations made here - with respect to anticorruption measures, strong internal controls and compliance with applicable guidelines - can increase development effectiveness, and are not intended as comments on the overall development effectiveness of the project.

⁵ The Government of Mongolia promotes aid effectiveness and donor harmonization in line with the Paris Declaration (2005) and the Acra Agenda for Action (2008). The education sector is chosen as a pilot sector, and one of the ongoing efforts in the Ministry of Education, Culture and Science (MECS) is the establishment and implementation of a JPMO. It will be responsible for a number of projects implemented by MECS.

1. The Office of Anticorruption and Integrity conducted a limited-scope project procurement-related review (PPRR) of the Project during the period 21 September – 16 October 2009, in conjunction with the Midterm Review Mission by ADB's Urban and Social Sectors Division (EASS), East Asia Department (EARD). PPRRs are part of OAI's proactive efforts in preventing and detecting fraud and corruption in ADB-financed projects, with the aim to enhance project administration and management. This loan project is one of three projects in Mongolia for which OAI conducted such reviews.⁶

2. The Review Team acknowledges the responsiveness and cooperation of the Project management to review requirements. ADB values the courtesy and support that Project officials extended to the Review Team.

I. PROJECT BACKGROUND

3. On 18 December 2006, ADB and Mongolia signed an agreement for Loan 2238-MON(SF): Third Education Development Project (the Project). The Project costs approximately \$16.38 million, of which ADB financed \$13 million (80% of total project cost), and the Government of Mongolia financed \$3.38 million equivalent. The loan amount, which amounts to \$13.58 million equivalent as of 30 June 2009 was declared effective on 27 February 2007. The loan closing date is on 31 March 2012.

4. The Project loan aims to achieve equitable access to education; improve quality and relevance of primary, secondary and vocational education; and accelerate employment and income generation opportunities for graduates of secondary and vocational courses.

5. The Ministry of Education, Culture and Science (MECS), the Project executing agency (EA), is responsible for the overall execution and coordination of the Project. The Project Steering Committee (PSC), comprising eight members, including two representatives from MECS, one from the Ministry of Labor and Social Welfare, two from the Ministry of Finance, one from non-governmental organizations, one from industry, and one from development partners, provides strategic guidance to the Project, monitors the implementation of the Project, and ensures donor coordination. The Project is implemented through the Project Implementation Unit (PIU), headed by a project manager who is responsible for the overall implementation of Project activities.

II. OBJECTIVES OF THE PROJECT PROCUREMENT-RELATED REVIEW

6. The overall objective of the PPRR is to help prevent and detect corruption and fraud as defined under ADB's Anticorruption Policy⁷ to maximize development results and benefits to the poor. This policy, along with the Procurement Guidelines and the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (Consulting Guidelines) require all parties to ADB-financed activities (including borrowers, beneficiaries, bidders, suppliers, and contractors) to maintain the highest ethical standards for ADB-financed activities.⁸

⁶ Limited-scope PPRRs were also conducted for Loan 1736-MON(SF): Cadastral Survey and Land Registration Project and Grant 0086-MON(SF): Third Health Sector Development Project.

⁷ Paragraph 67, *ADB's Anticorruption Policy (1998)*.

⁸ Paragraph 48, *Integrity Principles and Guidelines (November 2006)*, Paragraph 14(iii), *ADB's Anticorruption Policy (2 July 1998)*; Paragraph 1.14, *Procurement Guidelines (February 2007)*; Paragraph 1.23, *Guidelines on The Use of Consultants by Asian Development Bank and Its Borrowers (February 2007)*.

7. Specifically, the PPRR with respect to the small sample base of Project contracts⁹ aimed to:

- identify whether the procurement of project goods, works and services complied with the Loan Agreement and ADB's Procurement and Consulting Guidelines;
- determine whether Project contracts were implemented according to their terms; and
- identify specific improvements to internal controls to mitigate opportunities for fraud, corruption or abuse in this Project and future ADB-financed projects.

8. PPRRs are conducted in line with ADB's efforts to manage for development results. These reviews identify internal controls that should be in place or should be strengthened to mitigate or eliminate instances of fraud and corruption, or abuse of resources. Effectively applied internal controls give assurance that project funds are used for their intended purposes to benefit identified beneficiaries. PPRRs thus contribute to ensuring ADB-financed projects are administered and managed to produce intended development results.

III. SCOPE AND METHODOLOGY

9. The Review Team reviewed nine (32%) out of the 28 contracts awarded as of 30 June 2009, amounting to a total of \$3.55 million (or 55% of total amount). This comprised one quality- and cost-based selection (QCBS) of consultants, seven national competitive bidding (NCB) contracts, and one procurement contracts summary sheet (PCSS) pertaining to replenishments of imprest account and various PIU expenditures of \$0.87 million. Below is the distribution of contracts awarded as of 30 June 2009 and the PPRR sample size:

Procurement Mode	Contract awarded as of 30 June 2009		PPRR Sample Size			
	No.	Amount (\$)	No.	Amount (\$)	% to total no.	% to total amount
QCBS	1	0.264	1	0.264	100%	100%
NCB	26	5.372	7	2.414	4%	45%
DP	1	0.868	1	0.868	100%	100%
TOTAL	28	6.504	9	3.546	32%	55%

10. To achieve the review objectives, the Review Team:

- reviewed the procurement and disbursement documents;
- evaluated the procurement processes, internal controls and financial management practices; and
- inspected the Project works relating to four contracts at four project sites.

11. The Review Team

⁹ The nine sample contracts reviewed are similar to the average number of contracts covered in other limited-scope PPRRs which represent sample(s) for each procurement mode.

- checked for compliance with the Loan Agreement, ADB's Procurement and Consulting Guidelines including the Public Procurement Law of Mongolia, as applicable and other relevant ADB policies, procedures and guidelines;
- determined whether sufficient and accurate records and reports on procurement and disbursements were maintained;
- accomplished ADB's checklists for post-award of works, goods and service contracts;
- identified weaknesses in procurement management; and
- discussed observations noted and sought clarifications from the PIU.

12. The Review Team reviewed 100% disbursements documentation for the nine sample contracts including various expenses covered by the statement of expenditures (SOE) procedures. The PPRR covered disbursements totaling \$1.614 million (or 45% of total disbursements as of 30 June 2009). The PPRR was designed to identify whether:

- the EA and the PIU have adequate capacity for the project's financial management;
- the financial management system and controls are in place to adequately capture all transactions and on a timely basis;
- the imprest fund is managed in accordance with ADB's guidelines including ensuring the imprest fund has been appropriately accounted for and timely liquidated;
- contract payments including those paid using the SOE procedures are properly documented, accurate, and promptly made in accordance with payment terms stipulated in the contract;
- sufficient and accurate accounting records and project reports have been maintained; and
- transactions were eligible for ADB financing.

13. The Review Team's quantity surveyor conducted asset verification of the works under 4 of the 8 sample contracts in order to assess whether the assets:

- physically exist at the appropriate location;
- were in accordance with specifications stated in the supporting documents;
- were of prima facie acceptable quality; and
- were being used for their intended purposes.

14. The Review Team interacted with the government officials concerned and ADB's EASS. The Review Team coordinated with the Project Manager and PIU staff in carrying out the PPRR, such as reviewing the Project's related documents, conducting site visits and verifying project assets. All findings were discussed and presented by the Review Team to the EA and the PIU, including EASS through an exit meeting at MECS during the Project Steering Committee Meeting jointly chaired by the Minister, MECS and Director, EASS on 16 October 2009.

IV. RESULTS OF THE PROJECT PROCUREMENT-RELATED REVIEW

15. The PPRR results are categorized as follows: (a) weaknesses in the procurement process, (b) asset inspection, (c) financial management, and (d) internal controls.

A. Procurement

16. The Review Team noted instances of weaknesses in the procurement process.

Not all evaluation criteria were considered during shortlisting/bid evaluation

17. The Review Team noted that not all evaluation criteria were appropriately considered during the shortlisting of interested consulting firms for the QCBS contract, and bid evaluation of one NCB contract. One of the evaluation criteria for shortlisting under QCBS included the association of international participating firms with domestic consulting firms. The expressions of interest (EOI) from four consulting firms either did not indicate the associated domestic firm or indicated the same but without information on the proposed experts or the proposed experts did not meet the qualifications for national experts. While these deficiencies had been duly indicated in the evaluation sheets, all these 4 international firms had been included in the shortlist. In the NCB contract, the criteria on financial sources requirement were not considered during the evaluation. This indicates questionable bid evaluation processes.

Lack of due diligence in the evaluation process

18. The Review Team noted that for the NCB contracts reviewed, generally, bank certificates of indebtedness and court reference certificates were dated a few months prior to the bid invitation/announcement, and the criteria had been evaluated as satisfactory/complied. The PIU explained that due to the harsh weather conditions in Mongolia during the early and latter parts of the year, the tendering month for construction/civil works contracts starts in May in order for contracts to be completed prior to the end of the year. With this timeframe, contractors generally prepare the bid requirements in March or April and submit these documents in their bids during the period May–August. Without a third party verification from the bank and court concerned, however, the evaluation committee would not be able to determine applicability of information in these certificates at the time the tender process started.

19. The Review Team was made to understand that in each bid evaluation a legal specialist of the Public Administration Department, MECS supervises the determination of the acceptability of the above-mentioned documents. Clarifications may also have been sought by the legal specialist from bidders via telephone or other means. The Review Team however did not find any documentation to this effect.

20. The evaluation of construction works performed was generally not assessed based on submitted supporting documentation, i.e., State Commission Acts of acceptance and bidder's contracts with clients. Resulting figures indicated in the evaluation sheets were either based on amounts indicated in the bid proposal or list of construction works submitted by the bidder.

21. The Review Team also noted that some evaluations were inconsistent with submitted documents. It was determined that for NCB contracts reviewed, certain criteria were not fulfilled but were evaluated as satisfactory or vice versa. This suggests questionable assessment of bidder's compliance with bid requirements, which may result in awarding contractors with inadequate experience and/or financial capacity.

22. In the QCBS process, it was noted that the EOI of one of the consulting firms did not include information on availability of national experts but was rated as satisfactory for the relevant criteria. In the same QCBS process, another consulting firm's technical proposal did

not include a national team leader, as required, but a full score was provided by one of the evaluation committee members. For shortlisting purposes, firms that submitted EOIs were rated satisfactory, indicated with a “+” or unsatisfactory, indicated with a “-“ by each of the evaluation committee member. While ADB Guidelines on Use of Consultants does not require individual evaluation sheets and summary of individual ratings, the Evaluation Committee accomplishes individual evaluation sheets. However, no summary of the individual ratings that reflects the overall assessment of the EOIs is prepared to effectively facilitate review of the evaluation report.

Subjective ratings of technical proposals for QCBS

23. Based on a set of pre-determined criteria evaluating technical proposals, firms and proposed experts are assessed as excellent, very good, above average, average, below average and non-compliant. These adjectival ratings have equivalent points, i.e. 100, 90, 80, 70, 50 and 0, respectively, which are used to calculate the weighted scores, as provided for by ADB.¹⁰ There are, however no specific guidelines to assist the Evaluation Committee members to determine the rating proportionate to the firm’s and expert’s individual qualifications in order to accurately calculate the equivalent scores. As a result, the ratings tended to be subjective.

24. The PIU acknowledged the procurement weaknesses noted by the Review Team, and explained the constraints faced in consistently applying the bid evaluation criteria, specifically for civil works under NCB. Under Mongolia’s Procurement Law, the bid evaluation criteria comprise 45 specific requirements under four main categories, namely responsiveness to bids (general criteria), eligibility, capacity of implementing the contract (technical capacity, financial capacity and work experience), and completeness of bid submission. The Review Team was made to understand that economic conditions differ from one province to another, and certain provinces have very players in the construction business. Should all the evaluation criteria be stringently applied, no contractor in certain provinces would qualify. Because of this inherent limitation, the evaluation committee exercised some flexibility in applying certain criteria.

25. Taking into account the time constraints faced by MECS and the PIU to ensure that civil works start by summertime, the bidding process had to start simultaneously for all projects administered by the same PIU Project Manager, assisted by the same Procurement Officer¹¹. The large volume of bid submissions therefore posed constraints to the PIU and the evaluation committee to meticulously review the bid submissions, resulting to inconsistencies in the application of certain evaluation criteria.

Recommendations

26. For transparency and appropriateness of shortlisting and bid evaluation, and to ensure that only technically qualified bidders are awarded with contracts, it is recommended that MECS:

- ensure the evaluation committee appropriately considers all evaluation criteria, and maintains sufficient documentation of the evaluation process decisions,

¹⁰ <http://www.adb.org/CONSULTING/all-methods-ta.asp>

¹¹ The same PIU Project Manager implements all 3 ADB-financed projects, namely Loan 2238-MON(SF): Third Education Development Project, Grant 0125-MON: Education Sector Reform Project, and Grant 0158-MON: Education for the Poor - Financial Crisis Response Project.

specifically those criteria the evaluation committee decides not to consider during the evaluation process;

- identify and document areas where flexibility in the evaluation process need to be exercised and define conditions that will apply to execute such flexibility;
- ensure that the PIU exercises due diligence in evaluation of bid proposals;
- develop evaluation guidelines to determine the ratings proportionate to the firms/experts individual qualifications in regard to QCBS in order to accurately assess the technical proposals and calculate the equivalent scores; and
- consider providing additional procurement support staff to assist the PIU and the evaluation committee in reviewing bid submissions given the large volume of bids and the procurement processing time.

27. To strengthen the capacity of key EA staff including the evaluation committee members, it is recommended that EARD, in coordination with ADB's Central Operations Service Office ensure that training sessions are conducted in Mongolia with targeted participants who are responsible for procurement matters.

B. Asset Inspection

28. The Loan Agreement requires that the proceeds of the Loan should be applied to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement.¹² To determine compliance with this requirement, the Review Team inspected construction works under 4 of the 8 NCB contracts (50%) covering Ulaanbaatar, and three provinces.

29. Construction works under four contracts were determined to be generally in line with contract specifications and utilized as intended. There were, however defects noted in two construction works, which included

- torn oilskins on floors;
- cracked floors;
- deformed pendulum ceilings;
- low quality roof used with water seeping in;
- leaking marks on walls from water seeping from the roof;
- inappropriate installation of door;
- low grade heating was installed, and some parts are now not useful;
- wall paints now removed due to use of low quality emulsion;
- unused thermal materials; and
- plumber line inadequately done, causing water to leak through the lines.

Recommendation

30. To ensure that construction contracts are implemented efficiently and maintained properly after completion, it is recommended that MECS and PIU:

- implement periodic inspection of the Project and effect immediate repairs, as necessary; and

¹² Section 3.01

- exercise prudence in awarding subsequent contracts to contractors who did not perform satisfactorily in an earlier contract.

C. Financial Management

31. The Review Team examined the financial management system at the PIU, including the financial accounting, management accounting, financial reporting, internal controls, and disbursement process for the sample reviewed. The Review Team concluded that for the sample reviewed, the PIU maintained good financial records on ADB accounts and project funds were disbursed properly for their intended purpose.

32. It was observed that there were expenditures reflected by ADB under PCSS 8801 – Various but not in PIU’s “Various” records. A total of US\$56,456.37 comprising two individual expenses amounting to US\$50,725 and US\$5,730.49 through withdrawal application no. 0005, and a total of US\$63,029.20 comprising two individual expenses amounting to US\$6,713.30 and US\$56,315.90 through withdrawal application no. 0033 were recorded by ADB under “Various” but not by the PIU. These amounts need to be determined and reconciled accordingly.

33. The Review Team also noted that SOEs replenished by ADB through withdrawal application no. 0032 on 1 March 2009 had been reflected in PIU’s books but not on ADB’s web-based Loan and Grant Financial Information Services (LGFIS) records as of 30 June 2009. It was determined that liquidation by Controller’s Department (CTL) was confirmed on 26 February 2009. However, the transaction was not reflected in ADB’s LGFIS on the date of confirmation but only on 2 July 2009. CTL explained that this could be attributed to problems encountered during the replication process of the data between the Mainframe system and LGFIS website.

34. It was also observed that the contract amount for PCSS 0012 pertaining to the renovation of the secondary school in a province was overstated by US\$1,480,000. ADB recorded the total contract as 2,246,394,818 tugriks (or US\$1,585,843) instead of 150,000,000 tugriks (or US\$105,892). EASS explained this as a technical error in the input of the contract details, and had accordingly effected the necessary correction.

35. In 2008 a number of training programs for teachers in provinces had been organized by the PIU, using contractors to facilitate these trainings¹³. Payments to these contractors based on their invoices were made out of the imprest account, which were reimbursed using SOE procedures. The Review Team noted that payments made to contractors based on the invoices submitted to the PIU, and reimbursed under five withdrawal applications, were partly supported by official receipts of entities blacklisted by the National Tax Department as posted on its website for having violated the tax law and regulations, and without state registration.¹⁴ These pertain to purchases of coffee, tea, biscuits, CD copying, printer ink, copying machine ink, etc. amounting to a total of 12,392,260 tugriks (or US\$8,629.71¹⁵), purchased from local

¹³ PIU disclosed that 38 training programs were organized in 2008.

¹⁴ The National Tax Department’s notice for taxpayer’s attention advised that the financial documents of the 65 blacklisted entities are used in the largest market and construction market in the UB city, and that the financial documents of the abolished entities should not be used for any economic activities (per the Review Team’s verification as of 1 September 2009). Official receipts of 8 of these 65 entities were used to support the training contractors’ invoices.

¹⁵ This was based on the exchange rate as of review cut-off date 30 June 2009 (i.e., \$1.00 - 1,436.00 Tugrik).

vendors/dealers in the provinces, that the PIU claimed to likely not have state registrations and seals.

36. While the training expenses appear to be valid and reasonable, OAI suggests that the PIU consider engaging only contractors/suppliers that adhere to Mongolian laws to safeguard the Project from potential reputational risk.

Recommendations

37. The flaws noted in financial management had notably been caused by non-performance of reconciliation of the PIU records with ADB records. To ensure that the PIU's Project accounts match with ADB's records, it is recommended that PIU:

- establish a system of reconciling the financial records with ADB's records on a periodic basis and follow-up reconciling items and corrective actions, if any

and that EARD

- ensure appropriate checks and balances in inputs of contract details.

D. Internal Controls

38. The Review Team identified certain areas where internal controls need improvement. Strong internal controls significantly reduce the risk of undetected fraud and corruption, and are vital in ensuring Project funds are directed towards stated objectives, for the intended beneficiaries.¹⁶

Civil works contract booked under "Various" account

39. The Loan Agreement specifies the methods of procurement of goods and works for the Project.¹⁷ It specifically provides for civil works estimated to cost the equivalent of US\$1,000,000 or less to be procured through NCB. The Review Team noted that while civil works contracts had been assigned individual PCSS numbers, a civil works contract for US\$109,181 was booked by ADB and PIU under PCSS 8801 – Various – various operating costs. Including the expenditures for this contract under Various instead of assigning a PCSS number does not effectively provide the total number of contracts for the Project, and does not facilitate efficient monitoring of disbursements of the civil works contract.

Misclassification of procurement mode

40. One of the contracts reviewed pertains to consulting services procured through QCBS in February 2008. The procurement mode flagged into ADB's LGFIS was international competitive bidding instead of QCBS. EASS explained that during the input of the contract details, the QCBS procurement mode was not among the selection list of the ADB's LGFIS. EASS had accordingly corrected the procurement mode.

Bid documentation not available

¹⁶ Note that this section does not include controls already referred to previously in this report.

¹⁷ Schedule 4

41. Of the nine sample contracts, the bid proposal of the only bidder and winner for the renovation of a school in one province was not available for review. As such, the appropriateness of the evaluation process could not be ascertained. The PIU disclosed that the Construction Client Unit (CCU) of MECS is responsible for organizing civil works tendering, including storing bid documents thereon. The building which housed the CCU was burned in July 2008. Subsequent riot attacks forced the CCU to transfer locations several times, causing disorganization of archived files. The unavailable document may have been lost due to these incidents. PIU assured the Review Team that the 2009 bid documents are properly stored/archived.

Recommendations

42. To facilitate efficient monitoring of contracts procured through national competitive bidding, including small-value contracts, it is recommended that PIU

- submit to EARD the contracts on a timely basis, and
- periodically submit to EARD a listing of small-value contracts. Prudence should be exercised in booking transactions under the “Various” account, which is meant for minor expenditures only.

and that EARD

- ensure that individual PCSS numbers are assigned for each civil works contract procured through NCB; and
- monitor small-value contracts booked under “Various” account.

43. For completeness of audit trail of the procurement processes for ADB-financed projects, MECS is strongly encouraged to maintain a system to ensure archived records remain intact in spite of movements in location.

V. CONCLUDING COMMENTS

44. The PPRR recognizes the challenges faced in ensuring transparency in the procurement process. The importance of maintaining sufficient and appropriate documentation of the procurement process and evaluation process decisions is being stressed to effectively ensure contracts are awarded only to qualified contractors, suppliers, and consultants in order to maximize development effectiveness.

45. The Review Team also recognizes the challenges faced by the executing agency and the PIU to simultaneously execute and implement three ADB-financed education loan and grant projects that are each civil works intensive. With the inclement weather conditions in Mongolia, and the tight timeframe for procurement and conflicting priorities from the three projects, the capacity of the PIU to provide appropriate monitoring to ensure each Project is moving forward in accordance to expectations, is stretched. EARD acknowledges these challenges and shall assess capacity and efficiency of the JPMO¹⁸.

¹⁸ The Government of Mongolia promotes aid effectiveness and donor harmonization in line with the Paris Declaration (2005) and the Acra Agenda for Action (2008). The education sector is chosen as a pilot sector, and

46. It is important that weaknesses in procurement, financial management and internal controls identified here do not recur in future contracts to be awarded and other ADB-funded projects in Mongolia. OAI encourages the ADB Operations Departments to conduct similar reviews of their respective projects during review missions to ensure bidding integrity and transparency in the procurement process. Debriefing with Operations Department on this type of review shall be conducted by OAI in 2010.